Processing and Monitoring of Balance Due Notice Cases Needs Improvement

March 1, 2010

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

March 1, 2010

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Processing and Monitoring of Balance Due Notice Cases Needs Improvement (Audit # 200830049)

This report presents the results of our review to determine whether the Compliance Services Collection Operations (CSCO)[1] has effective controls over the processing of Balance Due Notice Program cases to ensure appropriate actions are taken to resolve balance due notices accurately and timely. This audit was included in our Fiscal Year 2008 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

Taxpayers with outstanding tax liabilities receive balance due notices informing them of their outstanding liabilities. When the taxpayer responds to the balance due notices, the Internal Revenue Service (IRS) is not always properly and timely working the cases or effectively managing the inventory of cases. Taxpayers who contact the IRS may experience unnecessary delays or costs associated with their outstanding liabilities, including an estimated 6,217 taxpayers who were assisted by the 2 campuses during the weeks in which we selected our sample.[2]

[1] See Appendix V for a glossary of terms.
[2] Week of September 15, 2008 (Philadelphia Campus) and November 3, 2008 (Andover Campus).

Synopsis

A balance due account occurs when the taxpayer has an outstanding liability for taxes, penalties, and/or interest. CSCO managers are responsible for ensuring resolution actions on balance due notice responses are completed timely and accurately. However, the results of our case reviews showed that the work performed on balance due notice cases does not always comply with established procedures and goals. In addition, CSCO managers could not rely on workload inventory reports because they were inaccurate and inconsistent.

We selected a random sample of 60 Balance Due Notice Program cases from 2 campus CSCO sites to determine whether the cases were worked properly and procedures were followed. Fifty-seven (95 percent) of the 60 cases involved streamlined installment agreements. Our analysis showed that installment agreements were established without considering whether they were in the taxpayers' or the IRS' best interest. In 17 (30 percent) of the 57 cases, installment agreements were established when taxpayers may have had the ability to fully pay and could have avoided the costs of the installment agreement, which include a user fee,[3] penalties, and interest.[4] We estimate that for the weeks in which we selected our sample, 1,874 taxpayers may have had the ability to pay their tax liabilities in full. Other times it appeared the taxpayers did not have the income to support the payment amounts required by the terms of the installment agreements. IRS officials advised us that the Internal Revenue Manual instructions for streamlined installment agreements do not require them to contact the taxpayer or make a determination if the taxpayer has the ability to pay. Rather, the installment agreements are based entirely on data provided by the taxpayers on the Installment Agreement Request (Form 9465).

IRS employees should document the case file to support all actions taken to resolve a taxpayer's case. However, 13 (22 percent) of the 60 sampled cases did not include proper documentation. We estimate that for the weeks in which we selected our sample, balances due notice cases for 958 taxpayers were not properly documented. The Internal Revenue Manual also requires that for any taxpayer correspondence, the CSCO needs to provide taxpayers with a final response that addresses all taxpayer issues within 30 calendar days from the date received by the IRS. However, in 39 (65 percent) of 60 sampled cases, this practice did not occur. In addition, the interim letters acknowledging the delay were either late or there was no evidence that interim letters were sent as required in 26 (67 percent) of the 39 untimely cases. We estimate that for the weeks in which we selected our sample, 4,343 taxpayers were adversely affected when processing of their balance due notices exceeded 30 calendar days.

Management was not always aware of the issues that we identified because the workload reviews performed by team managers are not identifying these kinds of problems. The results of the

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[3] Installment agreement user fees are $105 for new agreements.
[4] Interest on unpaid tax liabilities accrue until the liability is paid in full.

workload reviews for Balance Due Notice Program cases are combined with those of other CSCO program cases.

Management relies on several inventory and age reports to manage and monitor the Balance Due Notice Program. The number of case closures is a key measure on the inventory reports because it is used to calculate the Balance Due Notice Program closure rate, which reflects how many hours were needed to close the number of cases shown. This allows management to make staffing and resource decisions, depending on the anticipated volume of cases. However, our analysis showed that the case closures on the inventory reports at one campus were inaccurate and inconsistent. For example, our physical count of the closed cases for the week in which we selected our sample was 38 percent lower than the amount that was reported on the Accounts Management System/Desktop Integration inventory report. In addition, the number of closed cases reported on the various inventory reports ranged from 534 to 2,740 for the same time period.

The two campuses also were not consistent in the types of cases that were counted as closed in the inventory. One of the campuses we visited did not count cases that are processed systemically and do not require action by IRS employees. However, over an 8-month period, another campus counted over 4,000 such cases in its closed case inventory.

The actions taken by tax examiners on balance due notice cases vary from relatively simple to complex and time consuming processes. Regardless of the complexity or time spent on an action, the inventory reports capture and report it generically as a case closure. This can lead to several closures for the same taxpayer on a single liability. For example, a case is opened and closed when an installment agreement is established, and a new case may be subsequently opened and closed every time a payment is received from the taxpayer. This classification can make it difficult to assess the volume of work being performed and the number of taxpayers assisted. *****************************1******************************* and our sample of 60 cases were reported as closed a total of 525 separate times.

CSCO managers can transfer newly received balance due notice cases to another campus if there is an inventory backlog that would prevent the cases from being worked timely. We found evidence that instead of transferring new cases, older cases were transferred. This allowed the transferring campus to show a better managed inventory, while negatively affecting the inventory of the campus that received the older cases. Regardless of the impact on the inventory, the taxpayers whose cases were transferred may have been unnecessarily burdened when actions on their cases were delayed.

Recommendations

We recommended the Director, Collection Policy, Small Business/Self-Employed Division, 1) consider revising the streamlined installment agreement procedures to ensure that the agreements are beneficial to both the IRS and the taxpayer. We also recommended the Director, Campus Compliance Services, Small Business/Self-Employed Division, and the Director, Filing and Payment Compliance, Wage and Investment Division, 2) remind employees about the need to properly document and timely work case actions, and review systemically generated actions such as interim letters to identify and resolve any systemic inconsistencies with Internal Revenue Manual requirements; 3) establish workload review criteria to ensure Balance Due Notice Program cases are worked in compliance with Collection function guidelines and policy; 4) use existing codes in the Embedded Quality Review System to isolate the results of cases subject to the workload reviews for the Balance Due Notice Program to help identify training needs; 5) establish procedures to timely and effectively reconcile inventory reports to the physical inventory; 6) ensure CSCO inventory reports accurately reflect information that is common among the various reports where applicable, such as the number of closed balance due notice cases during a given time period; 7) establish uniform procedures on the type of balance due notice cases that are reflected on CSCO inventory reports; 8) request programming changes to the Accounts Management System/Desktop Integration to accurately identify repeat cases; and 9) establish controls to ensure cases that are transshipped in order to alleviate inventory backlogs cause the least delay to taxpayers.

