



EFFECTIVE DATE

(06-28-2021)

PURPOSE

- (1) This transmits revised IRM 4.47.2, Computer Audit Specialist, CAS Technical and Procedural Information.

MATERIAL CHANGES

- (1) IRM 4.47.2.1 has been re-named to Program Scope and Objectives in accordance with the internal control requirements described in IRM 1.11.2, Internal Management Documents Systems, Internal Revenue Manual (IRM) Process.
- (2) Added the following new subsections to IRM 4.47.2.1 and rearranged content to conform to the prescribed format:

| IRM Section Number | Title |
|---------------------------|----------------------------|
| 4.47.2.1.1 | Background |
| 4.47.2.1.2 | Authority |
| 4.47.2.1.3 | Roles and Responsibilities |
| 4.47.2.1.4 | Program Goals |
| 4.47.2.1.5 | Training |
| 4.47.2.1.6 | Acronyms |
| 4.47.2.1.7 | Related Resources |

- (3) New IRM 4.47.2.3, Referrals – Requests for CAS Services was added.
- (4) The following subsections were updated to reflect current terminology and procedures:

| IRM Section Number | Title |
|---------------------------|--|
| 4.47.2.2.1 | Responsibilities |
| 4.47.2.2.2.1 | Physical Security of Software |
| 4.47.2.2.2.2 | Software and Taxpayer Data |
| 4.47.2.2.2.3 | Backup Files |
| 4.47.2.4.1 | Procedures |
| 4.47.2.4.1.1 | Record Retention Limitation Agreements |
| 4.47.2.4.1.2 | Methods |

| IRM Section Number | Title |
|---------------------------|--|
| 4.47.2.4.1.3.1 | Information Useful in an Evaluation |
| 4.47.2.4.2 | Notification Letters and Agreements |
| 4.47.2.4.2.4 | Affiliated Corporations |
| 4.47.2.5 | Application and Other Assignment Documentation |
| 4.47.2.6.1 | Sources of Information |
| 4.47.2.7.1 | Specialized Training |
| 4.47.2.8 | Obtaining Computerized Data |
| 4.47.2.8.1.3 | Enforcement |
| 4.47.2.9 | Procuring Data Processing Resources |

- (5) Former IRM 4.47.2.3.3, Form 6149, Examination Record Retention, was removed.
- (6) Former IRM 4.47.2.7.1, Basic CAS Training, was removed
- (7) Editorial corrections made throughout.

EFFECT ON OTHER DOCUMENTS

IRM 4.47.2 dated August 31, 2002 is superseded.

AUDIENCE

Primarily LB&I employees

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4.47.2

CAS Technical and Procedural Information

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4.47.2.1
(06-28-2021)
Program Scope and Objective

- (1) **Purpose:** This IRM provides detailed technical and procedural information for computer audit specialists (CAS) to follow when supporting field examinations.
- (2) **Audience:** The intended audience is CAS, CAS managers, statistical sampling coordinators and all enforcement employees seeking information regarding CAS procedures.
- (3) **Policy Owner:** LB&I Policy under the Strategy, Policy and Governance office in the Assistant Deputy Commissioner Compliance Integration organization.
- (4) **Program Owner:** Director, Field Operations South Central (DFO-SC) in the Western Compliance Practice Area (WCPA) is the DFO with program responsibility over the CAS program.

4.47.2.1.1
(06-28-2021)
Background

- (1) This information has been prepared to assist Computer Audit Specialists (CASs) and CAS team managers in the performance of their official duties and provide detailed technical and procedural information relating to the CAS Program.
 - a. The CAS Program is a Large Business and International (LB&I) organization currently managed by the Director of Field Operations (DFO) South Central within the Western Compliance Practice Area (WCPA). The CAS Program's primary responsibility is to support field examinations involving the use of large electronic data files received from taxpayers and support tax issue development where complex data analysis using advanced programming skills is required. Field employees in the CAS program consist of CASs and statistical sampling coordinators.
 - b. A CAS is an experienced revenue agent who has completed an intensive computer training program concentrating on large computer systems that process voluminous amounts of data. While their primary activity is to support large and medium-sized corporate and partnership examinations focusing on various tax issues, CAS will also work on assigned projects requiring complex data analysis or application development.
 - c. A statistical sampling coordinator (SSC) is a CAS with advanced training in statistical analysis and methodology. SSCs review taxpayer statistical samples used to generate amounts on a tax return or apply statistical sampling methodology to support tax issues raised during LB&I field examinations. Please refer to IRM 4.47.3, Statistical Sampling Auditing Techniques, for guidelines and procedures a CAS or SSC should follow when considering the use of statistical sampling.

