Compliance With Freedom of Information Act Requirements Has Increased

August 31, 2006
Reference Number: 2006-10-129

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.

Redaction Legend:
1 = Tax Return/Return Information
This report presents the results of our review of the Internal Revenue Service’s (IRS) compliance with Freedom of Information Act (FOIA) requirements. The overall objective of this review was to determine whether the IRS improperly withheld information requested by taxpayers in writing, based on FOIA exemption (b)(3), in conjunction with Internal Revenue Code Section (I.R.C. §) 6103, and/or FOIA exemption (b)(7), or by replying the requested records were not available. Under IRS Restructuring and Reform Act of 1998 § 1102 (d)(3)(A), 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 or FOIA exemption (b)(7). We also are required to include the results of this audit in one of our Semiannual Reports to Congress.

**Synopsis**

The FOIA, the Privacy Act of 1974, and I.R.C. § 6103 govern the release of Federal Government records to the public. The FOIA requires that records be made available to the...
public upon request unless specifically exempt. The Privacy Act contains a provision that prevents Federal Government agencies from relying on any exemption in the Privacy Act to withhold records that are otherwise available to an individual under the FOIA. I.R.C. § 6103 protects the confidentiality of taxpayers’ returns and return information, while providing a means for taxpayers to request their specific documents and information or request that it be disclosed to their designees.

In 6.1 percent (5 of 82 cases) of the FOIA and Privacy Act cases we sampled, the IRS did not provide complete responses and improperly withheld information from requestors. This represents a lower percentage of improper withholdings than reported in our Fiscal Year 2005 audit report\(^5\) (7.1 percent). In addition, in 2.3 percent (2 of 87 cases) of the I.R.C. § 6103 cases we sampled, the IRS improperly withheld information from requestors. This represents a slightly lower percentage of I.R.C. § 6103 cases than the 3.1 percent of improper withholdings we reported last year.

The percentage of untimely responses to FOIA and Privacy Act requests also decreased to 7.3 percent (6 of 82 cases) in this year’s sample, as compared with the untimely rates in our previous audit reports. In our previous 6 years’ audits, the percentages of untimely responses ranged from 13.1 percent to 43.5 percent.

**Response**

We made no specific recommendations during this audit since recommendations made in previous Treasury Inspector General for Tax Administration audit reports are still valid for the issues reported. However, IRS management reviewed a discussion draft of this report and agreed with the facts, findings, and outcome measures presented.

Copies of this report are also being sent to the IRS managers affected by the report findings. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## Abbreviations

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<tr>
<td>E-DIMS</td>
<td>Electronic-Disclosure Information Management System</td>
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<td>FOIA</td>
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<td>FY</td>
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Compliance With Freedom of Information Act Requirements Has Increased

Background

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 determinations made by the Internal Revenue Service to deny written requests to disclose information to taxpayers on the basis of section 6103\(^1\) of this title\(^3\) or section 552(b)(7) of title 5, United States Code [U.S.C.]\(^4\).

The three primary laws that govern the types of requests for information reviewed in this audit are:

The Freedom of Information Act (FOIA) requires Federal Government agencies to make records available to the public upon request unless specifically exempted. Information that is “specifically exempted from disclosure by statute” is one of the exemptions. Internal Revenue Code Section (I.R.C. §) 6103 is an example of such a statute; it protects the confidentiality of tax returns and return information. Records and/or information compiled for law enforcement purposes are also exempt from disclosure under the FOIA.

The Privacy Act of 1974\(^5\) prohibits Federal Government agencies from relying on any exemption in the Privacy Act to withhold records that are otherwise available to an individual under the FOIA.

I.R.C. § 6103, while protecting the confidentiality of taxpayers’ returns and return information, does allow a taxpayer, or a person designated by the taxpayer, to request and receive the taxpayer’s specific documents and information.

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\(^2\) Internal Revenue Code Section (§) 6103 (2001).

\(^3\) 26 U.S.C.


