

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

February 2, 2022

Report Number: 2022-10-014

HIGHLIGHTS: Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Final Audit Report issued on February 2, 2022

Report Number: 2022-10-014

Why TIGTA Did This Audit

The Tax Exempt and Government Entities Division's Employee Plans (EP) Examination program is responsible for ensuring that retirement plans comply with qualification, reporting/disclosure, and excise and income tax matters. From Fiscal Years (FY) 2018 to 2020, the IRS examined over 17,000 retirement plans in order to determine whether the plans complied with information return and other qualification requirements. These examinations are subject to a quality review process to ensure that examiners adhere to procedures and to identify areas for improvement.

In recent years, this quality review process identified steep declines in the quality of the examinations. From FY 2018 to FY 2020, overall case quality scores for EP Examinations decreased by 23 percent. Scores declined for all three quality measures: Proper Identification, Development, and Resolution of Issues; Timeliness; and Communications, and for 19 (95 percent) of the 20 quality elements.

The overall objective of this audit was to determine whether the EP Examinations function is taking adequate corrective actions to address weaknesses identified during quality reviews.

Impact on Taxpayers

The EP Examinations function has responsibility for all employee retirement plans and related trusts. High-quality examinations help assure millions of plan participants that they will receive promised retirement benefits.

What TIGTA Found

The 23 percent drop in EP Examinations' quality scores from FY 2018 to FY 2020 raises concerns and requires management's attention and effective corrective actions. Further, TIGTA's analysis of FY 2020 quality review results showed that case quality was worse than reported because quality review reports do not include all errors identified. Additionally, for certain quality elements, five examination groups failed 80 percent or more of the cases reviewed.

Special Review provides EP Examinations quality review feedback at the national and Area levels and makes recommendations to improve examination quality. However, Special Review does not provide direct feedback to the specific groups or examiners who worked the cases with errors. As a result, EP management was not notified about the specific problems at the local levels.

Further analysis showed low quality scores for key elements such as planning the engagement, developing material issues, documenting actions taken, and protecting taxpayer rights. Specific feedback and focused training on these elements could improve case quality.

EP Examinations is responsible for reviewing quality scores and implementing actions to improve examinations. Management is implementing corrective actions to improve examination quality, including consolidating and centralizing improvement strategies that had previously been at the discretion of each Area. However, EP Examinations has not established performance measures for determining whether these corrective actions are achieving the desired results.

It is important for the IRS to objectively monitor the effectiveness of corrective actions so that changes can be made if needed. Millions of plan participants rely on the IRS for assurance that retirement plans comply with qualification, reporting/disclosure, and excise and income tax matters.

What TIGTA Recommended

TIGTA recommended the Director, Compliance, Planning, and Classification, require Special Review to record and report all reasons why a quality element failed; periodically analyze cases that failed elements due to "Other" reasons; and consider providing feedback related to quality scores to group managers. Additionally, the Director, EP Examinations, should seek feedback and training from Special Review for low-scoring elements; ensure that proposed corrective actions are implemented timely; and develop performance metrics and data collection methods to measure the effectiveness of the corrective actions. In their response, IRS management agreed with all of the recommendations and plans to take corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 2, 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved (Audit # 202110023)

This report presents the results of our review to determine whether the Employee Plans Examination function is taking adequate corrective actions to address weaknesses identified during quality reviews. This review is included in our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap*.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations).

Table of Contents

Background	Page 1
Results of Review	Page 3
More Actions Can Be Taken to Improve the Quality of Employee Plans Examinations	Page 3
Recommendations 1 through 3:	Page 5
Recommendation 4:	Page 6
Recommendation 5:	Page 11
Recommendation 6:	Page 13
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 14
Appendix II – Outcome Measure	Page 16
Appendix III – Tax Exempt Quality Measurement System Data Collection Instrument	Page 17
Appendix IV – Fiscal Years 2018 Through 2020 Tax Exempt Quality Measurement System Common Issues Identified	Page 21
Appendix V – Management’s Response to the Draft Report	Page 22
Appendix VI – Abbreviations	Page 27

Background

The Tax Exempt and Government Entities Division's Employee Plans (EP) Examination program is responsible for ensuring that retirement plans comply with qualification, reporting/disclosure, and excise and income tax matters.¹ During an examination of a retirement plan, the EP examiner analyzes information, performs tests, and samples data for particular compliance issues. The examiner should continue the examination until they are reasonably certain that the plan complies with information return and qualification requirements. Examinations help protect plan participants. For example, during Fiscal Year (FY) 2020, nine retirement plans were proposed for revocation or disqualification as a result of their examination.²



Note: CP&C = Compliance, Planning, and Classification, RCCMS = Reporting Compliance Case Management System, TE/GE = Tax Exempt and Government Entities Division, TEQMS = Tax Exempt Quality Measurement System.

The examination may include a complete review of plan operations or may focus on specific issues. Examiners are required to use the RCCMS while working cases, which is the inventory control system for cases.

CP&C's Special Review groups conduct quality reviews of completed EP examinations, which they manage and maintain on the TEQMS. One of Special Review's goals is to independently measure the quality of the work so that improvements can be made to EP examinations. The intended benefits of quality reviews include:

- Obtain data to provide quality feedback to management and address improvement opportunities.
- Increase consistency in activities.
- Identify possible training needs.
- Improve the sustention rate in the Independent Office of Appeals.³
- Improve taxpayer service and satisfaction.

¹ Retirement plans include pensions, annuities, profit sharing, employee stock ownership plans, simplified employee pensions, saving incentive match plans for employees, 401(k)s, and tax-sheltered annuities.

² Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

³ The Independent Office of Appeals' mission is to resolve tax controversies, without litigation, on a basis that is fair and impartial to both the Government and the taxpayer. The sustention rate is the proportion of cases sent to the Independent Office of Appeals that are not changed following review.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Special Review uses 20 evaluative criteria to measure case quality, referred to as “quality elements.” The 20 quality elements fall under one of three quality measures:

- Proper Identification, Development, and Resolution of Issues (10 elements).
- Internal and External Taxpayer Communications (six elements).
- Timeliness (four elements).

Special Review determines the number of closed EP Examinations cases selected for review by considering historical examination rates, expected case closures, and staffing conditions.

EP Examinations’ goal is to achieve an overall 80 percent quality score as well as an 80 percent quality score for the three quality measures and 20 quality elements. From FY 2018 to FY 2020, overall case quality scores for EP Examinations decreased by 23 percent. Scores declined for all three quality measures and for 19 (95 percent) of the 20 quality elements. In FY 2020, only three of the 20 elements achieved the goal of 80 percent. Figure 1 shows TEQMS results for each element for FYs 2018 and 2020.

