

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

September 20, 2016

The Honorable John Koskinen
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224-0001

Dear Commissioner Koskinen:

Last week the Government Accountability Office (GAO) issued yet another report finding that the Internal Revenue Service (IRS) does not have protections in place to ensure that taxpayers are treated fairly when being selected for audits.¹ This is the sixth report in a series of nonpartisan reviews demonstrating the IRS's lack of taxpayer protections and safeguards. The IRS has an extremely important mission to apply the tax code "with integrity and fairness to all."² Unfortunately, these reports show that the IRS falls short of adequate safeguards to ensure fairness to taxpayers.

This latest report focuses on IRS's audit procedures in its Field Collection program. GAO found numerous weaknesses in how the IRS selected cases for audit, including insufficient documentation. GAO also found that the Field Collection program's objections were not clearly defined and communicated, meaning that employees had "different interpretations of program objectives and the role of fairness."³ GAO issued five recommendations to the IRS, including that the IRS should develop and document objectives in a clear and measurable way, particularly for terms including fairness.

GAO's report is part of an ongoing review requested by the Committee on Ways and Means. After the Committee learned that the IRS had targeted conservative groups applying for tax-exempt status, it was concerned that this targeting could happen in other divisions within the agency, particularly in audit selection. Therefore, the Committee asked GAO to review each business unit and audit selection process within the IRS to ensure that audits are selected fairly and without bias. The results have been disappointing.

¹ Government Accountability Office (GAO), "IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection," September 13, 2016.

² Internal Revenue Service, "The Agency, its Mission and Statutory Authority," accessed September 9, 2016.

³ GAO, "IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection."

In July 2015, GAO released its first report,⁴ which focused on the Tax Exempt and Government Organizations unit within the IRS. GAO found numerous weaknesses that undermine the integrity of tax administration, including failure to monitor and document audit selection decisions and a lack of supervision of audit selection staff. Because of these weaknesses, GAO concluded that there was risk that the IRS division “could select organizations for examination in an unfair manner – for example, based on an organization’s religious, educational, political, or other views.” GAO also made ten recommendations to address the problems, and the IRS agreed with them.

In July and September 2015, GAO made nine more recommendations in two reports that reviewed the IRS’s automated audit processes, including the Inventory Delivery System⁵ and the Automated Collection System.⁶ GAO again found problems with the IRS’s processes, particularly in defining fairness. GAO noted that “the lack of clearly articulated objectives undercuts the effectiveness of IRS efforts to assess risks.”⁷

In January 2016, GAO released two more reports⁸ focusing on audit selection within the Small Business and Self Employed unit and the Wage and Investment unit. GAO had similar findings to the first report, including lack of documentation and safeguards to ensure fairness. GAO wrote that the “lack of strong control procedures increases the risk that the audit program’s mission of fair and equitable application of the tax laws will not be achieved.” Once again, GAO made recommendations, including seven recommendations for the Small Business unit and seven recommendations to the Wage and Investment unit. IRS once again agreed with the recommendations.⁹

Taxpayers should know that when they interact with the IRS, they are being treated fairly. Unfortunately, the IRS has not taken sufficient steps to prevent targeting Americans based on their personal beliefs. GAO’s reports clearly show that stronger internal controls, improved processes, and continuous oversight are essential to restore taxpayers’ trust in the IRS and ensure that the tax code is administered in an unbiased way for all Americans.

To date, GAO has made 38 recommendations to the IRS to improve its audit selection procedures. Given the importance of this issue and the IRS’s past failures to treat taxpayers fairly, we expect that the IRS should implement these recommendations as soon as possible. Therefore, we write to ask about the status of the IRS’s implementation of GAO’s recommendations.

⁴ GAO, “Internal Controls for Exempt Organization Selection Should Be Strengthened,” July 2015.

⁵ GAO, “Collection Process Is Largely Automated, but Lacks Adequate Internal Controls,” July 2015.

⁶ GAO, “Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission, September 2015.

⁷ *Id.*

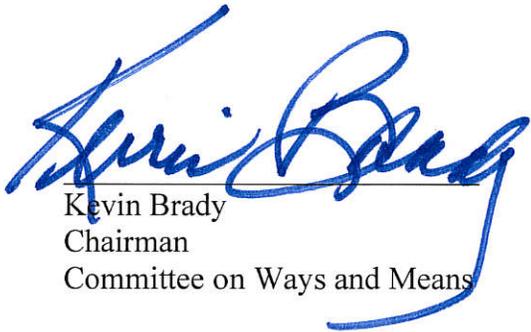
⁸ GAO, “Certain Internal Controls for Audits in the Small Business and Self-Employed Division Should Be Strengthened,” January 2016, and “Wage and Investment Division Should Define Audit Objectives and Refine Other Internal Controls,” January 2016.

⁹ Ways and Means, Chairmen Call on IRS to Quickly Implement GAO Recommendations to Protect Taxpayers,” January 13, 2016.

- 1) Has the IRS implemented the 38 recommendations GAO has made concerning audit selection processes? If yes, please provide the date the recommendations were fully implemented. If no, please explain why not, and provide a timeline for when the IRS plans to implement it.
- 2) If the IRS has not implemented all recommendations, please provide a briefing for Committee staff no later than October 4, 2016.

Thank you for your attention to this important matter. If you have any questions, please contact Tegan Gelfand of the Committee on Ways and Means staff at (202) 225-9263.

Sincerely,



Kevin Brady
Chairman
Committee on Ways and Means



Peter Roskam
Chairman
Subcommittee on Oversight

cc:

Sander Levin, Ranking Member, Committee on Ways and Means