Compliance With Freedom of Information Act Requirements Has Increased

IRS processing and reporting of FOIA cases

Within the IRS, the Small Business/Self-Employed Division Office of Communications, Liaison, and Disclosure (through its Governmental Liaison and Disclosure function) is responsible for ensuring timely compliance with the FOIA, the Privacy Act, and I.R.C. § 6103. The Office of Disclosure within the Governmental Liaison and Disclosure function sets policy and issues instructions, guidelines, and procedures to ensure compliance with the disclosure statutes.

The Disclosure offices within the Small Business/Self-Employed Division processed almost all the FOIA and Privacy Act requests received by the IRS through January 2006. Beginning in February 2006, responsibility for processing the requests for tax compliance checks and transcripts was transferred from the Small Business/Self-Employed Division Disclosure offices to the Wage and Investment Division Return and Income Verification Services Unit.

In its FOIA Annual Report for Fiscal Year (FY) 2005, the IRS reported that, of the 42,533 FOIA cases it processed, the IRS denied or partially denied information to requestors in 3,065 cases (7.2 percent). The IRS also reported it advised requestors that there were no records responsive to requests in 11,795 cases (27.7 percent). The remaining cases were either granted in full or closed for miscellaneous reasons, such as improper requests or requests that had been granted previously.

Audit limitations and standards

Written requests for information made under I.R.C. § 6103 were processed by either individual IRS Disclosure offices or other IRS offices having custody of the records requested. While the IRS is not required to track requests made under I.R.C. § 6103, the IRS has elected to do so for requests received by IRS Disclosure offices, which use the Electronic-Disclosure Information Management System (E-DIMS) to track requests made under both the FOIA and the Privacy Act. Requests made under I.R.C. § 6103 that were received and processed by IRS offices other than Disclosure offices are neither controlled on the E-DIMS nor otherwise inventoried. Consequently, the volume of these requests is not known. As a result, we can statistically sample only the I.R.C. § 6103 requests processed directly by the IRS Disclosure offices and tracked by the IRS on the E-DIMS. We reviewed requests that were denied during the 6-month period from April 1, 2005, through September 30, 2005.

During the 6-month period, IRS Disclosure offices processed 19,000 requests made under either the FOIA or the Privacy Act. The IRS denied or partially denied 1,339 of these requests (7.1 percent) based on FOIA exemptions (b)(7) or (b)(3) in conjunction with I.R.C. § 6103. The IRS response to 5,070 of the 19,000 requests (26.7 percent) made under the FOIA or the Privacy Act was that records were not available. We selected our sample cases from a total population of 6,409 cases, which included both the 1,339 denied or partially denied cases and the 5,070 responses that no records were available.
During this same 6-month period, IRS Disclosure offices processed 15,948 requests made under I.R.C. § 6103. We estimated the Disclosure offices denied information, or told requestors that records were not available, for approximately 30 percent of these requests (4,719 requests).\(^6\) The remaining requests were granted in full, or information on the disposition was not available.

This review was performed at the Governmental Liaison and Disclosure function in Washington, D.C., during the period January 2006 through July 2006. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

\(^6\) We estimated this number based on the ratio of cases in our sample in which requestors were denied information or were told records were not available (see Appendix I).
Results of Review

The Internal Revenue Service Has Reduced the Percentage of Improperly Denied Requests for Information

The IRS has continued to improve its service to FOIA, Privacy Act, and I.R.C. § 6103 requestors. The percentages of improper withholdings decreased during the period from which our sample cases were drawn (April 1, 2005, through September 30, 2005) when compared with the previous audit period. Figure 1 shows the percentage of improper withholdings for FOIA/Privacy Act and I.R.C. § 6103 requests identified in this audit and the six prior audits we have conducted.