Response

IRS management agreed with most of our recommendations and is taking corrective actions. The Director, Collection Policy, Small Business/Self-Employed Division, will consider changes to installment agreement procedures to enhance the benefits to taxpayers and the IRS. The Director, Filing and Payment Compliance, Small Business/Self-Employed Division, and Director, Filing and Payment Compliance, Wage and Investment Division, agreed to remind employees about the ongoing need to properly document and timely work case actions and to include the proper use of interim letters in their 2010 campus reviews and identify and resolve systemic inconsistencies with Internal Revenue Manual requirements. They also agreed to ensure Embedded Quality and National Quality review criteria are effectively utilized in future reviews of the Balance Due Notice Program, and Headquarters will continue to periodically review campus cases to ensure compliance with Collection function guidelines and policy. They also agreed to integrate the results of Embedded Quality and National Quality reports to better identify Enterprise training needs to further improve the Balance Due Notice Program.

The Director, Filing and Payment Compliance, Small Business/Self-Employed Division, will also establish a requirement for campuses to reconcile local reports to Work Planning and Control on a quarterly basis. In addition, the Director, Filing and Payment Compliance, Small Business/Self-Employed Division, and Director, Filing and Payment Compliance, Wage and Investment Division, will review the need for uniform procedures on balance due notice cases that are reflected on CSCO inventory reports, and they will also review whether the controls over transshipped work are sufficient and effective to alleviate inventory backlogs while minimizing the delay to taxpayers.

However, IRS management stated they will continue to follow the Service-wide procedures provided in the Internal Revenue Manual to reconcile inventory reports to the physical inventory instead of establishing new procedures to timely and effectively reconcile inventory reports to the physical inventory. In addition, IRS management does not believe the Accounts Management System/Desktop Integration needs programming changes to identify repeat cases. Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

Our results show that the Service-wide procedures to reconcile inventory reports to the physical inventory are not effective and that the frequency of the physical inventory may prevent a proper reconciliation. The Internal Revenue Manual requires the CSCO to reconcile inventory reports to the physical inventory on a quarterly basis, which may be too infrequent to determine the cause of any variance. We determined that the Philadelphia Campus actual closed cases inventory was significantly lower (38 percent) than the inventory reflected on the corresponding campus inventory report. CSCO management in the Philadelphia Campus could not explain the reason for this significant variance. Furthermore, instead of attempting to reconcile the physical inventory counts to the appropriate inventory reports in an effort to identify the cause of variances, we were told that the beginning inventory number for the next period's inventory report is just "plugged" with the physical count.

In addition, the IRS stated the Accounts Management System/Desktop Integration did not need changing to identify repeat cases as this system is only used to count cases when there is correspondence attached that has been worked. We do not agree. As our sample indicates, the majority of Balance Due Notice Program cases are installment agreement cases. Taxpayers with installment agreements receive an installment agreement reminder notice (Computer Paragraph 521) after every installment payment they make that advises them of the amount and due date of their next installment. These reminder notices also include a payment voucher, which the taxpayer is instructed to include when making his or her next installment. These payment vouchers are considered correspondence by the Balance Due Notice Program and are treated as a new case when entered into the Accounts Management/Desktop Integration system and counted as a closed case. We believe that cases that are simply a recording of a payment voucher should be identified as such, since this action by the Balance Due Notice Program does not impact the taxpayer. The critical actions impacting the taxpayer, such as processing the payment and crediting the payment to the taxpayer's account, will have already been completed by other IRS functions.

Additionally, the IRS disagreed with the first outcome measure, stating that all taxpayers with unpaid taxes receive an initial notice demanding full payment of the balance due and publications are enclosed which explain payment options. Taxpayers meeting streamline installment agreement criteria can request an installment agreement without first proving that they have an ability to pay the liability in full. However, despite the information on payment options, our case review results indicate that taxpayers enter into installment agreements that are not beneficial to the taxpayers and, in some cases, the IRS. Our first outcome measure shows the financial impact of entering into an agreement in cases where taxpayers could have fully paid their liabilities. We were advised that the Balance Due Notice Program simply processes the applications for installment agreements based on the information provided by the taxpayer. Furthermore, there are no automated checks of the taxpayer's current adjusted gross income or taxable income, or comparison of the user fee as a percentage of the balance due amount, to alert the IRS of obvious or egregious situations where the taxpayer either may have the ability to fully pay or, conversely, cannot afford the monthly installment they request. The outcome measure is an estimate of the taxpayers' cost of this practice at just one campus, during a 1-week period.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

Table of Contents

Abbreviations

CSCO	Compliance Services Collection Operations
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
W&I	Wage and Investment

Background

A balance due account occurs when the taxpayer has an outstanding liability for taxes, penalties, and/or interest. These accounts are automatically monitored through computer analysis and placed in a specific status depending on age and/or activities. Based on the computer analyses, the Internal Revenue Service (IRS) generates notices to taxpayers informing them of their outstanding liabilities. For example, the IRS designates status 19 when the first balance due notice is mailed to the taxpayer. After 5 weeks, if no contact is received from the taxpayer, the IRS changes the account to status 20 and a second notice is mailed to the taxpayer. Two IRS Divisions have responsibility for processing taxpayer responses to balance due notices. Specifically, the Small Business/Self-Employed (SB/SE) Division Campus Compliance Services function is responsible for processing taxpayer responses to balance due notices at its five Compliance Services Collection Operations (CSCO)[1] sites.[2] The Wage and Investment (W&I) Division Filing and Payment Compliance function is responsible for processing taxpayer responses to balance due notices at its five CSCO sites.[3]

When taxpayers respond to notices, CSCO tax examiners are assigned to work the cases based on their skill level. The first step is the Collection First Read Process. In this step, examiners work cases that can be quickly closed, such as cases where the taxpayer sends documentation to support an address change. If the case cannot be closed during the First Read Process, it is placed in a holding status and eventually moved to the technical units. The tax examiners must then research the tax accounts to determine what actions can be taken to bring the taxpayer into compliance. In addition, if contact is made with the taxpayer, either by telephone or in person, the tax examiners must interview the taxpayer to obtain additional information. The examiners must also analyze the taxpayer's ability to pay when determining an option for resolving the delinquency. Taxpayers have several payment options for resolving their accounts, including payoffs, arranging for time extensions, or initiating installment agreements.

