



MANUAL TRANSMITTAL

Department of the Treasury
Internal Revenue Service

4.2.6

AUGUST 20, 2025

EFFECTIVE DATE

(08-20-2025)

PURPOSE

- (1) This transmits revised IRM 4.2.6, General Examining Procedures, Examination of Employee Returns.

MATERIAL CHANGES

- (1) Changes to this IRM are reflected in the table below:

IRM Reference	Description of Change
IRM 4.2.6.1	Added component for Primary Stakeholders.
IRM 4.2.6.1.3	Updated title to Roles and Responsibilities.
IRM 4.2.6.1.4	Added a new subsection for Program Management and Review.
IRM 4.2.6.1.5	Added a new subsection for Program Controls.
IRM 4.2.6.3.8	Clarified current procedures for contacting the FEA.
Throughout IRM 4.2.6	Minor editorial changes have been made throughout this IRM. Current organizational terms, website addresses and IRM references were reviewed and updated as necessary. Replaced acronym "TS" with "Technical Services".

EFFECT ON OTHER DOCUMENTS

This revision supersedes IRM 4.2.6 dated May 2, 2023.

AUDIENCE

Small Business/Self-Employed (SB/SE), Large Business and International (LB&I), and Tax Exempt and Government Entities (TE/GE) examination personnel.

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4.2.6

Examination of Employee Returns

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4.2.6.1
(08-20-2025)
Program Scope and Objectives

- (1) **Purpose.** This IRM provides technical guidance regarding the examination of employee tax returns.
- (2) **Audience.** This guidance applies to all IRS employees who are working on cases involving the examination of an employee tax return.
- (3) **Policy Owner.** The Director, Examination Field and Campus Policy, who reports to the Director, Examination Headquarters.
- (4) **Program Owner.** Field Examination General Processes (FEGP), which is under the Director, Examination Field and Campus Policy.
- (5) **Primary Stakeholders.** IRS employees in SB/SE, LB&I and TE/GE are the primary stakeholders for this IRM.
- (6) **Contact Information.** To recommend changes or make any other suggestions related to this IRM section, see IRM 1.11.6.5, Providing Feedback About an IRM Section - Outside of Clearance.

4.2.6.1.1
(08-09-2019)
Background

- (1) This IRM provides procedures on the examination of employee returns and information regarding the employee's responsibility for timely filing, accurately reporting, and paying of all taxes.

4.2.6.1.2
(08-09-2019)
Authority

- (1) The following provide the authority for topics referenced within this IRM:
 - IRS Restructuring and Reform Act of 1998 (RRA) sections 1203(b)(8) and 1203(b)(9),
 - 5 CFR 3101.106(b)(2), and
 - IRM 1.2.1.5.7, Policy Statement 4-9, Highest integrity expected.

4.2.6.1.3
(08-09-2019)
Roles and Responsibilities

- (1) The Director, Examination Headquarters, is the executive responsible for providing policy and guidance for SB/SE Examination employees and ensuring consistent application of policy, procedures, and tax law to effect tax administration while protecting taxpayers' rights. See IRM 1.1.16.5.5, Examination Headquarters, for additional information.
- (2) The Director, Examination Field and Campus Policy, reports to the Director, Examination Headquarters, and is responsible for the delivery of policy and guidance that impacts the examination process. See IRM 1.1.16.5.5.1, Examination Field and Campus Policy, for additional information.
- (3) Field Examination General Processes (FEGP), which is under the Director, Examination Field and Campus Policy, is the group responsible for providing policy and procedural guidance on standard examination processes to field employees. See IRM 1.1.16.5.5.1.1, Field Examination General Processes, for additional information.
- (4) All employees are responsible for timely filing, accurately reporting, and paying all taxes.
- (5) Income tax examiners and their managers should thoroughly acquaint themselves with the information contained in this IRM, as well as other resources, such as those listed in IRM 4.2.6.1.7, Related Resources, below.