Figure 1: EP Quality Review Results (FYs 2018 and 2020)

#	Element	Percentage "Yes"		Percentage Change FY18 to FY20
		FY 2018	FY 2020	
1	Was the compliance activity adequately planned?*	79%	45%	-43%
2	Were material issues (beyond CP&C) identified and properly considered during the compliance activity?	79%	67%	-15%
3	Were adequate filing checks completed?	85%	83% ✓	-2%
4	Were adequate interviews conducted and recorded in the file?	69%	50%	-28%
5	Were material issues properly developed?*	42%	37%	-12%
6	Did the workpapers and file adequately document the steps taken, techniques, and conclusions?*	48%	28%	-42%
7	Did the Case Chronology Record adequately document the activity?	81%	65%	-20%
8	Were material issues properly resolved?	87%	58%	-33%
9	Were penalties considered, applied, waived, or removed as warranted?	64%	31%	-52%
10	Was fraud adequately considered?	83%	89% ✓	7%
11	Were information document requests and/or other information requests clear, concise, and appropriate?	69%	48%	-30%
12	Were the letters to the taxpayer properly prepared?	76%	58%	-24%
13	Were the reports to the taxpayer properly prepared?	84%	66%	-21%
14	Were proper closing procedures followed?	65%	51%	-22%
15	Was the taxpayer/representative regularly kept informed throughout the compliance activity?	69%	55%	-20%
16	Were taxpayer/representative rights observed and protected?*	51%	44%	-14%
17	Was the timespan of the compliance activity reasonable?	60%	43%	-28%
18	Was the total time spent on the compliance activity commensurate with the nature and complexity of the issues?	75%	52%	-31%
19	Were actions taken timely to monitor and protect the statute of limitations?	91%	85% ✓	-7%
20	Was there timely and adequate level of managerial oversight and involvement?	75%	61%	-19%
Measure 1 – Proper Identification, Development, and Resolution of Issues		71%	54%	-24%
Measure 2 – Taxpayer Communication (Internal & External)		67%	52%	-22%
Measure 3 – Timeliness		76%	60%	-21%
Overall:		71%	55%	-23%

*These four elements were among the lowest scores according to FY 2020 Tax Exempt Quality Measurement: U.S. Summary 4th Quarter.

Source: CP&C Special Review TEQMS quality review results.

Results of Review

More Actions Can Be Taken to Improve the Quality of Employee Plans Examinations

The 23 percent drop in EP Examinations' TEQMS quality scores (hereafter referred to as quality scores) from FY 2018 to FY 2020 raises concerns and requires management's attention and effective corrective actions. The Treasury Inspector General for Tax Administration's (TIGTA) analysis showed that, not only did the overall quality scores decline, case quality is worse than reported because Special Review did not report all of the reasons why a particular element failed quality review. Further, our analysis of FY 2020 quality score results identified groups with especially poor results, including five groups with a case failure rate of 80 percent or more for at least one quality element.

Special Review provides EP Examinations quality review feedback at the national and Area levels and makes recommendations to improve examination quality; however, Special Review does not provide direct feedback to specific groups or examiners who worked the cases with errors.⁴ As a result, management was not notified about the specific problems at the local levels and did not develop focused corrective actions for groups with high failure rates. Management began planning and implementing corrective actions to improve examination quality, including consolidating and centralizing improvement strategies that had previously been at the discretion of each Area. However, EP Examinations has not established performance measures for determining whether these corrective actions are achieving the desired results.

Quality reviews identified more errors than reported

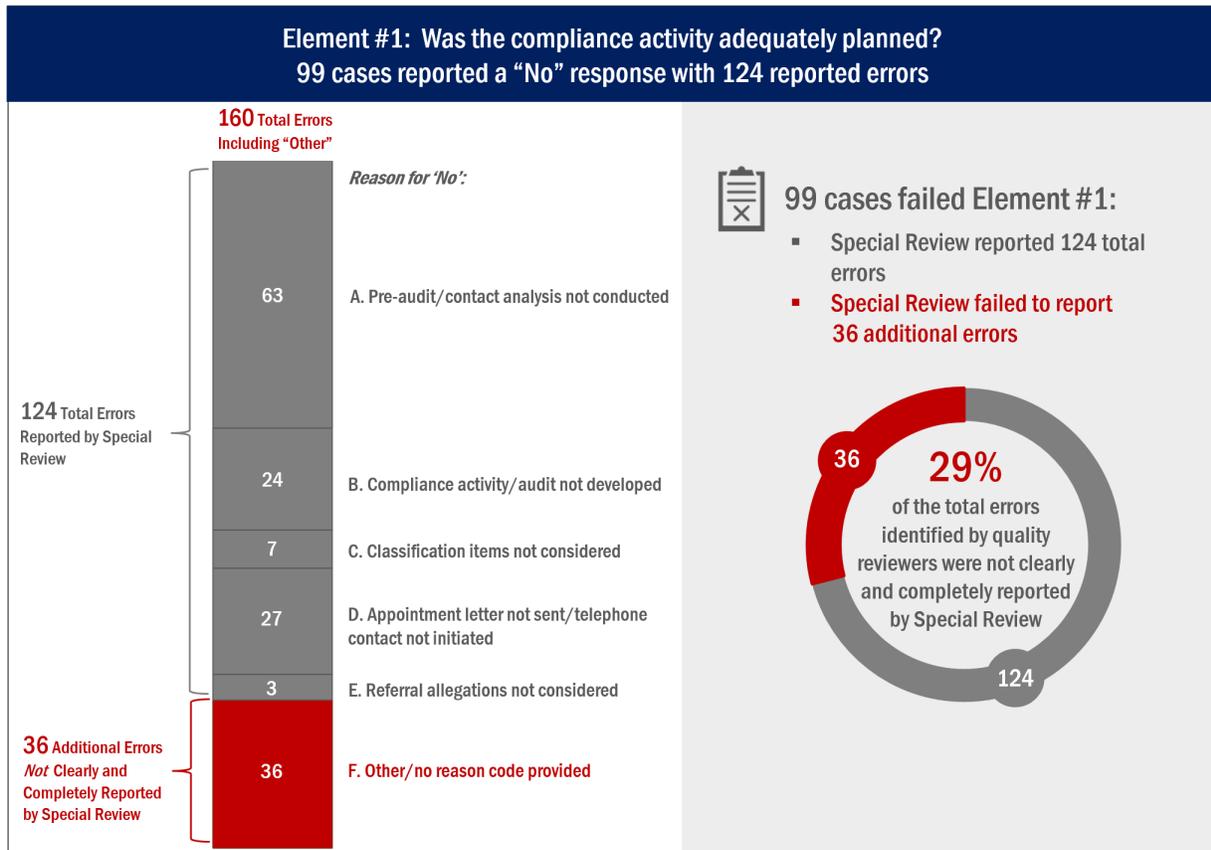
We analyzed the quality review scores in FY 2020 and determined that Special Review did not clearly report all reasons why the cases failed. Each element can fail for multiple reasons, and failing for just one reason will cause the entire element to fail. For example, if the examiner did not conduct pre-audit/contact analysis, Element #1 would fail. However, if on the same case, the examiner also did not develop the compliance activity/audit plan, it would not result in a lower quality score because Element #1 already failed. Special Review reported that, in FY 2020, there were 99 of 179 cases that failed Element #1 with a total of 124 errors.

However, our analysis determined that quality reviewers actually identified 160 errors associated with the 99 cases. Special Review does not report errors associated with the reason code "Other" or errors for which the reviewer did not select a specific reason code. Special Review management stated that they decided to exclude these errors because they are not meaningful given that their computer system requires reviewers to select "Other" in order to enter comments for any case error.⁵ Figure 2 shows the difference between the errors identified by quality reviewers and what Special Review reported for Element #1.

⁴ There are five regional Areas in EP Examinations: Great Lakes, Gulf Coast, Mid-Atlantic, Northeast, and Pacific Coast.

⁵ If an element has only one reason for failure, it is counted as a failure even if the reason code is "Other" or not recorded; however, the error would not be counted among the reason codes explaining the cause of failure.

Figure 2: Element #1 Case Results



Source: TIGTA analysis of FY 2020 EP TEQMS Quality Reports.