CSCO management is responsible for managing the balance due notice workload and establishing controls to ensure resolution actions are completed timely and accurately. CSCO management control balance due notice inventories using the Accounts Management System/Desktop Integration, which replaced the Integrated Case Processing system. Accounts Management System/Desktop Integration is used to add cases to inventory, assign cases to employees in the technical units, and record history of work performed and actions taken on

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[1] See Appendix V for a glossary of terms.
[2] The five SB/SE Division CSCO sites are in Holtsville, New York; Cincinnati, Ohio; Philadelphia, Pennsylvania; Memphis, Tennessee; and Ogden, Utah.
[3] The five W&I Division CSCO sites are in Fresno, California; Atlanta, Georgia; Andover, Massachusetts; Kansas City, Missouri; and Austin, Texas.

balance due notice cases. Accounts Management System/Desktop Integration also produces inventory reports that management can use to monitor the technical units' inventories.

CSCO operations and department managers should also perform operational reviews at least once a year. These reviews should evaluate organizational performance in accomplishing program objectives. In addition, team managers should perform workload reviews to evaluate employee performance, identify training needs, and ensure protection of taxpayer rights.

The IRS Quality Review process also provides a method to monitor, measure, and improve the effectiveness of compliance work. To evaluate the effectiveness of CSCO programs, the IRS Quality Review process uses the following five performance measures:

- **Customer Accuracy** – measures whether account resolution actions were correct.
- **Regulatory/Statutory Accuracy** – measures whether account resolution decisions were consistent with regulatory/statutory requirements.
- **Procedural Accuracy** – measures whether account resolution actions were consistent with internal procedures.
- **Timeliness** – measures whether account resolution actions were performed efficiently.
- **Professionalism** – measures effectiveness in the use of appropriate communication techniques.

This review was performed at the SB/SE Division Campus Compliance Services Office at the Philadelphia Campus and the W&I Division Filing and Payment Compliance Office at the Andover Campus during the period May 2008 through April 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Balance Due Notice Cases Are Not Always Worked Properly and Timely

CSCO managers are responsible for ensuring resolution actions on balance due notice responses are completed timely and accurately. The primary control for accomplishing this responsibility is the workload reviews performed by the CSCO team managers. Workload reviews are intended to evaluate the work performed by the employee, identify training needs, and ensure protection of taxpayer rights in accordance with IRS procedures. Workload reviews should be performed monthly and usually involve two cases per employee. Managers will review all of the cases for employees who are learning to work new types of cases or who have performance issues.

We selected a random sample of 30 cases from the Philadelphia Campus and 30 cases from the Andover Campus to determine whether the cases were worked properly and procedures were followed. The cases we selected were worked and closed by the Balance Due Notice Program at each campus. We reviewed information retained in the case file, the Integrated Data Retrieval System (IDRS), and Accounts Management System/Desktop Integration as appropriate.

The results of our case reviews showed that the work performed on balance due notice cases does not always comply with established procedures and goals. Specifically, we determined that:

- Cases were not always properly documented.
- Installment agreements were established without considering whether they were in the taxpayers' or IRS' best interest.
- Case actions were not always closed timely.
- Workload reviews did not identify the above problems.

Cases were not always properly documented

All actions taken on an account are required to be documented clearly in the Accounts Management System/Desktop Integration. Proper documentation provides support for the actions taken to research and resolve a case. For example, in the case of an installment agreement, proper documentation would include recording the provisions of the installment agreement such as payment amount, payment date, and number of payments, as well as evidence that the tax examiner ensured the taxpayer's balance would be fully paid within

60 months and before the collection statute expired. However, our review determined that 13 (22 percent) of 60 cases did not include proper documentation. Based on our case review, we estimate that for the weeks in which we selected our sample,[4] the balances due notice cases for 958 taxpayers were not properly documented. Without proper documentation, management does not have evidence to determine if the actions taken on the cases were proper or if corrective actions are necessary.

Installment agreements were established without considering whether they were in the taxpayers' or IRS' best interests

Of the 60 cases that we selected for review, 57 (95 percent) involved installment agreements. In all 57 cases, the taxpayers' tax liability was under $10,000 and, therefore, the taxpayers were eligible for a streamlined installment agreement. Our analysis showed the IRS and taxpayer sometimes entered into installment agreements when taxpayers may have had the ability to fully pay. Other times it appeared the taxpayers did not have the income to support the payment amounts required.

For our sample cases, we analyzed the taxpayers' Adjusted Gross Income from their applicable U.S. Individual Income Tax Return (Form 1040), their tax liability, any payments made with the Installment Agreement Request (Form 9465), and the applicable installment agreement user fee. In 17 (30 percent) of the 57 cases, we found indications the taxpayer may have had the ability to pay in full. The tax liabilities for these 17 cases were all less than $2,800, with an average tax liability of $1,198. In 15 of the cases, the tax liability was less than 5 percent of current Adjusted Gross Income *****************1*****************. Taxpayers with liabilities that are a small percentage of their income may have the ability to fully pay their taxes.

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*************************. We also identified 3 cases where the user fees were about 25 percent or more of the tax liability. Further, 8 of the cases were paid in full within 6 months due to a refund offset from the taxpayers' subsequent Form 1040. Entering taxpayers in installment agreements in situations where they can pay their tax liability in full causes an unnecessary burden to the taxpayers, since they must pay the costs of the installment agreement, which include the user fee,[5] penalties, and interest.

In other cases, the installment agreement was not in the best interest of the IRS. ****1*******
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[4] Week of September 15, 2008 (Philadelphia Campus) and November 3, 2008 (Andover Campus)
[5] Installment agreement user fees are $105 for new agreements.

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SB/SE and W&I Division officials advised us that CSCO is primarily a paper process and that the Internal Revenue Manual instructions regarding streamlined installment agreements do not require them to contact the taxpayer or make a determination if the taxpayer has the ability to pay. We were also advised that they consider the balance due notices sent to the taxpayer, which encourage the taxpayer to full pay, to satisfy their requirement to request full payment from the taxpayer. Accordingly, these installment agreements were established without a detailed financial analysis of the taxpayer. Rather, the installment agreements were based entirely on data provided by the taxpayers on Form 9465.