4.47.2.1.2
(06-28-2021)
Authority

- (1) By law, the Service has the authority to conduct examinations under Title 26, Internal Revenue Code, Subtitle F – Procedure and Administration, Chapter 78, Discovery of Liability and Enforcement of Title, Subchapter A, Examination and Inspection, which includes, but is not limited to, the following IRC sections:
 - a. IRC 7602, Examination of books and witnesses
 - b. IRC 7605, Time and place of examination
- (2) For additional information see IRM 4.10, Examination of Returns, and IRM 4.46, LB&I Examination Process.

4.47.2.1.3
(06-28-2021)

Roles and Responsibilities

- (1) The Western Compliance Practice Area (WCPA) and the Director of Field Operations South Central (DFO-SC) have responsibility for the CAS Program and the contents of this IRM. All inquiries, correspondence, etc., pertaining to any of the materials in this IRM should be directed to the DFO-SC.
- (2) For information regarding the role of the DFO-SC, CAS territory manager, CAS team manager and CAS, refer to IRM 4.47.1.1.3.

4.47.2.1.4
(06-28-2021)

Program Goals

- (1) The organizational goal of the CAS Program is to provide efficient access to and analyses of electronic records to support the activities of the LB&I business unit. To accomplish this goal, the CAS Program will:
 - a. Improve the efficiency and effectiveness of LB&I field examinations by supporting tax issues identified by audit teams.
 - b. Improve tax compliance by using advanced application and programming skills to identify and develop tax issues during LB&I field examinations.
 - c. Support LB&I projects by utilizing advanced software application and programming skills to analyze and prepare large and/or complex electronic data files.
 - d. Support IRS business units by developing custom software applications that can be used by IRS employees to enhance the performance of their jobs.
 - e. Improve the efficiency and effectiveness of LB&I tax examinations, studies, and projects by optimizing the use of statistical sampling methods when possible.
- (2) To support this goal, the DFO-SC will:
 - a. Explore and identify areas where CAS support may be used to improve the quality and effectiveness of examinations, campaigns and compliance projects.
 - b. Work with the CAS territory managers to identify, evaluate and procure the tools necessary for CAS to perform their assigned duties effectively and efficiently.
 - c. Work with the CAS territory managers to provide training recommendations and assist in the development of training for CASs.
 - d. Coordinate and monitor the completion of the annual Federal Information Security Management Act (FISMA) training that is required for each CAS and CAS manager.

4.47.2.1.5
(06-28-2021)

Training

- (1) It is important that CASs have the highest level of expertise to fully support LB&I activities. The core training for CASs currently includes:
 - a. CAS Core Training Phase I: Role of the CAS
 - b. CAS Core Training Phase II: Data Concepts featuring Structured Query Language (SQL)
 - c. CAS Core Training Phase III: Programming Logic featuring Visual Basic for Applications (VBA)
 - d. CAS Core Training Phase IV: Statistical Sampling and Audit Tools
 - e. CAS Core Training Phase V: Capstone
- (2) In addition to the core training, CASs will receive continuing professional education and advanced training in other computer assisted audit techniques as they become relevant or pertinent.

- (3) CASs and CAS managers will complete 8 hours of FISMA security related information technology training annually.
- (4) CAS territory managers will complete 4 hours of FISMA related training annually.

4.47.2.1.6
(06-28-2021)
Acronyms

(1)

| | |
|--------|--|
| ADP | Automatic Data Processing |
| CAS | Computer Audit Specialist |
| DFO-SC | Director of Field Operations - South Central |
| FISMA | Federal Information Security Management Act |
| IBMIS | Issue Based Management Information System |
| IMS | Information Management System |
| LB&I | Large Business & International |
| SQL | Structured Query Language |
| SSC | Statistical Sampling Coordinator |
| WCPA | Western Compliance Practice Area |

4.47.2.1.7
(06-28-2021)
Related Resources

- (1) Information regarding the CAS Program, including its authority, roles and responsibilities, goals and scope of activity is described in IRM 4.47.1, Computer Audit Specialist Program (CAS).
- (2) Technical and procedural information utilized by SSC to accomplish program goals are described in IRM 4.47.3, Statistical Sampling Auditing Techniques.