4.2.6.1.4
(08-20-2025)
**Program Management
and Review**

- (1) Program Reports - Reports to monitor employee audit cases are derived from a variety of sources including the Audit Information Management System (AIMS) and Examination Returns Control System (ERCS) databases. These reports provide management with timely and reliable information to account for cases within the operation and measure program effectiveness.
- (2) Program Effectiveness/Field Exam - Periodic case reviews are conducted by RA and TCO group managers and recorded into the Embedded Quality Review System (EQRS) to ensure the employee audit was conducted in accordance with IRM and quality standards.

4.2.6.1.5
(08-20-2025)
Program Controls

- (1) The Employee Audit Reviewer in Baltimore Technical Services provides technical assistance to examiners and managers.
- (2) Mandatory reviews of employee audits are centralized in Baltimore Technical Services.
- (3) The Employee Audit Reviewer ensures the proper completion of procedures and requirements specific to employee audits.

4.2.6.1.6
(05-02-2023)
Acronyms

- (1) The following table lists and defines acronyms commonly used throughout this IRM:

Acronyms	Definition
CCP	Centralized Case Processing
CFOL	Computer Files On Line
ERCS	Examination Returns Control System
FEA	Fraud Enforcement Advisor
IRP	Information Return Processing
LR/ER	Labor Relations/Employee Relations
SC	Source Code
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

4.2.6.1.7
(08-09-2019)
Related Resources

- (1) The following IRMs provide additional information:
 - IRM 1.2.1.5.7, Policy Statement 4-9, Highest Integrity Expected
 - IRM 1.2.2.5.31, Delegation Order 4-40 (formerly DO-244, Rev. 1), IRS Employee Returns Selected for Examination
 - IRM 4.1.1.6.7, Employee Audits
 - IRM 4.8.4, Mandatory Review
 - IRM 4.10.2, Pre-Contact Responsibilities
 - IRM 4.10.5, Required Filing Checks
 - IRM 4.13, Audit Reconsideration
 - IRM 25.1, Fraud Handbook

(2) Helpful information can be found on the following websites:

- *Exam Procedures Knowledge Base for Employee Audits - Exam Technical Services*
- *Exam Procedures Knowledge Base - Baltimore Technical Services Employee Audit Contacts*

4.2.6.2
(06-01-2007)
**Employee Tax
Compliance**

- (1) As the administrators of our nation's tax system, our dedication to the highest standards of ethical behavior and conduct promotes the public trust in our honesty, fairness, and efficiency. Therefore, IRS employees are expected to fully comply with all tax laws by accurately reporting and timely filing their federal, state, and local tax returns and fully paying their taxes when due. This includes paying the proper amount of tax (e.g., estimated tax payments and withholding) as income is earned during the tax year. RRA 98 sections 1203(b)(8) and (b)(9) provide for the removal of IRS employees who willfully fail to file any return of tax required under the Internal Revenue Code of 1986 on or before the date prescribed therefore, or who willfully understate federal tax liability respectively. To this end, the IRS has established a comprehensive employee tax compliance program. Employees' accounts will be subjected to examination, underreporter, and annual delinquency check procedures.
- (2) Each area has an employee audit coordinator. The employee audit coordinator is located in the Planning and Special Programs (PSP) office. A list of coordinators by area may be found at the *Exam Procedures Knowledge Base for - PSP - Employee Audit Coordinators - Area*.

4.2.6.3
(05-02-2023)
**Examination of
Employee Returns**

- (1) IRM 1.2.1.5.7, Policy Statement 4-9, Highest Integrity Expected, provides that standard IRS procedures relating to examinations, proposed changes, appeal rights, etc., will apply to IRS employees to the same extent they apply to all other taxpayers.
- (2) Examination of employee returns are generally in nine categories:
- New employee examinations
 - Current employees who have not previously held an auditable position and who are newly hired into an auditable position
 - Regularly classified employee examinations (returns that are classified under regular circumstances, such as DIF or NRP, but happen to be an employee's return)
 - Executive selections
 - Treasury mandated audits (Treasury Inspector General for Tax Administration (TIGTA) referrals)
 - Criminal Investigation (CI) pre-hire examinations
 - Employee audits transferred from a campus function
 - Non-filer referrals from Collection
 - Special projects to address identified employee compliance problems

4.2.6.3.1
(08-09-2019)
**Identification of
Employee Returns**

- (1) Examiners should review Form 5546, Examination Return Charge-Out Sheet, on every case file to determine if it reflects the words "Employee Return." This designation can be found about one third of the way down from the top of the form. If Form 5546 is not in the case file, the examiner should secure and review IMFOLI to check for an IRS employee indicator. See IRM 2.3.51-12, Command Code IMFOL Output Display — Index, for codes and additional information.