Case actions were not always closed timely

The Internal Revenue Manual requires the CSCO to provide taxpayers with a final response that addresses all taxpayer issues within 30 calendar days from the date received by the IRS. Timely resolution is important because penalties and interest continue to accrue until the tax liability is paid in full. However, in 39 (65 percent) of 60 sampled cases, this practice did not occur. Eleven (28 percent) of these 39 cases were closed more than 45 calendar days after being received by the IRS and were therefore considered over age. In addition, if the case cannot be closed within 30 calendar days, the Internal Revenue Manual requires that an interim letter be sent to the taxpayer within the 30 calendar days acknowledging the delay. However, interim letters were only sent in 27 of the 39 untimely cases and 14 (52 percent) of the 27 interim letters were sent late.

The issuance of an interim letter does not establish a new deadline for a timely response. The Internal Revenue Manual specifically defines “timely” as providing a final response within 30 calendar days of the IRS received date or requesting more information from the taxpayer if needed. Interim letters only advise the taxpayer that the IRS is late in processing their request and are not used to request additional information. In the 14 cases where interim letters were sent late, the IRS was late twice on each case; once when it did not provide the taxpayer with a final response that addressed all issues within 30 days and again when these interim letters were sent late. Furthermore, in 12 (31 percent) of the 39 untimely cases, the IRS did not notify the taxpayer that it was late in processing the taxpayer’s request. In total, interim letters were either late or there was no evidence that interim letters were sent as required in 26 (67 percent) of the 39 untimely cases.

SB/SE Division officials advised us that interim letters were generated systemically and could not explain why they were late or not sent when required. Based on our case review, we estimate that for the weeks in which we selected our sample, 4,343 taxpayers were adversely affected when processing of their balance due notices exceeded 30 calendar days.

Workload reviews did not identify the above problems

Management could not provide reasons why employees were not properly documenting cases, assessing taxpayers' ability to fully pay their liabilities, or responding to taxpayers' correspondence timely because management was not aware of these problems. Specifically, the workload reviews performed by team managers are not identifying problems with Balance Due Notice Program cases such as employees improperly documenting case histories, processing cases untimely, and failing to comply with installment agreement guidelines.

Although the results of the workload reviews are entered into the IRS Embedded Quality Review System to measure an employee's performance, the results specific to Balance Due Notice Program cases are combined with those of other CSCO program cases, making it impossible to identify the sources of problem areas in any one program. In addition, the National Quality Review System separately captures performance information that is statistically valid to the national and area levels. However, neither system captures performance information that is statistically valid at the campus level. This limitation creates an information gap for the Balance Due Notice Program since it is managed at the campus level. For example, the problems we identified and reported here were significant, but were unique to the specific campuses we visited. Without relevant performance information, campus managers may not identify problems and solutions that are specific to their areas of responsibility.

Recommendations

Recommendation 1: The Director, Collection Policy, SB/SE Division, should consider revising the streamlined installment agreement procedures to ensure agreements are beneficial to both the IRS and the taxpayer.

> ***Management's Response:*** IRS management agreed with this recommendation and will consider changes to enhance the benefits to taxpayers and the IRS.
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> ***Office of Audit Comment:*** In their response, IRS management disagreed with the first outcome measure, stating that all taxpayers with unpaid taxes receive an initial notice demanding full payment of the balance due, and publications are enclosed which explain payment options. Taxpayers meeting streamline installment agreement criteria can request an installment agreement without first proving that they have an ability to pay the liability in full. However, despite the information on payment options, our case review results indicate that taxpayers enter into installment agreements that are not beneficial to the taxpayers and, in some cases, the IRS.
>
> Our first outcome measure shows the financial impact of entering into an agreement in cases where taxpayers could have fully paid their liabilities. We were advised that the Balance Due Notice Program simply processes the applications for installment agreements based on the information provided by the taxpayer. Furthermore, there are no

automated checks of the taxpayer's current adjusted gross income or taxable income or comparison of the user fee as a percentage of the balance due amount to alert the IRS to obvious or egregious situations where the taxpayer either may have the ability to fully pay or, conversely, cannot afford the monthly installment they request. The outcome measure is an estimate of the taxpayers' cost of this practice at just one campus, during a 1-week period.

To improve the handling of Balance Due Notice Program cases, the Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should:

Recommendation 2: Remind employees about the need to properly document and timely work case actions and review systemically generated actions such as interim letters to identify and resolve any systemic inconsistencies with Internal Revenue Manual requirements.

> ***Management's Response:*** IRS management agreed with this recommendation and will remind employees about the ongoing need to properly document and timely work case actions. They also agreed to include the proper use of interim letters in their 2010 campus reviews and to identify and resolve systemic inconsistencies with Internal Revenue Manual requirements.

Recommendation 3: Establish workload review criteria to ensure Balance Due Notice Program cases are worked in compliance with Collection function guidelines and policy, including encouraging timely processing of case actions and proper documentation.

> ***Management's Response:*** IRS management agreed with this recommendation and will ensure the Embedded Quality and National Quality review criteria are effectively utilized in future reviews of the Balance Due Notice Program. Headquarters will continue to periodically review campus cases to ensure compliance with Collection function guidelines and policy.

Recommendation 4: Use existing codes in the Embedded Quality Review System to isolate the results of cases subject to the workload reviews for the Balance Due Notice Program to help identify training needs.

> ***Management's Response:*** IRS management agreed with this recommendation and will integrate the results of Embedded Quality and National Quality reviews/reports to better identify training needs to further improve the Balance Due Notice Program.

Balance Due Notice Program Inventory Is Not Effectively Managed

IRS management relies on several inventory and age reports to manage and monitor the Balance Due Notice Program. Because there are various levels of management, the information provided in each of the inventory and age reports varies depending on the need of the management level.

CSCO management at the campuses generates a Collection Inventory Report; a Work, Planning and Control Report; and reports from the Accounts Management System/Desktop Integration. In addition, at one campus we visited, reports are generated by the IDRS that are also used to control inventories. CSCO management reports provide information needed to effectively monitor the Program at the campus level, such as case receipts, case closures, and the age of the open cases in inventory. At the Philadelphia Campus, the Collection Inventory Report is used to monitor receipts and closures of balance due notice cases. Similarly, the Accounts Management System/Desktop Integration produces a report that provides information about the age of the cases in inventory at the campus.

Because the SB/SE Division Headquarters Office needs information at a higher Program level, it consolidates data from the various CSCO reports. The SB/SE Division Headquarters Office produces a CSCO Inventory Report from the Work, Planning and Control Reports prepared by the campuses. It also produces a Compliance Operations Business Report from the campuses' Work, Planning and Control Reports and Collection Inventory Reports. These reports provide consolidated information needed to make Program-wide decisions. For example, the Compliance Operations Business Report tracks how well the campuses are meeting their corporate goals.