4.47.2.2
(08-31-2002)
CAS System Security

- (1) This section presents the responsibilities, duties, and procedures to be followed by security personnel in maintaining systems security for the CASs.
- (2) Commercially developed system software is utilized, and application software is developed, maintained, and modified by the CASs as required to meet the unique needs of each examination.
- (3) The most significant ongoing items in these security procedures are the security breach detection procedures and password integrity. Particular attention should be given to these areas.

4.47.2.2.1
(06-28-2021)
Responsibilities

- (1) The Security Officer for all CAS Program equipment will be the CAS team manager. This person will:
 - a. Ensure user accounts are assigned only to authorized users.
 - b. Ensure individuals no longer requiring access to the system are removed from the list of authorized users.
 - c. Ensure physical security of hardware and data is maintained and access to the computer room or area is controlled.
 - d. Conduct functional security reviews of each site at least annually.
 - e. Prepare an annual functional security review report.

- f. Ensure that new personnel are made aware of security requirements.
- g. Ensure that digital storage devices or printed output, containing taxpayer data or other sensitive information are properly secured, labeled, stored, and/or discarded.
- h. Ensure that backups are made and stored properly.

4.47.2.2.2
(08-31-2002)

Procedures and Requirements

- (1) Established procedures and requirements are followed to ensure the security of the CAS equipment.

4.47.2.2.2.1
(06-28-2021)

Physical Security of Hardware

- (1) All systems and peripheral equipment shall be kept in a controlled area when possible, which can be monitored by authorized users during working hours and locked after hours.
- (2) Whenever a non-IRS person, such as a maintenance service employee, enters the controlled area, at least one IRS employee knowledgeable of the system will accompany the person and monitor his or her activity.
- (3) When transferring taxpayer data from digital storage devices that will be running after hours and not in a controlled area, the digital storage device must be properly secured to prevent loss.

4.47.2.2.2.2
(06-28-2021)

Software and Taxpayer Data

- (1) All users must be cleared to handle taxpayer data, but access to files will be limited, to those with a need to know.
- (2) Taxpayer data which is on magnetic media will be afforded appropriate security and maintained or destroyed in accordance with established record retention policy. Printed data will be kept secured until distributed or destroyed. Hard copy to be destroyed should be shredded, placed in a shred bin maintained in office space, or otherwise rendered unreadable. Magnetic media containing taxpayer data which are to be discarded should be turned in to IT for proper disposal. Refer to IRM 10.5.1 Privacy Policy, Disposition and Destruction, for additional guidance on proper disposal of hard copy paper and electronic media.

4.47.2.2.2.3
(06-28-2021)

Backup Files

- (1) Backups of application files will be taken as frequently as is prudent for a particular site. A systems file backup and an application files backup will be stored away from the computer room so as to preclude total loss of data from a localized fire or other disaster. Original backups may be used for this purpose; duplicate backups are not required. All backups will be kept in a secured location.

4.47.2.2.2.4
(08-31-2002)

Other Requirements

- (1) Sensitive data will be cleared from the screen upon "logoff" or leaving a terminal.
- (2) Computer room(s) will be cleaned by janitorial service personnel only during working hours.

4.47.2.3

(06-28-2021)

Referrals – Requests for CAS Services

- (1) The CAS Program encourages referrals on all cases, and from all business units, where the assigned agent believes the examination process would benefit from CAS engagement. With a primary focus on LB&I examinations, referrals to CAS are mandatory for tax returns with an activity code of 221 and above. Requests for CAS services are made by the assigned agent using the Specialist Referral System (SRS). Submission of a Referral should be completed early in the examination, upon case assignment to the assigned agent, to ensure proper CAS engagement.
- (2) A limited review and assessment by the CAS is available to determine if a referral is warranted. This request can be made within the SRS system using the Consultation process.
- (3) Separate SRS referrals for related entities should be submitted as soon as it is determined that the returns will be examined.
- (4) The SRS request for a CAS should include a LIN/XML link for the latest return of the exam cycle.
- (5) Once a referral has been made the CAS team manager will assign, transfer or reject the referral as soon as practical with the goal of 10 business days or less.
- (6) Once the request has been assigned by the CAS team manager, the assigned CAS will contact the referring revenue agent as soon as practical with a goal of 5 business days or less.

