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REPORT BY THE Comptroller General OF THE UNITED STATES

8986

IRS Inspection Service Functions: Management Can Further Enhance Their Usefulness

The Internal Revenue Service management can make more effective use of its internal audit and internal security functions. Top management's needs could be served better if internal audit

--were not required to continuously review and report to IRS field offices, an unachievable and undesirable goal, and

--broadened its audits and reported directly to top management.

Internal audit is taking steps to improve its planning, conducting, and reporting of audits. However, IRS management needs to supplement those actions with some changes to the audit policy and plans.

Over half of internal security's investigations involve personnel and other noncriminal matters which could be done at less cost by the Office of Personnel Management and other IRS general investigative personnel rather than IRS criminal investigators. Internal security is taking steps to allocate investigators among IRS regions to reasonably match the existing workload and minimize untimely and unnecessary investigations. However, further action is needed to reduce cost.

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JANUARY 30, 1979

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-137762

To the Chairman and Vice Chairman
Joint Commmittee on Taxation TNT01400
United States Congress

This report, one of a series in response to your Committee's request, discusses ways the Internal Revenue Service management can make more effective use of its internal audit and internal security functions to maintain control and assure integrity in its operations.

We made several recommendations to the Commissioner of Internal Revenue to improve the (1) planning, conduct, and reporting of internal audits so they would better serve top management and (2) efficiency of internal security investigations. The Internal Revenue Service generally agreed with our recommendations.

As arranged with your committee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE JOINT COMMITTEE ON TAXATION UNITED STATES CONGRESS

IRS INSPECTION SERVICE FUNCTIONS: MANAGEMENT CAN FURTHER ENHANCE THEIR USEFULNESS

D I G E S T

The Inspection Service, created in 1952 as part of a major reorganization of the Internal Revenue Service (IRS), is charged with keeping the agency's operations and management under continual scrutiny and appraisal. The Inspection Service has two functions: internal audit and internal security.

The Inspection Service is organizationally independent and has a large audit and investigative staff assigned throughout IRS. It is in a unique position to play a key role in the IRS management control system. (See pp. 4 to 10.)

INTERNAL AUDIT'S ROLE CAN BE STRENGTHENED

IRS can strengthen its internal audit function to more effectively serve management's overall needs. IRS has a highly qualified internal audit staff. It is (1) organizationally independent of line management, (2) directly aligned to report to top management as it should, and (3) generally complying with IRS audit policies and management's current expectations. (See pp. 11 to 16.)

Internal audit's activities are dictated by a 1952 policy to provide continuous audit surveillance of all field activities--at least annual audits of all major field activities. Consistent with this responsibility, the staff generally follows a highly decentralized audit approach and furnishes its reports primarily to managers in the field. For example, in fiscal year 1977, the staff directed all but 8 of 350 audit reports to field management. (See pp. 16 to 18.)

Although the audit staff is complying with management's directives and contributing to stronger controls and more efficient operations, its role and approach have limited its usefulness to top management because:

--The audit staff must direct its efforts primarily to continually monitoring field activities, an unrealistic goal which hinders effective audit planning. (See pp. 20 to 28.)

--The audit approach basically (1) restricted the scope of most audits to a single field office, (2) limited the audit purpose to determining whether specific operations at that office complied with written instructions, and (3) resulted in audit reports to field management. (See pp. 28 to 34 and app. II.)

--The staff's role did not enable its efforts to most effectively evaluate and supplement other review efforts. (See pp. 34 to 36.)

The internal audit staff, on its own initiative, has taken numerous steps to better serve all management levels with more systematically planned audits. For example, in January 1978, the audit staff began emphasizing nationally coordinated audits. Nationally (or regionally) managed audits generally focus on a specific program or operation and limit field work to those locations necessary to satisfy audit objectives. This approach will (1) better serve top management, (2) permit broader corrective actions on audit findings, and (3) make more effective use of audit resources. The staff plans to coordinate 30 percent of its efforts in calendar year 1978. (See pp. 36 to 40.)

The audit staff's changes are a step in the right direction, but management needs to supplement these actions. IRS audit policy still requires at least annual audits of all field activities, and the staff's plans are still designed to achieve this end. Both the policy and the plans need modifying. (See pp. 40 to 42.)

RECOMMENDATIONS

GAO recommends that the Commissioner of Internal Revenue:

1) --Modify t~~he IRS~~ policy requiring annual audits of all major field activities and establish an audit goal which encourages the most effective use of ~~internal audi~~t resources/to serve all management levels.

(2) --Direct the Assistant Commissioner (Inspection) to develop audit plans/which
-more realistically recognize the number of auditors to be available;
-fully incorporate all major IRS programs and activities, including those at the national level;
-depict more specifically and document the relative need for the audit attention to be given each program and operation each year; and
-better serve top management through centrally planned, directed, and controlled reports assessing programs and operations agencywide.

(3) --Instruct the Assistant Commissioner (Inspection) to periodically discuss with the Commissioner and other Assistant Commissioners the level of resources devoted to centrally planned, directed, and controlled audits/to determine whether top management believes the level of effort is appropriate.

4) --Clarify the role and responsibilities of regional analysts/which serve subordinate management versus the broader, independent role of the internal audit staff which primarily serves top management so as to avoid any misinterpretations and confusion.

(See p. 43.)

IRS COMMENTS

IRS basically agreed with most of GAO's recommendations regarding IRS' internal audit operations. Although the agency either plans or has taken steps to implement some of our recommendations, the nature and extent of other actions it will take was unclear. GAO anticipates IRS taking additional, specific actions as necessary to fully carry out the intent of the recommendations. (See pp. 43 to 45.)

INTERNAL SECURITY INVESTIGATIONS HAVE BEEN COSTLY AND SOMETIMES TOO LENGTHY AND UNNECESSARY--IMPROVEMENTS UNDERWAY

IRS' internal security staff completed about 16,000 investigations in fiscal year 1977. Generally, the investigations were done adequately. However, management improvements are needed and being made to (1) reduce cost, (2) improve timeliness, and (3) avoid unnecessary investigations. Even though IRS has assigned criminal investigators to the security function, the investigations are predominantly of a noncriminal nature--about 69 percent of the investigative time spent and 88 percent of the cases. This results in unnecessary cost.

Criminal investigators are more costly because they can retire earlier and receive more liberal benefits than most other Federal employees. Almost half of the noncriminal-related effort represents personnel type investigations which the Office of Personnel Management (formerly the Civil Service Commission) conducts for most other Federal agencies using less costly general investigators. By assigning noncriminal investigations to either that Office or other IRS general investigative personnel, IRS could reduce the noncriminal work performed by criminal investigators by at least 50 percent. This would save the Government about $8 million. (See pp. 47 to 59.)

Until 1977, the Internal Security Division used arbitrary and informal methods to budget for investigators and allocate them among the various IRS regions. Consequently, among the regions there has not always been a reasonable balance between the number of investigators and the caseload. For example, investigators in one IRS region had about twice the workload as those in another region for 4 consecutive years. (See pp. 60 to 63.)

Excessive caseloads in some regions have contributed to lengthy delays in completing investigations. Investigations of new employees' backgrounds and allegations of employee misconduct sometimes took longer than a year. Timely investigations are necessary to protect both IRS and its employees. For example, management needs the investigative reports to decide whether new employees should be retained or discharged before their 1-year probationary terms expire. (See pp. 63 to 65.)

IRS did not have clear, specific criteria governing the types of employee conduct matters internal security personnel will investigate. Consequently, criminal investigators sometimes investigated administrative matters which did not warrant their attention and could have been handled appropriately by line management. GAO estimated that 64 (about 18 percent) of 350 sample cases GAO reviewed involved routine administrative matters. These types of investigations contribute unnecessarily to investigators' overall workload, almost one-half of which represents employee conduct investigations. (See pp. 65 to 69.)

Internal security is making improvements in the management of its investigative resources by assigning some work to investigative aides and developing better management information. Moreover, the staff is shifting to a more active, systematic approach to detecting and investigating employee integrity problems. These are all worthy efforts, but further action is needed to assign noncriminal type work to other personnel and, thereby, reduce cost. (See pp. 69 to 74.)

<u>RECOMMENDATIONS</u>

GAO recommends that the Commissioner of Internal Revenue:

(5) --Determine, ~~in conjunction with the~~ Office ~~of Personnel~~ Management, the extent that Office can assume additional responsibility for personnel investigations presently being conducted by IRS criminal investigators/and,

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to the extent possible, transfer the responsibility to the Office of Personnel Management.

(6) --Provide general investigators (or other appropriate personnel) to conduct non-criminal investigations ~~that cannot be conducted by the Office of Personnel Management~~.

(7) --Establish criteria delineating matters to be investigated ~~by the Internal Security Division~~ and assign responsibility for handling administrative matters to line management.

(8) --Review the investigator and caseload relationships ~~among the regions and assign positions~~ to provide a reasonable investigator caseload balance.

and (9) --Establish uniform standards to monitor the timeliness with which investigations are being completed. (See p. 74.)

IRS COMMENTS

IRS generally agreed with GAO's recommendations regarding IRS' internal security operations. However, a question remains as to whether IRS' plans and actions will go far enough in justifying or reducing the current level of criminal investigators. (See pp. 74 to 75.)

Contents

ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service
OPM	Office of Personnel Management

CHAPTER 1

INTRODUCTION

The Internal Revenue Service (IRS) is large and its programs and operations complex. To illustrate, in fiscal year 1977, IRS collected $358 billion in tax revenue, processed 134 million and examined about 3.1 million tax returns, completed 8,900 investigations of possible tax fraud, answered questions of 37 million people, employed 84,400 people, and spent $1.8 billion. IRS must maintain effective management control over these activities and assure integrity among the staff involved. To do this, the Commissioner, his assistants, and other managers have, as a principal means of control, the Inspection Service.

This report discusses how well the Inspection Service, through its internal auditing and internal security functions, serves IRS management. We reviewed the Inspection Service's activities at the request of the Joint Committee on Taxation. The Committee expressed interest in IRS policies, procedures, and practices for the internal audit and internal security functions and the interrelationship of these functions with other IRS activities.

INSPECTION SERVICE HISTORY

An internal inspection function existed in IRS as early as 1921. At that time, a corps of "assistant supervisors of collectors' offices" examined accounts and records and determined personnel, equipment, and space needs. In 1922, the assistant supervisors were replaced by "supervisors of accounts and collections." In 1922, the Commissioner's annual report said:

> "This mobile force is constantly visiting collectors' offices and assisting in problems of office management and accounting. Their services have been utilized particularly in examining accounts in order that there may be complete reconciliation between the accounts of the collectors and their liability as reflected by the bureau's [now IRS'] records."

Between 1922 and 1951, other IRS components created their own inspection staffs. All of these inspection units, however, had two fundamental weaknesses (1) their functions were not organizationally independent of the operating activities reviewed and (2) coordination among the various inspection units was lacking.

Congressional interest in IRS heightened in the late 1940s and early 1950s. A subcommittee conducted hearings and detailed investigations almost continuously from 1948 into 1954. The controversy repeatedly centered around the collectors' offices. Headed by Presidential appointees, the 64 offices collected and processed most of the $50.4 billion of tax revenue and employed more than 60 percent of all IRS employees in 1951. The investigations not only highlighted corruption in IRS but also its apparent inability to deal with problems.

Acting on instructions from the President and the Secretary of the Treasury, in October 1951, the Commissioner established an Inspection Service. The Director, Inspection Service, would have overall responsibility for IRS inspection activities. The Commissioner stated:

> "We have set up an Internal Revenue Inspection Service to insure careful and painstaking examinations in the future of all our field offices and personnel, and thus prevent the occurrence of any laxity in any office or on the part of any personnel."

In January 1952, the President sent Reorganization Plan No. 1 of 1952 to the Congress proposing a sweeping reorganization of IRS. One aspect of the plan was a provision for a strong, independent-inspection service. The plan provided for several new assistant commissioner positions, including inspection. The President's January 2, 1952, press release described this aspect of the plan as follows:

> "A strong, vigorous inspection service will be established and will be made completely independent of the rest of the Bureau. Through a comprehensive system of audits and inspections, this service will keep operations and management of the Bureau under continual scrutiny and appraisal. It will have the responsibility, coupled with full authority, of detecting and investigating any irregularities."

The plan became effective March 1952. During that same month, IRS consolidated the separate inspection activities of the various IRS components into the Inspection Service. IRS also transferred to the Inspection Service the responsibility for all character and conduct investigations from the then Intelligence Division and the Alcohol and Tobacco Tax Division.

Through the years, the Department of the Treasury and IRS have issued orders to clarify and carry out the objectives of the Reorganization Plan of 1952. Also, the Internal Security Division has assumed responsibility for various categories of investigations previously conducted by other IRS or Treasury components. For example, the Division assumed primary responsibility for investigating

--Federal tort claims in 1956,

--bribery attempts in 1961,

--backgrounds of other Treasury employees in 1964, and

--threats and assaults against IRS employees in 1972.

However, the Inspection Service's mission today is still essentially as it was more than 25 years ago--"maintenance of the highest standards of honesty, integrity, loyalty, security, and conduct among IRS employees."

CHAPTER 2

THE ROLE AND IMPORTANCE OF

THE IRS INSPECTION SERVICE--A PERSPECTIVE

The Internal Revenue Service is a large and geographically dispersed agency charged with the annual collecting and processing of hundreds of billions of dollars in tax revenues. To administer tax programs efficiently and effectively, the IRS management control strategy includes a constant flow of information from the operating level to the policymaking level where the information is evaluated and acted on. A variety of information systems and evaluation and review groups supply this information.

Because of its independence and because its large staff is dispersed throughout the agency, the Inspection Service is in a unique position to play a key role in the IRS management control strategy.

ORGANIZATIONAL STRUCTURE

IRS is organized on a decentralized basis and is stratified into three tiers

--the National Office, the IRS Data Center, and National Computer Center;

--seven intermediate level regional offices; and

--"front line" operational offices consisting of 58 districts and 10 service centers.

An IRS organization chart is presented in appendix I.

The National Office develops policies and programs for the nationwide administration of the internal revenue laws. Management at the national level includes the Commissioner, Deputy Commissioner, and eight assistant commissioners. The assistant commissioners are the principal advisors to the Commissioner on IRS programs within their purview. Each directs a staff composed of two or more divisions that are further organized along functional lines. As of June 1978, a staff of about 5,000 was assigned to the National Office.

Regional offices serve as an interface between policymakers at the National Office and the district offices and service centers at the operating level. Some operations, such as administration and appellate, however, are conducted at the regional level. Management at the regional level consists of a regional commissioner and six assistant regional commissioners in each region. The regional commissioners report directly to the Commissioner and Deputy Commissioner but are provided staff support and technical expertise by the assistant commissioners. The regional commissioners are responsible for establishing regional standards and programs to assure proper and effective implementation of agency-wide policies and programs within their respective regions. The organization of assistant regional commissioners is along functional lines parallel to the assistant commissioners. The assistant regional commissioners serve as the principal advisors to regional commissioners on programs under their responsibility. Although assistant regional commissioners are directly responsible to a regional commissioner, they are also functionally responsible to their National Office counterparts.

At regional offices, staffs are relatively small. The assistant regional commissioners for administration and appellate have staffs sufficient to conduct operations at the regional and some branch offices. Staff for the remaining assistant regional commissioners consists mainly of program analysts responsible for reviewing and evaluating the operations within their program areas.

Assistant regional commissioners have no direct line authority over the execution of their programs. This authority rests with the district and service center directors who report directly to the regional commissioners. Most IRS employees work at the operating level and report to a district or service center director.

MANAGEMENT CONTROL STRATEGY

Management control begins with delegated authority and planned operations, continues through performance, and includes reporting on performance. A well-designed system of management control helps to insure efficiency, economy, and achievement of planned results. Such a system includes carefully devised and frequently updated standards for designing, conducting, and measuring the output of programs and operations. The essence of management control is the action which adjusts operations to conform with prescribed or desired standards or requirements. To take this action, management needs timely and adequate information on performance.

IRS engages in numerous efforts at all management levels to

--acquire and analyze data regarding its programs and operations,

--improve its comprehension of those programs and operations, and

--ultimately increase their effectiveness and efficiency.

Information constantly flows up and down the agency to various management levels where it is evaluated to plan, manage, and control IRS activities. IRS' organizational structure facilitates its approach to management control wherein programs and operations are reviewed in the context of each organizational level--national, regional, and district--and each major function such as audit, intelligence, and collections.

Management has primary responsibility for reviewing and evaluating IRS programs and operations. IRS policy requires all line management to evaluate programs for which they and their subordinates are responsible. Functionally aligned officials at both national and regional levels are responsible for observing and evaluating the manner in which work in their respective areas is carried out in regional, district, and service center offices. Also, they are responsible for reporting observations and recommending corrective action to appropriate line officials.

National and regional office review programs

Within this framework of continuous review and evaluation, IRS has several more formalized review functions. The primary one at the national level is the National Office Review Program. Its basic purpose is to assess the regional offices' effectiveness in carrying out their primary role of supervising districts and service centers executing IRS programs. Efforts are concentrated on determining how well the regions are meeting program objectives--using resources--and managing, in a total sense, IRS programs.

Under this program, program managers at the National Office are responsible for overseeing program implementation and evaluating how well programs are conducted in the field. Through continually monitoring and assisting regions, program managers also assess regional program effectiveness. These assessments are based primarily on normal daily relationships, analyses of reports, review of internal management documents, replies to inquiries and correspondence, and visits to the regions, districts, and service centers. Additionally, assistant commissioners undertake specific program reviews and evaluations as the need occurs. They focus on major program efforts and accomplishments, new programs, and significant needs and problems.

A key element of the review program is a formal review of each of the seven IRS regions, scheduled every 21 months. Formal reports are furnished to assistant commissioners describing significant accomplishments and problems. In addition, the reports include

--an overall assessment of program management;

--an assessment of the goals accomplished and objectives set for the region;

--a review of resource utilization within the region encompassing those aspects of the working environment within management's control, such as funds, equipment, and space, that affect productivity; and

--an evaluation of key regional managers' impact on their programs, the quality of staffing, and efforts to develop and maintain an effective staff.

During their formal reviews, program managers may visit districts, service centers, and other field offices to evaluate regional management.