When evaluating how effectively CSCO managers in the campuses managed their balance due notice inventories, we determined that CSCO managers cannot rely on the inventory reports. Our analysis showed that the inventory reports were inaccurate and inconsistent and that the information system that captures the data for the reports does not identify repeat and reassigned cases. Because the SB/SE Division Headquarters Office uses these CSCO inventory reports to generate its own management reports, it does not have reliable information to make Program-wide decisions or to effectively manage the Program.

Balance due notice inventory reports are inaccurate and inconsistent

To effectively manage the Balance Due Notice Program, the various inventory reports that management relies on should be accurate and consistent among reports and campuses. To assess the effectiveness and validity of the various inventory reports, we performed a physical inventory of balance due notice cases that were closed during the weeks in which we selected our sample. We also determined whether the balance due notice inventories were consistent among the various inventory reports in addition to determining the types of cases reflected on these inventory reports. Specifically, our results show that management inventory reports:

- Did not reconcile to a physical count of the inventory at one campus.
- Did not reconcile to each other at one campus.
- Were prepared using different criteria at each campus we visited.

Inventory reports did not reconcile to a physical count of the inventory at one campus. The Accounts Management System/Desktop Integration inventory report is used by CSCO managers to control and monitor case inventories and is the source for all of the other reports. To verify the accuracy of the Accounts Management System/Desktop Integration inventory reports, we compared the closed cases on hand at the beginning of each day of the week with the corresponding weekly Accounts Management System/Desktop Integration inventory report. We were able to reconcile our physical count of the inventory with the weekly Accounts Management System/Desktop Integration inventory report at the Andover Campus. However, Figure 1 shows the results of this comparison at the Philadelphia Campus.

Figure 1: Reported Inventory Compared With Our Physical Count at the Philadelphia Campus

Inventory Shown on the Accounts Management System/Desktop Integration Inventory Report	Physical Count of Inventory	Difference Between Physical Count and Reported Inventory
3,268	2,011	1,257 (38 percent)

Source: Treasury Inspector General for Tax Administration analysis of IRS inventory reports and physical case counts for week ending September 19, 2008.

The physical inventory was significantly lower than the inventories reflected on the reports. CSCO management in the Philadelphia Campus believed that a portion of the variance between the closed cases on the inventory report and our count was due to the processing of electronic cases and cases assigned by the SB/SE Division Headquarters Office. However, neither the SB/SE Division Headquarters Office nor CSCO management in the Philadelphia Campus could provide any evidence to support this explanation.

CSCO management also advised us that a physical count of cases in the units is performed at least quarterly at both campuses. However, these physical counts are not reconciled to an appropriate inventory report. Instead, we were told that the beginning inventory number for the next period's inventory report is "plugged" with this count.

Inventory reports did not reconcile to each other at one campus. The various inventory reports relied on by Philadelphia Campus[6] CSCO management to assist them in monitoring case activities reflect different inventory amounts for the same time periods. Figure 2 shows the number of cases closed and ending inventory reported on the five major inventory reports used by the Philadelphia Campus.

[6] CSCO management at the Andover Campus advised us that they only use one report (Accounts Management System/Desktop Integration).

Figure 2: Philadelphia Campus
Balance Due Notice Inventory Reports and Statistics

	Accounts Management System/Desktop Integration	CSCO Inventory Report	Week at a Glance	Collection Inventory Report	IDRS Report
Cases Closed	681	2,740	2,593	2,593	534
Ending Inventory	3,746	4,385	4,362	3,961	2,935

Source: Treasury Inspector General for Tax Administration analyses of Philadelphia CSCO Inventory Reports for the week ending January 24, 2009.

When a balance due notice cases is closed, it is recorded on the Accounts Management System/Desktop Integration, which is the source of data for the other reports. However, there were significant differences in the number of closed cases reported, which resulted in different ending inventory balances. The number of reported closed cases ranged from 534 to 2,740 and the ending inventory ranged from 2,935 to 4,385 for the week ending January 24, 2009.

The inaccuracies in the inventory reports could lead management to incorrect conclusions about productivity. For example, campus management uses the CSCO Inventory Report to monitor the receipts and closures of Balance Due Notice Program cases. This report is also used to monitor the rate of cases closed per hour, the resource hours expended to close these cases, and the age of the cases. The SB/SE Division Headquarters Office also uses the CSCO Inventory Report to determine if there is a need to reassign cases among campuses. We attempted to determine why the reports were inconsistent, but IRS officials could not offer an explanation, other than to say the reports have different uses, so the information will not be the same. However, this does not explain why information that is common in each report – such as the number of Balance Due Notice closed cases during the same 1-week period – are different on each report.

Inventory reports were prepared using different criteria at each campus we visited. Some balance due notice cases are processed systemically and do not require action by IRS employees. These cases are referred to as Generalized IDRS Interface cases. The taxpayer submits the Form 9465 for his/her installment agreement electronically and it is processed with no intervention by CSCO tax examiners. Consequently, these cases have no impact on Balance Due Notice Program resources. However, CSCO inventory reports show that in an 8-month period, CSCO management at the Philadelphia Campus counted more than 4,000 of these cases as Balance Due Notice Program case closures.

Conversely, the Andover Campus only reports cases worked and closed by their Balance Due Notice Program tax examiners, even though the Andover Campus processes significantly more Generalized IDRS Interface cases. For example, during the 1-week period ending November 8, 2008, the Andover Campus processed almost 1,000 cases through the Generalized