Although Special Review accurately reported that 99 cases failed Element #1, quality reviewers identified 36 (29 percent) more errors than reported.⁶ We believe management’s practice creates an incomplete detail of the reasons for element failure and an information gap that could otherwise help improve case quality. First, omitting these errors creates an incomplete portrayal of overall case quality. EP management would benefit knowing the extent of errors that caused a case to fail an element over time. For example, even if the percentage of cases that failed an element increased, the average number of errors associated with the failures may have decreased, which would be an indication of quality improvement. Conversely, a higher number of errors associated with fewer cases that failed an element could indicate poorer quality than reported. Our analysis showed that, for all 20 elements, Special Review excluded 466 errors from the list of reasons for case failure in FY 2020.⁷

Second, management could analyze the population of the “Other” reason codes to assess the need for new reason codes or quality reviewer training. Such information could be helpful to identify more common problems that are not currently tracked. For example, our analysis showed that, for Element #1, 25 (69 percent) of the 36 “Other” errors related to untimely contacting the taxpayer. This suggests a reason code for untimely contact could be warranted. Our analysis also showed that, in some instances, quality reviewers could have cited one of the existing reason codes instead of using the “Other” category. For example, for Element #1, we

⁶ One of the 36 errors did not report a reason code.

⁷ The 466 errors consists of 459 “Other” errors and seven for which no reason code was reported.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

identified eight instances for which the examiner used only the reason code "Other." However, for three of the cases, the quality reviewer could have selected reason code A, "Pre-audit/contact analysis not conducted." This information could be helpful to provide feedback or training to quality reviewers and help improve the reliability and accuracy of the quality reviews.

The Director, CP&C, should:

Recommendation 1: Ensure that quality reviewers always select all applicable reason codes, including "Other," when reviewing EP Examinations cases to show why the element failed.

Management's Response: The IRS agreed with this recommendation and will ensure that quality reviewers select applicable reason codes, including "Other," when reviewing EP Examinations cases to show why the element failed.

Recommendation 2: Include the number of errors for all reason codes, including "Other," in case quality reports.

Management's Response: The IRS agreed with this recommendation and will include the number of errors for all reason codes, including "Other," in case quality reports.

Recommendation 3: Periodically analyze the population of cases that failed an element due to the reason code "Other" to determine if new reason codes or quality reviewer training is warranted.

Management's Response: The IRS agreed with this recommendation and will periodically analyze the population of cases that failed an element due to the reason code "Other" to determine if new reason codes or quality reviewer training is warranted.

Special Review does not provide direct feedback to specific groups or examiners

We analyzed quality issues identified by Special Review in FY 2020 and determined that some examination groups failed 80 percent or more of their cases for a single element. Figure 3 shows the groups with the highest failure rates.

Figure 3: Quality Issues Identified by Group

Element Failed	Percentage of Failed Cases
Examination Group A	
Element #5 – Were material issues properly developed?	90%
Element #6 – Did the workpapers and file adequately document the steps taken, techniques, and conclusions?	80%
Element #20 – Was there timely and an adequate level of managerial oversight and involvement?	80%
Examination Group B	
Element #6 – Did the workpapers and file adequately document the steps taken, techniques, and conclusions?	82%
Examination Group C	
Element #16 – Were taxpayer/representative rights observed and protected?	90%
Examination Group D	
Element #5 – Were material issues properly developed?	89%
Examination Group E	
Element #6 – Did the workpapers and file adequately document the steps taken, techniques, and conclusions?	80%

Source: Analysis of FY 2020 TEQMS quality review results.

Currently, Special Review summarizes quality scores at the national level, and the results are provided to the different Areas. The scores are not provided at the group level or to individual examiners for which the quality issues are occurring. Providing results to the individual examiners could be subject to bargaining with the National Treasury Employees Union due to concerns with evaluative feedback; however, Special Review has the information needed to provide the breakout at the group level. Group-level results would allow more focused corrective actions, which could help improve the quality of examinations.

Recommendation 4: The Director, CP&C, should consider providing feedback related to quality scores to group managers to ensure that they are aware of the need for improvements within their groups.

Management’s Response: The IRS agreed with this recommendation and will provide feedback related to quality scores to group managers to ensure that they are aware of the need for improvements within their groups.

Focused feedback and training could improve quality

Special Review prepares summary-level quality review reports each quarter as well as semiannual presentations for EP examiners. The reports and presentations explain the most common errors and include suggestions on how to fix them. For example, Special Review prepares an *Area Analysis Report* that compares the quality score nationwide results with Area-level results for the top five highest and lowest scoring elements for each Area. Figure 4 shows an example of an *Area Analysis Report* for the Great Lakes Area for the five elements with the lowest passing scores.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Figure 4: FY 2020 Area Analysis Report – Great Lakes Area
(Percentages Represent Passing Scores)

Great Lakes Area

Five Lowest Scoring Aspects

TEQMS Element	FY20 4Q GL	FY20 4Q US	FY19 US	FY18 US
6. Did the workpapers and file adequately document the steps taken, techniques, and conclusions?	25%	28%	41%	48%
11. Were IDRs and/or other information requests clear, concise & appropriate?	29%	48%	55%	69%
16. Were taxpayer/representatives rights observed and protected?	29%	44%	50%	51%
12. Were the letters to the taxpayer properly prepared?	33%	58%	68%	76%
5. Were material issues properly developed?	38%	37%	41%	42%

Source: FY 2020 TEQMS Area Analysis. Note: GL = Great Lakes, IDR = Information Document Request, Q = Quarter.

EP Examinations is responsible for reviewing quality scores and implementing actions to improve examinations. At the time of our review, EP Examinations’ process to improve quality scores was decentralized, and it was up to the five individual Areas to improve scores. We reviewed FY 2020 and FY 2021 meeting minutes from the five different Areas and each had different approaches to improve scores.⁸ For example, the Mid-Atlantic and Gulf Coast Areas reached out to Special Review in an effort to improve scores, whereas the Pacific Coast Area assigned examiners to create presentations for other examiners to improve scores for one of the lowest rated elements. Proactive engagement with Special Review for focused feedback and training on low-scoring elements could improve quality scores. For example, Great Lakes Area management could request additional feedback on Element #12, because it was 25 percentage points below the nationwide score.

All 20 elements of the quality review scores are important because they help the EP Examination program identify weaknesses associated with the examinations and areas for improvement. Poor quality scores suggests EP examiners may not always identify significant issues associated with the operation of retirement plans. Although nearly all of the quality elements declined between FY 2018 and FY 2020, the following four elements were among the lowest scores according to *FY 2020 Tax Exempt Quality Measurement: U.S. Summary 4th Quarter*.⁹

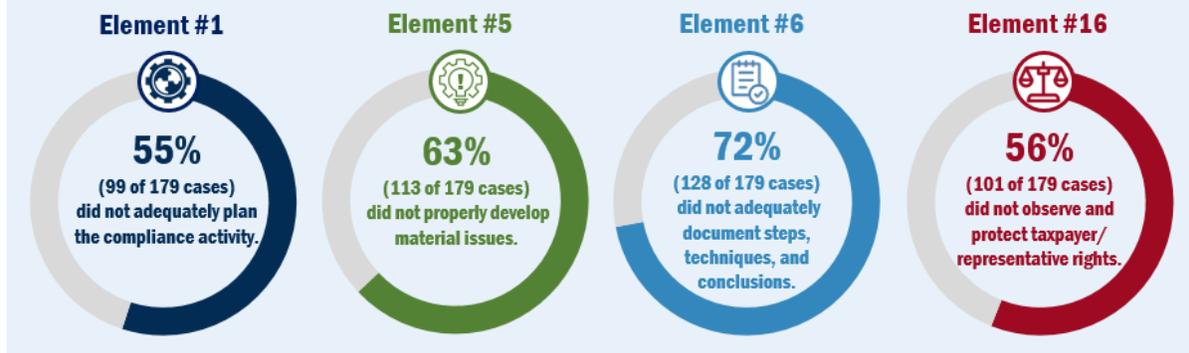
- Element #1: Was the compliance activity adequately planned?
- Element #5: Were material issues properly developed?
- Element #6: Did the workpapers and file adequately document the steps taken, techniques, and conclusions?
- Element #16: Were taxpayer/representative rights observed and protected?