- (2) The examiner should also check for a project and/or tracking code. The following project and tracking codes apply to employee audits:

- Project code 0206 – Executive selections
- Project code 0207 – Treasury mandates
- Project code 0389 – New employees
- Project code 0913 – Employee audit transferred from campus
- Project code 1030 – Criminal Investigation (CI) pre-hires
- Tracking code 7569 – Employee audits

Note: Tracking code 7569 is generally used to track an employee audit that originated in a source code (SC) other than SC 46, Employee Returns (generally SC 46 is used for the primary tax year for an employee audit; SC 40 is used for prior and subsequent tax year(s); and SC 50 is used for related returns). An example of other possible source codes are DIF (SC 20), Compliance Initiative Project (CIP) (SC 62), NRP (SC 80), etc.

- (3) When special projects are initiated to address identified employee noncompliance, they may be assigned a unique project and or tracking code.
- (4) If a return has not been pre-identified as an employee return and it is found to be an employee return after further inspection/examination, the examiner must notify their group manager as soon as possible. The group manager will determine whether the examiner may proceed with examining the return or whether it should be reassigned. The words “employee return” should be written at the **top** of the Form 5546 or the IMFOLI (when no Form 5546 is in the case file). The examiner must document actions taken on Form 9984, Examining Officer’s Activity Record or Case History in RGS (see IRM 4.10.15.8.3, Case History, for additional guidance).
- (5) Conversely, if a return has been pre-identified as an employee audit and the individual is no longer employed with IRS, follow the procedures in IRM 4.2.6.3.10.

4.2.6.3.2 (03-04-2013)

Examiner Impartiality

- (1) Examiners must ensure impartiality and independence when examining an employee return. If examiners have any reason to believe that their impartiality and independence may be questioned, they should discuss the matter with their immediate supervisor for reassignment consideration.
- (2) The impartial and independent character of examinations of IRS employees and officials must be ensured. See IRM 4.1.1.6.7, Employee Audits, for guidelines on assignment of employee returns for examination.

4.2.6.3.3 (06-01-2007)

Assignment of Employee Returns

- (1) Employee audits are **high priority** cases and should be assigned within 10 business days of arrival into the group.

4.2.6.3.4 (06-01-2007)

Examiner Travel to the Employee Location

- (1) When an examiner is assigned an employee return for examination and the employee is located in another post-of-duty, the examiner is authorized to travel to the employee’s business, residence, or other location where the books and records are maintained. All travel costs will be borne by the examining area.

4.2.6.3.5

(03-04-2013)

**Conducting the
Employee Examination**

- (1) An examination of an employee generally should be worked as a normal examination. The employee under examination should not be given preferential treatment or be held to a higher standard than any other taxpayer under examination.
- (2) Normal pre-contact responsibilities apply to an employee audit. The examiner should use current risk-based decision tools in any decision to adjust the scope of the examination. See IRM 4.10.2, Pre-Contact Responsibilities.
- (3) Normal required filing checks apply to an employee audit. See IRM 4.10.5, Required Filing Checks.
- (4) Employee audits are very sensitive and require certain modifications to the examination process. The following modifications must be made:
 - a. The examiner should use the normal and appropriate initial appointment letter to begin the examination. See IRM 4.2.6.5 for employee interview procedures.
 - b. The examiner should also include Form 8111, Employee Notification Regarding Union Representation, with the initial contact letter provided to bargaining unit employees and attempt to secure a signed copy before the initial interview takes place. The Form 8111 is used to secure the employee's acknowledgement that they have been advised of their right to union representation during the interview pursuant to 5 USC 7114(a)(2)(B). If the employee does not provide a signed Form 8111, the examiner will notate "Discussed and Solicited a Signed Form 8111 — Employee Did Not Provide Signed Form 8111" on Form 8111 and proceed with the interview. See IRM 4.2.6.5 (2)a, for additional information.
 - c. Employee tax examinations are to be kept in an orange file folder at all times. See IRM 4.1.5.2.6, File Folder Color Guidelines.
- (5) The Exam Procedures Knowledge Base for employee audits is located at *Employee Audits - Exam Technical Services*.