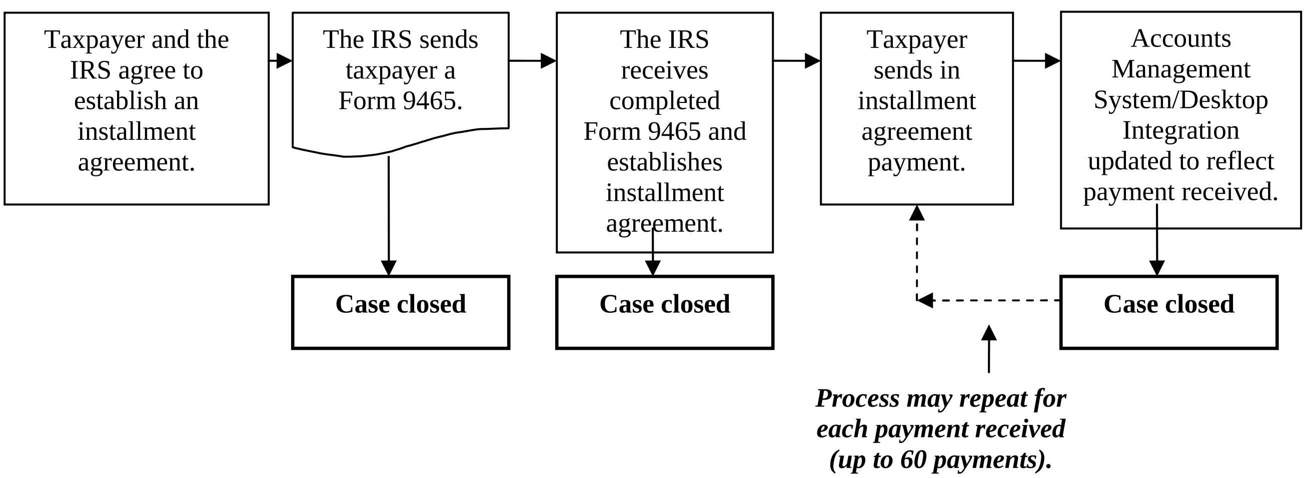
IDRS Interface, but did not reflect any of them on its inventory reports as Balance Due Notice Program closures. When campuses use different criteria for counting and reporting closed cases, SB/SE and W&I Division Headquarters Office management cannot provide effective oversight or properly assess productivity and the assignment of resources to the different campuses.

Inventory reports do not identify repeat or reassigned cases

As previously discussed, inventory reports provide management with important information about productivity and workload so appropriate resource decisions can be made about staffing, training, and customer service. A key measure on the inventory reports is the number of case closures because it is used to calculate the Balance Due Notice Program closure rate, which reflects how many hours were needed to close the number of cases shown. This allows management to make staffing and resource decisions, depending on the anticipated case volume.

The actions taken by tax examiners on balance due notice cases vary from relatively simple actions to complex and time-consuming processes, such as establishing a new installment agreement for a taxpayer. Regardless of the complexity or time spent on an action, the inventory reports capture and report it generically as a case closure. Figure 3 shows how this classification process can result in multiple case closures for the same taxpayer on a single liability.

Figure 3: Closed Cases Associated With an Installment Agreement



Source: Treasury Inspector General for Tax Administration analysis of the installment agreement process in the Balance Due Notice Program.

SB/SE and W&I Division officials advised us that unless the taxpayer sends correspondence with their installment agreement payment through the CSCO, a closure is not taken. However, our sample included some closed cases where the only correspondence was the payment voucher and the only action documented was the receipt of a scheduled payment.

We determined that 47 (78 percent) of our 60 sampled closed cases were worked and closed by a CSCO Balance Due Notice Program tax examiner before and/or after our review. ****1****** ** ***. This report is used as the source for the Work, Planning and Control report as well as the Collection Inventory Report. We also determined that 4 (7 percent) of the 60 cases were worked by the Automated Collection System after our review, which indicates that although the cases were reported as closed by the Balance Due Notice Program, they were not resolved. Overall, the 60 sampled closed cases were reported as closed a total of 525 separate times.

In addition, CSCO managers can reassign (commonly referred to as "transshipped") cases when they determine that cases were misrouted and not intended for the Balance Due Notice Program. These kinds of cases are typically routed to another program within the campus. Similarly, CSCO managers can transship newly received balance due notice cases to another campus if there is an inventory backlog that would prevent the cases from being worked timely.

The practice of transshipping cases is designed to reduce taxpayer burden by allowing the processing of balance due notice cases more quickly when there is a backlog at a specific campus. As new cases come to the backlogged campus, they should be immediately shipped to another campus so the campus with the backlog can focus on its existing inventory, and new cases do not compound to the backlog.

Because the inventory reports do not identify transshipped cases (or their age), it is possible that cases are not being reassigned as intended. ****************1************************* ** ** *** ** ** *** **.

According to a CSCO quality review completed June 2009, the Philadelphia Campus assisted the Brookhaven and Memphis Campuses with their inventory during the months of February and March 2009. The majority of the transshipped inventory received was aged on receipt, which further indicates that older cases are being transshipped instead of newer cases. Some CSCO managers advised us that instead of transshipping new cases immediately, some campuses transship their older cases first. This practice allows the backlogged campus' aged cases to look better and the gaining campus' statistics on aged cases to appear worse. Meanwhile, the taxpayer whose case is transshipped continues to experience delays instead of having his/her case worked and resolved in a timely manner.

Because CSCO inventory reports do not accurately reflect the work being performed by the Balance Due Notice Program, CSCO management cannot effectively analyze the Balance Due Notice Program's workload or make informed decisions regarding the Program. This condition can contribute to improper oversight and inefficient use of Balance Due Notice Program resources because staffing needs are based on reported inventory levels that misrepresent the actual workload activity.

Recommendations

To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director, Campus Compliance Services, SB/SE Division, and the Director, Filing and Payment Compliance, W&I Division, should:

Recommendation 5: Establish procedures to timely and effectively reconcile inventory reports to the physical inventory.

> **Management's Response:** IRS management disagreed with this recommendation by stating that they will continue to follow Service-wide procedures provided in the Internal Revenue Manual to reconcile inventory reports to the physical inventory and will continue to ensure these procedures are followed.
>
> **Office of Audit Comment:** Our results show that the Service-wide procedures to reconcile inventory reports to the physical inventory are not effective and that the frequency of the physical inventory may prevent a proper reconciliation. The Internal Revenue Manual requires the CSCO to reconcile inventory reports to the physical inventory on a quarterly basis, which may be too infrequent to determine the cause of any variance. We determined that the Philadelphia Campus actual closed cases inventory was significantly lower (38 percent lower) than the inventory reflected on the corresponding campus inventory report. CSCO management in the Philadelphia Campus could not explain the reason for this significance variance. Furthermore, instead of attempting to reconcile physical inventory counts to appropriate inventory reports in an effort to identify the cause of variances, we were told that the beginning inventory number for the next period's inventory report is just "plugged" with the physical count.

Recommendation 6: Ensure CSCO inventory reports accurately reflect information that is common among the various reports where applicable, such as the number of closed balance due notice cases during a given time period.

> **Management's Response:** IRS management agreed with this recommendation and will establish a requirement for campuses to reconcile local reports to Work, Planning and Control reports on a quarterly basis in the SB/SE Division. The W&I Division already reviews and reconciles local reports on a quarterly basis.

Recommendation 7: Establish uniform procedures on the type of balance due notice cases that are reflected on CSCO inventory reports. Procedures should include separate identification of cases that do not require Balance Due Notice Program resources.