4.47.2.4

(08-31-2002)

Record Retention, Examination and Evaluation Guidelines

- (1) The volume and complexity of accounting records being produced by automated data processing systems has made necessary the use of specialized auditing techniques to deal with computer output.
- (2) Rev. Rul. 71–20 and Rev. Proc. 98–25 set forth the conditions under which machine-sensible records are to be considered books and records under section 6001 of the Code and retained by taxpayers for IRS use. To promote cooperation, provisions are made for the establishment of record retention agreements between taxpayers and the IRS.
- (3) It is expected that taxpayers will identify and retain machine-sensible records as required by law, even if a record evaluation has never been conducted.
- (4) Recommendations resulting from record evaluations are made to permit a taxpayer to limit the volume of records otherwise required to be retained yet ensure that adequate information will be available for future tax examinations.
- (5) In some examinations, use of computer assisted techniques may not be the best audit approach. Some of the reasons are:
 - a. The volume of transactions is not large enough to warrant computerized sampling and analysis.
 - b. The potential time savings do not justify performing an application.
 - c. The taxpayer can produce or reproduce the books and records in a form easily audited by examiners.

4.47.2.4.1
(08-31-2002)

**Record Evaluations,
Re-evaluations and
Examination Objectives**

- (1) The CAS may be able to pinpoint records where analyses and samples can be obtained which are presently available only through a detailed search of subdivided records. Through the use of computer retrieval programs, it may be possible to:
 - a. Prepare databases to allow the examiners to more efficiently analyze account data.
 - b. Produce applications dealing with unique industry issues.
 - c. Produce trial balance with accounts grouped according to lines on the tax return.
 - d. Produce summaries, comparatives and stratifications of accounts, groups of accounts and other accounting data.
 - e. Perform mathematical computations needed for investment credit, depreciation, depletion and inventory verification and adjustment.
 - f. Identify fragmented invoices by consolidating detailed transaction records resorted in invoice number sequence.

4.47.2.4.1.1
(06-28-2021)

Procedures

- (1) CASs will conduct evaluations of taxpayer's computerized accounting systems. Initial evaluations will only be conducted when requested by the taxpayer. Re-evaluations may be initiated by the CAS territory manager at times other than during an examination, if deemed appropriate.
- (2) Taxpayers whose records are processed by ADP service bureaus or time-sharing services are responsible for record retention the same as any other taxpayer.
- (3) In most cases, the record evaluation will show that audit efficiency can be increased using machine-sensible records. Discussions should be held with taxpayers or their representatives to gain cooperation in the use of computer assisted audit techniques and taxpayer computer facilities. After the discussions are concluded, the taxpayer must be furnished with either a confirmation letter or a notice, depending on whether the taxpayer agrees to comply, setting forth the specific record retention requirements resulting from the evaluation.
- (4) The group manager, team manager and/or territory manager with responsibility for the case must concur with the provisions incorporated in the agreement or notification. All specialty team managers involved should also review and approve the list of records identified for retention. All concurrences are to be in writing.
- (5) When an evaluation of a taxpayer's records results in the need for changes to arrangements or record requirements previously agreed to, or set forth in a notification to the taxpayer, a new notification or agreement reflecting the changes or requirements will be issued.
- (6) Internal controls affecting record retention are as follows:
 - a. The CAS should evaluate and document the system of internal controls used by the taxpayer to ensure that the records needed will actually be retained.
 - b. The taxpayer's internal controls should be capable of ensuring that records are retained in spite of changes that may occur in tax department or data processing department personnel, to the computerized accounting system, or to the computer files management system.

- c. Such a system will typically provide a regular report to the company official responsible for the record retention limitation agreement identifying the records actually retained and the periods covered.
 - d. Serious deficiencies detected in the taxpayer's system of internal controls must be discussed with the taxpayer. If the taxpayer fails to take corrective action within a reasonable period of time, consideration should be given to issuing a notification letter.
- (7) The CAS will identify the audit trail and perform reconciliation between the tax return and the items being examined. At a minimum, the CAS will reconcile the tax return to the trial balance(s) at the tax return line level, not at a net/book income level. This procedure can be waived with consideration of examination team support needs and only with written approval of the CAS manager.
- a. In situations where the taxpayer uses a tax preparation software package and/or has electronic data that contains the audit trail between the tax return and the trial balance, the CAS should request this electronic data for use in reconciling each tax return line item to the corresponding trial balance accounts.
 - b. In situations where the revenue agent or team coordinator performs the reconciliation, the CAS should request copies of the reconciliation work papers and include them in the CAS case file.
- (8) When the audit team requests detailed transactional information, the CAS should reconcile the details to the corresponding trial balance or other summary documentation unique to the requested detailed information.