4.2.6.3.6

(03-04-2013)

**Examination of Spouse's
Separate Return**

- (1) The return of an employee's spouse who has filed separately should be inspected as part of the required filing checks to determine if it should be examined. A copy, RTVUE, or CDE print of the spouse's return must be included with the employee's return if it is not examined. See IRM 4.8.4.2.3.3, Key Points for Reviews.
- (2) If the spouse's return is examined, each Form 3198, Special Handling Notice for Examination Case Processing, should be cross referenced with the taxpayer identification number (TIN) of the related return.

4.2.6.3.7

(03-04-2013)

**Violations of the Code of
Conduct**

- (1) If facts are disclosed during the examination that indicate an employee may have engaged in any activity in violation of the rules of employee conduct, the examiner should refer to Document 12011, Internal Revenue Service Ethics Handbook, and consult with their manager.

4.2.6.3.8
(08-09-2019)
Fraud

- (1) Current civil and criminal fraud procedures will be followed, where applicable. See IRM 25.1, Fraud Handbook. Certain fraud enforcement advisors (FEA) have been designated to assist with employee examinations. The FEA should be identified in the packet that accompanied the case file. If no information is available, contact the area's employee audit coordinator.
- (2) If fraud indicators are discovered during the examination, see IRM 25.1.6.3, Procedures, for additional guidance. After approval is obtained from the group manager, the examiner must request a consultation with the FEA through the *Specialist Referral System (SRS)*. The SRS request should include "employee audit" in the comments section.
- (3) If a joint investigation is initiated with Criminal Investigation on an employee audit, the examiner should **immediately** contact the Field Examination General Processes analyst at: *Exam Procedures Knowledge Base - Employee Audit Contacts (FEGP)*.

4.2.6.3.9
(03-04-2013)
**Contacts with
Labor/Employee
Relations**

- (1) Labor employee relations (LR/ER) specialists will occasionally request an update on the audit status. Their request should be directed as follows:
 - a. If the case was recently closed from the group and sent for mandatory review, the LR/ER specialist should contact the *Baltimore Technical Services Group Manager*.
 - b. If the case is assigned to an examination group, the LR/ER specialist should contact the group manager.

4.2.6.3.10
(08-09-2019)
**Individual No Longer
Employed with IRS**

- (1) If an individual under examination is no longer employed with the IRS, the examiner must take the following actions:

Exception: For examinations resulting from a Treasury mandate (TIGTA referral), see IRM 4.2.6.3.10.1, Treasury Mandates Only - Individual No Longer Employed with IRS, below.

 - a. Notify the group manager and area employee audit coordinator of the resignation and document this activity on the Form 9984, Examining Officer's Activity Record or Case History in RGS (see IRM 4.10.15.8.3, Case History, for additional guidance).

Note: The employee audit coordinator will have the IRS Employee Indicator on command code AMDISA changed from **E** to **C** so the case can close. See IRS Employee Code - AIMS in IRM 4.4.1-1, Reference Guide.
 - b. Discuss the scope of the examination with the group manager. Based on the facts and circumstances of the case, the examination scope may need to be concluded, limited, or continued as planned. See IRM 4.10.2, Pre-Contact Responsibilities.
 - c. Remove the employee audit project code and/or tracking code, if present, because the case is no longer subject to mandatory review, by completing Form 5348 and providing it to the area AIMS analyst. The case is no longer subject to mandatory review.
 - d. Check the "Other Instructions" box under the Special Features section of the Form 3198 and notate the case is no longer an employee audit.
 - e. For employee audits excluded from *Paperless Electronic Closure*, remove the case from the orange folder.

