Improvements Are Needed to Ensure Compliance With the Freedom of Information Act

March 2004

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This report has cleared the Treasury Inspector General For Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.
March 30, 2004

MEMORANDUM FOR CHIEF, COMMUNICATIONS AND LIAISON

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed to Ensure Compliance With the Freedom of Information Act (Audit # 200340054)

This report presents the results of our review of compliance with the Freedom of Information Act (FOIA). The overall objective of this review was to determine if the Internal Revenue Service (IRS) improperly withheld information requested by taxpayers in writing, based on FOIA exemption (b)(3), in conjunction with Internal Revenue Code (I.R.C.) Section (§) 6103, and/or FOIA exemption (b)(7), or by replying that the requested records were not available. Under § 1102 (d)(3)(A) of the IRS Restructuring and Reform Act of 1998, the Treasury Inspector General for Tax Administration is required to conduct periodic audits of a statistically valid sample of the total number of determinations made by the IRS to deny written requests to disclose information to taxpayers on the basis of I.R.C. § 6103 and/or FOIA exemption (b)(7).

In summary, in the cases we sampled, the IRS improperly withheld information from requestors in 4.4 percent of the denied, partially denied, and no records available FOIA and Privacy Act of 1974 (PA) requests. In addition, the IRS improperly withheld information from requestors in 14.6 percent of the I.R.C. § 6103 requests sampled where information was denied or requestors were told that the records did not exist. This represents a larger percentage of improper withholdings than reported in our Fiscal

Year 2003 report, when the IRS improperly withheld information in 9.3 percent of the I.R.C. § 6103 requests.

Disclosure managers and specialists had not conducted the required review in 94 percent of the error cases and in 85 percent of all sampled cases, despite the fact that in April 2002, the Office of Disclosure began requiring Disclosure managers or their specialists to review all FOIA, PA, and I.R.C. § 6103 cases in which requested information was not provided and to document their review in the case notes. In addition, the use of an IRS form letter for certain I.R.C. § 6103 requestors may be the cause for a number of the recorded errors.

We recommended that the Chief, Communications and Liaison, take steps to ensure that required reviews of all FOIA, PA, and I.R.C. § 6103 cases in which requested information was not provided are conducted and documented, or take alternative actions to improve compliance.

Management’s Response: IRS management agreed with our recommendation. When information is to be fully or partially denied, Disclosure specialists will document in the Electronic Disclosure Information Management System history notes that a case has been forwarded to the approving official for review and signature. The Director of Disclosure will also issue a guidance memorandum to the Disclosure Officers advising them of the corrective actions to be taken. Management’s complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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### Background

Section (§) 1102 (d)(3)(A) of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998\(^1\) requires the Treasury Inspector General for Tax Administration (TIGTA) to conduct periodic audits of a statistically valid sample of the total number of IRS determinations to deny written requests to disclose information to taxpayers on the basis of Internal Revenue Code (I.R.C.) § 6103\(^2\) and/or Freedom of Information Act (FOIA) exemption (b)(7).\(^3\)

The FOIA requires records of the Federal Government to be made available to the public upon request, unless specifically exempt. FOIA exemption (b)(3)\(^4\) restricts the release of records specifically exempt from disclosure by statute (e.g., under I.R.C. § 6103). In turn, I.R.C. § 6103 controls the release of tax returns and return information and provides a mechanism for taxpayers to request tax returns and return information or request that it be disclosed to their designee. FOIA exemption (b)(7) restricts the release of records or information compiled for law enforcement purposes.

The Privacy Act of 1974 (PA)\(^5\) contains a provision that prevents Federal Government agencies from relying on any exemption in the PA to withhold records that are otherwise available to an individual under the FOIA. We included PA cases in the sampled population, but only those partially or fully denied under FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7), to determine if the IRS properly withheld the requested information.

Within the IRS, the Office of Governmental Liaison and Disclosure, through its Office of Disclosure, is responsible for ensuring that the IRS complies with the FOIA, PA, and I.R.C. § 6103 requirements and responds within the statutory time periods for FOIA and PA requests. As such,

the Office of Disclosure provides to field offices national oversight and guidance on procedural and policy matters and related training.