Figure 1: Improper FOIA/Privacy Act and I.R.C. § 6103 Request Withholdings

For this audit, in 5 (6.1 percent) of the 82 FOIA and Privacy Act cases sampled and 2 (2.3 percent) of the 87 I.R.C. § 6103 cases sampled, the IRS did not provide complete responses and improperly withheld requested information. When projected to the population of 6,409 FOIA and Privacy Act cases and 4,719 I.R.C. § 6103 cases closed by the Disclosure offices during our sample period, we estimate there were 391 FOIA and Privacy Act cases and
109 I.R.C. § 6103 cases for which the Disclosure offices did not provide available tax records to the requestors.\(^7\)

As a result, there is potential that taxpayers’ rights were violated, additional burden could be placed on taxpayers, and the IRS could incur additional costs. For FOIA requests, if the IRS reports that no responsive records exist or denies any part of the request, the requestor may appeal the IRS decision administratively. If the IRS denies the administrative appeal, the requestor has the right to appeal the denial in court. Preparing and processing the appeals would place additional burden on the requestor and additional costs to the IRS. During FY 2005, the IRS processed 324 appeals; 283 (87.3 percent) cases were completely upheld, 23 (7.1 percent) of the denials were partially reversed, 9 (2.8 percent) were completely reversed, and 9 (2.8 percent) were closed for other reasons. The requestors did not appeal the IRS’ determination in the five cases from our sample for which the IRS did not provide complete responses and improperly withheld requested information.

There are no appeal provisions for requests that are partially or fully denied or for which no records were responsive to the requests for I.R.C. § 6103 cases. Requestors could incur additional burden if they decided to request the information again, and the IRS would incur additional costs to process the requests.

We analyzed the five FOIA and Privacy Act cases and the two I.R.C. § 6103 cases with improper withholdings and determined the types of information improperly withheld have remained relatively constant over all seven audit periods. The most common types of information withheld were miscellaneous IRS forms and documents associated with tax transcript information.

Errors occurred mainly because of inadequate research or simple oversight by the Disclosure caseworkers. For example, for two of the FOIA cases, the Disclosure caseworkers either did not conduct complete research or did not follow up with the Files function when requested information was not received. In the other cases, the Disclosure caseworkers either addressed only one part of a two-part request or stated information was not available when it was readily available.

\(^7\) See Appendix I for an explanation of our sampling methodology and Appendix IV for a description of the outcome measures.
In response to prior TIGTA reports, the IRS initiated actions to improve the quality of responses. Recommendations made in previous audit reports are still valid for the quality issues contained in this report. As a result, we are making no additional recommendations.

**Disclosure Offices Significantly Improved the Timeliness of Responding to Requests for Information**

The FOIA requires Federal Government agencies to respond within 20 business days of the receipt of a request or to notify the requestor of the reason why the request cannot or will not be filled. Federal Government agencies are required to notify the requestor immediately if they are unable to respond to the request within the time limit, stating the reasons why they are unable to respond and advising the requestor of his or her right to appeal. The due date for a FOIA request is revised when the IRS sends a letter to the requestor exercising its right for an automatic extension of 10 business days and/or requesting a voluntary extension in excess of the initial statutory 20 business day period for FOIA requests. The requestor must agree to the voluntary extension, and the IRS must notify the requestor of its ability to respond by the end of the extension period. A case is untimely when the IRS responds to the requestor after the due date. For Privacy Act cases, the IRS must respond within 30 business days of the taxpayer’s request.

Since FY 2000, the IRS has made some significant improvements in the timeliness of responses to FOIA and Privacy Act requests. For 6 (7.3 percent) of the 82 FOIA and Privacy Act cases, the Disclosure offices did not respond to the requestors in the time required by law. In these instances, taxpayers did not receive the level of service envisioned under the statute. We estimate from the population of 6,409 cases closed during the period April 1, 2005, through September 30, 2005, with a disposition code of denied, partially denied, or no responsive record, there were 469 FOIA and Privacy Act requests not processed timely. This represents a further decrease in the number of untimely cases compared with prior TIGTA audits. Figure 2 shows the percentages of untimely cases we have reported since FY 2000.

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8 Some Improvements Have Been Made to Better Comply With Freedom of Information Act Requirements (Reference Number 2005-10-089, dated May 2005); Improvements Are Needed to Ensure Compliance With the Freedom of Information Act (Reference Number 2004-40-064, dated March 2004); Actions Should Continue to Be Taken to Improve Compliance With the Freedom of Information Act and Related Procedures (Reference Number 2002-10-093, dated May 2002).