A Regional Office Review Program operates similar to the national review program wherein regional offices review the programs carried out by district offices and service centers. The program includes continual monitoring of the effectiveness of district and service center management in carrying out IRS policies and procedures through special studies and formal onsite reviews of individual districts and service centers. Approximately 375 regional analysts are assigned to the assistant regional commissioners to review and evaluate work.

Supplementing the normal management evaluation through the national and regional office review programs are other studies, tests, and research projects IRS management conducts both at the National Office and in the field. These reviews have increased substantially in recent years because of IRS' operational complexity and organizational decentralization.

To better coordinate and control these efforts, IRS has instituted administrative procedures for

--initiating studies, tests, and research projects conducted within IRS;

--approving projects based on their scope and objectives; and

--monitoring and coordinating all studies and integrating them into IRS' overall performance evaluation process.

Office of the Assistant Commissioner for Planning and Research

The Assistant Commissioner (Planning and Research) has the responsibility for monitoring IRS research and management review activities. The Assistant Commissioner acts as the principal assistant to the Commissioner and Deputy Commissioner on all matters relating to, among other things, analysis of IRS programs to promote maximum effectiveness in administering the Internal Revenue Code with the most efficient and economical expenditure of resources. In this capacity, the Assistant Commissioner performs the following functions with the assistance of about 37 of approximately 330 staff members:

--Provides technical assistance and expertise to other IRS organizations performing management reviews and research.

--Assists the Deputy Commissioner in reviewing and approving major research efforts.

--Coordinates and tracks research and management review studies throughout IRS.

--Performs policy and program analysis, interfunctional analysis and evaluation, special studies, and evaluations of the general management systems of IRS.

As of March 1978, IRS had 55 studies, tests, or research activities in progress of agencywide impact or interest costing an estimated $5.7 million. The Assistant Commissioner (Planning and Research) had initiated 15 of these projects.

THE INSPECTION SERVICE'S ROLE

Evaluations and appraisals of IRS operations conducted by the line and staff management, including the formal review programs, constitute normal management controls that might be exercised in any Government agency. None of these provides for an independent and objective appraisal of IRS activities because evaluations are made by the same officials charged with administering the programs being reviewed. Evaluations conducted by the Office of Assistant Commissioner (Planning and Research), though independent organizationally, are limited because the staff is small and assigned entirely to the National Office. Additionally, these studies are often concerned with research efforts not related to ongoing IRS programs and operations. Supplementing the normal controls and other studies, tests, and research projects is the Inspection Service--the final component of IRS management control and evaluation strategy.

The Inspection Service has two functions: internal auditing and internal security. The Assistant Commissioner (Inspection) reports directly to the Deputy Commissioner and the Commissioner and is charged with providing

--an independent review and appraisal of all IRS operations to assure that responsibilities at all organizational levels are properly discharged with effectiveness and efficiency and in accordance with laws and regulations (internal audit) and

--an investigative service which will assure the maintenance of the highest standards of honesty, integrity, loyalty, security, and conduct among IRS employees and will protect the integrity of IRS from attack by outsiders seeking to compromise it through attempted bribery or other illegal or improper acts (internal security).

The Inspection Service is in a unique position to serve the Commissioner and top management. Its structure provides a particularly valuable link in IRS' management control strategy because it is organizationally independent and its staff is assigned throughout the agency. The Inspection Service can assist all levels of management by evaluating, in depth, IRS programs and operations, identifying and reporting on problem areas and deficiencies, and recommending solutions. The Commissioner can look to the Inspection Service to provide a factual and candid appraisal of the manner the various organizations carry out their assigned functions and assist management in maintaining high standards of integrity and conduct among IRS employees.

As discussed in the next two chapters, the Inspection Service's audit and security functions are not serving IRS management as well as they could. Chapter 3 discusses the need for internal auditing to have a broader and more effective role in the overall IRS management control system. Chapter 4 addresses internal security investigations, emphasizing that the investigations can be conducted at lower overall cost and generally in less time.

CHAPTER 3

MANAGEMENT CONTROL CAN BE STRENGTHENED

THROUGH A BROADER AND MORE EFFECTIVE

ROLE FOR INTERNAL AUDIT

The Internal Revenue Service internal audit function is organizationally independent, aligned to report to the highest practicable level, and staffed with professionally qualified, well-trained auditors. Consistent with management's expectations, the internal audit staff conducts frequent audits of field activities.

Its efforts have been a valuable service to IRS, particularly district and service center managers. However, IRS has not assigned the audit staff a role which enables it to most effectively serve management's overall needs. Traditionally, the staff has

--provided continuous surveillance of field activities which has hindered the staff in planning audits to best serve all management levels;

--used a highly decentralized audit approach which has (1) restricted the scope of most audits to a single field office, (2) limited their purpose primarily to determining the compliance of operations with IRS policies and procedures, and (3) resulted in audit reports being directed primarily to field level management; and

--served in a role which has not permitted its audits to most effectively complement other review efforts.

Since 1975, the Internal Audit Division has taken important steps to more systematically plan and control the audit effort and better serve management's overall needs. These are worthy efforts, and with further steps in this direction, management should benefit even more from the audit function.

INTERNAL AUDIT IS GENERALLY MEETING MANAGEMENT'S CURRENT EXPECTATIONS

IRS has structured its internal auditing system to conform with legal requirements, the Comptroller General's audit standards, and a Department of the Treasury directive. In line with IRS policy, the audits are directed primarily at providing maximum surveillance of field offices and reporting to management at those offices.

Standards for effective internal auditing systems

Every organization needs an effective system of internal management control. One of the best means of providing management control is the establishment of effective internal auditing systems. This need and the importance of effective internal auditing have been recognized by the Congress in a number of laws, particularly the Budget and Accounting Procedures Act of 1950. The act requires the head of each agency to establish and maintain systems of accounting and internal control designed to provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible. An integral part of such a system is internal auditing which uniquely supplements routine management controls through its independent approach and review methods.

In 1963, the Government Activities Subcommittee, House Government Operations Committee, emphasized the vital role of internal auditing in larger Federal agencies by stating:

> "The head of a large executive department or agency must have his own eyes and ears within the organization, responsible solely to him, independent of operations and with unlimited jurisdiction to review any and all functions wherein waste or inefficiency might exist. * * * However, especially in the larger departments or agencies employing thousands of individuals, involving scores of programs, and having offices located throughout the United States and possibly abroad, if the agency head wants to maintain policy control and achieve economy and efficiency, he has no choice but to institute an effective management control system." 1/

In 1972 the Comptroller General of the United States published, "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." The standards

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1/H. Rept. No. 456, "Survey of Selected Activities (Part 1 - Efficiency and Economy in the Department of Commerce)", 88th Cong. 1st sess.(1963).

emphasized the need to broaden the scope of governmental auditing, so it would no longer only be concerned with financial operations. Auditing should also be concerned with whether governmental organizations are:

--Achieving the purposes for which programs are authorized and funds are made available.

--Operating economically and efficiently.

--Complying with applicable laws and regulations.

The standards were developed to apply to audits of this wider scope. In August 1974, the Comptroller General incorporated the standards in a revised statement entitled, "Internal Auditing in Federal Agencies."

The General Services Administration's Federal Management Circular 73-2, "Audit of Federal Operations and Programs by Executive Branch Agencies," 1/ dated September 27, 1973, sets forth policies to be followed in auditing Federal operations and programs. The Circular's primary objectives are to (1) promote improved audit practices, (2) achieve more efficient use of manpower, (3) improve coordination of audit efforts, and (4) emphasize the need for early audits of new and substantially changed programs.

The Department of the Treasury's Directive 10-04.A, dated March 16, 1976, requires the head of each Treasury bureau, including IRS, to develop and maintain an effective internal auditing system. The Directive refers to the Comptroller General's standards and Federal Management Circular 73-2 as the basic criteria for establishing audit coverage and operations and for measuring the adequacy of audit services. The Directive assigns responsibility to the Director of the Office of Audit, Assistant Secretary (Administration), for reviewing and appraising the Treasury bureaus' internal auditing systems. The Office of Audit has periodically reviewed the IRS internal audit function and its most recent report is dated September 1975.

1/Superseded by Office of Management and Budget Circular No. A-73, Revised, dated Mar. 15, 1978. Circular A-73 did not change the objectives stated above or any of the standards or requirements referred to elsewhere in this report.

IRS audit system provides for maximum independence and includes a well-qualified staff

The Comptroller General's standards for independence and qualifications state:

> "In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
>
> "The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required."

The IRS audit staff is sufficiently independent to enable its audits to be impartial and its opinions, conclusions, and recommendations to be unbiased. Also, the staff, as a whole, is fully qualified to perform the audits required.

As discussed in chapter 2, IRS' internal audit function is organizationally placed within the agency to assure maximum independence of line-management functions and provide for reporting to the highest level possible. At the national level, the Director of the Internal Audit Division is responsible for assisting in planning, programming, and executing internal audits in the seven regions; ensuring that regional staffs maintain a consistently high standard of performance; and providing audit coverage of National Office activities. The Division includes a Field Activities Branch, Program Development Branch, Data Processing Activities Branch, and Special Projects Branch.

At the regional level, a regional inspector, reporting directly to the Assistant Commissioner (Inspection), is responsible for executing the Inspection Service's internal audit and internal security programs. Each regional inspector has two principal assistants--one for internal audit and one for internal security.

Internal audit policies and procedures provide that internal audit coverage extend to all organizational levels and to all IRS programs and operations. The internal audit program is intended to provide an independent review and appraisal of all IRS programs and activities as a protective and constructive service to the Commissioner and all other management levels. We observed no impairment of the audit staff's independence. No programs or activities have been placed off limits to the staff.

As of June 1978, IRS had 411 internal auditors, 60 at the National Office and 351 in the regions. The audit staff's professional qualifications and training are commensurate with the scope and complexities of the audits they perform. Of the 411 auditors, 126 had professional certifications--33 as certified public accountants and 93 as certified internal auditors. All held bachelors degrees and 37 held advanced degrees. The Internal Audit Division places strong emphasis on training and staff development. Each year the Division requires that time be set aside for training purposes. The training program offers a variety of courses internally and externally. Training provided to the audit staff ranges from orientation sessions for new staff members to more technical courses, such as data processing and statistical sampling.

IRS audit policies require annual audits of major field activities and emphasize employee integrity

IRS' internal audit function is the combined result of the Budget and Accounting Procedures Act of 1950, Treasury Directive 10-04.A, as well as various IRS policies.

IRS' overall audit policy requires that the scope of internal auditing extend beyond the verification of compliance with written instructions. The policy requires the audits include a determination of whether policies, practices, procedures, and controls at all management levels adequately protect the revenue and are being efficiently and effectively carried out. Thus, the policy provides for the full scope of auditing envisioned in the Comptroller General's standards.

However, a more specific IRS policy, governing the audit planning, coverage, and reporting, stems from a statement by President Truman in 1952. Announcing the reorganization of IRS at that time, the President stated that the newly created Inspection Service would keep the operations and management of the agency under continual scrutiny and appraisal. In response, IRS adopted a policy stating:

> "The best interests of the Service require that the internal auditing of its field activities be done at frequent intervals and that internal audit findings be reported promptly. Accordingly, all major field activities are audited and reported on at least once each year. Serious operating deficiencies found during any internal audit are to be reported immediately."

In addition, the internal audit staff, along with the IRS investigative staff, is responsible for implementing a policy requiring "* * *the highest standards of honesty, integrity, loyalty, security, and conduct among Service employees."

Internal audits conform with IRS directives and current expectations

In accordance with IRS policies requiring annual audits of all major field activities and emphasizing employee integrity, the audit staff devotes almost 100 percent of its effort to auditing and reporting on field operations. Fifteen percent of direct audit time was earmarked specifically for integrity audits and investigations during calendar years 1976 to 1977.

The Internal Revenue Manual recognizes it may be impracticable to audit all aspects of each field activity every year. The Manual provides a cyclical approach that may be used wherein one or more elements of a field activity are audited each year. Also, the Manual states that audit emphasis will be placed on those operations most closely related to collecting tax revenues and administering and enforcing the tax laws. These operations are carried out primarily in 58 districts and 10 service centers. All audit reports are to be directed to the top local management official of the office where the audit work is performed--generally district directors, service managers, and, to a lesser extent, regional commissioners.

In fiscal year 1977, the audit staff issued 350 reports classified as follows:

Type	Number
Regular	259
Online	4
Impress fund (note a)	81
Summary reports	6
Total	350

a/Imprest funds provide fixed sums of cash to authorized cashiers to be disbursed for investigative purposes, change making, and small purchases.

Typically, regular audits focus on one or more functions of an operating unit within a district, service center, or regional office. Online audits are similar to regular audits except they deal with new or substantially revised programs or programs of immediate concern to management. Imprest fund audits involve verification of cash transactions and balances at district, service center, and regional offices.

All but 8 of the 350 internal audit reports were directed to managers at the field offices where the auditors performed their work. The Internal Audit Division issued 2 reports concerning National Office activities to headquarters management. The Division also coordinated the audits performed at several field offices, consolidated information contained in local reports, and furnished 6 summary reports to National Office management.

Although few of its reports have been addressed to top management, the Internal Audit Division has contributed to improved operations through reports to other managers on operational weaknesses and problems. For fiscal year 1977, the Division reported that management actions resulted in savings and additional revenue totaling over $88 million where monetary benefits could be measured. In addition, the Division reported its audits had immeasurable benefits in the form of corrective actions taken by management which resulted in

--more efficient operations,

--more effective programs and procedures,

--better service to taxpayers, and

--stronger internal controls.

In addition to its regular internal audits, the audit staff participates in a "joint inspection integrity program" consisting primarily of integrity development probes and joint integrity investigations. The internal auditors make integrity development probes into areas having a high possibility for integrity breaches. Joint integrity investigations are undertaken by internal audit and internal security personnel when a positive indication of an integrity violation exists. According to the Internal Audit Division, its integrity reviews

--produce a deterrent effect on persons contemplating improper actions,

--identify operational problems for correction by management, and

--Help prevent revenue loss through early detection of improper actions.

At all organizational levels, IRS' managers view the role currently assigned to internal audit primarily as one of determining whether IRS policies and procedures are being followed and bringing problems and deficiencies to management's attention. IRS' managers at each level believe the internal audit staff performs this function well. Generally, the managers have looked to other review groups for broader-based reviews of IRS policies, programs, and activities.

Although IRS has strategically placed the internal audit function in the organization and provided competent staff to effectively serve top and subordinate management, the internal audit staff's current role in the overall management control strategy and its audit approach do not enable it to serve management as well as it could. As a result, top management, in particular, is not realizing the benefits internal auditing can provide through broad-based audits of IRS' policies, programs, and activities.

INTERNAL AUDIT'S CURRENT ROLE AND APPROACH LIMIT ITS USEFULNESS TO MANAGEMENT

Currently, IRS' management has the internal audit staff in a role of continuously monitoring field activities. Consistent with this role, the audit staff follows a highly decentralized approach to its audits, giving top priority to detecting integrity violations and directing its reports primarily to field management. This seriously impairs the staff's ability to serve management's overall control needs because it must direct its attention primarily to operations and management at the field level. To a large extent, top management is missing the opportunity to use the internal audit function to serve its needs in controlling IRS programs and activities.

Unfilled management control needs

Many IRS managers, especially those at the national and regional level, believe internal audit can serve a broader and more effective role than it currently serves. National and regional managers frequently stated that the internal audit staff would better serve their needs through broader-scope reviews.

For example, one assistant commissioner stated the auditors should do more than determine the compliance of field operating personnel with IRS manual instructions. He suggested that these type audits should be reduced by one-third. He also believed that only high-risk and past-problem areas should be subject to annual audits. Another assistant commissioner believed the auditors should devote more time to audits of the economy, efficiency, and effectiveness of IRS programs and activities. He also stated the need for continuous audits of certain districts was unnecessary.

Similarly, four of seven regional commissioners believed the internal audits would be more useful primarily if they were of broader scope. For example, one regional commissioner stated that the internal audits as presently performed (1) are not an effective management tool, (2) do not deal with significant matters, and (3) require too much time for the results achieved. Another regional commissioner stated a better mixture of audits is needed and that at present the audits deal with similar or identical matters over and over again. Both questioned the need to make continuous audits of district offices.

District-level managers generally stated that the current role of internal audit was proper. In general, managers at this level believed internal audit should restrict its work to compliance auditing of the type presently done because other review groups, particularly regional analysts, perform the broader type reviews. These managers believed audits of broader scope would unnecessarily duplicate other reviews.

However, a number of managers at this level believed the compliance-type audits should be of broader scope within a field office and that audit results should be better communicated. For example, pertinent comments of four district directors follow:

> "I would like internal audit to give me a report which would enable me to make an overall assessment. As an example, we may have specific problems within a given area which should be addressed but I would like to be able to get an overall conclusion as to whether we have done a good job or whether we have a good program. The fragmentation of the audits gives us pieces of information which are far more difficult to use from an overall management standpoint."

* * * * *

"They would have greater value to us by providing more assistance along the lines of recommending and providing assistance in procedural areas between divisions and offices. They are in an excellent position to do this, because of their unique role of having an overall view of the Service. As it exists now, they merely come in and find fault without making any recommendations."

* * * * *

"Internal Audit should maintain a constant awareness of the need for sharing their findings within the entire organization."

* * * * *

"Frequently int. [internal] audit will find an error or deficiency in one district that is likely to exist in others. Instead of finding the same problem in 6 other districts, it would seem more valuable to issue a 'flash bulletin' to all districts* * *."

As discussed in the following sections, IRS has long relied upon the internal audit staff to provide continuous surveillance of field activities. Because of this, the audit staff has not been able to spend much time on audits assessing programs and operations agencywide and resulting in reports directly to upper level management. Thus, management has not taken full advantage of this key benefit of internal auditing.

This situation is changing, however. Along with other changes, in January 1978, the Internal Audit Division began devoting 30 percent of its direct time to nationally coordinated audits. These audits are specifically designed to serve National Office management.

<u>Policy requiring continuous surveillance is unachievable and inhibits audit planning</u>

IRS internal audit efforts are directed primarily at complying with the policy adopted by IRS in 1952 requiring all major field activities to be audited at least annually. However, this goal has been unachievable because of audit resource constraints and undesirable because it inhibits planning audits to most effectively and efficiently serve management's overall needs.