The Disclosure offices process almost all the FOIA and PA requests received by the IRS. Written requests for information under I.R.C. § 6103 may be processed by either the individual Disclosure offices or other IRS offices having custody of the requested records.

Of the 25,932 FOIA and PA requests processed through the Disclosure offices between January 1, 2003, and June 30, 2003, the Disclosure offices denied or partially denied 1,632 FOIA requests (6.3 percent) and replied that records were not available for 6,764 FOIA requests (26.1 percent). Of the 18,677 I.R.C. § 6103 requests processed during that same time period, the Disclosure offices denied information or told requestors that records were not available for an estimated 7,597 requests (40.7 percent). The remaining requests were either granted in full, referred to the agency where the records originated, withdrawn by the requestor, or not provided because the requestor did not meet the criteria in Treasury Regulation § 601.702 or for some other miscellaneous reason. The total number of requests received represents a 66 percent increase in FOIA requests and an 8 percent increase in the I.R.C. § 6103 requests over the same period in 2002.

The FOIA, PA, and I.R.C. § 6103 requests received by the Disclosure offices are controlled on the Electronic Disclosure Information Management System (E-DIMS). The IRS is not required to track I.R.C. § 6103 requests for return or return information from taxpayers or individuals with a material interest (such as a spouse, child, estate, etc.). Nevertheless, the IRS has elected to track all I.R.C. § 6103 requests received by the Disclosure offices, but requests received by other IRS offices are not controlled on the

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6 This number was estimated by TIGTA based on the ratio of cases in our sample where requestors were denied information or told that records were not available (see Appendix I).
E-DIMS or otherwise inventoried. Therefore, the volume of I.R.C. § 6103 requests received outside of the Disclosure offices is unknown. As a result, we can statistically sample only the I.R.C. § 6103 requests processed directly by the Disclosure offices and tracked on the E-DIMS. The universe of I.R.C. § 6103 requests closed by other IRS offices cannot be determined or statistically sampled.

The Office of Disclosure has begun an initiative to design an updated case tracking system. The new system, currently under development, is intended to provide additional data for better managerial overview of caseloads and to help the Office of Disclosure distribute work geographically, improving its ability to work cases in a more effective and efficient manner.

Except for the limitations described above, this audit was conducted in accordance with Government Auditing Standards from September 2003 through January 2004. The audit was performed at the Office of Governmental Liaison and Disclosure in Washington, D.C. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

In 4 (4.4 percent) of the 91 FOIA and PA cases sampled and 14 (14.6 percent) of the 96 I.R.C. § 6103 cases sampled, the IRS did not provide complete responses and improperly withheld requested information. Projected to the population of 25,932 FOIA and PA cases and 18,677 I.R.C. § 6103 cases closed by the Disclosure offices from January 1, 2003, to June 30, 2003, we estimate there were 369 FOIA and PA cases and 1,108 I.R.C. § 6103 cases in which the Disclosure offices did not provide available tax records when requested by taxpayers.\(^8\) As a result, while the extent of nondisclosure varied, the taxpayers’ rights were potentially violated and the IRS could risk incurring costs associated with administrative appeals and civil litigation initiated by those requestors improperly denied information.

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\(^8\) See Appendix I for an explanation of our sampling methodology and Appendix IV for a description of outcome measures.
Chart 1 shows the percentage of improper withholdings for FOIA/PA and I.R.C. § 6103 identified during the last five audits (Fiscal Years (FY) 2000–2004).


The IRS had a lower percentage of improper FOIA and PA withholdings during the period from which our sample cases were drawn (January 1, 2003, through June 30, 2003) than in any prior period audited. However, the rate of improper withholdings for I.R.C. § 6103 requests showed a significant increase over the level reported in FY 2003.

We analyzed the 4 FOIA and PA cases and the 14 I.R.C. § 6103 requests with improper withholdings from our samples and determined that the types of information being improperly withheld have remained relatively constant over all 5 audit periods. The most common types of information withheld were miscellaneous IRS forms and documents associated with tax transcript information.

Disclosure personnel errors occurred principally because caseworkers did not conduct complete research to identify the information available. In over 80 percent of the error cases, additional information should have been identified through more thorough research of the Integrated Data
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Retrieval System (IDRS)\(^9\) to identify wage and earning information and older tax information. The IDRS is the computer system the caseworkers principally use to identify available taxpayer records. The remaining errors were due to simple oversights of requested information or to an improper determination that a taxpayer’s Power of Attorney authorization was not valid.