9 Business days exclude Saturdays, Sundays, and legal public holidays.

10 The 10-day extension is “automatic” in that it is solely at the discretion of the Disclosure officer; the voluntary extension requires notification to the requestor who may then respond and file an appeal. Either or both extensions may be used in a given case.
We were unable to determine the reasons why the six FOIA and Privacy Act cases were untimely based on the information in the case files. In ****1**** of the six cases, extension letters were sent to the requestors and due dates were appropriately revised, but the IRS responded to the requestor after the revised due dates. In ****1**** of the six cases, the IRS simply missed the original due dates and issued no extension letters. ****1****

The untimely cases ranged from 1 to 28 business days past due.

In response to a prior TIGTA report,12 the IRS initiated actions to improve the timeliness of responses. Recommendations made in previous TIGTA audit reports are still valid for the timeliness issue contained in this report. As a result, we are making no additional recommendations.

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11 We did not evaluate the timeliness of responses to FOIA and Privacy Act requests in the FY 2004 audit because the IRS was in the process of implementing TIGTA recommendations to improve timeliness.

12 Actions Should Continue to Be Taken to Improve Compliance With the Freedom of Information Act and Related Procedures (Reference Number 2002-10-093, dated May 2002).
Appendix I

**Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the IRS improperly withheld information requested by taxpayers in writing, based on FOIA\(^1\) exemption (b)(3), in conjunction with I.R.C. § 6103,\(^2\) and/or FOIA exemption (b)(7), or by replying the requested records were not available. Specifically, we:

I. Determined if the IRS Disclosure offices adhered to statutory FOIA and Privacy Act of 1974\(^3\) requirements and procedural requirements.

   A. Obtained a national extract from the E-DIMS for the period April 1, 2005, through September 30, 2005, and identified 6,409 FOIA and Privacy Act cases closed as denied or partially denied based on FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7), or where the IRS replied responsive records did not exist. We performed specialized queries of the national extract data and determined that the data were reliable.

   B. Designed an attribute sample based on a 90 percent confidence level, an expected error rate of 8.18 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 FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7), or where requestors were told records were not available. The sampling plan and methodology are the same as those used in prior audits.

   C. Reviewed a random sample of 82 cases selected in Step I.B. and determined if the decision to withhold information was appropriate, the record search was adequate, and the determination was made timely.

   D. Based on results from Step I.C., projected the number of improper withholdings in the range of 114 to 668 (1.8 percent to 10.4 percent) FOIA and Privacy Act cases. The projection was made using attribute sampling, with a 90 percent confidence level and an actual error rate of 6.1 percent. As a result, the actual precision factor was ±4.32 percent.

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E. Based on results from Step I.C., projected the number of untimely determinations in the range of 168 to 770 (2.6 percent to 12.0 percent) FOIA and Privacy Act cases. The projection was made using attribute sampling, with a 90 percent confidence level and an actual error rate of 7.3 percent. As a result, the actual precision factor was ±4.70 percent.

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

A. From the national extract obtained for Step I.A., identified 15,948 I.R.C. §§ 6103 (c) and (e) requests.

B. Designed an attribute sample based on a 90 percent confidence level, an expected error rate of 8.74 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 the IRS replied that responsive records did not exist.

C. Initially selected a random sample of 300 of the 15,948 I.R.C. §§ 6103 (c) and (e) closed cases. We reviewed the first 294 cases sampled to obtain the required number of cases to statistically project our results.

   1. Determined 87 (29.6 percent) of the 294 reviewed cases included instances where information was partially or fully denied or where the IRS replied that responsive records did not exist.

   2. Based on an initial analysis of the 294 cases, estimated the population of 15,948 closed I.R.C. §§ 6103 (c) and (e) requests contained 4,719 where information was partially or fully denied or where the IRS replied responsive records did not exist.

D. Reviewed the 87 cases where information was partially or fully denied, or where the IRS replied that responsive records did not exist, and determined if the decision to withhold the information based on I.R.C. § 6103 was appropriate.