Federal Management Circular 73-2 requires each executive branch agency to prepare an audit plan at least annually showing as a minimum the

--audit universe (all programs and operations subject to audit);

--programs and operations selected for audit, with priorities and specific reasons for selection;

--audit organization that will conduct the audit;

--audit cycle or frequency, the locations to be audited, and the reasons;

--scope of audit coverage to be provided and the reasons; and

--anticipated benefits to be obtained from the audits.

The Internal Audit Division does not prepare an overall audit plan annually. Instead, the Division has a long-range (5-year) plan providing a framework for annual plans prepared by each of the seven assistant regional inspectors (internal audit).

<u>Long-range planning system is designed to satisfy Federal audit requirements</u>

In 1975, the Division developed a long-range planning system to accomplish IRS audit objectives in an organized and efficient manner and to also meet Circular 73-2 and other Federal audit requirements. Specifically, the planning system satisfies important Circular 73-2 requirements because it appropriately provides for

--identifying the audit universe (all programs and operations subject to audit),

--establishing an audit cycle for review of all programs and operations in the audit universe, and

--assigning priorities to each program and operation and determining the frequency with which each will be reviewed and the locations to be visited.

The system also provides a procedure for developing budget requests on the basis of estimated workload requirements, a means of more systematic control, and measure of audit coverage over the longrun. Furthermore, the system properly provides for obtaining suggestions concerning the programs and operations to receive audit coverage from top management officials.

Although the long-range planning system provides a basis for meeting Federal audit requirements, the planning effort has been hindered by the IRS policy requiring all major field activities to be audited at least annually. The assistant regional inspectors' annual plans essentially allocate staff-days available among the field activities according to the long-range plan. The plans present no certain narrative information and justification required by the circular. For example, the plans show no (1) specific reasons for selecting programs and operation for audit each year, (2) reasons for the scope of audit coverage, and (3) anticipated benefits of the audits. Also, because of management's emphasis on frequent audits of all field activities, the audit plans do not

--realistically consider audit resource constraints,

--identify as part of the Division's audit universe any National Office activities, and

--adequately depict the relative need for audit coverage among the numerous IRS programs and activities.

Audit policy and plans need to more realistically recognize resource constraints

IRS' audit policy and the Internal Audit Division's long-range plan do not adequately recognize the number of auditors to be available to audit field activities. Actual audit coverage has been substantially less than planned. This situation dictates IRS' management and the audit staff must be more selective in identifying programs and operations to be reviewed and determining the extent of coverage each should be provided.

Among other reasons, the Internal Audit Division developed a long-range plan to determine the number of auditors needed and to justify the Division's budget estimate for fiscal year 1977. For prior years, the budget estimates were fixed at one-half of 1 percent of the estimated staff-year increases of other major IRS components. However, the Division found this formula did not provide an adequate basis for justifying additional auditor positions. During fiscal years 1974 to 1976, it requested 264 additional positions and received 45.

The Division's plan identified 140 operations performed by IRS' field offices. Each operation is an "auditable area"--an operational segment that can be reviewed and evaluated independently of other segments. To determine staffing requirements and allocate audit time, the Division developed time standards for each auditable area. The Division estimated it would need 1,426 auditors to comply with IRS' policy requiring audits of all major activities at least annually. As of March 1975, it had only 353 auditors--less than one-fourth the number needed.

To deal with this shortfall, the Division established priorities and an audit cycle within the long-range plan. The plan called for an audit of each auditable area at least once, but as frequently as 5 times, every 5 years. The frequency each area would be audited was determined by a priority assigned to each and the relative size (in dollars of tax revenue processed) of the field offices responsible for the program or operation, as shown below.

<u>Priority I</u>

Frequency	Office/activity
Every year	Large districts Key districts Service centers Regional administration
Every 2 years	Medium districts Regional appellate
Every 3 years	Small districts

<u>Priority II</u>

Frequency	Office/activity
Every 2 years	Large districts Key districts Service centers Regional administration
Every 3 years	Medium districts
Every 4 years	Small districts

Priority III

Every 3 years	Large districts Key districts Service centers Regional administration
Every 4 years	Medium districts
Every 5 years	Small districts

Of the 58 districts, 16 are classified large, 28 medium, and 14 small.

The assistant regional inspectors (internal audit) prepare plans for the audits to be done in their regions on the basis of the time standards and the frequency schedule specified in the long-range plan. The first plans were for October 1975 to December 1976. Subsequent plans were on a yearly basis.

We compared the number of audits required to meet the 5-year frequency schedule and the number of audits scheduled and completed for 2-plan years: October 1975 to December 1976 and January to December 1977. For the first plan year, the Division had slightly more than half the number of auditors it estimated were needed to provide the coverage called for in the long-range plan. It needed 594 auditors, but had only 353--a shortfall of 241. Primarily as a result of this shortfall, the Division was able to schedule and complete only 867, 1/ or 43 percent, of the 2,019 audits planned.

For plan year 1977, the Division revised its long-range plan to require that audits of the 140 auditable areas be made less frequently in some field offices, but still all areas were to be audited at least every 5 years. For example, those areas assigned priority I would be audited in large, medium and saml1 districts every 2, 3, and 4 years rather than every 1, 2, 3 years. Still, in plan year 1977, the Division was able to schedule and complete only 562, 2/ or 48 percent, of the 1,168 audits planned.

1/The number of audit reports issued each year was considerably lower than these figures because the reports generally cover more than one auditable area at a single field office.

2/Ibid.

Despite the adjustments to the long-range plan, the Internal Audit Division still could not audit field activities with the frequency called for in the plan. Annual plans had to be adjusted each year to delete audits which could not be made due to resource constraints. The actual audit coverage fell far short of that provided for in the long-range plan in all IRS regions, although the percentage varied among the regions. For example, in one region, the Division completed 21 percent of the audits planned and, in another region, 64 percent.

Also, the Division was unable to do 143 audits of priority I auditable areas scheduled for review in large districts in plan years 1976 or 1977. Priority I areas were reviewed in relatively few medium and small districts each year. These areas may not be reviewed in all districts in future years because, under the Division's frequency schedule, the priority I areas reviewed in large districts in plan year 1976 were due for audit again in plan year 1978. Furthermore, few priority II and III areas had been reviewed in any district. The Division instructed the regional staffs that audits of these areas should be made, providing good reasons exist, but otherwise they should not be.

Given the Division's staffing levels in plan years 1976 and 1977, the goal of auditing all major field activities at least every year, or their most significant aspects every 5 years, is unachievable. Its experience indicates at least 10 years would be required to audit all field activities.

Whether the goal is achievable or not, a more basic question is whether all field activities need continuous audit surveillance. Does this provide the most effective use of the audit resources to serve management's overall needs? We do not believe so.

Audit plans should establish coverage for all major activities

IRS' audit policy and procedures deemphasize audits of programs and operations conducted at the national level. Accordingly, the 140 auditable areas identified in the Internal Audit Division's long-range plan represent the audit universe at the operating level. The Division did not include major IRS activities conducted at higher organizational levels and, therefore, did not determine the coverage, frequency, and priority of audits to be made of these activities.

Among the activities excluded from the universe were all offices of assistant commissioners at the National Office.

These offices performed functions vital to the IRS mission; some of them involved major administrative activities conducted entirely at the National Office. For example, all activities of the Assistant Commissioner (Technical), Assistant Commissioner (Planning and Research), and Assistant Commissioner (Data Services), were excluded. Also excluded were the two national data processing centers. In general, none of the policymaking offices responsible for promulgating IRS policies, procedures, and regulations and none of the administrative activities conducted at the national level were included in the audit universe. In fiscal year 1977, these offices and activities represented 6,700 IRS officials and employees, and accounted for expenditures exceeding $350 million.

Excluding these activities from the audit universe is perhaps consistent with IRS' policy requiring frequent audit coverage of field activities. However, the National Office's policymaking and administrative functions are integral parts of IRS operations conducted in the field or are significant alone. Each year the Division prepares a list of National Office activities to be audited and completes several audits of these activities. However, they are not included in its audit plans as required by Federal Management Circular 73-2 and may not be assured of adequate audit coverage.

After implementing the long-range plan, the Division initiated several actions to identify all National Office activities subject to audit and to assure adequate coverage of them. These actions include establishing one group responsible for review of these activities and another group responsible for conducting a comprehensive review of the IRS coordinated examination program. Also, in June 1978, the Division assigned a program manager to develop a long-range plan more accurately identifying the National Office auditable areas and assigning priorities and time standards to each.

Audit priorities need to more clearly depict the relative need for audit attention

Of the 140 auditable areas in the Internal Audit Division's universe, about 60 percent were classified priority I--its highest priority rating. Basically, the priority assigned an auditable area indicates its audit frequency in a 5-year cycle. The Division could provide greater attention to those programs and operations most in need if it could reduce the number of areas assigned top priority. One way would be to specifically determine and document, as part of an overall annual plan, the reasons why one program or operation deserves more attention than another.

Circular A-73 states each agency will establish procedures requiring periodic review of its programs and operations to determine the coverage, frequency, and priority of audit required for each. The circular lists factors to be considered in the review as follows:

--Newness, changed conditions, or sensitivity of the organization, program, activity, or function.

--Its dollar magnitude and duration.

--Extent of Federal participation either in terms of resources or regulatory authority.

--Management needs to be met, as developed in consultation with the responsible program officials.

--Prior audit experience, including the adequacy of the financial management system and controls.

--Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants.

--Results of other evaluations; for example, inspections, program reviews, etc.

--Mandatory requirements of legislation or other congressional recommendations.

--Availability of audit resources.

The circular requires that each agency prepare an audit plan, at least annually, to show among other things the programs and operations selected for audit, with priorities and specific reason for selection.

The Division documents no specific reasons for selecting programs and operations for review each year. Instead, the Division established audit priorities in the long-range plan to indicate the frequency each of the 140 auditable areas would be reviewed at the 58 districts, 10 service centers, and 7 regional offices. For example, a district operation labeled priority I would be reviewed in all 16 large districts every 2 years, all 28 medium districts every 3 years, and all 14 districts every 4 years. Although the long-range plan listed some general reasons for determining audit frequency, neither it nor the various annual plans cite specific reasons why one program has a priority higher than another or why one program was selected for audit rather than another.

In plan years 1976 and 1977, the Division made several changes in priorities and substituted some new areas for others in the audit universe. However, the number of auditable areas remained at 140 each year, and most were priority I. For plan year 1976, the Division identified 80 priority I areas, 33 priority II, and 27 priority III. For plan year 1977, it identified 88 priority I areas, 26 priority II areas, and 26 priority III areas. Of the 88 priority I areas, 21 were designated for annual coverage rather than the normal frequency assigned to priority I areas on the 1977 plans.

Having so many auditable areas designated priority I each year seriously detracts from the usefulness of the priorities. It dilutes the attention that can be given those areas in greatest need. Also, the priorities are less meaningful because those areas designated priority II and III are generally not being reviewed with the frequency established in the long-range plan. Instead, they are reviewed only as the need arises. The Division does not specifically determine and document reasons, such as those listed in Circular 73-2, for selecting programs and operations for audit each year. If it did, this would help assure that those programs and operations requiring the most attention receive it and that they are not selected simply for continuous surveillance purposes.

In September 1975, the Department of the Treasury's Office of Audit recommended that IRS' Internal Audit Division justify planned audits in terms of the factors that determine audit priorities. In response, the Assistant Commissioner (Inspection) cited some of the factors generally considered in selecting areas for audit but made no change in procedures for justifying the areas selected each year.

Audit approach diminishes benefits to higher level management

To be most effective, internal audit staffs must have direct access to the agency head. The agency head must be a strong supporter of the function and receive directly all significant audit findings. An internal audit organization operating in this manner has the advantages of

--greater independence,

--a broad viewpoint on the interrelationship of organizations and functions within the agency, and

--a unique position to make systematic and independent evaluations of and reports on all agency programs, activities, and operations.

In this regard, the Comptroller General's audit standard on the scope of internal auditing states

> "* * * an internal audit program should be structured to meet the needs of top management and also be designed to serve the needs of subordinate management levels."

Although the internal audit function in IRS is organized to be independent and report directly to the Commissioner and the Deputy Commissioner, the audit staff has operated in a highly decentralized manner. The decentralized approach limits the scope and purpose of audits to reviewing one or more operations at one field office and has not been designed to most effectively serve top management. A more centrally managed approach, such as the audit staff plans to use for some 1978 audits, would result in audit reports more suited to the needs of top management.

<u>Decentralized approach restricts audit scope, objectives, and level of reporting</u>

The Internal Audit Division and the assistant regional inspector (internal audit) generally do not coordinate the numerous audits performed at IRS field offices. Instead, each auditor-in-charge develops an audit program for each audit at each field office. This approach limits the scope and purpose of each audit to reviewing a segment of a field office's operations and determining primarily whether the operations comply with written instructions.

The assistant regional inspectors (internal audit) and their staffs in the seven IRS regions are responsible for determining the audits to be done in their respective regions each year. As mentioned earlier, each assistant regional inspector prepares an annual audit plan based on guidelines furnished by the Director of the Internal Audit Division. The guidelines recommend the coverage in each region generally as provided in the long-range plan. The 1976 guidelines provided guidance for planning the audits in 61 auditable areas. However, the guidance for the 1977 audits was very general and covered only 32 auditable areas.

Neither the Director, the assistant regional inspectors, nor their management staffs prepare a written audit program for each audit. Instead, each audit assignment begins with a survey, and the auditor-in-charge determines the survey's purpose, scope, and objectives. The survey includes work to

--understand the programs or operations,

--learn the mission and objectives of the activity,

--pinpoint key management and internal controls, and

--identify other matters of interest such as high risk and new procedures.

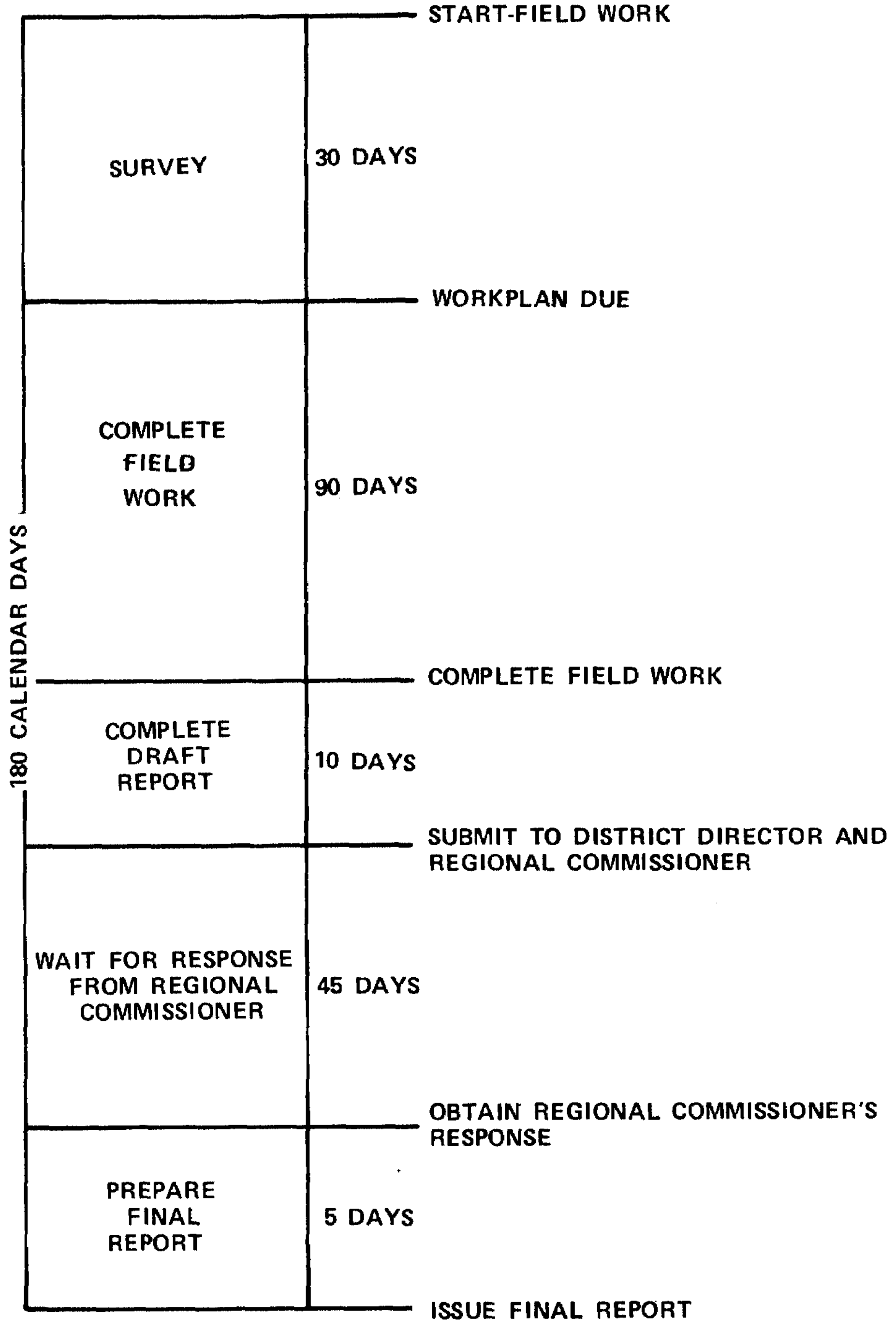
If the survey indicates a need for further work, the auditor prepares and executes a detailed work plan.

At the conclusion of each audit, the auditor-in-charge prepares a draft report which is sent to the director of the district, service center, or other field office. The head of the field office decides what corrective actions are necessary, determines the management implications for each deficiency reported, and furnishes a response to the regional commissioner. The regional commissioner provides a final statement of corrective actions and management implications which is transmitted through channels to the Commissioner. The audit staff incorporates the regional commissioner's response into a final report which is also sent to the Commissioner.

IRS procedures provide that the audit staff may make recommendations to operating managers but emphasize management's responsibility to determine the corrective action to be taken. If an audit shows a need to change a procedure or policy which local officials are not authorized to change, the procedures state that, preferably, the local management official refers the matter to higher authority. As an alternative, the regional inspector's staff may refer the matter to regional or national management.