> ***Management's Response:*** IRS management agreed with this recommendation and the SB/SE and W&I Divisions will review and discuss the need for uniform procedures on balance due notice cases that are reflected on CSCO inventory reports.

Recommendation 8: Request programming changes to the Accounts Management System/Desktop Integration to accurately identify repeat cases.

> ***Management's Response:*** IRS management disagreed with this recommendation. They do not believe the Accounts Management System/Desktop Integration needs programming changes to identify repeat cases as this system is only used to count cases when there is correspondence attached that has been worked. Since cases often include multiple pieces of correspondence, there may be an appearance of repeater activity. They rely on the IDRS to record actions taken by employees to complete a case.

> ***Office of Audit Comment:*** As our sample indicates, the majority of Balance Due Notice Program cases are installment agreement cases. Taxpayers with installment agreements receive an installment agreement reminder notice (Computer Paragraph 521) after every installment payment they make, which advises them of the amount and due date of their next installment. These reminder notices also include a payment voucher, which the taxpayer is instructed to include when making his or her next installment. These payment vouchers are considered correspondence by the Balance Due Notice Program. When they are received, they are treated as a new case when entered into the Accounts Management System/Desktop Integration and counted as a closed case. We believe cases that are simply a recording of an installment payment voucher should be identified as such, since this action by the Balance Due Notice Program does not impact the taxpayer. The critical actions impacting the taxpayer, such as processing the payment and crediting the payment to the taxpayer's account, will have already been completed by other IRS functions.

Recommendation 9: Establish controls to ensure cases that are transshipped in order to alleviate inventory backlogs cause the least delay to taxpayers.

> ***Management's Response:*** IRS management partially agreed with this recommendation and will review whether the controls over transship work are sufficient and effective to alleviate inventory backlogs while minimizing the delay to taxpayers.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the CSCO[1] has effective controls over the processing of Balance Due Notice Program cases to ensure appropriate actions are taken to resolve balance due notices accurately and timely. To accomplish the objective, we:

I. Evaluated whether management in the Andover and Philadelphia Campuses have established effective inventory controls, per the Internal Revenue Manual, over the processing of balance due notice responses and aging inventories.

   A. Interviewed managers to determine how they use inventory controls to ensure that cases are timely assigned to balance due notice unit personnel for processing.

      1. Determined how the Accounts Management System/Desktop Integration control, assign, and monitor inventory to unit personnel.

      2. Evaluated IRS efforts to ensure that computer-processed information and related reports are accurate and complete.

      3. Identified the types of responses being worked in the balance due notice unit to determine appropriate resolution activities for specific cases.

   B. Reviewed available inventory reports to identify case statuses and ages.

   C. Reviewed related Internal Revenue Manuals, SB/SE and W&I Division Headquarters Office guidelines, and local procedures for processing correspondence and workflow management.

   D. Determined whether the Collection First Read Process had properly evaluated balance due notice cases for routing to appropriate technical units.

II. Reviewed random samples of balance due notice responses from both the case reviewers and the Collection First Read Program at the selected campuses to determine if the actions taken were accurate, complete, and timely. We reviewed valid statistical samples of closed collection cases and selected these samples based on random sampling techniques using random case selection from a population of 2,011 from the Philadelphia campus (week of September 15, 2008) and 4,604 from the Andover campus (week of November 3, 2008) for a total of 6,615 balance due notice cases. The initial samples (80 from Philadelphia and 100 from Andover) were based on a confidence level of

[1] See Appendix V for a glossary of terms.

95 percent with a ± 5 percent precision level and an expected error rate of 10 percent. We over-selected cases to reduce the need for making multiple requests. After evaluation of the first 30 cases selected at each campus, we evaluated our judgmental estimate of the expected error rate and adjusted our sample size accordingly. We stratified our sample projections based on the results of our review of 60 cases and the error rates for each campus. Specifically, for the timeliness projection, we used a precision level of ± 13.03 percent (± 862 cases) and for the documentation projection, we used a precision level of ± 7.03 percent (± 465 cases).

A. Reviewed each case and evaluated whether the closing action taken was consistent with instructions in the Internal Revenue Manual or other procedures prescribed by the SB/SE and W&I Division Headquarters Office.

B. Compared the notice response received date and closing action date to determine if actions were completed within the prescribed 30 calendar day time period.

C. Evaluated whether appropriate action was taken on notice responses that required additional information to resolve the balance due.

III. Determined whether CSCO personnel performed and documented case reviews of the Balance Due Notice Program.

A. Interviewed unit managers and quality review personnel to determine the procedures and methodology for selecting work products for review.

B. Reviewed a sample of reports and available documentation related to the case reviews.

IV. Tested the inventory controls at the campus level.

A. Evaluated the inconsistencies identified between inventory reports and physical counts of closed cases.

1. Identified cases resulting from the Generalized IDRS Interface template to process cases systemically and their impact on resources and the inventory reports.

2. Determined validity and impact of the processing of electronic cases and cases assigned by the SB/SE Division Headquarters Office.

B. Analyzed the value of the statistics provided on current inventory reports including:

1. Credits for case closures that may be inaccurately captured on the reports.

2. Reliance on a single source to maintain current inventory levels with little testing for effectiveness.

3. Necessity of having multiple functions and personnel generating reports that include similar information.

C. Analyzed whether repeat or problem cases can be identified from the available databases of case inventories.

D. Evaluated the extent to which meeting corporate goals (45 calendar day timeliness criteria) may be impeding accountability at individual campuses.

V. Determined the effectiveness of the management reviews of balance due notice cases.

A. Evaluated the management quality review process to determine the value of any results reported.

1. Compared our case review results (of our samples from each campus) with the management review results for the same time period.

2. Assessed the value of the IRS' quality case reviews in recommending improvements at the campus level.

B. Examined any limitations of the Embedded and National Quality Review Systems designed to capture results of management quality reviews.

Internal controls methodology

Internal controls relate to the management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the CSCO's policies, procedures, and practices for documenting the actions taken to resolve balance due notice cases. We evaluated these controls by interviewing management and reviewing a sample of balance due notice cases from two CSCO sites.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl L. Aley, Jr., Director
Timothy F. Greiner, Audit Manager
Richard J. Viscusi, Lead Auditor
Pillai Sittampalam, Senior Auditor
Frank Maletta, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
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Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Filing and Payment Compliance, Wage and Investment Division SE:W:CP:FPC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
- Commissioner, Small Business/Self-Employed Division SE:S
- Commissioner, Wage and Investment Division SE:W

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 1,874 taxpayers entered in installment agreements when they had the potential to pay their tax liability in full and must now pay the costs of the installment agreement, which include the user fee, penalties, and interest (see page 3).
- Taxpayer Rights and Entitlements – Potential; $196,770 paid for installment agreement user fees in situations where the taxpayer had the potential to pay their tax liability in full (see page 3).