⁸ We reviewed meeting minutes through February 2021.

⁹ Due to resource limitations, we could not review all low-scoring elements. In addition, some elements were not applicable for several of the reviewed cases, resulting in an insufficient number to draw conclusions. For example, Element #9 was applicable in only 13 cases. See Appendix IV for these four elements’ results for FYs 2018 through 2020.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

In FY 2020 Special Review identified the number of EP Examinations cases in which examiners failed one of the following four elements and found:



Was the compliance activity adequately planned? (Element #1)

This question should be answered 'No' if the case review indicates that the examiner did not adequately plan the examination. In FY 2020, Special Review identified 99 (55 percent) of 179 closed EP Examinations cases in which examiners did not properly plan the compliance activity. Of the 99 cases that failed Element #1, our analysis showed:

- 63 cases in which examiners did not complete the pre-audit steps or meet Internal Revenue Manual (IRM) standards.
- 38 cases in which examiners did not compare the prior or subsequent year's Form 5500, *Annual Return/Report of Employee Benefit Plan*, to the year under examination, as required.
- 24 cases in which pre-audit work was not completed before sending the Letter 1346 series to the plan sponsor.¹⁰



The FY 2018 review identified that 21 percent of cases failed this element; therefore, case failure rates increased 162 percent. Proper planning of the examination is important because it helps examiners meet audit objectives and identify other potential issues and minimizes taxpayer burden. The required pre-audit work to be done for an audit must be completed before contacting the taxpayer.

Were material issues properly developed? (Element #5)

This question should be answered 'No' if the examiner did not adequately obtain and analyze relevant facts, verify information received, reconcile books to the tax return, or obtain and consider the taxpayer's position. In FY 2020, Special Review identified 113 (63 percent) of 179 closed EP Examinations cases for which examiners did not properly develop material issues. Of the 113 cases that failed Element #5, our analysis showed:

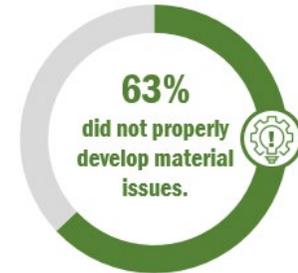
- 49 cases in which the sampling method was not adequate or complete. In order to determine the adequacy of a sample, the case file should include the population,

¹⁰ The Letter 1346 series is used to initiate all general program Form 5500 examinations except those conducted through correspondence. Numbers do not total because cases can have more than one error leading to the element being rated "No."

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

selection process rationale, specific attributes being tested, source documents used, and analysis of the results.

- 33 cases in which examiners made incomplete or incorrect form qualification reviews. The review of the plan's form must be adequate to be considered properly developed. This step requires ensuring the review of all required documents.
- 28 cases in which census data were not verified to source documents. Employer retirement plans maintain census information of all participants in the plan, which includes name, date of birth, *etc.* During an examination, EP examiners use this information to ensure that employees are eligible to participate in the plan and distributions from the plan are properly made. For example, the date of birth from the census information is used to verify if Required Minimum Distributions are made.¹¹



The FY 2018 review identified that 58 percent of cases failed this element; therefore, case failure rates increased 9 percent. Properly developing material issues is important for ensuring that retirement plans comply with qualification, reporting, and excise and income tax matters.

Did the workpapers and file adequately document the steps taken, techniques, and conclusions? (Element #6)

This question should be answered 'No' if the examiner's workpapers and file did not document the issues identified, procedures applied, examination tests performed, information obtained, documents inspected, and conclusions reached during the examination. In FY 2020, Special Review identified 128 (72 percent) of 179 closed EP Examinations cases for which examiners did not adequately document the steps taken, techniques, and conclusions. Of the 128 cases that failed Element #6, our analysis showed:

- 120 cases in which there was lack of a clear audit trail, usually because the workpapers listed generic steps that did not provide an explanation of the steps examiners took to reach conclusions.
- 15 cases in which examiners had poor documentation of sampling methods. For example, the sampling methodology had no explanation of why sampling was used or how the sample was selected.¹²



The FY 2018 review identified that 52 percent of cases failed this element; therefore, case failure rates increased 38 percent. Workpaper documentation is important because if the examiners' work is not properly documented, an observer will be unable to determine if their conclusions were appropriate or adequate. Workpapers should document the audit trail and include a list or copies of the source documents reviewed, evidence or information gathered, procedures and

¹¹ Numbers do not total because we searched for only certain key words; therefore, some cases could have failed for other reasons not mentioned. Required Minimum Distributions is the minimum that must be withdrawn from a retirement account. The distributions generally start when you reach age 72 (70 ½ if you reach 70 ½ before January 1, 2020).

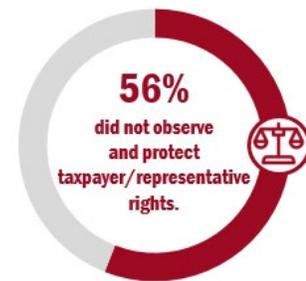
¹² Numbers do not total because cases can have more than one error leading to the element being rated "No."

techniques applied, tests performed, oral testimony received, documentation of actions taken, and conclusions.

Were taxpayer/representative rights observed and protected? (Element #16)

This question should be answered 'No' if the examiner failed to observe and protect the taxpayer's or representative's rights during the compliance activity. In FY 2020, Special Review identified 101 (56 percent) of 179 closed EP Examinations cases in which taxpayer/representative rights were not observed and protected. Of the 101 cases that failed Element #16, our analysis showed:

- 59 cases in which examiners did not follow taxpayer representation procedures, including the protection of the taxpayer's privacy and safeguarding confidential taxpayer information. This issue usually occurred because cases had errors on Form 2848, *Power of Attorney and Declaration of Representative*. Common errors with the Form 2848 included missing plan numbers, missing plan names, and other incorrect information. When the Form 2848 is incorrect, any actions taken with the Power of Attorney may result in improper disclosure.
- 50 cases in which examiners did not properly follow disclosure or data security procedures. These errors occurred when examiners exchanged e-mails or information with the representative or taxpayer prior to the March 2020 Interim Guidance Memorandum permitting e-mail communications and document exchanges due to Coronavirus Disease 2019.¹³



The FY 2018 review identified that 49 percent of cases failed this element; therefore, case failure rates increased 14 percent. Protecting taxpayer/representative rights is essential in maintaining the public's trust and ensuring transparency. Taxpayers should not have to be concerned with their information being improperly disclosed. Additionally, this risk could potentially lead to failure in ensuring that tax return information is being secured and that all Sensitive But Unclassified and Personally Identifiable Information is adequately protected.

In the first quarter of FY 2021, Special Review provided a presentation with over 100 slides that included the most common reasons why the elements failed and suggestions for improvements. However, despite this feedback, the quality review scores continued to decline.¹⁴ Following the FY 2021 presentation, EP Examinations asked that, for future presentations, Special Review include examples of deficient workpapers and workpapers that meet the standards. EP Examinations also requested that presentations be focused on specific elements because they thought presentations covering all 20 elements were too lengthy and exhaustive for the participants.

For FY 2021, Special Review had several Area-level presentations scheduled and incorporated EP Examinations' feedback. For example, Special Review compared workpapers that failed the standards with workpapers that met the standards and is limiting quality score results presentations so that they focus on a limited number of the lowest scoring elements. This

¹³ Numbers do not total because cases can have more than one error leading to the element being rated "No."