Consistent with their limited scope, all audits are subject to a standard 180-day time frame imposing a specific time constraint on each phase, as follows.

INTERNAL AUDIT TIME FRAME



Analysis of audit results and management actions

Because of the decentralized audit approach used by IRS' audit staff, we visited each of the seven regional offices to determine how well the internal audits were serving each management level. We reviewed the audit plans, coverage, and results for three auditable areas in plan years 1976 and 1977, as follows.

Auditable area	District element responsible
Seizures and sales	Collection Division
Management controls/ examination branch	Audit Division
General enforcement program	Intelligence Division

We selected these areas for review because they represented a significant portion (about 12 percent) of the planned audit coverage during 1976 and 1977 and because they are important aspects of IRS' collection, audit, and intelligence functions. These areas are not necessarily typical of the entire audit universe, and the results of these internal audits may differ from the results achieved in other areas. However, the audits illustrate the limitations of the approach used insofar as serving management's overall needs.

Internal audits in these areas did not serve a broad section of district management because in each case fewer than half the audits called for in the long-range plan were completed. Furthermore, the audits did not serve, as well as they could have, upper level management because each audit was designed to assess and report on a single field office's operations. Thus, the scope of the audits was too narrow to be of greatest benefit to the Commissioner, the Deputy Commissioner, the Assistant Commissioners, and other top level managers.

As the following table shows, the Internal Audit Division's long-range plan provided for completing 176 audits of the three auditable areas--a separate audit in each district visited--but the staff completed only 65 audits.

Plan Years 1976 to 1977

	Planned		Completed	
	Number	Staff days	Number	Staff days
Seizures and sales	53	8,693	20	3,284
Management controls/ examination branch	60	6,850	25	4,794
General enforcement program	63	4,722	20	4,019
Total	176	20,265	65	12,097

Audits performed in each of the three areas usually differed considerably from district to district, and thus, were not designed to report to higher level management. Although the Internal Audit Division provided general planning guidance to the seven regional staffs, the auditor-in-charge was responsible for preparing a survey and audit plan for each audit at each district visited. Following this approach, the auditors reviewed only one auditable area in some districts and reviewed several auditable areas in other districts. For example, in 10 of 20 districts visited, the auditors reviewed sales and seizures only and, in the other 10, they reviewed from 2 to 9 operational segments of the collection function.

Also, the matters emphasized varied, as did the extent of tests performed. For example, IRS policy requires the rotation of tax cases among examiners to avoid assigning the same taxpayer to an examiner repetitively. Auditors in one region reviewed compliance with this requirement in all three districts they visited. Auditors in two other regions did not review it in any of the seven districts they visited. To test the adequacy of certain controls over the general enforcement programs, auditors in one district reviewed all 168 open cases. Auditors in two other districts reviewed 6 of 61 and 6 of 38 open cases.

Because of these differences in approach, emphasis, and procedures, the audits permit no overall assessments for national and regional management. This diminishes their usefulness to managers at levels higher than the district offices visited by the auditors. Of the 56 reports issued on audits in these areas, management determined that only 14 had implications beyond the one district visited. Thus, even though the audits required about 12,000 staff days and were performed in 65 districts, National Office management, including the Assistant Commissioner having functional responsibility for the three areas received no overall reports on the results of the audits.

A more detailed analysis of the audits performed in each auditable area is presented as appendix II.

Internal audit's role and efforts should be broadened to better complement other internal review activities

The internal audit staff's role of continuously monitoring and reporting on field activities, including their compliance with IRS policies and procedures, has not placed it in the best position to review, evaluate, and supplement regional review efforts. Both the internal auditors and regional analysts are primarily concerned with reviewing one or more functions at a single field office and reporting to regional management. This makes the internal auditor's role more or less the same as the regional analyst's and contributes to at least a perception of unnecessary duplication of effort and lack of coordination.

In addition to the approximately 400 internal auditors who review field operations, IRS has about 375 regional analysts who are a part of the assistant regional commissioner's management control system. Among other responsibilities, the analysts monitor program implementation, review management practices, develop solutions to problems, and assure programs are effective and guidelines are understood. The internal auditors and regional analysts have different purposes in serving management. However, their work often is similar or overlaps, particularly since the focus and scope of both their reviews and the level of reporting are often the same.

The Comptroller General's audit standards provide that the internal auditor should primarily serve top management's needs--a fundamental difference between the auditor's role and that of other internal review groups. However, the auditor should, to the extent possible, recognize the work of other review groups and avoid duplication of effort. IRS' internal audit staff has adequate operating procedures for reviewing and, to the extent possible, using the results of the regional analysts' work to avoid duplication. Also, the Director of the Internal Audit Division has emphasized the need to thoroughly review regional analysts' work as part of the survey portion of each audit. However, since the scope of the internal audit staff's reviews is usually limited to one field office and the level of reporting is usually the regional commissioner level, unnecessary overlap between the auditor and analyst roles is created.

For example, in August 1977, the internal auditors reported on the management control exercised by an examination branch of an audit division in one district during March to July 1977. The audit covered examinations made by three of the branch's groups and the activities of the branch chief and the audit division chief. In September 1976, regional analysts had completed a review of the same examination branch. The analysts' review covered two of the branch's groups reviewed by the internal auditors and the branch chief's activities. Although the internal audit and the analysts' review were different in approach, purpose, and depth of analysis, the scope of their work was similar and both groups reported their findings to regional and district management.

As early as 1957, IRS management study groups have questioned the roles and efforts of internal audit and the regional analysts, and have recommended the roles be defined. For example, in June 1957, one study group reported

--both analysts and auditors concentrate on compliance with prescribed policies and procedures in their reviews of district operations;

--both extensively check and review files, records, and individual transactions;

--neither makes full use of the other's work before visiting district operating divisions; and

--one group's compliance-type review follows another's within a short time.

Another report, dated March 1974, commented on substantial confusion among regional, district, and service center personnel over the auditor and analyst roles. The study group recommended that the Deputy Commissioner delineate the responsibilities of the internal audit and various functional review groups.

Although we did not attempt to assess the extent of any duplication between internal audit and the regional analysts, the perception of unnecessary duplication still exists since 81 of 98 IRS district and regional managers we questioned said that the work of the internal auditors and the regional analysts could be better integrated. Regional commissioners and assistant regional commissioners frequently stated that they rely on the auditors to check compliance and that the regional analysts conduct broader reviews of programs and other activities. Also, district-level managers generally did not want internal audit to broaden the scope of their work because they believed this would result in even further duplication of effort.

As discussed in chapter 2, the internal audit staff is organizationally in a better position than any other review group to perform independent reviews of IRS programs and operations across district, regional, and functional lines. It can and should objectively evaluate policies and procedures and report to top management all matters which require its attention and action, including matters which have agency-wide significance. In so doing, the internal audit function uniquely supplements other management controls, such as functional review groups. It is also in the best position to assure that the work of other review groups is properly coordinated and relied on, whenever possible, to avoid duplication and wasted effort. As with other programs and activities, internal audit could assess the reliability and effectiveness of IRS' other review functions through periodic coordinated audits of those functions--something not now done.

Thus, although some duplication and overlap between the work of internal auditors and regional analysts will necessarily occur, it can be minimized if internal audit assumes a broader role and conducts more nationally coordinated audits. This would enable it to better evaluate and as necessary supplement other review efforts and help avoid the problem of overlapping roles and unnecessary duplication either real or perceived.

NATIONALLY COORDINATED AUDITS AND OTHER MEASURES ARE BEING EMPHASIZED TO BETTER SERVE TOP MANAGEMENT

Although the internal audit staff generally directs its reports to operating management, the staff has procedures to also furnish, indirectly, the results of its efforts to higher level management. However, the audit approach and method of reporting provides management with no overall assessments of programs and operations and facilitates no improvements and corrective actions across organizational or functional lines. Nationally coordinated audits will enable the audit staff to better accomplish these ends. The staff has substantially increased the time devoted to such audits in plan year 1978.

Abstracts and trend analysis can provide useful, but limited, information to top management

IRS procedures require each internal audit report furnished to a field office manager to be routed to the Commissioner through functional channels at the regional and national levels. This procedure provides each management level with audit reports on relatively small segments of an overall program or operation conducted at as many as 58 field offices. Also, every 2 months, the Assistant Commissioner (Inspection) furnishes the Commissioner a brief informal statement highlighting the most significant audit accomplishments. Neither procedure provides the Commissioner and other National Office managers with an overall evaluation of a program or operation agencywide.

In October 1977, the Director of the Internal Audit Division implemented another procedure to control audit findings and serve the needs of upper level managers. In 1976, the Division issued instructions requiring that abstracts of significant internal audit findings be prepared when the findings require management action. The abstracts provided a means of communicating findings within the Internal Audit Division and meeting other internal management needs. In analyzing the abstracts, the Division noticed that audit reports were frequently disclosing similar conditions at field offices over extended periods. Therefore, the Division began performing a quarterly analysis of the abstracts to identify trends in the findings reported to local management.

The first analysis, completed in October 1977, revealed that similar findings were being reported in seven areas at numerous field offices, such as

--20 findings relating to security of tax information in 15 offices,

--23 findings relating to security over 11 imprest funds and 20 findings relating to verification of imprest fund balances, and

--26 findings on group managers' workload controls at 8 districts.

According to the Director, the quarterly trend analysis was to be used in planning regional audit coverage and to notify IRS managers of recurring problems. However, management later decided it was not the internal audit staff's responsibility to make the trend analysis. Therefore, the audit staff began furnishing the abstracts to management for this purpose.

Because this procedure was recently implemented, we obtained no comments by management on its effectiveness. However, it does not appear to be an appropriate substitute for direct reporting to upper level management. This approach identifies no underlying causes of problems nor makes recommendations to prevent similar occurrences. Moreover, management still receives no reports assessing how well programs or operations are being conducted agencywide and how they might be improved. Management itself, rather than the auditor, is responsible for analyzing audit reports furnished to operating officials in the field and determining whether any action is warranted. This limits the internal audit staff's role, independence, and usefulness as a source of independent feedback to top management.

The internal auditor's job is to independently and objectively report on the conditions found and, whenever the auditor finds it necessary, recommend changes or other actions for management to consider. The auditor can provide an important benefit by (1) communicating first-hand observations on the usefulness or effectiveness of prescribed policies and procedures and (2) bringing to top management's attention those needing modification, explanation, and interpretation. As discussed below, the Internal Audit Division's nationally coordinated audits scheduled for plan year 1978 are specifically designed to provide this information to top management. The Division plans to furnish an overall report on each audit directly to National Office management and expects each report to have IRS-wide impact.

<u>Nationally coordinated audits are designed to serve top management</u>

In years past, the Internal Audit Division has coordinated some audits conducted at field offices. Beginning January 1978, however, the Division is using a different approach to its coordinated audits and increasing the time spent on such audits. The Division expects its new approach to (1) provide the national and regional management a better perspective on how well their operations or programs are running, (2) permit corrective action to be taken nationally or regionally, and (3) require less audit staff resources than separate audits of each individual office.

During plan years 1976 to 1977, the Division completed nine coordinated audits. These audits represented 12 percent of total direct audit time. Although these efforts usually resulted in overall reports to top management, most of the audits were designed to report primarily to operating management. As a result, the audits sometimes included more field offices than may have been necessary.

For example, the Division coordinated the audits of taxpayer service activities in plan years 1976 to 1977. These audits accounted for 13,300 staff days, or 80 percent of the 17,000 staff days spent on audits coordinated by the Division. In 1976, the field work included 17 of the 58 districts and required about 7,900 staff days. In 1977, it included 14 districts, 7 of which were also covered in the prior year, and required about 5,400 staff days. The regional audit staffs sent 31 reports to district management--one report for each district visited each year. Each year the Internal Audit Division analyzed and consolidated the reports and furnished a report, including recommendations, to the appropriate assistant commissioner and division director at the National Office.

In October 1977, the Internal Audit Division adopted a different approach to its coordinated audits and allocated 30 percent of direct audit time to perform 10 nationally coordinated audits in plan year 1978. According to the plan year 1978 guidelines, the audits will make more effective use of internal audit resources and provide management with audit results having IRS-wide impact. In contrast to the Division's earlier approach, the audits should

--respond to assistant commissioners' requests for audits,

--centralize the management of each audit in a specific program manager at the national or regional level,

--assign not more than one audit to any program manager,

--limit the number of regions covered in each audit to the fewest possible to satisfy the audit objectives, and

--provide a report to the responsible assistant commissioner and not issue reports to or obtain responses from regional commissioners.

To illustrate, as discussed on page 33 of this report, the Division's long-range plan provided for reviewing sales and seizures in all 7 regions in both 1976 and 1977 or 53 districts in total. In 1978, the Division plans to review this auditable area using a nationally coordinated approach in only 3 regions. The Southeast Region will serve as control region and the North Atlantic and Southwest Regions will be support regions. The Division instructed the other 4 regions to not plan any work in this area in 1978.

Although these audits were just getting started at the conclusion of our review, we believe the Internal Audit Division's new approach will result in better use of the audit resources it has available to better serve top management and subordinate management. However, for plan year 1978, the Division assigned complete planning responsibility for the remaining 70 percent of direct audit time to the seven assistant regional inspectors. The 1978 guidelines listed factors to be considered in formulating regional plans, but provided no specific guidance for any audits or any auditable areas. Without this guidance, the audits will no doubt vary among the various field offices as to the specific objectives sought, the steps performed, and the extent of tests made. Therefore, overall assessments, conclusions, and recommendations on a program or operation for the benefit of upper level management will be difficult.

CONCLUSIONS

IRS' management can make more effective use of its internal audit function to better serve its overall needs. The agency has provided the mechanism--a well qualified staff, organizationally independent and aligned to report directly to the Commissioner--to provide a vital link between the formulation of policies, programs, and procedures and their implementation and operation throughout the organization. A principal function and benefit of internal auditing is to systematically provide this feedback to top and subordinate management. However, the audit staff has been primarily concerned with furnishing information to management at the operating level. The benefits internal auditing can provide top management, therefore, are to a large extent negated.

The internal audit staff's current role and efforts are governed by an audit policy which IRS adopted in 1952. This policy requires all major field activities to be audited at least annually. Such a goal may have been achievable and even desirable in 1952, but not today. IRS collects and processes about seven times the tax revenue today as it did then. Also, the field offices, at that time headed by Presidential appointees and subject to little control and coordination, are now a part of an overall management control system. Among other controls, this system provides for formal, periodic reviews of all field offices by national and regional review groups.

Notwithstanding this, the internal audit staff is still bound by, and attempts to comply with, the 1952 policy. However, the goal of providing continuous audit surveillance of all major field activities is not realistic and is not the most effective use of audit resources.

Despite several adjustments to the frequency of audit coverage, the internal audit staff is not accomplishing the goal established in either IRS policy (to audit all major activities at least annually) or the long-range plan (to audit all auditable areas at all field offices every 5 years). The Internal Audit Division estimates it would need to quadruple the number of auditors assigned to fully comply with the policy or add at least 200 auditors to provide a 5-year audit cycle. Thus, the policy and implementing plans cannot be accomplished if resource constraints are realistically considered. Top management and the audit staff must be more selective as to which programs and operations will be audited each year and the extent of audit coverage each will receive.

Some, but not all, IRS activities require continuous surveillance at every field office. The internal audit staff should frequently audit those operations which present a high risk for employee theft, embezzlement, or other irregularities because normal management controls are inherently weak. These matters require frequent audit attention at all field offices, regardless of their size.

Consistent with the emphasis on continuous surveillance of field activities, IRS' audit staff follows a decentralized approach to auditing and reporting. The audits generally focus on a single field office and are designed primarily to determine whether a specific operation at that office complies with IRS policies and procedures. The related audit reports, in turn, are directed to subordinate management levels--generally district and service center managers.

Under this decentralized approach, operating management generally determines the management implications of the audit findings, identifies the corrective actions needed, and if appropriate, refers the matter to higher levels. This procedure seriously undermines the role and importance of the audit function. It is the auditor's responsibility, not management's, to develop audit findings and communicate the findings and recommendations to the appropriate management level.

Most IRS programs and operations can be reviewed and evaluated through coverage at selected field offices. This requires, however, that the audits of such programs or operations be centrally planned and the field work be well coordinated. Centrally directed and controlled reviews would have two major benefits. First, the results of the audits could be consolidated in a single report to upper level management together with recommendations for agencywide corrective action. Secondly, fewer audit resources would be required to evaluate any IRS program or operation, allowing audit coverage to be extended to areas not otherwise receiving coverage.

Because of its current role and approach, the audit staff has performed few audits of regional or national scope, and few have resulted in reports to the Commissioner and other upper level managers assessing the overall economy, efficiency, or effectiveness of IRS programs and activities or the degree of compliance with applicable laws and regulations.

IRS management needs to broaden the role of internal auditing to enable the staff to serve its needs more effectively. More reports should be directed to top management. This requires that the scope of and approach to the audits be structured to meet those needs. Furthermore, the audits should (1) fully identify management implications, at all levels, of audit findings, (2) document the underlying causes of any problems and weaknesses found, and (3) result in recommendations as appropriate.

A broader role and more effective approach for the internal audit staff is essential to permit its efforts to better complement those of the regional analysts. Management has not acted on prior recommendations to overcome this problem.

The Internal Audit Division has recognized the need to make better use of audit resources and serve higher level management. The Division's plans to use a more coordinated approach in some of its audits will help to accomplish those ends. However, the audit staff is still bound to the policy of providing continuous surveillance of all major field activities, and its overall plans are designed primarily to accomplish this purpose. Therefore, changes are needed in both the policy and the plans. In so doing, top management should express clearly its need for and full support of the audit function as a means to directly serve its needs.

RECOMMENDATIONS

We recommend that the Commissioner of Internal Revenue:

--Modify the IRS policy requiring annual audits of all major field activities and establish an audit goal which encourages effective use of internal audit resources to serve all management levels.

--Direct the Assistant Commissioner (Inspection) and the Director of the Internal Audit Division to revise audit plans and procedures to

-more realistically recognize the number of auditors to be available to execute the plans;

-incorporate fully into the plans all major IRS programs and activities, including those at the national level;

-depict more specifically and document the relative need for the audit attention to be given to each program and operation each year; and

-better serve top management through centrally planned, directed, and controlled audits and reports which assess programs and operations agencywide.