4.47.2.4.1.1.1
(06-28-2021)

**Record Retention
Limitation Agreements**

- (1) The CAS should discuss the requirements in Rev. Proc. 98–25 with all taxpayers.
- (2) Requirements of Rev. Proc. 98–25 include, in part.
- a. Document the format or layout of records and make available to the Service any field definitions (including the meaning of all “codes” used to represent information) and file descriptions (e.g., data set name).
 - b. Periodically check the records.
 - c. Notify the CAS territory manager if any records identified for retention are lost or destroyed.
 - d. Retain all records for new systems added or subsidiaries acquired after the record evaluation was conducted.
 - e. Retain evidence that the retained records reconcile to the books and to the tax return.
 - f. Document the controls used to prevent the unauthorized addition, alteration, or deletion of retained records.

4.47.2.4.1.2
(06-28-2021)

Methods

- (1) Evaluators should review examination historical files and consult with the examining agent, other team members, or specialists (engineer, financial products, cross border activities, tax law, economists, employment and excise), and the group or case manager to determine what records were used. The CAS should also review audit trails and record formats, and hold discussions with responsible officials, including representatives from the taxpayer's data processing department.
- (2) Taxpayers should be asked to identify files which they deem appropriate not to retain.

- (3) Certain printed reports produced by a taxpayer are often critical to an examination and continually used by examiners. Since the taxpayer may change company policy and no longer produce a key report in the same format or media, consideration should be given to retaining machine-sensible records, which would permit the re-creation of such reports.

4.47.2.4.1.3
(08-31-2002)

ADP Evaluation

- (1) The following is a brief outline of some basic information useful in the evaluation of a taxpayer's ADP system.

4.47.2.4.1.3.1
(06-28-2021)

Information Useful in an Evaluation

- (1) Names and telephone numbers of the:
- Tax Manager
 - ADP Manager
 - Authorized signature on legal documents
 - Others as necessary
- (2) Organization Chart, Chart of Accounts, and Account Number to Tax Return Line Number Mapping.
- (3) A list of all records processed within the ADP system and volume, such as:
- General ledger
 - Accounts receivable
 - Accounts payable
 - Fixed assets
 - Job costing systems
 - Payroll
 - Voucher register
 - Depletion
 - Depreciation
 - Oil & gas reserves
 - Insurance reserves.
- (4) The name(s) given to the computer application(s) or file(s) containing the details of the daily transactions, including such items as:
- a. Operating system
 - b. Accounting software
 - c. Data location
 - d. Record layouts .
- (5) Obtain systems flowcharts, catalogue of reports and sample of output.
- (6) Evaluate current retention policies.
- a. Review audit trails with emphasis placed on individual detail items to General Ledger and return.
 - b. Determine if generalized retrieval programs are available.
 - c. Review extent of retention agreement if already existing.
 - d. Use of taxpayer's computer facilities and extent of taxpayer's assistance during application.
 - e. Future changes planned for system.

- 4.47.2.4.2
(06-28-2021)
Notification Letters and Agreements
- (1) Letters should be tailored to the needs of the situation. Letters should be used that are appropriate for the situation. Letters that can serve as templates will be shared within the program. Templates can be obtained from the CAS team manager.
 - (2) During each examination, the CAS should assess the adequacy of the taxpayer records with Revenue Procedure Rev. Proc. 98-25. In situations where the files are not in compliance, feedback should be provided to the taxpayer addressing the specific problems encountered. The feedback should be addressed to a corporate officer or someone who has authority over the accounting, tax and data processing departments. It should be signed by a CAS manager and should be discussed with the case manager prior to issuance. At a minimum, the feedback should include:
 - A listing of the files used.
 - A listing of the specific areas of non-compliance.
 - A request for a written response from the taxpayer addressing the steps that will be taken to ensure the problems are corrected for future returns.
- The primary focus of the feedback is to provide an opportunity for the taxpayer and the audit team to address and overcome areas of non-compliance. The feedback document does not replace a Notice of Inadequate Records, which is appropriate in continued or egregious occurrences of non-compliance.
- 4.47.2.4.2.1
(08-31-2002)
Confirmation Letter
- (1) When discussions with the taxpayer result in an agreement to retain machine-sensible records, and cooperate in the use of computer-assisted techniques, or to use alternative procedures acceptable to the IRS, a confirming letter will be issued to the taxpayer by the CAS territory manager setting forth what has been agreed to. This letter will be issued over the signature of the CAS territory manager.
- 4.47.2.4.2.2
(08-31-2002)
CAS Program Notice
- (1) When a taxpayer, after the records have been evaluated by the IRS, is orally advised of record retention requirements but does not agree to comply or enter into an agreement, the CAS territory manager must issue a letter notifying the taxpayer that retention of the records specified therein is required. This letter is applicable only to those taxpayers whose records are acceptable under the guidelines in Rev. Proc. 98-25. Others will be handled under normal inadequate records procedures.
 - (2) This notice will also be issued in cases where the taxpayer's willingness to comply with the terms of a signed record retention limitation agreement is seriously questioned. This may be evidenced by the taxpayer's failure to implement adequate internal controls to ensure that records identified in the agreement will actually be retained.
- 4.47.2.4.2.3
(08-31-2002)
Other
- (1) When it is determined that the accounting records processed by computer are not sufficiently voluminous or complex to warrant their retention in machine-sensible form, a letter will be issued to the taxpayer to confirm that a record evaluation has been made and that their present record retention practices will be adequate. This letter should be signed by the CAS team manager.
 - (2) When a taxpayer agrees to comply with the requirements of Rev. Proc. 98-25 and the taxpayer has adequate internal controls, a letter will be issued to the