- f. Cross through the words “employee return” on the Form 5546 or on IM-FOLI (when no Form 5546 is in the case file) and note the individual is no longer employed with IRS.

- (2) If the case is still in Status 10 (i.e., the case has not been started), the group manager and if applicable, the examiner should decide whether to retain the case and work it or survey it using survey procedures. See IRM 1.4.40.4.6.3.2, Survey Before Assignment, or IRM 4.10.2.5.2, Procedures for Surveying Returns After Assignment, for the applicable guidance.

4.2.6.3.10.1
(05-02-2023)

**Treasury Mandates Only
- Individual No Longer
Employed with IRS**

- (1) If an individual under examination due to a Treasury mandate (TIGTA referrals, project code 0207) is no longer employed with the IRS, the examiner must take the following actions:
 - a. Notify the group manager and area employee audit coordinator of the resignation and document this activity on the Form 9984, Examining Officer's Activity Record or Case History in RGS (see IRM 4.10.15.8.3, Case History, for additional guidance).
 - b. Retain the employee audit project code 0207 and/or tracking code on Treasury mandated (TIGTA referral) audits.
 - c. Follow the guidance in IRM 4.2.6.7, Closing an Employee Examination.
- (2) Treasury mandated (TIGTA referrals) employee audits cannot be surveyed.

4.2.6.4
(03-04-2013)

**New Employee
Examinations**

- (1) Current employees newly hired into auditable positions and new employees in auditable positions must undergo employee tax return reviews or examinations or both.
- (2) The employee audit coordinator establishes controls on employee examinations and builds the case file.
- (3) The package sent to the group should contain the following items:
 - Return(s) (original, copy, RTVUE, MeF, or CDE print) and
 - CFOL reports of account history for the open years and Information Return Processing (IRP) transcripts
- (4) Employee returns will be examined in the same manner as all individual income tax returns, which include conducting minimum income probes and required filing checks.
- (5) If the primary reason for the examination of a new employee's return is consideration for employment and the individual is no longer employed by IRS or is no longer being considered for employment, the examiner must discuss the scope of this case with their group manager. See IRM 4.2.6.3.10.

4.2.6.5
(03-04-2013)

**Employee Interview
Procedures**

- (1) The initial interview in an employee tax audit has increased significance, as the outcome of the examination may initiate a conduct investigation. The examiner's interview questions should adequately probe the employee's:
 - Role in preparation of the return
 - Participation in any business, investments and income producing activities
 - Role in identifying expenses and adjustments to income

- (2) The examiner's initial interview of an employee may be considered an investigatory interview, and a bargaining unit employee may elect to have union representation.
 - a. The examiner should provide the employee with a copy of Form 8111, Employee Notification Regarding Union Representation, with the initial contact letter; discuss Form 8111 before conducting the initial interview; and request the employee sign Form 8111 to acknowledge notification of their contractual rights. If the employee does not provide a signed Form 8111, the examiner will notate "Discussed and Solicited a Signed Form 8111 — Employee Did Not Provide Signed Form 8111" on Form 8111 and proceed with the interview. The interview should not be delayed in order to secure a signed copy of Form 8111.
 - b. The examination should not be unreasonably delayed to secure union representation.
 - c. An IRS employee is barred from appearing on behalf of any taxpayer as a representative before any federal, state, or local governmental agency, in an action involving a tax matter except on written authorization of the Commissioner of Internal Revenue (5 CFR 3101.106(b)(2)). A union representative may be present and represent the employee in a conduct issue.
- (3) Employee Attendance at the Audit: IRC 7521(c) generally prohibits IRS from requiring a taxpayer to accompany the taxpayer's recognized representative to an audit in the absence of an administrative summons. However, IRC 7521(d) provides that IRC 7521(c) shall **not** apply to investigations relating to the integrity of any officer or employee of the IRS. Since an audit of an employee relates to the integrity of the employee and may result in a disciplinary or adverse action against the employee, the employee's recognized representative may **not** attend the audit in lieu of the employee, although the recognized representative may accompany the employee to the audit. If the employee declines to be interviewed, the examiner should consult with their group manager.