--Instruct the Assistant Commissioner (Inspection) to periodically discuss with the Commissioner and other Assistant Commissioners the level of resources to be devoted to centrally planned, directed, and controlled audits to determine whether top management believes the level of effort is appropriate.

--Clarify the role and responsibilities of regional analysts which serve subordinate management versus the broader, independent role of the internal audit staff which serves primarily top management so as to avoid any misinterpretations and confusion.

IRS COMMENTS AND OUR EVALUATION

By letter dated November 30, 1978, the Commissioner of Internal Revenue basically agreed with most of our recommendations regarding IRS' internal audit operations. (See app. III.) However, in commenting on our draft report, he was unclear as to the nature and extent of some of the actions IRS plans to take.

IRS agreed that the formulation of its audit policy should be improved and that it will use more resources on broader-based audits. At the same time, however, IRS stated that in its opinion its policy statement had not, in practice, limited the audit staff's ability to serve all management levels. We believe our report indicates otherwise.

Our review showed that the policy requiring numerous and frequent audits of field activities strongly influenced audit planning. We would anticipate, therefore, that in improving the policy, IRS will eliminate the requirement that all major field activities be audited at least annually to provide the internal audit staff more planning flexibility.

IRS stated that its long-range audit plan is, and should be, based on the number of staff years required to execute the entire plan over a 5-year period. According to IRS, the plan establishes audit goals for the organization and forms the basis for budgets sent to the Treasury and the Office of Management and Budget. We agree such a document is needed, and the plan appears to serve these budgetary purposes well. We also agree that IRS has adjusted its annual plans to more closely match the resources available. However, if these annual plans, which should evolve from the long-range plan, were precisely adhered to, it would take as long as 10 years to accomplish the 5-year plan. This is due to a great extent to the fact that the long-range plan is geared to the IRS policy requiring mandatory periodic audits of field activities.

Our recommendation was directed primarily at the audit policy which, if modified, would enable the internal audit staff to more realistically plan the use of its resources. IRS agreed that the policy should be improved. If it is improved as we recommended, it would provide the internal audit staff more planning flexibility and should result in long-range audit goals and requirements being in closer agreement with the audit resources that can be reasonably anticipated to be available.

In line with our recommendation, IRS incorporated National Office activities into the long-range plans. This should enable the audit staff to more systematically review these policymaking and administrative activities as part of its coverage of related field operations.

IRS agreed to review its practices for documenting audit priorities and make any changes required to conform with our recommendation. We would expect this review to also include a specific determination of whether the priorities assigned adequately depict the relative need for audit attention. In making this determination, IRS should select programs for audit based on the specific factors listed in Circular A-73, and the selections and reasons should be a part of the annual plan.

Concerning our recommendation for centrally planned, directed, and controlled audits, IRS agreed that more audits of this type are needed; but made no commitment to any specific action beyond that taken during our review. IRS said the issue is essentially one of making balanced and efficient use of scarce resources and that:

> "The allocation of Inspection's limited resources must recognize the importance of monitoring by Inspection of the high standard of integrity which must be maintained throughout the Service as well as greater emphasis on more coordinated, broad audits of top management."

We agree in principle with IRS, but are not sure that an allocation of 30 percent of direct time to audits designed to serve top management is the optimum level to assure a reasonable balance among all interests to be served. Accordingly, the Assistant Commissioner (Inspection) should periodically discuss with the Commissioner and other Assistant Commissioners the level of audit coverage designed to serve top management to determine whether the level is appropriate. We have added a recommendation on this matter.

Finally, IRS agreed to revise or develop guidelines to clarify the respective roles and responsibilities of regional analysts and the internal audit staff.

CHAPTER 4

INTERNAL SECURITY INVESTIGATIONS--NEEDED IMPROVEMENTS ARE BEING MADE TO REDUCE COST, IMPROVE TIMELINESS, AND AVOID UNNECESSARY INVESTIGATIONS

The Internal Revenue Service' large and widely dispersed internal security staff responds to numerous requests and allegations resulting in investigations each year--about 16,000 in fiscal year 1977. Although the investigations are generally of high quality, the internal security program needs closer management attention to minimize the cost of the investigations, improve their timeliness, and avoid unnecessary investigations.

The Internal Security Division's investigative staff consists almost entirely of criminal investigators and its investigations are predominantly noncriminal in nature. Up to about 69 percent of the investigative effort could be performed more economically by the Office of Personnel Management (OPM) 1/ or other less costly IRS personnel. Furthermore, the Division has not had an adequate basis to allocate resources, and effectively manage the investigative staff and workload. This has resulted in

--imbalances between investigators and caseloads among regions,

--unreasonable delays in completing investigations because of excessive workloads in some regions, and

--unnecessary investigations of some matters which could be handled better administratively.

During our review, the Internal Security Division had recognized many of the problems we identified and was implementing or testing a number of new systems and procedures to improve the efficiency and economy of internal security

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1/Formerly the Civil Service Commission. The Civil Service Reform Act of 1978 (P.L. 95-454, approved Oct. 13, 1978) created the Office of Personnel Management to perform various functions, including personnel investigations, previously conducted by the Civil Service Commission.

operations. These changes, discussed along with our findings, should enable the Division to make considerable headway toward completing necessary investigations in a less costly and more timely manner.

USING CRIMINAL INVESTIGATORS TO DO PREDOMINANTLY NONCRIMINAL WORK RESULTS IN UNNECESSARY COST

In fiscal year 1977, about 69 percent of the Internal Security Division's investigative effort and about 88 percent of its cases related to noncriminal matters. Thus, a major portion of the Division's workload could be performed by personnel other than criminal investigators. This would result in substantial savings to the Government. Employees in the criminal investigative series are more costly because, among other reasons, they qualify for earlier and more generous retirement benefits. Other Federal employees, such as OPM or IRS general investigators who receive no special retirement benefits, could perform character and certain other investigations at a much lower cost.

In 1977, the Division took steps to reduce the time criminal investigators spend on personnel type investigations. The Division began turning over to lower grade paraprofessional employees, not in the criminal investigator series, some administrative work required for background investigations. Although the effects of this change could not be fully evaluated at the time of our review, it appears that criminal investigators will be required to spend a much smaller, but still significant, percentage of their time on such investigations.

Personnel assigned to internal security are predominantly criminal investigators

Except for two or three investigative aides in each region assigned in 1977, all investigative personnel assigned to the internal security function were criminal investigators. As of August 1978, 409 criminal investigators were assigned to 49 locations as follows.

Location	Number of offices and posts of duty	Number of criminal investigators assigned
National Office	1	47
Central Region	5	33
Mid-Atlantic Region	6	69
Midwest Region	6	43
North Atlantic Region	8	72
Southeast Region	8	50
Southwest Region	7	37
Western Region	8	58
Total	49	409

In earlier years, the investigative force consisted of both criminal and general investigators. However, IRS had continually shifted criminal and other investigative work to the Internal Security Division from other IRS divisions. For example, the IRS Intelligence Division and Alcohol, Tobacco, and Firearms Tax Division had responsibility for bribery investigations until 1962. IRS transferred this responsibility to the Internal Security Division because of the heavy workload of the other divisions. According to the Director of the Internal Security Division, this increased the Division's criminal-type investigations. Subsequently, IRS converted all general investigator positions (GS-1810) to the criminal investigative series (GS-1811). Also, in 1972, IRS assigned the Division primary responsibility for investigating assault cases which are also criminal investigations. Previously, these investigations were made primarily by the IRS Intelligence Division and Alcohol, Tobacco and Firearms Tax Division.

General and criminal investigators are different. They do different work, and they receive different benefits. According to Federal position classification standards, a general investigator plans and conducts investigations of the character, practices, or qualifications of persons or organizations seeking or receiving Federal benefits, permits, or employment. The agency uses the results of these investigations to make or invoke administrative judgments, sanctions, or penalties. General investigators must have

--a knowledge of investigative techniques and of the laws, rules, regulations, and objectives of the employing agency;

--skill in interviewing, following leads, researching records, and preparing reports; and

--the ability to elicit pertinent and useful information from all people.

Criminal investigators, on the other hand, plan and conduct investigations relating to alleged or suspected violations of criminal laws. They must know and be able to apply investigative techniques, rules of evidence, rules of criminal procedure, and precedent court decisions concerning the admissibility of evidence, constitutional rights, seizure, and related matters. Criminal investigators must develop and present evidence as required in legal hearings and court proceedings. Also, they must perform duties and apply techniques required in

--maintaining surveillance,

--performing undercover work, and

--advising and assisting U.S. attorneys in and out of court.

Criminal investigators receive higher employment benefits than general investigators and, therefore, are more costly to the Government. For example, general investigators, unlike criminal investigators, receive no special retirement benefits. The law (5 U.S.C. 8331-8339) permits certain employees, including those in the criminal investigating series, to retire with increased annuity at age 50 after 20 years of service. Employees and employers each contribute 7.5 percent of basic pay toward retirement. In contrast, Federal employees covered by regular civil service retirement provisions are generally eligible for voluntary retirement with less liberal benefits at age 55 after 30 years of service, at age 60 after 20 years of service, or at age 62 after 5 years of service. Employees and employers each contribute 7 percent of pay toward retirement. The purpose of the special retirement law is to improve the quality of law enforcement and certain other firefighting services by helping to maintain a young, vigorous work force.

Federal regulations exclude certain employees from being eligible for the special retirement benefits. Specifically excluded are employees whose primary duties involve guarding against or inspecting for violations of law or investigating persons other than those suspected of violating criminal laws. Also excluded are employees whose duties only occasionally or incidentally require the investigation, apprehension, or detention of persons suspected or convicted of violating criminal laws.

According to OPM, the Government's additional contribution to the retirement of employees entitled to the special benefits can be determined by multiplying their average salary by 1.59. On this basis, we estimate that the Government will incur additional costs of about $15.8 million (about $38,700 per investigator) because of the special retirement benefits due the 409 criminal investigators assigned to IRS' security functions.

According to the Director of the Internal Security Division, in the past IRS had no system to identify the extent of criminal versus noncriminal investigations because case categories were too broad to provide this type of information. IRS made no studies to determine the extent of criminal versus noncriminal investigations performed by the Division and whether using criminal investigators was, or continues to be, appropriate. This information should be provided by a recently implemented Internal Security Management Information System which management plans to use as a basis for assigning noncriminal work to other personnel.

As discussed below, our review showed that the investigations performed by the criminal investigators are generally not of a criminal nature. Therefore, much of the $15.8 million could be avoided if personnel of the type required for the investigations were used.

Investigations are predominantly noncriminal in nature

The Internal Security Division conducts several categories of investigations. Following is a breakout of the 16,427 investigations completed in fiscal year 1977.

Category	Cases completed	Percent of total: Cases	Percent of total: Direct time
Character, limited character, and security	9,702	59.1	32.3
Other Treasury bureaus	452	2.8	1.8
Enrollee applicant	1,281	7.8	0.7
Special inquiry--miscellaneous	943	5.7	2.3
Disclosure	217	1.3	1.1
Enrollment charge	84	0.5	1.1
Federal tort claim	110	0.7	1.2
Special inquiry--complaint	1,737	10.5	23.3
Conduct	1,197	7.3	23.0
Assault	542	3.3	5.2
Bribery	162	1.0	8.0
Total	16,427	100.0	100.0

We analyzed the 11 categories of investigations conducted by the Internal Security Division to determine the nature of the work involved. We determined that five categories of investigations were not of a criminal nature, two categories were a mixture of criminal and noncriminal investigations, and the other four categories were of a criminal nature.

Overall, we estimate that about 88 percent of the Internal Security Division's cases and 69 percent of the effort in fiscal year 1977 did not relate to matters of a criminal nature. This includes the five categories of investigation strictly of a noncriminal nature. They represented 76 percent of the total cases and 38 percent of the overall effort. Two other categories included noncriminal investigations accounting for 12 and 31 percent of the cases and effort respectively. The following table summarizes the percentage of cases and direct time we determined was noncriminal in nature.

Category	Percentage	
	Cases	Direct time
Character, limited character, and security	59.1	32.3
Other Treasury bureaus	2.8	1.8
Enrollee applicant	7.8	0.7
Special inquiry-miscellaneous	5.7	2.3
Federal tort claims	0.7	1.2
Special inquiry-complaint (note a)	7.3	16.1
Conduct (note a)	4.7	14.7
Total	88.1	69.1

a/We estimated that 5.8 percent of total cases and 15.5 percent of total direct time represented special inquiry (complaint) and conduct investigations of a criminal nature. These investigations, together with disclosure, enrollment charge, assault, and bribery investigations, accounted for 11.9 percent of total cases and 30.9 percent of total direct time.

Personnel and other noncriminal investigative categories

Investigations in the first three categories--character, limited character, and security; other Treasury bureaus;

and enrollee applicants--are strictly noncriminal and represent about 35 percent of direct time. These personnel-type investigations are required to determine the suitability or loyalty of persons or organizations applying for Federal employment, permits, or benefits. The investigations generally involve those procedures and techniques described by OPM under the general investigative series.

Executive Order 10450, dated April 1953, assigned the Civil Service Commission 1/ primary responsibility for conducting personnel investigations. Because of staffing constraints in 1953, the Commission could not immediately assume responsibility for personnel investigations of all agencies. The Commission agreed with several major agencies, including the Treasury Department, to have them continue conducting their own. In 1954, the Commission offered to do this work for the other agencies and two agencies agreed to have the Commission do all or part of their investigations. The Commission has since made repeated efforts to acquire this work from other agencies but has had only limited success. The Commission has periodically reviewed the personnel security programs of those agencies conducting their own investigations, including IRS.

OPM uses general investigators to conduct personnel investigations. However, as discussed below, IRS makes limited use of OPM investigative services and uses primarily criminal investigators in conducting its personnel investigations.

The type and scope of the Internal Security Division's personnel investigations are dictated by a designation assigned to the position and the duration of the employment. IRS designates positions as critical sensitive, noncritical sensitive, nonsensitive (specified), or nonsensitive. IRS provided a breakout of its approximately 80,000 permanent positions as of December 1977, shown below along with the type of investigation required.

1/See footnote on p. 46.

Designation	Permanent position (estimated)	Type of investigation
Critical sensitive	600	Security--preappointment
Noncritical sensitive	40,000	a/National agency check and character
Nonsensitive (specified)	32,000	Limited character
Nonsensitive (nonspecified)	7,000	b/National agency check and inquiry
Total	79,600	

a/A national agency check includes checking the files of the Federal Bureau of Investigation and OPM, and checking the Defense Central Index of Investigations and Coast Guard Intelligence records if the individual is a veteran.

b/Includes, in addition to a national agency check, written inquiries to employers, educators, references, police agencies, and others.

The Internal Security Division conducts all character, limited character, and security investigations. These totaled 9,702 and required about 32 percent of direct investigative time in fiscal year 1977. OPM makes a national agency check for IRS as part of each character, limited character, and security investigation. Character and security investigations are performed by the Division's criminal investigators. They consist primarily of personal interviews of employers, educators, neighbors, references, and others. The investigations generally cover 10 years, and the procedures followed are essentially the same for each type of investigation, except that security investigations are to be completed before positions are filled. The Division's limited character investigations consist of written inquiries unless the investigation discloses derogatory or questionable information about an employee. In that case, the Division's criminal investigators conduct a more comprehensive investigation. In fiscal year 1977, the Division began using paraprofessional employees to handle written inquiries and other desk work required for the limited character investigations.

OPM performs national agency checks and inquiries for the approximately 7,000 nonsensitive (nonspecified) positions. However, where the inquiry disclosed derogatory information, OPM refers the case to IRS for investigation by the Internal Security Division's criminal investigators. The Division has no information on the number of national agency checks and inquiries completed or referred during fiscal year 1977.

In addition to the 9,702 character and security background investigations in fiscal year 1977, the Division completed police checks for 16,386 persons considered for positions at the service centers, IRS' Data Center, and the National Computer Center, and for temporary short-term appointments, or positions created for special economic and educational programs. The Division makes a police check in localities where the individual lived or worked more than 2 months during the 5 years preceding the appointment. These police checks were assigned to the paraprofessional staff during fiscal year 1977.

OPM provides national agency checks for all IRS critical sensitive, noncritical sensitive, and nonsensitive (specified) positions. It also does national agency checks and inquiries for about 7,000 nonsensitive (nonspecified) positions or less than 10 percent of all IRS positions. Even in nonsensitive (nonspecified) cases, OPM turns over the case to IRS criminal investigators if derogatory or questionable information is developed. The Internal Security Division, using primarily criminal investigators, and to some extent paraprofessionals, performs all other IRS personnel investigations.

The Director of the Internal Security Division pointed out that personnel investigations are an integral part of the Division's mission of protecting the integrity of the Federal tax system, and the investigations go beyond the minimum requirements of Executive Order 10450 to include such steps as audits of new employees' recently filed income tax returns. We recognize that some aspects of IRS' personnel security program can be handled better by IRS. Obviously, auditing tax returns is more properly a function of IRS' Examination Division. However, this should not preclude OPM or IRS general investigators from conducting the more typical and time-consuming field work required for personnel investigations.

Two other categories also require no criminal investigators because the investigations involve no criminal violations and require no criminal investigating techniques and knowledge. These investigations accounted for 3.5 percent of the Division's efforts and are described on the following page.

Category	Nature of work
Special inquiry--miscellaneous	Obtaining personnel background information under certain noncriminal circumstances; record search only of criminal, court, or subversive files.
Federal tort claim	Obtaining factual data required to defend the Government against claims for property loss or damage, personnel injury, or death caused by the negligence or wrongful act or omission of a Government employee acting within the scope of his/her employment; collecting information to aid in the prosecution of Government claims arising from accidents involving IRS employees or activities.

Categories involving criminal and noncriminal investigations

Special inquiry (complaint) and conduct investigations involve complaints and allegations against IRS officials and employees and in some cases non-IRS employees whose actions may affect the integrity of IRS. Many investigations in these categories, accounting for 46.3 percent of the Division's fiscal year 1977 efforts, appear to require no criminal investigative procedures. However, some do.

