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TAXES 7/24/2015

### **Watchdog Finds Deficient IRS Controls Leave Room For Targeting**

Should you be audited based on your religion? Your political beliefs? How about which charities you support? Plainly, the answer to all these questions is no. Yet there are still questions how our tax system measures up, especially when it comes to the still-in-the-news topic of exempt organization targeting. In his recent appearance on The Daily Show, President Obama still denies any targeting.

For more than two years, we have seen a long list of excuses with no one taking responsibility. There was no targeting, we were told. Well, if there was, it was organic, like that spontaneous demonstration from an internet video in Benghazi. Any targeting was not directed, it was those rogue IRS employees in Cincinnati who did it entirely on their own.

Besides, emails show there was no directive about targeting. Sorry, it turns out some of our emails are missing. Hey, hard drives crash. We recycle them too. Liberals got targeted too. There's no smidgen of corruption. Cash bonuses? Those are unrelated. And the latest in the long line of excuses: it was all the Republicans' fault.



Actually it turns out that the [U.S. Government Accountability Office](#)—the GAO—reports that the part of the IRS that reviews tax exemptions is really at risk for targeting activities. The GAO is an independent, nonpartisan agency working for Congress, often called the congressional watchdog. The GAO, headed by the Comptroller General of the United States, investigates how the federal government spends taxpayer dollars.

In a newly released study, the GAO says that [internal controls for exempt organization audit selection should be strengthened](#). To identify exempt organizations for possible examination, the IRS uses a variety of information sources: for example, IRS receives referrals of exempt organization noncompliance from third parties, such as the public, and other parts of IRS.

The [mission](#) of this part of the IRS is applying the tax law with integrity and fairness to all. There is an Internal Revenue Manual (IRM) that serves as the IRS's primary, official source of instructions. Workers at the IRS are only supposed to deviate from it if they have executive management approval.

But it turns out the GAO discovered risks that organizations can be picked for examination in an unfair manner. Getting scrutinized can even be based on an organization's religious, educational, political, or other views. Does that sound familiar? Perhaps it is a coincidence?

The GAO report gives examples of what it called 'internal control deficiencies.' For example, IRS workers could deviate from prescribed IRS procedures for some selection processes without getting the executive management approval that is required. The GAO found that procedures for some processes—such as applying selection criteria to organizations under consideration for review—are not included in the IRM, as required by IRS policy.

As a result, IRS workers are not required to obtain executive management approval to deviate from these procedures. The GAO concludes that this increases the risk of unfair selection of organizations' returns for examination. The GAO also noted that the management of this part of the IRS—and historically, that would include Lois Lerner—does not consistently monitor selection decisions.

The GAO said the IRS does not consistently monitor examinations and database files to ensure that selection decisions are documented and approved. GAO's review of examination files found that approval of some selection decisions was not documented, as required by IRS procedures.

The GAO report examined cases where IRS staff initially selected an organization for examination, but ultimately decided not to perform the examination. In 12% to 34% of those cases were missing the indication of management approval of the final decision not to examine, as required in the Internal Revenue Manual. In general, the GAO report also said the IRS management for this part of the IRS has not been sufficiently monitoring its staff and procedures to make sure the required approvals were obtained.

The GAO recommended that the IRS take ten actions to improve selection criteria. GAO wants to see all selection procedures included in the Internal Revenue Manual. That way the IRS executive management will have approval over who gets selected and why. The IRS has already generally agreed with the recommendations.

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