taxpayer to confirm that a record evaluation has been made and that their present record retention practices will be adequate. This letter should be signed by the CAS team manager.

4.47.2.4.2.4
(06-28-2021)
Affiliated Corporations

- (1) Consolidated Returns—One notice or confirmation letter to the common parent will serve as a notice to all members of the group. It may, of course, provide different retention requirements for different group members, as audit needs dictate.
- (2) Large Corporate Compliance (LCC).
 - a. The LCC group to which the case is assigned will be responsible for the evaluation and determination of record retention requirements for all LCC components. A notice or confirmation letter to any member of a LCC will be issued upon the advice and direction of the CAS team manager. However, that LCC group may request an evaluation by a support CAS group. Requests for support evaluations should be coordinated through the CAS team manager and may require submission of a referral within SRS.
 - b. A copy of the notice or letter will be made a part of the case historical file.

4.47.2.5
(06-28-2021)
**Application and Other
Assignment
Documentation**

- (1) Complete and proper documentation of computer applications developed and/or used by the CAS in case work is very important. At a minimum, this documentation should be in a format to allow others needing to determine work performed on a case assignment to be able to review the trail of work performed.
- (2) Complete and proper documentation of technical issue development including involvement in statistical sampling by the CAS in case work is very important. At a minimum, this documentation should be in a format to allow others needing to determine work performed on a case assignment to be able to review the trail of work performed.
- (3) Upon completion of the work assignment, the CAS should complete the form titled "Computer Assisted Audit Program Closed Case Documentation" available from the team manager. The CAS should provide this document to the CAS manager along with a copy of the audit plan, CAS activity record, and any record evaluation feedback provided to the taxpayer. These documents comprise the CAS case closing package.
- (4) The case manager should sign the closed case document and provide a copy to the case manager. The CAS case closing package should be retained for historical purposes.
- (5) The CAS manager is responsible for ensuring the case closing package is loaded into the Issue Management System (IMS).
- (6) The DFO-SC has the responsibility for coordinating the development of programs for nationwide application, testing them for operational readiness, and for preparing full documentation. Originators of proposed applications may, however, be called upon to assist in this task.

4.47.2.6
(06-28-2021)
**CAS Program
Monitoring**

- (1) The information gathered is to be used to evaluate the effectiveness of the CAS Program. It is not to be used to evaluate individual CAS. All levels of management will ensure that Policy Statement P-1-20 is not violated.
- (2) This information is used to evaluate and monitor the main CAS Program objective: to provide quality and comprehensive computer support to LB&I.

4.47.2.6.1
(06-28-2021)
Sources of Information

- (1) The tools available within the Issue Based Management Information System (IBMIS) include the following:
 - a. CAS Open Inventory Reports.
 - b. SRS Referral Information.
 - c. Issue Tracking Reports. It is the responsibility of the CAS assigned to a case to inform the team coordinator of the correct code to be input for any particular issue.
 - d. The CAS Assigned and/or Developed Issues Report lists cases and the significant issues which were actually assigned to a CAS for issue development.
 - e. The Cases Where Statistical Sampling Techniques Used by CAS Report lists cases and the significant issues on which statistical sampling auditing techniques were used by CASs.
 - f. The Taxpayers Using Statistical Sampling on Their Tax Return Report lists cases and significant issues on which the taxpayer used statistical sampling in reporting those issues on their tax returns.