We reviewed a random sample in each of the seven regions of 25 conduct and 25 special inquiry (complaint) cases completed during July 1, 1976, to June 30, 1977. We determined the nature of each allegation and whether the investigation to be made appeared to require criminal investigative procedures. Of the 350 cases, we concluded that as many as 234, (about 67 percent) were primarily noncriminal type cases and required no criminal investigative procedures. In our opinion, these investigations:

--involved allegations that were primarily administrative in nature,

--involved matters which were minor violations of Federal law, or

--consisted of interviews, records, checks, and other procedures normally performed by general investigators under OPM classification guides.

Many special inquiry and conduct investigations, as well as investigations in other categories, involve allegations of violations which are potentially criminal in nature. However, the Division's experience shows that a small percentage of investigations result in referrals of cases to the Department of Justice for criminal prosecution. Out of 16,427 investigations completed in fiscal year 1977, the Division referred 1,341 (about 8 percent) to Justice. Justice accepted 158 cases (less than one percent) of all investigations. Most of the cases referred and almost all of those accepted were bribery, assault, and disclosure cases. We determined that these are criminal type cases. Discussion of these cases follows later. Special inquiry and conduct cases generally have not been referred for prosecution and usually have not resulted in administrative disciplinary action. For example, as shown below, between 68 and 82 percent of all such investigations completed in each of fiscal years 1974 to 1977 did not require any adjudicating or disciplinary action.

Cases completed	Fiscal Year							
	1974		1975		1976		1977	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Allegations disproved and/or no discipli-nary or adjusdicating action required	1,776	68	2,188	80	2,200	82	2,422	82
Disciplinary actions (including separations)	849	32	531	20	475	18	512	18
Total	2,625	100	2,719	100	2,675	100	2,934	100

Criminal investigative categories

Disclosure, enrollment charge, assault, and bribery investigations involve criminal violations and would normally require criminal investigators. These type cases totaled 1,005 in fiscal year 1977--less than three cases per criminal investigator--and accounted for about 15 percent of the Division's investigative effort.

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Thus, IRS generally has not assigned personnel to its internal security functions commensurate with the type of investigations normally conducted. Criminal investigators perform primarily noncriminal work. At least 50 percent of the investigative effort could be handled by OPM or IRS general investigative personnel. If this is done, the Government's cost of providing employee retirement benefits would be reduced about $8 million.

Actions are being taken to reduce the time criminal investigators spend on personnel investigations

The Director of the Internal Security Division stated that he has long been aware of many problems associated with criminal investigators doing noncriminal work, and he was taking several steps to deal with the situation. One major step was the implementation of an Internal Security Management Information System in October 1977. The system will enable the Division to determine more accurately what matters are being investigated and how much time is being spent on each.

Also, the Division's 1977 long-range plan provided for converting 20 percent of technical staff years allocated for character investigations to paraprofessional positions. According to the Division, this will

--provide better workload control,

--permit more productive use of staff resources, and

--result in direct savings of training and salary costs totaling $12,000 annually for each position converted.

In early 1977, each regional staff formed a limited investigation section to handle primarily written inquiries required for limited character investigations. Each section was staffed with two or three investigative aides not in the criminal investigative series, and a criminal investigator who acts as section chief.

Assigning investigative aides to conduct certain investigations is a step in the right direction. However, this action may not go far enough. As of August 1978, relatively few positions had been converted. The approximately 19 aides assigned to the seven regional offices comprised less than 5 percent of the Division's investigative force, and the other 95 percent represented criminal investigators. As stated earlier, we believe at least 50 percent of the investigative effort could be handled by personnel in the general investigative series or some other appropriate series.

In addition, the investigative aides' work is limited to the desk work portion of limited character investigations. These investigations are required for about 32,000 nonsensitive (specified) positions of the approximately 80,000 IRS positions. Their duties include processing requests, handling mail inquiries, and preparing and processing investigative reports. Criminal investigators still conduct all interviews, police contacts, and other field work for all personnel investigations. Thus, criminal investigators may still spend a considerable portion of their time on work that could be done by general investigators. For example, information produced by the Division's management information system shows that 78 percent of the total staff hours spent on security, character, and limited character investigations represented criminal investigators' time during October 1977 to June 1978. Paraprofessionals accounted for only 22 percent.

As a further step, in August 1978, the Division was making tests in two regions to determine the feasibility of using investigative aides to also help process security and character investigations. These are required for about 40,000 critical sensitive and noncritical sensitive positions. Depending on the outcome of the tests, this action could further reduce the time criminal investigators spend on personnel type investigations and it further demonstrates that the Division is moving in the right direction. However, as with limited character investigations, criminal investigators will still do all field work required for the investigations. This could still represent a large percentage of their time.

INADEQUATE RESOURCE ALLOCATIONS HAVE RESULTED IN UNTIMELY AND SOMETIMES UNNECESSARY INVESTIGATIONS--IMPROVEMENTS ARE BEING MADE

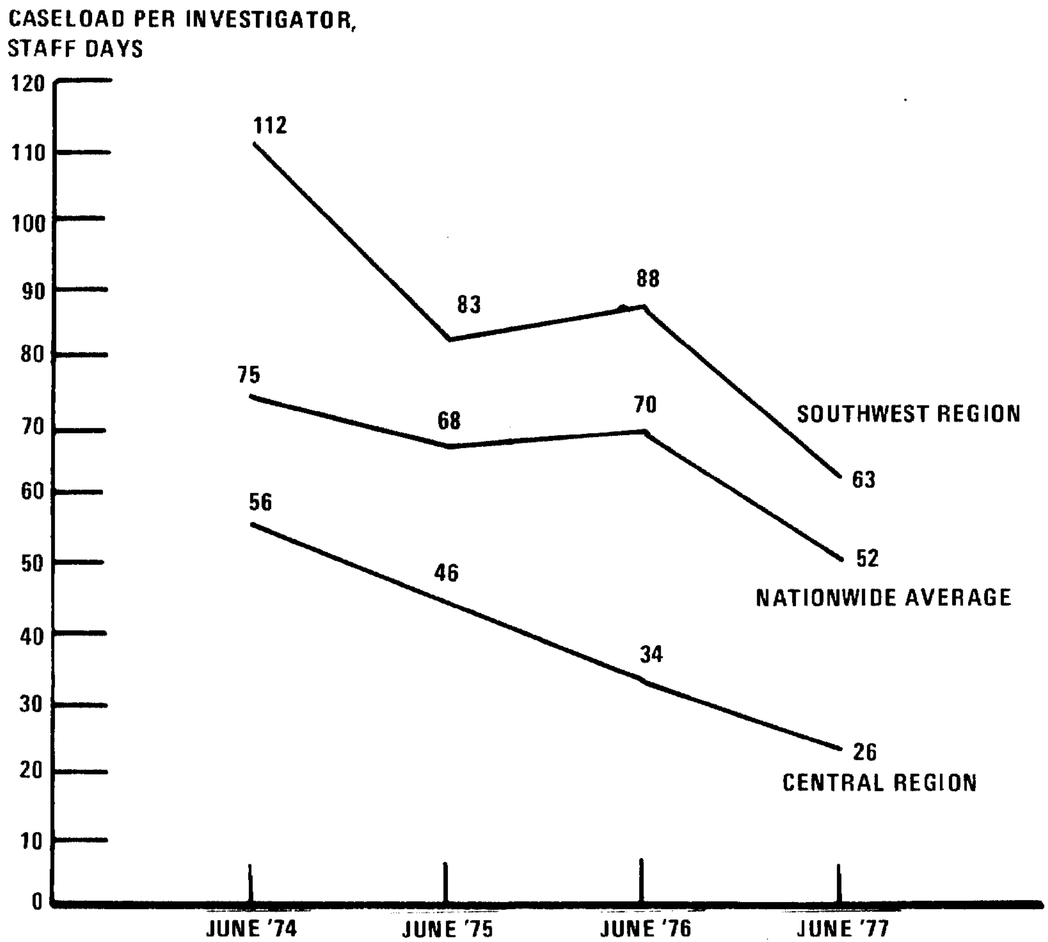
Until 1977, IRS allocated a fixed percentage of its resources to the internal security function and required that all allegations having a logical lead be thoroughly investigated. This procedure provided the Internal Security Division with sufficient staff to respond to thousands of requests and allegations each year, and generally the investigations have been of high quality. However, the Division had no formal procedure to allocate resources commensurate with the investigations that needed to be conducted. This resulted in (1) imbalances between investigators and caseload among the regions, (2) lengthy delays in completing investigations in some regions, and (3) some unnecessary investigations.

Informal allocation procedures created investigator-caseload mismatch

Until recently, the Internal Security Division's procedure for requesting and allocating investigators was arbitrary and informal. The number of new positions requested was based on one-half of 1 percent of the increase in total IRS employment. According to the Director of the Internal Security Division, the positions were allocated to regions subjectively with some consideration to each region's prior workload experience. Although the Division considered the number of cases closed in prior years and their complexity, the allocations were not based on estimates of future caseload. This procedure did not provide a reasonable balance between investigators and caseload among the regions. Some regions consistently have had much less work to do than others.

We compared the investigative workload among regions and the National Office by scheduling the average number of cases, by category, assigned to each investigator as of June 30, 1974, to June 30, 1977. Because some categories are more complex and normally require more time than others, we converted the average caseload per investigator to staff days based on the average time taken nationwide to complete investigations in each category during fiscal years 1974 to 1977, i.e., investigator-caseload ratio. Our analysis showed that the investigator-caseload ratio, as adjusted for the normal staff day variation because of the type of investigation, was considerably lower in some regions than in others over the 4 years.

For example, as the following chart shows, the Central Region's investigator-caseload ratio has been consistently lower than the national average, and the Southwest Region's ratio has been consistently higher.



In addition, the Internal Security Division established no uniform standards to measure the adequacy of the investigative staffs to handle the caseloads in each region. According to the Director of the Internal Security Division, general time standards had been established for three categories: special inquiry-6 months; character-9 months or 60 days once significant derogatory information is disclosed; and limited character-6 months. The Division required that conduct, assault, and bribery cases be completed "as soon as possible." Each of the seven regional staffs have established standards for monitoring the completion of various categories of investigations. Basically, the standards provide a signal to management to review cases at certain points in time. At these points, management would determine whether investigations were moving in the right direction, whether they could be closed, and if not, what further action was needed. However, these standards vary considerably from region to region and within the same region as the number of investigators or the caseload varies.

In late 1977 and early 1978, the regions had different time standards for the same categories of investigations as shown below.

	Region						
Category	Central	Mid-Atlantic	Mid-Western	North Atlantic	Southeast	Southwest	Western
	months						
Conduct	5	(a)	9	9	6	12	9
Special Inquiry	5	6	9	9	6	6	9
Assault	1	(a)	9	1	1	1	9
Bribery	5	(a)	9	9	(a)	2	9
Character	5	6	9	9	8	12	9

a/ No specific timeframe established; the office requires only that the cases should be completed as soon as possible.

As indicated above, the Central Region had the shortest time standard for most categories of investigations. It also had one of the lowest investigator-caseload ratios during 1974 to 1977. In contrast, the Southwest Region had the longest time standard for the two largest categories--conduct and character--and had more than twice the caseload per investigator as the Central Region over the same period.

Thus, the Internal Security Division has not had an adequate basis for assigning investigators to the regions and for monitoring caseloads. As discussed below, this has resulted in investigations which are frequently untimely and sometimes unnecessary.

Excessive caseloads cause untimely investigations

Investigative staffs in some regions were experiencing lengthy delays in completing investigations. Although number of factors contributed to the delays, the reason cited most often was that caseloads were too large.

Delays are lengthy and widespread

We reviewed 200 character cases completed in four regions during July 1976 to June 1977. Of the 200 cases, 114 were not completed within the time standards established by the regions, and 24 required more than 1 year to complete, as shown below:

Region	Cases reviewed	Average days required to complete all cases	Cases exceeding time standards	Cases requiring over 1 year to complete
Southwest	50	246	7	7
Mid-Atlantic	50	248	40	5
Central	50	170	34	0
Southeast	50	308	33	12
Total	200	243	114	24

Timely character investigations are necessary to protect IRS' interests. The probationary period for a new Government employee is 1 year, and a decision to retain or discharge an employee should be made during that period. If the results of new employees' background investigations are not available to management before the 1 year expires, the value of the investigation is diminished.

It should be noted that the delays in completing the particular cases we reviewed did not jeopardize IRS' interest. The Internal Security Division later reviewed each case and determined that only 1 of the 24 investigations that took longer than a year to complete disclosed any derogatory information. The one case involving derogatory information resulted in the employee being discharged. However, the potential for disclosing such information existed until the investigations were completed.

We also reviewed 50 conduct and special inquiry (complaint) cases in each of the seven regions. Of the 350 cases, 60 were not completed within time standards established by the regions, and 38 of the 60 cases required between 391 and 1,019 days. A tabulation of the 60 cases follows.

	Days required for completion				
Region	180 to 359	360 to 539	540 to 719	720 and Over	Total
Central	1	0	0	0	1
Mid-Atlantic	0	7	2	1	10
Mid-Western	0	6	3	1	10
North Atlantic	5	3	1	0	9
Southeast	3	6	1	0	10
Southwest	3	3	4	0	10
Western	4	5	1	0	10
Total	16	30	12	2	60

Conduct and special inquiry (complaint) investigations are concerned with allegations of misconduct or wrongdoing among IRS employees. Once an investigation is initiated the employee's supervisor may become aware of the investigation and favorable personnel actions could be delayed until the investigation is completed. IRS policy clearly prohibits automatic delays of promotions solely because a conduct investigation is in process, and the policy sets forth specific steps to be followed if a promotion is to be delayed or prevented for this reason. However, unwarranted delays may still occur. For example, one IRS manager told us that promotions and transfers are often held up because employees are under investigation. Other officials expressed similar views.

To avoid the possible adverse effects conduct investigations can have on employees, IRS created the special inquiry (complaint) category of investigation to restrict the scope and period of an investigation where the allegation or complaint is vague or from a questionable source. Such investigations are supposed to (1) be limited to an interview of the complainant or a check of pertinent records, (2) include an interview with the complainant within 10 days, and (3) be closed within 6 months. However, investigations in this category sometimes included contact with the accused, co-workers, and others and were not always closed in 6 months. For example, 29 of 175 cases in this category were not closed in 6 months but remained open an average of 11 months.

In October 1977, the Division replaced the special inquiry (complaint) category with a series of more specific categories because the restrictions mentioned above did not apply to certain types of special inquiry investigations. In addition, the Division now requires special inquiry cases involving IRS employees to be reviewed at least every 30 days by supervisory personnel to determine whether they should be closed.

Internal security personnel in five of the seven regions stated that untimely investigations were a problem. The most common reason given for this was that the investigators' caseloads were too large. Another reason cited was the late receipt of information from other Federal agencies or other IRS divisions.

Our analysis provides an overall picture of the timeliness with which the regions were completing certain categories of investigations and shows generally the effects of the Division's earlier procedure for allocating resources. Those regions having more favorable investigator-caseload ratios had more stringent timeframes and usually completed investigations quicker than other regions. This does not mean that some regional staffs were not aggressively investigating or not effectively managing their cases. But it does illustrate the importance of allocating staff resources to match as closely as possible the anticipated caseloads to ensure that, overall, investigations are completed as quickly as possible. To do this and to also continually monitor the overall timeliness of each region's investigative efforts, the Division and the regions should use similar standards to measure timeliness.

Inadequate criteria resulted in criminal investigators handling administrative offenses

IRS had no adequate criteria delineating those employee conduct matters which the Internal Security Division will investigate as opposed to those matters which line managers will handle. As a result, the Division sometimes conducted unwarranted investigations. This creates unnecessary workload and the potential for adversely affecting the careers of employees investigated.

Under IRS policy and procedures, management refers even minor administrative offenses to the Internal Security Division, and the Division investigates them. IRS in its manual, "Handbook of Employee Responsibilities and Conduct," imposes a stringent code of conduct on IRS employees. Employees are required to report allegations of criminal misconduct directly to Inspection. They are required to report violations of the rules of conduct except for certain violations subject to other specific reporting requirements. The Handbook lists nine categories of administrative offenses that may be dealt with directly by supervisors. However, even in these cases, the supervisors may, at any time, request assistance from the Internal Security Division. IRS policy requires that all bona fide complaints or allegations be investigated.

The Internal Security Division's procedures provide that as a rule any complaint or allegation which does not present one or more logical investigative leads will not be "carded" and assigned for investigation. However, the procedures do not provide criteria or steps for referring to management those allegations or complaints that could be handled better administratively.

The Division completed about 2,900 conduct and special inquiry (complaint) cases requiring about 46 percent of its direct investigation time in fiscal year 1977. We reviewed a sample of 175 conduct and 175 special inquiry (complaint) investigations completed during July 1, 1976, to June 30, 1977, to determine whether the cases involved administrative offenses of the type described in the Handbook and whether an adequate basis existed for an investigation.

Of the 350 investigations, 64 (39 conduct and 25 special inquiry) were administrative offenses and could have been handled appropriately by line supervisors, or an adequate basis did not exist for the investigation. The following are examples of such investigations.

> Example 1--An IRS division chief in one district referred to internal security a letter where an employee alleged another employee had criticized her public service radio announcement on behalf of IRS. Both employees were under consideration for promotion to a position in the district. The employee making the allegation felt the other employee was trying to improperly enhance her chances for promotion. Based on the letter, on April 28, 1976, internal security opened a special inquiry (complaint) investigation which included interviews with third parties and issued a report on July 19, 1976.

Example 2--An IRS employee relations specialist referred to internal security a copy of a memorandum stating an employee had been arrested and charged with driving under the influence of intoxicants. On the basis of the memorandum, on November 24, 1976, internal security opened a special inquiry (complaint) investigation, obtained a copy of the arrest-investigative report, contacted the arresting officer, and issued a report on February 24, 1977.

Example 3--On January 10, 1977, a service center manager notified internal security that a new IRS employee attending training had disrupted the class with irrational behavior. IRS terminated his employment effective January 10, 1977. However, on January 11, internal security initiated a conduct investigation, interviewed various instructors and students, reviewed certain records, and issued a final report on March 4, 1977.