¹⁴ Scores continued to decline for the first and second quarters of FY 2021.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

strategy would allow a more detailed discussion of the issues causing the low scores, highlight the case file items that failed policy requirements for those elements, and facilitate ideas on how to improve quality.

Recommendation 5: The Director, EP Examinations, should advise Area and group managers to proactively work with Special Review to provide specific feedback and training on low-scoring elements.

Management's Response: The IRS agreed with this recommendation and will advise Area and group managers to proactively work with Special Review to provide specific feedback and training on low-scoring elements.

EP Examinations and Special Review are implementing corrective actions

Management is taking actions to address the poor quality scores.¹⁵ Figure 5 shows management's proposed actions to improve examination quality, along with the estimated due dates.

¹⁵ We could not assess the effectiveness of the corrective actions because they were still in progress during our review.

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Figure 5: FY 2021 TEQMS Improvement Recommendations Action Items

Estimated Date Due	Corrective Action Item
Implemented	<ul style="list-style-type: none"> Incorporate the use of the TEQMS check sheet by managers – mandatory during case reviews, workload reviews, and closed case reviews for discussions with the agents.
In Progress	<ul style="list-style-type: none"> Require agents to complete a check sheet similar to TEQMS for each case in RCCMS as part of preparing a case for closure. Direct Nonevaluative Feedback – Special Review provides direct feedback between the reviewer and the agent. This practice was previously routine but was discontinued due to limited review staff. However, it was an effective form of feedback. The feedback could be streamlined into an e-mail. Considerations, and possibly National Treasury Employees Union negotiations, may need to occur before sharing with managers.
12/31/2021	<ul style="list-style-type: none"> Peer Reviews – Each group identifies agents to serve as mentors/peer reviewers. Mentor/peer reviewers assess the cases and provide feedback to the agent.
6/30/2022	<ul style="list-style-type: none"> Designated Area Reviewers (Non-Bargaining Unit) – Each Area designates one of their managers to be a case reviewer for a specified time period. During this time, the manager’s group would be managed by an acting manager. The designated area reviewer evaluates cases, prepares feedback, and sends it to the agent’s manager. The manager reviews the feedback, and if they concur, discusses the review with the agent. The review becomes part of the Employee Performance File to be used as a component in the annual appraisal rating. Error trends will be compiled for the Area’s use for shared awareness.
Ongoing	<ul style="list-style-type: none"> Provide managers, including acting managers, training to ensure they are aware of TEQMS standards to emphasize quality. Provide specific training on low-scoring TEQMS items starting with all new hires. Training on work paper documentation requirements should include requirements for sampling techniques and methodology; model workpapers; and emphasize on quality. Request Area/Group specific presentations by Special Review. Consistency review process – Managers and reviewers review the same case, and then meet to compare their reviews, specifically for consistencies and inconsistencies. This process is intended to assist managers in reviewing cases before they are transferred to the Closing Unit.

Source: EP Examinations TEQMS corrective actions provided by EP management.

Additionally, in response to the low quality review scores, management lowered its quality score goal from a target of 80 percent to a range of 72 to 75 percent for midyear FY 2022. Management plans to raise the goal back to 80 percent for the end of FY 2022.

The corrective actions are promising and should help improve the quality of EP examinations. However, because the corrective actions were recently developed, EP Examinations has not established performance measures for determining whether these corrective actions will achieve desired results. Various statutory and regulatory provisions require the IRS to set performance goals for organizational units and to measure the results achieved by those units. To fulfill these requirements, the IRS has established a balanced performance measurement system composed of three elements: customer satisfaction (via feedback forms, surveys, *etc.*), employee engagement, and business results.¹⁶ Measuring performance also involves regular monitoring and reporting of program effectiveness and progression toward achieving established goals and objectives. For example, if Area and group specific presentations are developed, EP

¹⁶ Balanced Performance Measurement System; In General, 26 C.F.R. § 801.1(a)(2) (2008).

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Examinations could monitor quality scores after the presentation to determine if this corrective action improved the quality scores for those groups.

It is important for the IRS to objectively monitor the effectiveness of corrective actions so that changes can be made if needed. Millions of plan participants rely on the IRS for assurance that retirement plans comply with qualification, reporting/disclosure, and excise and income tax matters. These actions help ensure confidence that plan participants will receive their promised retirement benefits.

Recommendation 6: The Director, EP Examinations, should ensure that EP Examinations' proposed corrective actions are implemented timely and should develop performance metrics and data collection methods to measure the effectiveness of the corrective actions to improve quality scores.

Management's Response: The IRS agreed with this recommendation and will ensure that EP Examinations' proposed corrective actions are implemented timely, and will develop performance metrics and data collection methods to measure the effectiveness of the corrective actions to improve quality scores.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the EP Examinations function is taking adequate corrective actions to address weaknesses identified during quality reviews. To accomplish our objective, we:

- Reviewed IRS processes and procedures for conducting quality reviews of closed EP Examinations cases.
 - Obtained and reviewed policies and procedures for how EP Examinations identifies, selects, and works cases.
 - Determined the documentation required and maintained for all Tax Exempt and Government Entities Division functions and determined if there are best practices EP Examinations can implement.
 - Interviewed EP Examinations management to determine their process for selecting and working cases.
- Determined what additional improvements can be made to the examination process as a result of quality reviews of EP examinations.
 - Obtained the U.S. Summary 4th Quarter TEQMS reports for FYs 2018 through 2020 and access to the RCCMS.
 - Analyzed review results to identify common issues that were identified for examination quality standards and the standards' sub elements.
 - Determined whether Areas having more issues correlate with a lack of guidance in the IRM, desktop procedures, or other guidance available to EP Examinations.
 - Interviewed Special Review management to determine what they would recommend or suggest to resolve the issues we identified.
 - Determined what corrective actions EP Examinations has taken as a result of the quality reviews performed by Special Review.
 - Reviewed Special Review feedback or recommendations provided to EP examiners to determine whether problem areas are clearly addressed and communicated to field staff.
- Determined if EP Examinations is providing adequate feedback to the CP&C function in order to improve examination case selection.

Performance of This Review

This review was performed with information obtained from the Tax Exempt and Government Entities Division Headquarters in Washington, D.C., during the period September 2020 through July 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); Bryce A. Kisler, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations); Carl L. Aley, Director; David M. Bueter, Audit Manager; Jeffrey R. Stieritz, Lead Auditor; and Nicole J. Pangallo, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We assessed the reliability of TEQMS data for FYs 2018 through 2020 by matching them to the case data contained in the RCCMS database. In addition, we validated RCCMS data by matching case data to the IRS's Integrated Data Retrieval System.¹ We reviewed the data and ensured that each file contained the data elements we requested. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: controls over ensuring the independence of the quality review function, quality reviewing closed examination case files; and providing feedback on the results of reviewing closed examinations. We evaluated these controls by obtaining the policies, procedures, and training documents for the quality review process, and interviewing IRS employees who developed the quality review process. Additionally, we reviewed quality scores to identify significant issues for each Area and group.

¹ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

Appendix II

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 466 errors (2,330 forecast over five years) that Special Review excluded from the list of reasons for case failure of quality reviews in FY 2020 (see Recommendations 1 and 2).¹

Methodology Used to Measure the Reported Benefit:

We analyzed the quality review scores in FY 2020 and determined that Special Review excluded any errors that quality reviewers classified as “Other” as well as those without a specified reason code in quality review reports.² Our analysis showed that, for all 20 elements, Special Review excluded 466 errors from the list of reasons for case failure of quality reviews in FY 2020 (2,330 forecast over five years).