4.47.2.7
(06-28-2021)
**Computer Audit
Specialist Training**

- (1) The CAS is first and foremost a revenue agent. It is essential that the CAS maintain technical and auditing skills to allow for issue identification and development. In addition to maintaining the revenue agent skills, the CAS should develop application development skills.
- (2) It is the responsibility of the CAS, CAS team manager, CAS territory manager, and the DFO-SC to identify emerging trends in technology. This will foster the timely identification and development of training in these emerging areas. Early identification of technology issues with timely training is essential to the efficiency of CAS Program and the audit teams.

4.47.2.7.1
(06-28-2021)
Specialized Training

- (1) It is essential that the CASs develop specialized applications for not only the domestic agents on cases, but also specialists working on the cases. Specialized technical training should be provided to better assist the CASs in developing these applications for the audit teams. This would include areas such as: Cross Border Activities, Financial Products, Insurance, Oil and Gas, etc.
- (2) Out service training, including outside vendors (both commercial and public), should be considered when it is determined to be the best method of training delivery. This should be considered for both hardware and software training.
- (3) Consideration should be given to including CASs in revenue agent CPEs and technical meetings/training.

4.47.2.8
(06-28-2021)
**Obtaining Computerized
Data**

- (1) The volume and complexity of accounting records being produced by automated data processing systems has made necessary the use of specialized auditing techniques to deal with computer output.

- (2) Rev. Rul. 71–20 and Rev. Proc. 98–25 set forth the conditions under which machine-sensible records are to be considered books and records under section 6001 of the Code and retained by taxpayers for IRS inspection.
- (3) All machine-sensible records retained by a taxpayer, whether retained under the provisions of a record retention limitation agreement or for other reasons, may be used for computer assisted auditing techniques so long as the data is relevant or material to the determination of tax liability. (See *U.S. v. Davey*, 543 F.2d 996 (2d Cir. 1976)).

4.47.2.8.1
(08-31-2002)
Rev. Rul. 71–20 and Rev. Proc. 98–25: Scope

- (1) Taxpayers with assets of \$10 million or more must comply with the record retention requirements of Rev. Rul. 71-20 or Rev. Proc. 98-25. For this purpose, a controlled group of corporations will be considered to be one corporation and the assets of all members of the group will be aggregated.
- (2) Taxpayers not subject to the record retention requirements of Rev. Rul. 71-20 or Rev. Proc. 98-25 may voluntarily retain machine-sensible records for IRS use.

4.47.2.8.1.1
(08-31-2002)
Summary of Requirements

- (1) Taxpayers subject to the mandatory record retention requirements must retain all machine-sensible records generated by all automated data processing systems unless the CAS territory manager has consented to limit the retention to certain specific records.
- (2) The limitation on machine-sensible records to be retained pursuant to a retention limitation agreement does not apply to subsidiary companies acquired, or to accounting and tax systems added, subsequent to the completion of the record evaluation or reevaluation upon which the agreement is based. All machine-sensible records produced by these companies or systems must be retained until such time as a reevaluation is conducted by the CAS territory manager.
- (3) Unless otherwise specifically agreed to by the CAS territory manager, taxpayers are required to:
 - a. Periodically test records retained for Internal Revenue Service use.
 - b. Maintain system documentation relating to retained records.
 - c. Retain the capability to process the records at the time of an examination.
 - d. Provide evidence that the retained records reconcile to the books and the tax return.
 - e. If a new incompatible computer system is installed, either convert the records or have an arrangement with a third party to adequately process all records on a compatible system.
 - f. Notify the CAS territory manager if files identified for retention are lost or destroyed.

4.47.2.8.1.2
(06-28-2021)
Record Retention Agreements Notifications

- (1) The CAS territory manager may consent to limit the retention of records by entering into a record retention limitation agreement with a taxpayer. These agreements usually require the taxpayer to notify the CAS territory manager if changes are made to its ADP accounting systems or record formats that will affect the ability of the taxpayer to comply with the terms of the agreement.

- (2) The intent of the notification provision is to permit a taxpayer to make changes to an ADP system without influencing the agreement, provided the content of the files specified in the agreement has not changed. Changes which add or rearrange fields within a data record will not be considered to have changed the substance of an agreement if all fields that were in the records covered by the agreement are retained. Under these circumstances, the files created by the revised system may be retained in lieu of those specified in the agreement. Notification is not required.
- (3) A taxpayer who is unable to comply with the provisions of a record retention limitation agreement because of system changes has, in substance, created a new system. All records created by the replacement system must be retained until such time as a reevaluation is conducted by the CAS territory manager.