E. Based on results from Step II.D., projected the number of improper withholdings in the range of 2 to 233 (.04 percent to 4.94 percent) for the I.R.C. §§ 6103 (c) and (e) requests. The projection was made using attribute sampling, with a 90 percent confidence level and an actual error rate of 2.3 percent. As a result, the actual precision factor was ±2.64 percent.
Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner  C
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Appendix IV

**Outcome Measures**

This appendix presents detailed information on the measurable impact that the recommended corrective actions made in prior TIGTA reports will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

**Type and Value of Outcome Measure:**

- Taxpayer Rights – Potential; 391 responses to FOIA\(^1\) or Privacy Act of 1974\(^2\) requests where information was improperly withheld during the 6-month period April 1, 2005, through September 30, 2005 (see page 4).

**Methodology Used to Measure the Reported Benefit:**

The attribute sample was randomly selected from the universe of FOIA and Privacy Act requests that were closed nationally during the period April 1, 2005, through September 30, 2005, as 1) a full or partial denial with either FOIA exemption (b)(3), in conjunction with I.R.C. § 6103,\(^3\) and/or FOIA exemption (b)(7) cited as one of the reasons for withholding information or 2) where the IRS replied responsive records did not exist. We arrived at the estimate by:

- Multiplying the number of requests closed as partially or fully denied based on FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7) or where the IRS replied responsive records did not exist by the error rate of cases reviewed. In 5 (6.1 percent) of the 82 cases reviewed, the IRS did not provide complete responses and improperly withheld information from requestors. 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 the Privacy Act.

\[6,409 \times 6.1\text{ percent} = 391\text{ cases.}\]

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\(^3\) I.R.C. § 6103 (2004).
Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; 109 responses to I.R.C. § 6103 requests where information was improperly withheld during the 6-month period April 1, 2005, through September 30, 2005 (see page 4).

Methodology Used to Measure the Reported Benefit:

The attribute sample was randomly selected from the universe of I.R.C. §§ 6103 (c) and (e) requests that were closed nationally during the 6-month period April 1, 2005, through September 30, 2005. The Disclosure offices are not required to input a disposition code showing how I.R.C. § 6103 cases are closed (granted, denied, etc.). We arrived at the estimate by:

- Identifying 15,948 closed I.R.C. §§ 6103 (c) and (e) requests.
- Randomly selecting for review 294 of these cases to estimate the universe of denied, partially denied, or no requested record available cases closed during the period April 1, 2005, through September 30, 2005.
- 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 where the IRS replied that responsive records did not exist (87 of 294 or 29.6 percent).

\[15,948 \times 29.6\% = 4,719\text{ cases}.\]

- Multiplying the estimated universe of cases where information was partially or fully denied, or where the IRS replied that responsive records did not exist, by the error rate for the cases reviewed. In 2 (2.3 percent) of the 87 cases reviewed, the IRS did not provide complete responses and improperly withheld information from requestors. A case was considered an “error” if the Disclosure office improperly withheld information from the requestor.

\[4,719 \times 2.3\% = 109\text{ cases}.\]

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; 469 FOIA and Privacy Act requests that were not processed timely during the 6-month period April 1, 2005, through September 30, 2005 (see page 6).

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4 This figure was rounded to 29.6 for report presentation purposes; however, the actual percentage of 29.59 percent was used in the calculation.
Methodology Used to Measure the Reported Benefit:

The attribute sample was randomly selected from the universe of FOIA and Privacy Act requests that were closed nationally during the 6-month period April 1, 2005, through September 30, 2005, as 1) a full or partial denial with either FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7) cited as one of the reasons for withholding information or 2) where the IRS replied responsive records did not exist. We arrived at the estimate by:

- Multiplying the number of requests closed as partially or fully denied based on FOIA exemption (b)(3), in conjunction with I.R.C. § 6103, and/or FOIA exemption (b)(7), or where the IRS replied responsive records did not exist by the percentage of untimely responses. In 6 (7.3 percent) of the 82 cases reviewed, the IRS was not timely in providing responses to requestors.

6,409 * 7.3 percent = 469 cases.