Management’s Response: The outcome measure stated in the report found 466 errors in FY 2020 that were not included in the reason for failures of an element and forecasts errors over five years. The IRS acknowledges there were errors in FY 2020; however, it disagreed with the five-year forecast because it is implementing changes and additional oversight in refining the reporting of reasons for failures of an element as well as preventing these failures from occurring during the forecast period.

Office of Audit Comment: TIGTA’s methodology for projecting an outcome for five years assumes that, if TIGTA had not performed the audit and identified the condition which led to the outcome, the condition would have existed for up to five years without correction. While we support the IRS’s plans to take corrective actions, doing so is not grounds for disagreeing with the benefits the corrective actions may provide.

¹ The five-year forecast is based on multiplying the base year by five and assumes, among other considerations, that economic conditions and tax laws do not change.

² If an element has only one reason for failure, it is counted as a failure even if the reason code is “Other” or not recorded; however, the error would not be counted among the reason codes explaining the cause of failure.

Appendix III

Tax Exempt Quality Measurement System Data Collection Instrument

Measure 1 Proper Identification, Development and Resolution of Issues		Y	N	N/A
1	Was the compliance activity adequately planned? EP: IRM 4.71.1.6 , 4.71.1.5 , 4.71.1.7(1) , 4.71.16.9.2 EO: IRM 4.75.10	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. Pre-audit/contact analysis not conducted <input type="checkbox"/> B. Compliance activity/audit plan not developed <input type="checkbox"/> C. Classification items not considered <input type="checkbox"/> D. Appointment letter not sent/telephone contact not initiated <input type="checkbox"/> E. Referral allegations not considered <input type="checkbox"/> F. Explanation "Other"				
2	Were material issues (beyond Compliance Planning & Classification) identified and properly considered during the compliance activity? EP: IRM 4.71.1.5 , 4.71.1.14.1 EO: IRM 4.75.10.1.2 , 4.75.10.6 , 4.75.11.1 & 5, 4.75.12.10.1 , 4.75.13.8.1 , 4.75.22.3.2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> A. Obvious identifiable issues large, unusual and/or questionable (LUQ) not considered <input type="checkbox"/> B. Additional issues not discussed with the manager <input type="checkbox"/> C. Explanation "Other"				
3	Were adequate filing checks completed? EP: IRM 4.71.1.14 , 4.71.1.14(3) & (4) EO: IRM 4.75.12	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. Multi-year returns not inspected or verified <input type="checkbox"/> B. Related returns not reviewed or inadequately reviewed <input type="checkbox"/> C. Delinquent returns not considered (EP: 4.71.1.21) <input type="checkbox"/> D. 1099 series requirements not considered <input type="checkbox"/> E. Employment tax returns not considered <input type="checkbox"/> F. Explanation "Other"				
4	Were adequate interviews conducted and recorded in the file? EP: IRM 4.71.1.12 , 4.71.11.4.1 EO: IRM 4.75.10.11 , 4.75.11.4 , 4.75.11.6 & 7	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> A. No/insufficient interview conducted <input type="checkbox"/> B. Interview not in the file <input type="checkbox"/> C. Tour required but not conducted <input type="checkbox"/> D. Explanation "Other"				
5	Were material issues properly developed? EP: IRM 4.71.1.12(5) , 4.71.1.4 , 4.72 , 4.71.1.24 , 4.71.16.9.3 , 4.71.1.3 EO: IRM 4.75.11 , 4.75.13.2 & 3	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. Tax exempt and/or qualification issues not properly developed <input type="checkbox"/> B. Income tax not developed (EP: 4.71.4.1 EO: 7.27 , 4.75.31) <input type="checkbox"/> C. Employment tax not developed (EP: 4.71.1.14.2-4 EO: 4.23) <input type="checkbox"/> D. Excise tax not developed (EP: 4.72.11 , 4.71.23.5 EO: 7.27) <input type="checkbox"/> E. Tax law not properly interpreted or applied <input type="checkbox"/> F. Books and records or other information not properly reviewed <input type="checkbox"/> G. Probes (sampling and testing techniques) not adequate or not completed <input type="checkbox"/> H. Explanation "Other"				
6	Did the workpapers and file adequately document the steps taken, techniques and conclusions? EP: IRM 4.71.1.15.1 & 2 , 4.71.1.5(8) EO: IRM 4.75.10.3	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. File included irrelevant workpapers and/or exhibits for the respective issues <input type="checkbox"/> B. Workpapers/lead sheets did not adequately document audit trail, research and/or conclusions <input type="checkbox"/> C. Exhibits or workpapers referenced in the file are missing <input type="checkbox"/> D. Explanation "Other"				
7	Did the Case Chronology Record (CCR) adequately document the activity? EP: IRM 4.71.1.1.6 , 4.71.1.6(4) EO: IRM 4.75.10.3.3	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. Phone calls or conversations not documented <input type="checkbox"/> B. Correspondence not documented <input type="checkbox"/> C. Description of the work performed not documented or inadequately explained <input type="checkbox"/> D. Explanation "Other"				

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

8	Were material issues properly resolved? EP: IRM 7.2.2.1.1, 4.71.3.3, 4.71.1.5(8), 4.71.20, 4.71.23 EO: IRM 4.75.13.6, 4.75.15, 4.75.31.5, 4.10.7.4.6, 7.25, 7.26, EO Audit Technique Guides (ATGs)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/> A. Tax exempt and/or qualification issues not properly resolved <input type="checkbox"/> B. Income tax not resolved (EP: 4.71.20, 4.71.4.1, 4.71.10 EO: 7.27, 4.75.31) <input type="checkbox"/> C. Employment tax not resolved (EP: 4.71.1.14.2 EO: 4.23) <input type="checkbox"/> D. Excise tax not resolved (EP: 4.72.11, 4.71.23.6, 4.71.5 EO: 7.27) <input type="checkbox"/> E. Computation incorrect or not completed <input type="checkbox"/> F. Tax law requirements not properly interpreted or applied <input type="checkbox"/> G. Failure to make appropriate tax referral (EP: 4.71.6.1) <input type="checkbox"/> H. Fast Track Settlement not offered (EP: 4.71.19) <input type="checkbox"/> I. Delinquent required returns not secured (EP: 4.71.5) <input type="checkbox"/> J. Explanation "Other"			
9	Were penalties considered, applied, waived or removed as warranted? EP: IRM 4.71.18, 20.1 EO: IRM 4.75.22, 20.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/> A. Applicable penalties not considered or asserted <input type="checkbox"/> B. Specific statements to support non-assertion of penalties not documented <input type="checkbox"/> C. Penalty improperly computed <input type="checkbox"/> D. Penalty action not approved by the manager when required <input type="checkbox"/> E. Explanation "Other"			
10	Was fraud adequately considered? EP: IRM 4.71.1.15.1(10), 4.71.25, 25.1 EO: IRM 4.75.11.16, 25.1	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/> A. Indicators of fraud not considered <input type="checkbox"/> B. Fraud indicators not discussed with manager <input type="checkbox"/> C. Fraud issues not discussed with coordinator/specialist/advisor <input type="checkbox"/> D. Fraud penalty incorrectly computed <input type="checkbox"/> E. Explanation "Other"			
Measure 2		Y	N	NA
Taxpayer Communication (Internal & External)				
11	Were information document requests (IDRs) and/or other information requests clear, concise and appropriate? EP: IRM 4.71.1.7, 4.71.1.7.3, 4.71.1.7.4, 4.71.16.9.4 EO: IRM 4.75.10.7, 4.75.11.18	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Purpose not communicated in terms understandable to the taxpayer <input type="checkbox"/> B. Grammatical and/or spelling errors <input type="checkbox"/> C. Failed to request only necessary information <input type="checkbox"/> D. Inadequate content (amount of information requested and/or proper periods) <input type="checkbox"/> E. Incomplete (reflect years, response dates, taxpayer and/or examiner information) <input type="checkbox"/> F. Inadequate follow up <input type="checkbox"/> G. Mutually agreeable time frames not negotiated <input type="checkbox"/> H. IDR delinquency procedures not applied <input type="checkbox"/> I. Summons necessary and not considered <input type="checkbox"/> J. Explanation "Other"			
12	Were the letters to the taxpayer properly prepared? EP: IRM 4.71.1.22.1(3-7) EO: IRM 4.75.10.8, 4.75.15.3	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Inconsistent with issues identified in workpapers and/or file documentation <input type="checkbox"/> B. Used inappropriate letters <input type="checkbox"/> C. Wrong version of letter used (outdated) <input type="checkbox"/> D. Incorrect taxpayer and/or IRS information <input type="checkbox"/> E. Grammatical and/or spelling errors <input type="checkbox"/> F. Explanation "Other"			
13	Were the reports to the taxpayer properly prepared? EP: IRM 4.71.16.10, 4.71.5.9.1.1, 4.71.4.1.4(9) EO: IRM 4.75.15	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/> A. Inconsistent with issues identified in workpapers and/or file documentation <input type="checkbox"/> B. Reports not well written and/or incomplete <input type="checkbox"/> C. Incorrect taxpayer and/or IRS information			