4.47.2.8.1.3
(06-28-2021)
Enforcement

- (1) As the information specialist to the audit team, the CAS is responsible for obtaining accurate and complete computerized records that meet the requirements of Rev. Proc. 98-25.
- (2) Failure to comply with the provisions of Rev. Rul. 71-20 or Rev. Proc. 98-25 may result in the issuance of a Notice of Inadequate Records or the assertion of civil and/or criminal penalties. Refer to Rev. Proc. 98-25 and Rev. Rul. 81-205 for additional information.
- (3) If records are lost, destroyed, damaged, incomplete or materially inaccurate, the following steps should be followed by the CAS to the extent necessary to correct the noncompliance.
 - a. Secure a letter from the taxpayer fully explaining the events leading to the situation, and any effort taken to recreate the file within a reasonable amount of time. This letter must be signed by a responsible officer of the company.
 - b. Issue a letter signed by the CAS territory manager stating the situation and putting the taxpayer on notice that any further problems can result in civil or criminal penalties.
 - c. Recommend to the case team manager the issuance of a Notice of Inadequate Records when the facts and taxpayer actions support such an issuance.
 - d. Recommend appropriate civil or criminal penalties provided by IRC 7203 if considered to be applicable. Form 2797, Referral Report for Potential Fraud Cases, must be submitted through channels to the Criminal Investigation Division. This recommendation will be made through the CAS team manager, case team manager, and case territory manager. The application of penalties is the responsibility of the case team manager.
- (4) Careful consideration should be given to the issuance of a Notice of Inadequate Records pursuant to Section 12 of Rev. Proc. 98-25 when the required records are either incomplete or non-existent. The taxpayer should be offered the opportunity to explain the reason for the missing records and to reconstruct the records.
 - a. If the taxpayer provides the necessary records or delivers an alternative that is acceptable to the audit team, the events and actions should be documented in a memorandum to be included in the historical file.

b. If the taxpayer is unable or refuses to provide the needed information, serious consideration should be given by the CAS and CAS team manager to recommending the issuance of the Notice of Inadequate Records.

(5) It is the responsibility of the case manager to issue a Notice of Inadequate Records; however, it is the responsibility of the CAS and CAS team manager to make recommendations. If there is a disagreement between the team managers, the appropriate territory managers or other management officials should be involved to resolve the disagreement.

4.47.2.9
(06-28-2021)
**Procuring Data
Processing Resources**

(1) The CAS must have adequate equipment in order to complete any computer assisted audit application. Equipment resources to be used should include those provided by: Taxpayer facilities, CAS Program, IRS service centers, other government owned equipment, local service bureaus, commercial time-sharing services. In all instances CAS Program equipment should be used to the maximum extent possible to compile, test and debug programs prior to execution.

4.47.2.9.1
(08-31-2002)
Taxpayer Facilities

(1) All CASs and their managers must solicit voluntary use of necessary computer facilities from taxpayers under examination where computer assisted audit techniques will be used. It is desirable to use the taxpayer's computer for computer assisted auditing techniques since the equipment is compatible with the records, and the taxpayer's ADP staff is familiar with the data.

(2) Taxpayer facilities shall not be used for other purposes or for longer than is necessary to complete the examination.

4.47.2.9.2
(08-31-2002)
**Other Government
Equipment**

(1) On occasion, another government agency may permit CASs to use its computer facilities. When such facilities are used, even if provided without charge, Area and Territory Security and Disclosure functions must be notified to ensure that appropriate security is maintained.

4.47.2.9.3
(06-28-2021)
**Local Service Bureaus
and Time-Sharing
Services**

(1) The CAS Program secures time-sharing systems and local off-site data processing facilities for use by CASs. These services should be used only when the use of taxpayer computer facilities, IRS facilities or other Commercial government owned equipment is not possible. The most cost-effective system should be selected for the intended application.

(2) Funds for securing ADP services are provided in accordance with regular fiscal procedures.

(3) The DFO-SC must approve all applications using local service bureaus or commercial time-sharing services that will exceed \$10,000 in cost.

(4) The requirement to file GSA Form 2068-A, Quarterly Report of ADP Services, has been eliminated by GSA.

(5) Area and Territory Security and Disclosure functions should be contacted and all security requirements shall be adhered to.