Disclosure managers and specialists had not conducted the required review in 17 (94 percent) of the 18 error cases. In April 2002, the Office of Disclosure began requiring Disclosure managers or their specialists to review all FOIA, PA, and I.R.C. § 6103 cases in which requested information was not provided and to document their review in the case notes. In 159 (85 percent) of the 187 total cases sampled, neither a Disclosure manager nor a specialist documented a review in the case notes. Without this managerial review, there is no quality control in place to ensure that the IRS provided a complete response and that requested information was not improperly withheld.

In 8 of the 14 I.R.C. § 6103 error cases, the caseworkers did not address all the items on the request. Certain requestors, such as parole officers, use various self-designed form letters for their information requests. These letters usually provide a list of items being requested. However, in these eight instances, not all of the listed items on the requestor’s form letter were provided. The Acting Director, Office of Government Liaison and Disclosure, stated that this might have occurred because of caseworker oversight or because of informal agreements between the requestors and the Disclosure offices to provide only certain information on the list.

In response to prior TIGTA reports, the Office of Disclosure developed an IDRS training course and planned to do employee skill assessments. However, due to budgetary restrictions, the Office of Disclosure has not been able to fund the IDRS training. Also, employee skill assessments have not been performed. Without IDRS training and skill

\(^9\) The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer’s account records.
assessments, employees may not be able to correctly respond to some requests and management may be hindered in identifying employee needs.

The IRS needs to implement the corrective actions proposed in response to previous TIGTA audit reports to ensure continued compliance with the FOIA, PA, and I.R.C. § 6103 statutes. In addition, the Office of Disclosure needs to ensure that managerial reviews are conducted.

Recommendation

1. The Chief, Communications and Liaison, should:
   (a) take steps to ensure that Disclosure managers and specialists conduct the required reviews of all FOIA, PA, and I.R.C. § 6103 cases in which requested information was not provided and document their review in the case notes, or (b) take alternative actions to improve compliance.

   Management’s Response: When information is to be fully or partially denied, Disclosure specialists will document in the E-DIMS history notes that a case has been forwarded to the approving official for review and signature. The Director of Disclosure will issue a guidance memorandum to the Disclosure Officers advising them of the corrective actions to be taken.
Detailed Objective, Scope, and Methodology

The objective of this audit was to determine if the Internal Revenue Service (IRS) improperly withheld information requested by taxpayers in writing, based on the Freedom of Information Act (FOIA) exemption (b)(3),1 in conjunction with the Internal Revenue Code (I.R.C.) Section (§) 6103,2 and/or the FOIA exemption (b)(7)3 or by replying that the requested records were not available. To accomplish this objective, we:

I. Determined if the IRS’ Office of Disclosure properly adhered to statutory FOIA and Privacy Act of 1974 (PA)4 requirements, as well as procedural requirements.

   A. Identified 8,396 national FOIA and PA cases that were closed as partially or fully denied based on the FOIA exemption (b)(3), in conjunction with the I.R.C. § 6103, and/or the FOIA exemption (b)(7), or where requestors were told that records were not available during the period January 1, 2003, through June 30, 2003.

      1. Obtained an extract from the Electronic Disclosure Information Management System (E-DIMS) for the period January 1, 2003, through June 30, 2003, and identified all FOIA and PA cases closed as denied or partially denied based on the FOIA exemption (b)(3) in conjunction with IRC § 6103, the FOIA exemption (b)(7), or where requestors were told that records were not available.

      2. Performed limited tests to verify if the E-DIMS extract included the specified time period and information requirements.

   B. Designed an attribute sample based on a 90 percent confidence level, an expected error rate of 9.16 percent, and an estimated precision of ± 5 percent. This sampling methodology was chosen so we could project the number of cases with improper withholdings to the universe of cases that were partially or fully denied based on the FOIA exemption (b)(3), in conjunction with the I.R.C. § 6103, and/or the FOIA exemption (b)(7), or where requestors were told that records were not available. The sampling plan and methodology are the same as those used in prior audits.