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

	<input type="checkbox"/> D. Grammatical and/or spelling errors <input type="checkbox"/> E. Incorrectly computed tax or credit due <input type="checkbox"/> F. Explanation "Other"			
14	Were proper closing procedures followed? EP: IRM 4.71.1.15.1(3) , 4.71.1.15.2 , 4.71.1.22.1 , 4.71.12.4.2 , 4.71.1.22.1(9-11) EO: IRM 4.75.16	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Incorrect information in RCCMS closing record/tabs <input type="checkbox"/> B. Incorrect Disposal Code <input type="checkbox"/> C. Incorrect Principal Issue Code <input type="checkbox"/> D. Incorrect/incomplete referral forms <input type="checkbox"/> E. Improper/incomplete file assembly <input type="checkbox"/> F. Applicable check sheets not completed <input type="checkbox"/> G. Payment not solicited <input type="checkbox"/> H. Explanation "Other"			
15	Was the taxpayer/representative regularly kept informed throughout the compliance activity? EP: IRM 4.71.1.7(1 & 7) , 4.71.1.14.1(10 & 11) , 4.71.1.22.1(1) , 4.71.16.9 EO: IRM 4.75.10.8 , 4.75.10.9.3.1 , 4.75.11.4.1 , 4.75.11.20 , 4.75.13.6 & 7	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Findings/issues not discussed <input type="checkbox"/> B. Taxpayer not kept apprised of status <input type="checkbox"/> C. Taxpayer not notified in writing when expanding compliance activity to include additional returns (EP: 4.71.1.14.1(1-10)) <input type="checkbox"/> D. Closing conference not conducted (in-person or by phone) to inform the taxpayer compliance activity was completed <input type="checkbox"/> E. Explanation "Other"			
16	Were taxpayer/representative rights observed and protected? EP: IRM 4.71.1.7(6) , 4.71.1.12(8) , 4.71.1.9 , 4.71.1.10 , 4.71.1.11 , 11.3 EO: IRM 1.10.3 , 4.75.10.6 - 10 , 4.75.11.3 & 4 , 4.75.15.1 , 11.3 , 25.27.1	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Taxpayer representation procedures not properly followed <input type="checkbox"/> B. Appeal rights were not discussed when adjustments proposed <input type="checkbox"/> C. Pub 1 , Privacy Act Notice 609 or other required notices not provided <input type="checkbox"/> D. Disclosure and/or data security procedures not properly followed <input type="checkbox"/> E. Third party contact procedures not followed <input type="checkbox"/> F. Explanation "Other"			
Measure 3 Timeliness		Y	N	NA
17	Was the timespan of the compliance activity reasonable? EP: IRM 4.71.1.7.5 EO: IRM 4.75.10.2(7) , 4.75.10.7.3(5) , 4.75.10.8(3)c , 4.75.16.2.1	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Failure to document reasonable exceptions to the National Standard Timeframes <input type="checkbox"/> B. Failure to document reasonable exceptions to the IDR timeframes <input type="checkbox"/> C. Reassigned compliance activity not worked timely <input type="checkbox"/> D. Inactivity on compliance activity <input type="checkbox"/> E. Overall cycle time (span start/finish) not reasonable <input type="checkbox"/> F. Minimal hours charged periodically <input type="checkbox"/> G. Explanation "Other"			
18	Was the total time spent on the compliance activity commensurate with the nature and complexity of the issues? EP: IRM 4.71.1.7.5 , 4.71.1.1.6 EO: IRM 4.75.10.3.3	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Explanation			
19	Were actions taken timely to monitor and protect the statute of limitations? EP: IRM 4.71.1.5(10) , 4.71.9 , 4.71.17.4 , 25.6 EO: IRM 4.75.10.6.1 , 4.75.16.4.2 , 25.6.1	<input type="checkbox"/>	<input type="checkbox"/>	
	<input type="checkbox"/> A. Statute date not properly determined <input type="checkbox"/> B. Procedures to protect statute not followed <input type="checkbox"/> C. Missing/incorrect information on statute extension <input type="checkbox"/> D. Consent form not timely solicited <input type="checkbox"/> E. Consent form not in the file <input type="checkbox"/> F. Explanation "Other"			

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

20	Was there timely and adequate level of managerial oversight and involvement? EP: IRM 4.71.1.1.6(5), 4.71.16.9.1 EO: IRM 4.75.10, 4.75.11, 4.75.12, 4.75.13, 4.75.15, 4.75.16, 4.75.21, 4.75.22, 4.75.35	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> A. Inadequate managerial involvement <input type="checkbox"/> B. Taxpayer concerns not addressed <input type="checkbox"/> C. Taxpayer/representative delays not addressed <input type="checkbox"/> D. CCR does not reflect managerial review of activity or issuance of closing letter <input type="checkbox"/> E. Longer than 10 days for manager to date and close the file after receipt from examiner <input type="checkbox"/> F. Managerial directive not reasonably appropriate <input type="checkbox"/> G. Explanation "Other"				
NON-MEASURED QUESTIONS				
		Y	N	NA
1	Was query/classification sheet appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	
If # 1 is no, please explain				
2	Was the referral valid?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If # 2 is no, please explain				
3	Was file returned to the group?	<input type="checkbox"/>	<input type="checkbox"/>	
If # 3 is yes, please explain why SR is returning the file				
4	Was there a promising practice?	<input type="checkbox"/>	<input type="checkbox"/>	
If # 4 is yes, please describe the promising practices				
Notes for programmers: determine whether we can obtain a comment box for @ reason code?				

Source: TEQMS User Guide. Note: EO = Exempt Organizations, SR = Special Review, Y = Yes, N = No, N/A = Not Applicable.