Example 4--Internal security initiated a conduct investigation on November 3, 1976, on the basis of a letter from a taxpayer who alleged an IRS employee "slammed" the receiver in his ear during a telephone conversation regarding a disputed tax matter. Internal security interviewed the taxpayer and the employee. The taxpayer subsequently admitted that he had been rude and abusive toward the employee in a prior telephone conversation. The employee stated he hung up on the taxpayer because of his continued irrational and abusive behavior during their conversation. Internal security completed its report of investigation on February 28, 1977.

Example 5--In May 1975, an IRS employee was charged with shoplifting items priced at $1.44, and the employee pleaded not guilty. The charge was dismissed in May 1976. An IRS division chief at a service center sent to internal security a newspaper article which mentioned the court's dismissal of the case. On the basis of the article, on June 8, 1976, internal security opened a conduct investigation which included interviews with the employee, her physician, and a security guard, and issued a report on November 30, 1976.

The 64 cases represented 18.3 percent of the 350 cases sampled. Applying this percent to the 2,934 conduct and special inquiry (complaint) cases completed in fiscal year 1977 indicates that 537 ($\pm$ 111 cases at the 95 percent confidence level) could have been handled administratively or required no investigation. Investigations in these two categories account for almost half of the Internal Security Division's investigative time. Therefore, eliminating the nonessential investigations could substantially reduce the Division's overall workload. This would also avoid subjecting employees to investigations which sometimes include contact with the employees' supervisors, coworkers, relatives, and other acquaintances.

Investigations of administrative offenses are being reduced

The Inspection Service has recognized that criminal investigators have been used to handle administrative offenses. In July 1977, the Assistant Commissioner (Inspection) advised the IRS Commissioner that investigations concerning bribery, embezzlement, assaults, disclosures, and conspiracy were taking an increasing toll on Inspection's resources. The Assistant Commissioner stated this additional drain required that Inspection exercise more discretion as to its involvement in matters lending themselves more properly to administrative remedy, such as harrassment, abuse of duty hours, and similar complaints.

Subsequently, in a September 1977, Inspection management meeting, the Director of the Internal Security Division outlined a new direction for the internal security program. The Director provided general guidelines for developing an organization of criminal investigators who focus their efforts on detection and deterrence of corruption and dishonesty in IRS by

--evaluating more critically allegation referrals and using resources predominantly for criminal investigative work;

--responding to IRS' management requests in crisis or emergency situations, but not initiating investigations of matters that can be handled administratively, such as tardiness, malingering, etc.; and

--continuing an integrity program aimed toward detecting and determining dishonesty and corruption in IRS through probes in high risk areas of IRS operations and continuing efforts toward ferreting out computer type crimes.

The Internal Security Division's management information system produced statistics showing the number of noncriminal, administrative type investigations has been substantially reduced since November 1977. A sample comparison of such investigations in the Division's inventory as of that date and April 1978 follows.

Administrative type violation or incident	Number Nov. 15, 1977	April 30, 1978
Employee arrested by State or local police	27	14
Discourteous treatment or harrassment of taxpayer	56	14
Credit problems	7	1
Misuse of government time	40	15
Unauthorized outside employment	41	25
Intoxication while on duty	7	0
Miscellaneous offenses	252	82

The Director is steering the investigative staff in the right direction. The actions described to us should help eliminate investigations of essentially administrative matters. However, such matters may properly warrant management's attention and the criteria must be provided which clearly assigns responsibility for handling such matters to management.

OVERALL IMPROVEMENTS ARE BEING MADE TO BETTER MANAGE INVESTIGATIVE STAFF AND CASELOAD

To more appropriately match the investigative staff to the caseloads, the Internal Security Division has developed long-range staffing plans and is establishing a better information base to manage the staff and caseload. Moreover, the Division is shifting to a more positive and less reactive integrity program.

Staffing needs to be determined more accurately

Recognizing that a fixed formula to request investigator positions was not adequate, in 1977, the Division developed procedures to estimate its long-term resource needs. The Division's plans show estimated additional staff years required to continue current services and additional staff years for expanded services.

We believe the Division's effort to estimate future resources needs represents a major improvement.

Information base is being improved

The Internal Security Division also has taken steps to provide better information for use in managing the internal security program. In February 1977, the Division began testing in two regions new guidelines for matching investigators and investigations. The Division expects the guidelines to provide a basis for (1) evaluating cases assigned to investigators; (2) making workload estimates, staffing determinations, and position classifications; and (3) using investigators' time and abilities more productively.

As mentioned earlier, the Division began implementing an Internal Security Management Information System in October 1977. We were told that the system will produce reports on active investigations nationwide and assist in projecting future caseloads in specific geographic areas. According to the Division, this will help to alleviate several problems because investigators will be assigned at the appropriate time to the offices needing them most.

Because the new guidelines and management information system had not been fully implemented, we could not evaluate their effectiveness in minimizing untimely investigations and overcoming other problems. However, it appears that the guidelines and system are designed to provide the kind of information needed to permit a better matching of investigators and work.

Internal Security's integrity development efforts are being strengthened

The Inspection Service, primarily through the Internal Audit Division, has for many years given top priority to an integrity program which includes efforts to actively probe high risk areas where employee integrity problems are most likely to occur. In general, the program includes all the elements of a well organized, systematic approach to fraud detection such as that we recommended be adopted by other Federal agencies. 1/

In 1977 to 1978, the Assistant Commissioner (Inspection) and the Director of the Internal Security Division took steps to further improve the program through better planning and a more active approach to integrity development. The Assistant Commissioner identified 15 high-risk areas having strong potential for integrity breaches based on a survey made by each regional inspector. Each regional inspector was to consider integrity development projects in the areas during calendar year 1978. Also, in September 1977, the Assistant Commissioner furnished guidelines to all regional inspectors establishing minimum standards, procedures, and controls for planning, managing, and coordinating the Inspection Service's integrity programs. The guidelines included instructions for (1) identifying and probing IRS operations most susceptible to integrity problems, (2) coordinating and integrating audit and security integrity efforts, and (3) establishing Inspection Service committees at the national and regional levels to insure effective regional management.

Until 1977, the Internal Security Division was in basically a reactive posture, and the Internal Audit Division initiated most integrity probes to identify integrity violations. However, the Director of the Internal Security Division is taking steps to refocus the Division's efforts from primarily reacting to allegations, complaints, and referrals to a "pro-active" approach to identifying integrity breakdowns. The Director is emphasizing a systematic approach to identifying and probing high-risk areas in order to detect and eliminate potential integrity problems. According to the Director, the Division initiated 106 integrity development projects from October 1977 to May 1978. These projects are extensive probes in high risk areas to uncover integrity breakdowns and accounted for about 7 percent (3,300 staff days) total investigation time. Also, the Director pointed out that the Division's bribery caseload increased 65 percent from 87 cases in July 1977 to 149 in July 1978.

The Internal Security Division's plans and efforts to more aggressively identify and investigate employee integrity matters are definitely a step in the right direction and are

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1/ "Federal Agencies Can and Should Do More to Combat Fraud in Government Programs," GGD-78-62, September 19, 1978.

consistent with recommendations we have made to the heads of Federal agencies.

CONCLUSIONS

IRS has provided, through the Internal Security Divison, a strong and active internal investigative function by assigning a large staff of criminal investigators throughout the agency to investigate a wide variety of criminal, civil, and administrative matters. Surely, IRS must provide sufficient, well-qualified, personnel who can effectively investigate anything that may affect the integrity and welfare of IRS. However, the kinds of investigations to which investigative personnel are assigned should be commensurate with their qualifications and experience, and they should be assigned in a way to assure all necessary investigations are completed in a reasonable time.

The investigations the Internal Security Division performs are primarily noncriminal in nature. The noncriminal investigations involve investigating new employees' backgrounds, administrative violations, accidents, and other matters which general investigators or similar personnel could appropriately handle. About 69 percent of Internal Security's investigative time and about 88 percent of its cases involve noncriminal matters. Yet, criminal investigators handle many of these cases. This is costly and unnecessary. It would be more economical to assign OPM or other IRS general investigative personnel to conduct noncriminal investigations.

Almost half of the Division's noncriminal workload represents personnel-type investigations which OPM general investigators conduct for many other civilian Federal agencies. In this regard, we recommended in a December 2, 1974, report, "Personnel Security Investigations: Inconsistent Standards and Procedures" (B-132376), that the Civil Service Commission, now OPM, assume complete responsibility for the personnel investigative function of civil agencies in order to provide a more economical and efficient investigative program. The Commission tried to assume this responsibility but had limited success.

In our report, "Proposal to Resolve Longstanding Problems in Investigations of Federal Employees" (FPCD-77-64, Dec. 16, 1977), we recommended that the Congress and the Commission make several changes to strengthen personnel investigations. In a June 9, 1978, letter (B-132376) to the chairmen of several congressional committees we evaluated the Commission's actions to improve its personnel investigations and suggested several additional required actions.

Although the personnel investigative program still needs improvement, steps have been taken to overcome some of the problems discussed in our earlier reports. Thus, we still believe the responsibility for conducting personnel investigations should be centralized in OPM, consistent with its ability to meet the needs of IRS and other agencies.

IRS uses OPM to perform national agency checks and in some cases make inquiries but has relied primarily on the Internal Security Division--until recently, staffed entirely with criminal investigators--to conduct the interview and inquiry parts of the numerous personnel investigations required each year. To reduce the overall cost of the investigations, OPM could assume the responsibility for IRS personnel investigations, provided it can adequately meet IRS' investigative needs. Transferring the responsibility to OPM could take place over an extended period and be commensurate with OPM's ability to effectively handle the investigations.

With respect to personnel investigations not conducted by OPM and other noncriminal investigations, IRS could assign general investigators or other similar less costly personnel who, among other things, do not receive special retirement benefits. By assigning noncriminal work to either OPM or other IRS general investigative personnel, IRS could reduce the investigators' work by half. If this were the case, the Government's retirement cost associated with the Internal Security Division's investigative staff would be about $8 million less.

Along with reassigning noncriminal work to OPM or other IRS personnel, the Internal Security Division needs to allocate personnel to match as closely as possible the caseloads in each region. The Internal Security Division's past procedures for requesting and allocating personnel have resulted in too many investigators in some regions and too few in others. Excessive caseloads in some regions have created inordinate delays in completing investigations. At the same time, some investigations have been undertaken unnecessarily. Both situations can be detrimental to IRS and its employees.

To minimize unwarranted and untimely investigations, two steps are necessary. First, IRS must identify those matters to be investigated by the Internal Security Division as distinguished from those things to be handled administratively. This is necessary to enable the investigative staff to devote its time to more significant matters and to avoid unwarranted investigations of IRS employees.

Second, the Internal Security Division needs to estimate as accurately as possible the volume, type, and location of future investigations and assign investigators on this basis. This is necessary to provide a reasonable match between investigative staff and caseloads. If properly implemented, the Division's proposed management information system and case assignment guidelines should provide the information needed to achieve this match in the future. However, management should also use the system to correct imbalances which already exist.

RECOMMENDATIONS

We recommend that the Commissioner of Internal Revenue:

--Determine, in conjunction with OPM, the extent OPM can assume additional responsibility for the personnel investigations presently being conducted by IRS criminal investigators and, to the extent possible, transfer the responsibility to OPM.

--Provide general investigators or other appropriate personnel to conduct noncriminal investigations to the extent they cannot be conducted by OPM.

--Establish criteria delineating matters to be investigated by the Internal Security Division and assign responsibility for handling essentially administrative matters to line management.

--Review the investigator and caseload relationships among the regions and assign positions to provide a reasonable investigator-caseload balance.

--Establish uniform standards to monitor the timeliness with which investigations are being completed.

IRS COMMENTS AND OUR EVALUATION

By letter dated November 30, 1978, the Commissioner of Internal Revenue agreed in principle with our recommendations regarding IRS' internal security operations. (See app. III.) However, we question whether the actions IRS has taken or plans to take will go far enough in justifying or reducing the current level of criminal investigators.

In response to our recommendations, IRS agreed to (1) explore with OPM the feasibility of that agency conducting personnel investigations where a national agency check and inquiry is required; (2) examine the overall workload and, whenever practicable, assign noncriminal work performed by criminal investigators to other personnel; and (3) establish criteria to delineate administrative matters that management should handle. Taken together, these actions should reduce substantially the extent of noncriminal work performed by criminal investigators. Even so, we are not certain that the impact of these changes will be as great as needed. For example, criminal investigators will still be required to conduct all IRS full field personnel investigations. Such investigations may require a significant percentage of their time and could more appropriately be handled by less costly general investigators.

In any event, IRS is generally moving in the right direction we recommended and we commend it for that. How far it goes in this direction, however, remains to be seen, and can be better determined after the agency has had additional time to implement our recommendations.

CHAPTER 5

SCOPE OF REVIEW

We reviewed and evaluated pertinent IRS policies, procedures, and instructions governing the internal audit and internal security functions issued by the National Office and various other offices. Because of the decentralized nature of Inspection Service activities, our review included some work at all seven offices of Regional Inspectors. We held numerous discussions with various Inspection Service officials and employees, including the Assistant Commissioner (Inspection), the Director of the Internal Audit Division, the Director of the Internal Security Division, regional inspectors and their assistants for internal audit, internal security in each region, and many auditors and investigators in the National Office and the field. We also obtained views and comments on the internal audit and internal security functions from managers at the IRS national, regional, and district levels, as follows.

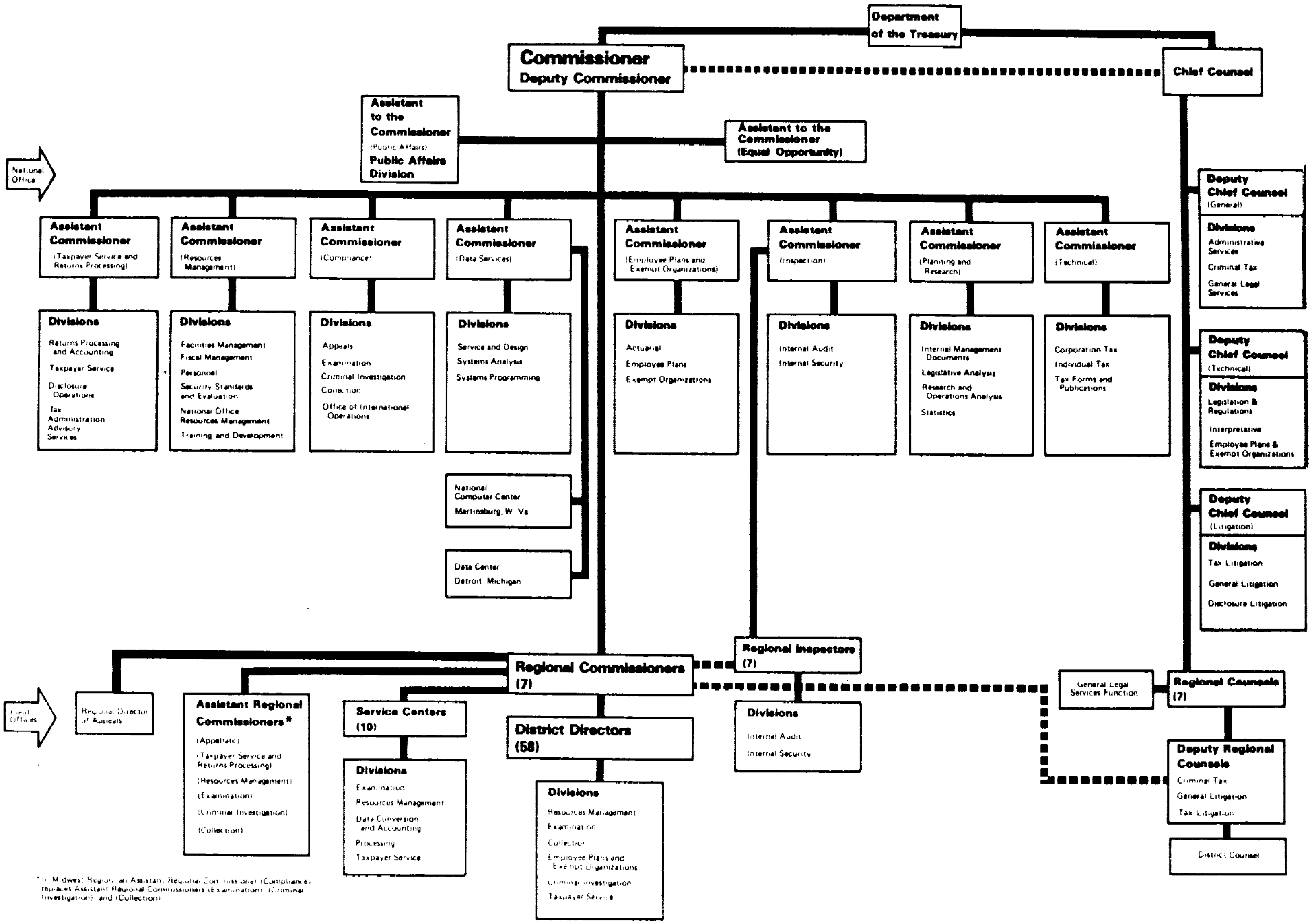
Level	Number of managers represented (note a)
National	5
Regional	22
District	76
Total	103

a/Includes the Deputy Commissioner, 4 assistant commissioners, 7 regional commissioners, and 17 district directors.

Our review of the internal audit function included (1) an evaluation of the IRS internal audit system in relation to legal requirements and the Comptroller General's audit standards; (2) an analysis of long-range and annual audit plans and actual audit coverage in relation to those plans; and (3) a detailed review of the planning, coverage, conduct, and results of audits for three major IRS activities. We also reviewed the relationship between the Internal Audit Division's work and that of other IRS review groups. Our review generally covered internal audit activities conducted during the 27 months from October 1975 to December 1977.

Our review of the internal security function included (1) an evaluation of the quality and timeliness of investigative services, (2) an analysis of the various categories of investigations and of several samples of investigations to determine whether they were being handled in the most efficient and most economical manner, and (3) a review of the procedures used for planning, budgeting, and allocating investigator positions. Our review generally covered investigations completed from July 1976 to June 1977.

IRS Organization Chart



*In Midwest Region, an Assistant Regional Commissioner (Compliance) replaces Assistant Regional Commissioners (Examination), (Criminal Investigation), and (Collection).