   C. Randomly sampled 91 of the 8,396 FOIA and PA cases that were partially or fully denied based on the FOIA exemption (b)(3), in conjunction with the I.R.C. § 6103,

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and/or the FOIA exemption (b)(7), or where requestors were told that records were not available.

D. Reviewed the 91 sampled cases and determined if the decision to withhold information was appropriate, the record search was adequate, and the determination was made in a timely manner. Reviewed legal case precedents, as appropriate.

E. Analyzed audit results from the last 4 years and determined if there were any common causes for the improper withholdings of FOIA and PA requests.

F. Projected the number of improper withholdings in the range of 4 to 801 (0 percent to 9.5 percent) FOIA and PA cases that were partially or fully denied based on the FOIA exemption (b)(3), in conjunction with the I.R.C. § 6103, and/or the FOIA exemption (b)(7), or where requestors were told that records were not available. The projection was made using attribute sampling, with a 90 percent confidence level and an error rate of 4.4 percent. As a result, the actual precision factor was 3.54 percent.

G. Discussed all exception cases with the Office of Disclosure staff and obtained Treasury Inspector General for Tax Administration (TIGTA) Counsel opinions, where appropriate.

II. Determined if the Disclosure offices were adhering to legal requirements when denying written requests received from taxpayers under I.R.C. § 6103:

A. Obtained a national extract from the E-DIMS and identified 18,677 I.R.C. § 6103 (c) and (e) requests received in the Disclosure offices from taxpayers or their designees that were closed during the period January 1, 2003, through June 30, 2003. Limited tests were performed to determine if the E-DIMS extract included the specified time period and information requirements.

B. Designed an attribute sample based on a 90 percent confidence level, an expected error rate of 9.4 percent, and an estimated precision of ± 5 percent. This sampling methodology was chosen because it would allow us to project the number of cases with improper withholdings to the universe of closed I.R.C. § 6103 (c) and (e) requests where information was partially or fully denied, or where requestors were told that records were not available.

C. Initially randomly sampled 325 of the 18,677 I.R.C. § 6103 (c) and (e) closed cases. Reviewed only the first 236 cases sampled to obtain the required number of cases to statistically project our results.

   I. Determined that 96 (40.7 percent) of the 236 randomly sampled and reviewed cases included instances where information was partially or fully denied, or requestors were told that records were not available.
2. Based on an initial analysis of the 236 randomly sampled cases, we estimated that the population of 18,677 closed I.R.C. § 6103 (c) and (e) requests contained 7,597 requests where information was partially or fully denied, or requestors were told that records were not available.

D. Reviewed the 96 cases where information was partially or fully denied, or requestors were told that records were not available and determined if the decision to withhold the information based on the I.R.C. § 6103 was appropriate.

E. Analyzed TIGTA audit results from the last 4 years and determined if there were any common causes for the improper withholdings of I.R.C. § 6103 requests.

F. Projected the number of improper withholdings in the range of 639 to 1,577 (8.4 percent to 20.8 percent) for the I.R.C. § 6103 (c) and (e) requests where information was partially or fully denied, or requestors were told that records were not available. The projection was made using attribute sampling, with a 90 percent confidence level and an error rate of 14.6 percent. As a result, the actual precision factor was 6.17 percent.
Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)
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Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; 369 responses to Freedom of Information Act (FOIA)\(^1\) or Privacy Act (PA)\(^2\) requests where information was improperly withheld (see page 3).

Methodology Used to Measure the Reported Benefit:

The attribute sample was randomly selected from the universe of FOIA and PA requests that were closed nationally during the period January 1, 2003, through June 30, 2003, as 1) a full or partial denial with either the FOIA exemption (b)(3), in conjunction with the Internal Revenue Code (I.R.C.) § 6103,\(^3\) and/or the FOIA exemption (b)(7) cited as one of the reasons for withholding information; or 2) where requestors were told that records were not available.

We arrived at the estimate by:

- Multiplying the number of requests closed as partially or fully denied based on the FOIA exemption (b)(3), in conjunction with the I.R.C. § 6103, and/or the FOIA exemption (b)(7), or where requestors were told that records were not available, by the error rate of cases reviewed. A case was considered an “error” if a Disclosure office improperly withheld information that was available and could have been released under the FOIA and PA.

\[8,396 \times 4.395\text{ percent} = 369\text{ cases.}\]

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; 1,108 responses to I.R.C § 6103 requests where information was improperly withheld (see page 3).