Appendix IV

Fiscal Years 2018 Through 2020 Tax Exempt Quality Measurement System Common Issues Identified

Results	Fiscal Year		
	2018	2019	2020
Element 1			
Was the compliance activity adequately planned?			
Untimely Contacted Taxpayer	0%	6%	20%
Letter sent before pre-audit complete	6%	10%	13%
No pre-audit work	16%	28%	35%
No prior and/or subsequent year Form 5500 comparison	3%	9%	21%
Total "No" Cases – Element 1	21%	35%	55%
Total cases reviewed	306	258	179
Element 5			
Were material issues properly developed?			
Sampling not adequate or complete	15%	26%	27%
Issues with form qualification/review	6%	14%	18%
Census not verified	5%	9%	16%
Total "No" Cases – Element 5	58%	59%	63%
Total cases reviewed	306	258	179
Element 6			
Did the workpapers and file adequately document the steps taken, techniques, and conclusions?			
Sampling not adequate or complete	5%	6%	8%
Audit trail, research, and/or conclusions not documented	48%	56%	67%
Total "No" Cases – Element 6	52%	59%	72%
Total cases reviewed	306	258	179
Element 16			
Were taxpayer/representative rights observed and protected?			
Disclosure/data procedures not properly followed	5%	6%	8%
Taxpayer representation procedures not properly followed	17%	28%	33%
Total "No" Cases – Element 6	49%	50%	56%
Total cases reviewed	306	258	179

Source: TIGTA analysis of FYs 2018 through 2020 EP Examinations TEQMS Quality Reports.

Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

January 13, 2022

MEMORANDUM FOR MICHAEL E. MCKINNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Sunita B. Lough **Sunita B. Lough** Digitally signed by Sunita B. Lough
Commissioner, Date: 2022.01.13 09:52:30 -05'00'
Tax Exempt and Government Entities Division (TE/GE)

SUBJECT: Draft Report – Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved (Audit # 202110023)

Thank you for the opportunity to review your draft report titled: "Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved." We appreciate your review of this issue and share your concern with the decline in case quality scores.

TE/GE Employee Plans (EP) continuously works to conduct quality employee plans examinations to ensure that retirement plans comply with qualification, reporting/disclosure, and excise and income tax requirements under the Internal Revenue Code. An examination includes a review of plan documents.

Compliance, Planning and Classification (CP&C) Special Review conducts quality reviews of closed EP examinations. The results of those reviews are maintained on the Tax Exempt Quality Measurement System (TEQMS). The independent reviews are designed to measure the overall quality of EP examinations and to identify specific areas of improvement including consistency in activities, potential training needs, and sustension rates for cases going to Appeals.

Special Review uses 20 quality elements which fall within three quality measures to evaluate case quality. Within each of the quality elements, there are several factors (reason codes) that could cause a case to fail the element. Historically, the reason codes were not effectively tracked. The report refers to these as "errors." The outcome measure stated in the report found 466 errors in FY2020 that were not included in the reason for failures of an element and forecasts errors over five years. We acknowledge there were errors in FY2020; however, we disagree with the five-year forecast because

**Employee Plans Examination Quality Review Scores Have Declined, and
Efforts to Identify Trends and Implement Corrective Actions Could Be Improved**

2

we are implementing changes and additional oversight in refining the reporting of reasons for failures of an element as well as preventing these failures from occurring during the forecast period.

Based upon TIGTA's recommendations, we initiated a request for report programming changes to include all reason codes responsible for failure of an element. These changes will ensure our quarterly TEQMS Reports provide all reason codes leading to quality element failure. In addition, we will periodically analyze cases that failed an element to identify any new reason codes needed or quality reviewer training warranted.

As stated in your report, Special Review provides EP Examinations feedback at the National and Area levels and makes recommendations to improve examination quality. Additionally, Special Review plans to share TEQMS feedback directly with the group managers in the first half of fiscal year 2022. The non-evaluative feedback will be provided to the group manager who can in turn use the feedback to improve case quality. Employee Plans Examination and Special Review have also implemented quarterly consistency meetings whereby group managers and Special Review collectively analyze a TEQMS case. These meetings have already led to a better understanding of the TEQMS process and the expectation of improved quality scores.

We appreciate the opportunity to review and comment on the draft report. Attached is a detailed response to your recommendations. If you have any questions, you or your staff may contact me, Eric D. Slack, Director, Employee Plans at Eric.D.Slack@irs.gov, or Adrian F. Gonzalez, Director, Compliance Planning & Classification at Adrian.F.Gonzalez@irs.gov.

Attachment

Employee Plans Examination Quality Review Scores Have Declined, and Efforts to Identify Trends and Implement Corrective Actions Could Be Improved

Attachment

**Corrective Actions for TIGTA Audit Draft Report –
Employee Plans Examination Quality Review Scores Have Declined, and Efforts
to Identify Trends and Implement Corrective Actions Could be Improved (Audit
#202110023)**

RECOMMENDATION 1:

The Director, CP&C, should ensure quality reviewers always select all applicable reason codes, including “Other,” when reviewing EP Examination cases to show why the element failed.

CORRECTIVE ACTION:

The Director, CP&C, will ensure quality reviewers select applicable reason codes, including “Other,” when reviewing EP Examination cases to show why the element failed.

IMPLEMENTATION DATE:

February 15, 2023

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning & Classification (CP&C), TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

The Director, CP&C, should include the number of errors for all reason codes, including “Other,” in case quality reports.

CORRECTIVE ACTION:

The Director, CP&C, agrees to include the number of errors for all reason codes, including “Other,” in case quality reports.

IMPLEMENTATION DATE:

February 15, 2023

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning & Classification (CP&C), TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

**Employee Plans Examination Quality Review Scores Have Declined, and
Efforts to Identify Trends and Implement Corrective Actions Could Be Improved**

2

RECOMMENDATION 3:

The Director, CP&C, should periodically analyze the population of cases that failed an element due to the reason code, "Other," to determine if new reason codes or quality reviewer training is warranted.

CORRECTIVE ACTION:

The Director, CP&C, agrees to periodically analyze the population of cases that failed an element due to the reason code, "Other," to determine if new reason codes or quality reviewer training is warranted.

IMPLEMENTATION DATE:

March 15, 2023

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning & Classification (CP&C), TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:

The Director, CP&C, should consider implementing feedback opportunities related to quality scores for group managers to ensure they have a better understanding about the need for improvements within their group.

CORRECTIVE ACTION:

The Director, CP&C will provide feedback related to quality scores to group managers to ensure that they are aware of the need for improvements within their groups.

IMPLEMENTATION DATE:

August 15, 2022

RESPONSIBLE OFFICIAL(S):

Director, Compliance Planning & Classification (CP&C), TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

**Employee Plans Examination Quality Review Scores Have Declined, and
Efforts to Identify Trends and Implement Corrective Actions Could Be Improved**

3

RECOMMENDATION 5:

The Director, EP Examination, should advise Area and group managers to proactively work with Special Review to provide specific feedback and training on low-scoring elements.

CORRECTIVE ACTION:

The Director, EP Examination, will advise Area and group managers to proactively work with Special Review to provide specific feedback and training on low-scoring elements.

IMPLEMENTATION DATE:

February 15, 2022

RESPONSIBLE OFFICIAL(S):

Director, EP Examination, TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 6:

The Director, EP Examination, should ensure that the EP's proposed corrective actions are implemented timely, and develop performance metrics and data collection methods to measure the effectiveness of the corrective actions to improve quality scores.

CORRECTIVE ACTION:

The Director, EP Examination, will ensure that the EP Examinations proposed corrective actions are implemented timely and will develop performance metrics and data collection methods to measure the effectiveness of the corrective actions to improve quality scores.

IMPLEMENTATION DATE:

June 30, 2022

RESPONSIBLE OFFICIAL(S):

Director, EP Examination, TE/GE

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

Appendix VI

Abbreviations

CP&C	Compliance, Planning, and Classification
EP	Employee Plans
FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
RCCMS	Reporting Compliance Case Management System
TEQMS	Tax Exempt Quality Measurement System
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
call our toll-free hotline at:**

(800) 366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.