APPENDIX I

ANALYSIS OF AUDITS COMPLETED IN SELECTED AUDITABLE AREAS

SEIZURES AND SALES

In plan years 1976 and 1977, the Internal Audit Division used about 3,300 staff days to review seizures and sales activities in 20 districts. In each case, the auditors performed a separate review in each district and directed their reports primarily to district management. Management determined that three reports indicated a possible need for corrective action by the National Office.

The Internal Revenue Code authorizes IRS to seize and sell taxpayers' property or rights to property to satisfy unpaid tax liabilities. IRS policy requires that every reasonable effort be made to collect the delinquent taxes voluntarily prior to seizure and that all facts and circumstances be thoroughly considered before deciding to seize a going business. The Internal Revenue Manual prescribes specific procedures to ensure that the rights and interests of taxpayers, the Government, and third parties are protected in seizure and sale actions. 1/

The internal audit staff's long-range plans called for 53 audits of IRS seizure and sales activities at 53 districts and an allocation of about 8,700 staff days for the audits. However, the staff scheduled and completed only 20 audits at 20 districts, primarily at large and medium size districts, and used about 3,300 staff days, as shown below.

1/For extensive discussion of the adequacy of IRS' seizure and sales process, see our report, "IRS Seizure of Taxpayer Property: Effective But Not Uniformly Applied" (GGD-78-42, dated July 31, 1978).

District size	Planned		Completed	
	Number	Staff days	Number	Staff days
Plan year 1976:				
Large	16	3,120	10	2,310
Medium	11	1,860	3	321
Small	0	0	2	53
Total	27	4,980	15	2,684
Plan year 1977:				
Large	8	1,200	2	291
Medium	16	2,400	3	309
Small	2	113	0	0
Total	26	3,713	5	600
TOTAL	53	8,693	20	3,284

The audit staff completed about one-half the number of audits planned in 1976 primarily because the plans did not adequately consider staffing constraints. In 1977, the staff completed few audits because planned audits were postponed after the U.S. Supreme Court ruled in January 1977 that an IRS seizure was in violation of the Fourth Amendment of the U.S. Constitution.

Neither the Internal Audit Division nor any of the seven assistant regional inspectors provided a formal audit program for the audits. However, the Division's guidance to the regional audit staffs for their annual plan stated:

> "Plan year 1976--Proposed revisions to seizure and sale requirements and guidelines include: necessitating management level approval (e.g., Division Chief) prior to any seizure of a personal residence; protecting the rights of third parties at sales by revealing any known title encumbrances; and requiring routine disqualification by revenue officers at distraint [distress] sales where conflict of interest might be alleged. Procedures have already been changed to require group managers to review, concur, and sign-off on a seizure prior to the seizure.

> "Plan year 1977--This area should be reviewed whenever other reviews are conducted in the Collection

> Division (exclusive of Cashier Operations and Imprest Funds). We should review the effectiveness of management controls, particularly the involvement of Group Managers. We should also review collection action prior to the seizures to determine that Service practice of seizures as a last resort is being consistently followed."

Each audit staff performed a survey of sales and seizures activities in each district visited. Nineteen of the 20 surveys led to a detailed audit. The survey and audit plans prepared by auditors-in-charge indicated the common objective of determining whether management and internal accounting controls adequately protect the interests of taxpayers, the Government, and third parties, as required by IRS policies and procedures. However, the specific approach, procedures, extent of work, and results varied considerably. The number of staff days used ranged from 13 to 521.

For example, in 10 districts, the auditors reviewed 1 auditable area--seizures and sales. In the other 10, they reviewed from 2 to 9 segments of the collection function. Likewise, although the auditors appeared to be generally concerned with similar things, the extent of tests made and the results achieved varied. In one district, the audit required 57 staff-days, included a review of 32 cases selected from among 325 seizure actions in a 6-month period, and disclosed no weaknesses. In another district, the audit required 159 staff-days, included a review of 10 of 95 cases open 3 months or longer as of January 1977 and 26 of 177 cases in which the seizure action was taken during a 6-month period, and disclosed four weaknesses, including a need to strengthen Internal Revenue Manual procedures.

Weaknesses disclosed in one district were often found in several others. For example, the audits showed that filing and release of liens was a problem in five districts; minimum bids were not properly handled in five districts; controlling and safeguarding seized property was weak in four districts; and, document control needed attention in six districts. However, the corrective action was usually limited to each district visited by the internal auditors.

The Internal Audit Division did not prepare an overall report on the audits. Instead, each audit resulted in a report to the director of the district in which the seizure and sale activity was audited. The regional commissioners reviewed the audit reports and the district directors' responses and furnished comments to higher management.

Two audits disclosed a weakness in the control of seized property requiring corrective action by the National Office. Another audit prompted an assistant regional commissioner to request the National Office "* * * to consider the need for providing additional specificity in manual instructions covering computation of minimum price." In addition, management at the regional level took corrective actions as a result of four audit reports.

MANAGEMENT CONTROLS/EXAMINATION BRANCH

In plan years 1976 and 1977, the audit staff used about 4,800 staff days to conduct 25 audits of the management controls of the audit divisions' examination branches in 24 of 58 district offices. The findings in each of these audits were representative primarily of the conditions in each branch of each district visited. According to management, only 4 of the 55 findings had implications beyond one district. The audits were directed primarily at determining whether each branch was complying with IRS policies and procedures.

A branch of the audit division in the 58 IRS district offices examines tax returns. Revenue agents, tax auditors, and specialist examiners are assigned to specific groups within each branch. A group manager supervises completion of assigned work, provides technical assistance, and defines work objectives. An examination branch chief plans and coordinates the groups' efforts.

The internal audit staff's long-range plan provided for 60 audits in 60 districts, but the staff scheduled and completed only 25 in plan years 1976 and 1977 as shown below.

District size	Planned		Completed	
	Number	Staff days	Number	Staff days
Plan year 1976:				
Large	16	2,400	10	2,122
Medium	20	2,000	6	914
Small	6	300	2	158
Total	42	4,700	18	3,194
Plan year 1977:				
Large	8	1,200	4	1,320
Medium	9	900	2	192
Small	1	50	1	88
Total	18	2,150	7	1,600
TOTAL	60	6,850	25	4,794

According to the audit staff, the actual coverage was less than half that planned because enough auditors were not available.

The Internal Audit Division's guidance to the assistant regional inspectors for planning the 1976 audits stated:

> "A review of the administration of the examination program at the group level should be conducted. Efforts should be directed to evaluating the efficiency and effectiveness of the integrated examination groups resulting from the recent restructure of district audit divisions.
>
> "Tests should be made of (1) case assignment practices, (2) supervisory involvement, and (3) the timeliness of examination activity."

Also, the Division provided a specific objective to the regions for each of the three areas to be tested and stated that the regions should consider the adequacy of statute controls, percentage of examiners' time spent directly on examinations, and cost effectiveness.

The Division did not provide any planning guidance for audits of this area for plan year 1977. The Division later provided guidance as a result of a specific concern of the

Assistant Commissioner (Compliance). The Division suggested certain tests be made to address these concerns.

The audits generally provided varying audit procedures and tests among the seven regions and among districts of the same region. For example, IRS policy requires tax cases to be rotated among examiners to prevent consecutive assignments of the same taxpayer to one examiner. Internal auditors in three regions reviewed compliance with this requirement in all three districts they audited; whereas, auditors in three other regions did not review it in any of 14 districts they audited. Auditors in two regions reviewed compliance with the policy requirement in one of three districts they audited. Also, sampling procedures varied among the audits, and in no case were sampling results projected beyond the one district audited.

All 25 audits were district-oriented reviews to primarily determine the compliance of specific transactions or operation with IRS policies and procedures. None of the audits dealt with the degree of compliance or with other matters at higher IRS organizational levels.

Although the audits identified weaknesses common to a number of districts and regions, the audit staff did not prepare an overall report for management's use. For example, one finding involved problems in assigning and filing cases and was reported in 5 districts in 4 regions. In each instance, the weakness was corrected by management in the district audited, and no overall assessment of the problems was made and no corrective action taken at the regional or national levels. In another case, the auditors identified a weakness in monitoring the timeliness of furnishing tax audit notices to other districts. The auditors reported the weakness to the director in October 1976 and the district director corrected the weakness. In commenting on the audit report, the regional commissioner stated the weakness had no nationwide implications and that the district director's actions were adequate. The auditors reported the weakness in another district in the region in March 1977. The regional commissioner then took action to correct any such weaknesses in other districts within the region.

Twenty audit reports had been issued through September 1977, and all were directed to district level management. Of the 55 deficiencies identified in the 20 reports, 16 reports required action by IRS management at the district or branch level. Three reports had implications beyond the one district audited and required corrective action by regional management. Another report identified a weakness which required corrective action by an assistant commissioner.

GENERAL ENFORCEMENT PROGRAM

The internal audit staff used 4,019 staff days to evaluate aspects of the taxpayers in general program in 20 of 58 district offices in plan years 1976 and 1977. Management determined that only 3 of the 31 weaknesses reported had implications beyond each district visited.

The taxpayers-in-general program includes all criminal enforcement activities of the then IRS Intelligence Division other than the Division's investigations of that segment of the public which derives substantial income from illegal activities. The program's primary objective is to indentify and investigate income tax evasion matters which have criminal prosecution potential. The program calls for balanced coverage as to types of violations, geographic locations, and economic and vocational status of violators so as to stimulate widespread voluntary compliance with the tax laws.

According to the long-range plan, the staff planned to complete 63 audits in 63 districts in plan years 1976 and 1977, but because of staffing constraints, the staff scheduled and completed only 20, as shown below.

	Planned		Completed	
District size	Number	Staff days	Number	Staff days
Plan year 1976:				
Large	16	1,664	7	1,324
Medium	14	966	5	887
Small	7	133	1	150
Total	37	2,763	13	2,361
Plan year 1977:				
Large	9	936	6	1,436
Medium	14	966	0	0
Small	3	57	1	222
Total	26	1,959	7	1,658
TOTAL	63	4,722	20	4,019

The Internal Audit Division's planning guidance for 1976 audit stated:

> "Review the compliance effectiveness of the General Enforcement Program. Emphasis should be given to evaluating the compliance impact for the geographical coverage of the cases; the prominence or importance of the taxpayers; and the professions, industries or financial activities emphasized. Emphasis should also be given to the effectiveness of case management for the quality or potential of open investigations, and the grade level and assignment practices for the cases."

Its guidance for plan year 1977 did not provide any information for audits of the program.

In general, the auditors-in-charge directed their attention to similar aspects of the program, but the procedures and tests varied. Many audits included a review of case management, balanced coverage among civil and criminal aspects of tax enforcement and types of violations, and consistent and equitable taxpayer treatment. However, auditors in one region reviewed only balancing of civil and criminal aspects of tax enforcement in the two districts they visited. Auditors in another region reviewed only case management practices in one of three districts they visited. Sampling procedures also varied among the districts as did the number of cases sampled. For example, auditors in one district reviewed all 168 open cases. In two other districts, the auditors reviewed 6 of 61 and 6 of 38 open cases.

Through September 1977, the staff had completed 16 reports, and with few exceptions, management determined that the reports had no implications beyond the district visited and required no corrective action beyond that level. Generally, the weaknesses disclosed in the audits related primarily to the failure of district intelligence personnel to follow IRS policies and procedures. The 16 reports identified 31 weaknesses, and management determined that 28 weaknesses had no implications beyond one district.

However, the weaknesses were sometimes common to several districts and regions. For example, the auditors identified a lack of documentation to support group managers' workload reviews. They reported this to 3 district directors in 3 regions between November 1976 and June 1977. In one region, the regional commissioner took corrective action and in the other two, the district directors took corrective action.

All 20 audits were directed primarily at assessing the compliance with IRS policies and procedures. The audits did not assess the degree of compliance throughout IRS for the benefit of national and other management levels. Instead, the auditors directed their reports to district management.

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

NOV . . 1978

Mr. Allen R. Voss
Director, General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Voss:

This is in response to your draft report entitled "IRS Inspection Service Functions -- Audit and Security: Management Can Further Enhance Their Usefulness." The Service is in basic agreement with most of your recommendations.

The issue is essentially one of making balanced and efficient use of scarce resources. By way of background, Inspection was established in 1952 in the wake of scandals which called into question the integrity of the entire Revenue Service organization and, by extension, the system of taxation the Service was chartered to administer. An independent review and investigative process remains essential to the integrity of the Service. The allocation of Inspection's limited resources must recognize the importance of monitoring by Inspection of the high standard of integrity which must be maintained throughout the Service as well as a greater emphasis on more coordinated, broad audits for top management.

Internal Audit Recommendations

Recommendation I: Modify the IRS policy requiring annual audits of all major field activities and establish an audit goal which encourages effective use of internal audit resources to serve all management levels.

I agree that the formulation of the policy statement should be improved. Additionally, we will expand our use of Internal Audit resources to conduct broader-based audits to the extent we can do so without compromising the independent review of field operations necessary to local and regional management. I do not believe that the policy statement has, in practice, limited Internal Audit's ability to serve all levels of management.

Department of the Treasury Internal Revenue Service

Mr. Allen R. Voss

Recommendation II: Direct the Assistant Commissioner (Inspection) and the Director of the Internal Audit Division to revise audit plans and procedures to:

A. More realistically recognize the number of auditors available to execute the plans.

We do realistically recognize available audit resources in the formulation of Internal Audit's annual plan. There is a substantial difference between our annual planning process and the formulation of the Long Range Plan.

The Long Range Plan (LRP) of the IRS establishes the goals of the organization for the next five years and forms the basis of its budget submission to Treasury and the Office of Management and Budget. It is not based on the resources available but, rather, establishes the Service's areas of concern and emphasis and estimates the number of staff years that would be required to realize the total plan over the five-year period.

Internal Audit also prepares, separate and apart from the LRP, an annual audit plan which is based on the needs of IRS and the available Internal Audit staff resources. For example, the 1977 Annual Audit Plan allocated 286 staff years to nine Internal Audit program areas. The Division accomplished 282 staff years or 98.6 percent of our plan, which indicates that the Service does match plans and resources closely.

B. Incorporate fully into the plans, all major IRS programs and activities, including those at the national level.

I agree with the recommendation. National Office activities have been included in Internal Audit's annual plans and were incorporated into the Long Range Plan in June 1978. The fact that these activities did not appear in the Long Range Plan until June, but were covered under a separate audit area, has led to some misunderstanding. Many National Office functions have been subject to audit coverage. For example, activities in the organizations of the Assistant Commissioners (Technical), (Planning and Research) and (Data Services) have been subject to Internal Audit's reviews within the last three years.

Mr. Allen R. Voss

C. Depict more specifically and document the relative need for the audit attention to be given to each program and operation next year.

I have asked Internal Audit to review the specified documentation practices and where appropriate make the necessary changes to conform with this recommendation. Present documentation practices are quite extensive but an effort toward improvement will be made.

D. Better serve top management through centrally planned, directed and controlled audits and reports which assess programs and operations agency-wide.

I agree that IRS needs more centrally planned, directed and controlled audits and reports which make agency-wide assessments and, as your report notes, we have in recent years been moving in that direction. Their extent becomes a matter of degree and judgment to insure that other essential functions of Internal Audit are not impaired. We will continue our efforts to strike an appropriate balance utilizing scarce Internal Audit resources to the best advantage of the Service.

Recommendation III: Clarify the role and responsibilities of regional analysts which serve subordinate management versus the broader independent role of the internal audit staff which serves primarily top management so as to avoid any misinterpretations or confusion.

I concur in this recommendation and the Assistant Commissioners will make the appropriate additions to existing guidelines on the subject. Where quidelines are insufficient, they will be developed.

Internal Security Recommendations

Recommendation I: Determine, in conjunction with CSC, the extent to which the Commission can assume additional responsibility for the personnel investigations presently being conducted by IRS criminal investigators and, to the extent possible, transfer the responsibility to CSC.

Mr. Allen R. Voss

The IRS will explore the expansion of the role of the Civil Service Commission in personnel investigations where the National Agency Check and Inquiry is utilized. Beyond this, we believe that our requirements in regard to timeliness, quality and scope of investigation (particularly in the area of full field investigations with heavy emphasis on financial affairs) argue against the use of investigators other than those trained and employed by IRS.

Recommendation II: Provide general investigators or other appropriate personnel to conduct noncriminal investigations to the extent they cannot be conducted by CSC. These changes should be made over time and, overall, should result in at least 50 percent of the internal security workload being assigned to other than criminal investigators.

I concur that Internal Security workload and case assignment practices need to be reviewed to ensure that Criminal Investigators perform, to the maximum extent possible, criminal work. We will reexamine our work throughout Internal Security with the view to holding to a minimum the noncriminal investigative work performed by criminal investigators and, whenever practicable, assigning noncriminal matters to other appropriate personnel.

Recommendation III: Establish criteria delineating matters to be investigated by the Internal Security Division and assign responsibility for handling essentially administrative matters to line management.

I agree with this recommendation. Inspection is conducting more critical scrutiny of the complaints on which it expends its resources. Efforts are currently under way to delineate criteria for the administrative items that management should handle. Any criteria developed, however, will not foreclose the option, where the case requires it, of soliciting Internal Security's assistance on an investigation. As is now the case, the decision that the assistance is unnecessary can always be made even after Internal Security has reviewed the situation.

Mr. Allen R. Voss

Recommendation IV: Review the investigator and caseload relationships among the regions and assign positions to provide a reasonable investigator-caseload balance.

I concur in the recommendation and recognize that in the past this has been a shortcoming. The Internal Security Division is attempting to balance its resources to the workload by using data from the management information system, by applying a new approach to the budget process, and by establishing a case assignment guide. These are on-going long term projects and I feel their successful implementation will avoid such imbalances in the future.

Recommendation V: Establish uniform standards to monitor the timeliness with which investigations are being completed.

The Internal Security Division will review the time standards currently used to monitor timeliness of the investigation process and will endeavor to strengthen managerial controls over the timeliness of case work. Where uniform standards can be employed, we will develop and use them.

I appreciate the opportunity to comment on this report.

With kind regards,

Sincerely,

Jerome Kurtz

(268047)

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