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\(^3\) I.R.C. § 6103 (2001).
\(^4\) This figure was rounded to 4.4 percent for report presentation purposes; however, the actual calculation was performed as shown.
Methodology Used to Measure the Reported Benefit:

The attribute sample was randomly selected from the universe of the I.R.C. § 6103 (c) and (e) requests that were closed nationally by the Disclosure offices during the period January 1, 2003, through June 30, 2003. The Disclosure offices are not required to input a disposition code showing how I.R.C. § 6103 cases are closed (granted, denied, etc.). Therefore, the majority of these cases did not include a disposition code.

We estimated the size of the universe by:

- Identifying 18,677 closed I.R.C. § 6103 (c) and (e) requests.
- Randomly selecting for review 236 of these cases to estimate the universe of denied, partially denied, or no requested record available cases closed during the period January 1, 2003, through June 30, 2003.
- Multiplying the total number of closed requests in the audit universe by the percentage of cases in the sample where information was partially or fully denied or taxpayers were told that records did not exist (96 of 236 or 40.7 percent).
  
  \[ 18,677 \times 40.678\% = 7,597 \text{ cases}. \]
- Multiplying the estimated universe of cases where information was partially or fully denied or taxpayers were told that records did not exist, by the error rate for the cases reviewed (14.6 percent). A case was considered an “error” if the Disclosure office improperly withheld information from the requestor.

  \[ 7,597 \times 14.583\% = 1,108 \text{ cases}. \]

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5 This figure was rounded to 40.7 percent for report presentation purposes; however, the actual calculation was performed as shown.

6 This figure was rounded to 14.6 percent for report presentation purposes; however, the actual calculation was performed as shown.
MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Frank Keith  
Chief, Communications and Liaison

SUBJECT: Draft Audit Report – Improvements Are Needed to Ensure Compliance With the Freedom of Information Act (Audit #200340054)

This will acknowledge receipt of your report presenting the results of your Freedom of Information Act (FOIA)/Privacy Act (PA) and IRC §6103 review. I want to thank you and your staff for their report of findings and the time and effort taken to conduct the review and compile the report.

The report identifies one recommendation to ensure that FOIA, PA, and IRC 6103 replies provide requesters with all items they are legally entitled to receive.

We concur with this recommendation and propose the following to ensure compliance:

- Specialists assigned FOIA/PA cases where information is to be fully or partially denied will document in the EDIMS history notes that a case has been forwarded to the approving official for review and signature.

I expect that the above action will improve our compliance with response requirements prior to your next review. If you have any questions, please have a member of your staff contact Robert D. Uhar, Jr., Director, Disclosure at (202) 622-5326.
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The Office of Governmental Liaison and Disclosure transitioned from the Chief, Communications and Liaison to the Commissioner, Small Business/Self-Employed on March 8, 2004.

RECOMMENDATION 1
The Chief, Communications and Liaison should:
(a) take steps to ensure that Disclosure managers and specialists conduct the required reviews of all FOIA, PA and I.R.C. 6103 cases in which requested information was not provided and document their review in the case notes, or
(b) take alternative actions to improve compliance.

CORRECTIVE ACTION
Disclosure specialists assigned FOIA, PA and IRC §6103 cases where information is to be fully or partially denied will document in the EDIMS history notes that a case has been forwarded to the approving official for review and signature. The Director of Disclosure will issue a guidance memorandum to the GLD Disclosure Officers advising them of the corrective actions to be taken and documented.

IMPLEMENTATION DATE
The Director of Disclosure memorandum will be issued by March 31, 2004. This FOIA guidance will be formally included in the next IRM revision in accordance with the SB/SE guidelines.

RESPONSIBLE OFFICIAL
Director, Disclosure, Small Business/Self Employed Division.

CORRECTIVE ACTION MONITORING PLAN
The GLD Balanced Measures Review Team will incorporate this guidance into the semi-annual review process of FOIA, PA and IRC 6103 cases. The Balanced Measures Review Team will include this as a Completeness standard for all partial and full denial cases.