Note: A recognized representative is any attorney, certified public accountant, enrolled agent, enrolled actuary, or any other person permitted to represent that taxpayer before the IRS who is not disbarred or suspended from practice before the IRS and who has a written power of attorney executed by the taxpayer.

- (4) An employee will be granted administrative leave to attend a tax audit or a discussion of the employee's own tax affairs.
- (5) An employee will **not** be granted administrative leave to prepare for an examination.

4.2.6.6
(03-04-2013)
**Survey of Employee
Returns**

- (1) Survey procedures are applicable only to new employee examinations and regularly classified returns. Treasury mandates (TIGTA referrals) and executive selections cases cannot be surveyed.
- (2) Once an IRS employee's return has been selected for examination and assigned to a group, it can only be surveyed with written approval. This survey action must include a description of any documents and/or other information used to draw this conclusion. Surveys are subject to mandatory review. See

IRM 1.2.2.5.31, Delegation Order 4-40 (formerly DO-244, Rev. 1), IRS Employees' Returns Selected for Examination, for the appropriate approving official.

- (3) When an examiner believes that an examination of an employee's return would result in no material change in tax liability, they may apply survey after assignment procedures. The examiner will prepare Form 1900, Income Tax Survey, stating the reasons for the survey action. If the examiner's group manager concurs, they will approve the case and forward it to the territory manager for their consideration and final approval on Form 1900. Refer to IRM 1.2.2.5.31, Delegation Order 4-40 (formerly DO-244, Rev. 1), for the appropriate approving official. The group manager will forward the case file to *Baltimore Technical Services* after securing the territory manager's approval.
- (4) If the group manager decides an employee's return should be surveyed before assignment, the group manager will prepare Form 1900, Income Tax Survey, stating the reasons for the survey action and forward it to the territory manager for their consideration and final approval. The group manager will then forward the case file to *Baltimore Technical Services*.
- (5) Check the "Employee Audit" box on Form 3198, Special Handling Notice for Examination Case Processing, in the "Forward to Technical Services" section, when closing the case.

4.2.6.7
(05-02-2023)
**Closing an Employee
Examination**

- (1) All employee audits, including Treasury mandated (TIGTA referrals) audits of individuals no longer employed with the IRS, are subject to mandatory review and must be closed directly to the Employee Audit Reviewer in *Baltimore Technical Services*. The examiner must complete the following steps:
 - a. Check "Employee Audits" box in the "Forward to Technical Services" section of Form 3198, Special Handling Notice for Examination Case Processing, must always be checked regardless of the type of closure (this includes surveys).
 - b. Place the case file in a "Confidential" envelope.
 - c. Update ERCS Technical Services Code to 109.
 - d. Update RGS group number to one of the following:

Area/NRP	RGS Group
Area 1	14
Area 2	24
Area 3	34
Area 4	44
Area 5	54
Area 6	64
Area 7	74
NRP	9E

- (2) In the case of a joint return, identify the name and social security number (SSN) of the IRS employee on Form 3198 by checking the "Other" block in the "Forward to Technical Services" section and notate the name and SSN of the employee on the lines provided.
- (3) *Baltimore Technical Services* will close the case to the appropriate Centralized Case Processing (CCP) office.
- (4) Once the case is closed from *Baltimore Technical Services*, CCP will forward the required employee audit information in the case file (e.g., audit report and applicable workpapers) to the requesting official such as Labor Relations/ Employee Relations, TIGTA, or IRS Personnel Security.

4.2.6.8
(03-04-2013)

Audit Reconsiderations

- (1) An employee may avail themselves of the audit reconsideration process. Refer to IRM 4.13, Audit Reconsiderations, for information concerning the audit reconsideration process and procedures.
- (2) Employee audit reconsideration cases that are selected will be sent to the appropriate area PSP office for assignment and control. The case should be returned to the group and examiner that originally worked the case. Employee audit reconsideration cases are high priority cases. They are given the same priority status as employee audit cases.
- (3) The purpose of the audit reconsideration is to examine information that was not previously considered. The examiner should review IRM 4.10.11.4, Audit Reconsiderations, for guidance and procedures for examining and closing an audit reconsideration case.