Methodology Used to Measure the Reported Benefit:

We selected and reviewed valid statistical samples of closed collection cases based on random sampling techniques using random case selection from a population of 6,615 balance due notice cases. The initial samples were based on a confidence level of 95 percent with a ± 5 percent precision level and an expected error rate of 10 percent. Our sample included 57 (95 percent) of 60 closed balance due notice cases involving installment agreements. In 17 (30 percent) of the 57 cases, we determined that the taxpayer may have had the ability to pay in full. When projected to the total population of 6,615 balance due notice cases closed during the weeks of September 15, 2008 (Philadelphia Campus) and November 3, 2008 (Andover Campus), we estimate 6,284 balance due notice cases involved installment agreements and 1,874 taxpayers may have had the ability to pay in full. We calculated the potential installment agreement user fee amount by multiplying the $105 charged for new agreements by the 1,874 taxpayers to arrive at $196,770.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 4,343 taxpayers' balance due notice cases may have been affected when processing of their balance due notices exceeded 30 calendar days. Penalties and interest would continue to accrue until the tax liability is paid in full (see page 3).

Methodology Used to Measure the Reported Benefit:

Using the same sample of 60 closed balance due notice cases, we identified 39 cases (65 percent) for which employees did not process the case within the required 30 calendar days. When we stratified the sample projection[1] to the total population of 6,615 balance due notice cases closed during the weeks of September 15, 2008 (Philadelphia Campus) and November 3, 2008 (Andover Campus), we estimate the processing of 4,343 balance due notice cases exceeded 30 calendar days.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 1,257 balance due notice cases reported on Accounts Management System/Desktop Integration inventory reports that could not be verified during a physical count of the balance due notice inventory (see page 7).

Methodology Used to Measure the Reported Benefit:

To verify the accuracy of the Accounts Management System/Desktop Integration inventory reports, we counted the closed cases on hand at the beginning of each day during the weeks of September 15, 2008 (Philadelphia Campus) and November 3, 2008 (Andover Campus) with the corresponding weekly Accounts Management System/Desktop Integration inventory report. The Accounts Management System/Desktop Integration inventory report reflected 3,268 balance due notice cases, while we physically counted 2,011 balance due notice cases.

[1] Stratum 1 was 30.401 percent of the population with an error rate of 63.33 percent; Stratum 2 was 69.599 percent of the population with an error rate of 66.67 percent. The resulting expected error rate for projecting to the combined population was 65.65 percent.

Appendix V

Glossary of Terms

Accounts Management System/Desktop Integration – The system providing enterprise enabled inventory workflow capability across operating divisions. As we approached the end of fieldwork for this review, Desktop Integration was merged with the Correspondence Imaging System in Accounts Management, and reports previously generated from the Desktop Integration System are now generated from Accounts Management System/Desktop Integration.

Adjusted Gross Income – A taxpayer's income (including wages, interest, capital gains, income from retirement accounts, and alimony received) adjusted by specific deductions (including contributions to deductible retirement accounts and alimony paid).

Automated Collection System – A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Campus – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Compliance Services Collection Operation (CSCO) – Units of tax examiners that work Balance Due Notice Program cases.

Embedded Quality Review System – The system used by Collection function managers to complete all case reviews. The system provides a structured context for evaluating employee performance and a reports utility for performance documentation.

Headquarters Office – Central office location for IRS executives, management, and analysts. The SB/SE Division Headquarters Office is located in New Carrolton, Maryland, and the W&I Division Headquarters Office is located in Atlanta, Georgia.

Installment Agreements – Arrangements by which the IRS allows taxpayers to full pay liabilities over time in smaller manageable payments.

Integrated Data Retrieval System – An IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

National Quality Review System – The system used by reviewers to provide independent collection review information from which management may draw inferences regarding overall case quality for a given operational segment.

Refund Offset – Occurs when a taxpayer's overpayment is applied to any outstanding tax liability prior to making a refund.

Streamlined Installment Agreement – An installment agreement for taxpayers with an aggregate unpaid balance of assessments of $25,000 or less which will be fully paid in 60 months. No managerial approval is required for streamlined installment agreements.

Technical Unit – A unit in the CSCO staffed with tax examiners that works balance due notices received from taxpayers, by skill set.

Transshipping – The process of sending Balance Due Notice Program cases from one campus to another.

Appendix VI

Management's Response to the Draft Report

DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
JAN 2 0 2010
BY: DAS

January 19, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Steven T. Miller
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Audit Report – Processing and Monitoring of Balance Due Cases Needs Improvement (Audit No. 200830049)

Thank you for the opportunity to respond to the draft report titled, "Processing and Monitoring of Balance Due Cases Needs Improvement." We appreciate your review of the program; however we are not in full agreement with selected recommendations and various comments throughout the report.

The Compliance Services Collection Operations (CSCO) is a high volume correspondence-based operation, and is one of several key components of the overall Collection process. Your review assessed low-dollar, low-risk CSCO cases, which the IRS refers to as "streamlined cases." In order to maximize the use of our limited resources, we have created different procedural requirements based on the dollar level and risk of the case. Due to the low level of risk on cases meeting certain criteria, the IRS provides taxpayers with the ability to receive a "streamlined" installment agreement. In fiscal year 2009, the vast majority of installment agreements granted were streamlined. The IRS does not have sufficient resources to conduct a full financial analysis on all of these agreements; therefore, an online payment agreement application was created to assist taxpayers who meet streamlined criteria so their proposed installment agreements could be approved systemically. These procedures provide prompt customer service for our lower risk accounts.

The CSCO uses Internal Revenue Manual (IRM) 5.19.1. Our review of the cases mentioned in this report revealed they were in compliance with established streamlined procedures, as outlined in IRM 5.19.1.5.5. These guidelines provide that personal contact and a full financial analysis are not required if the account meets specific streamlined criteria.

2

The IRM requires that we control the case within the 30-day time frame established after an interim letter is sent advising the taxpayer of the status of their case. This helps to prioritize the workload. Forms 9465, Installment Agreement Request, are entered directly through Generalized IDRS Interface (GII); therefore, the documentation is systemic. The cases are input immediately and coded, then bypass Accounts Management System controls to ensure expedited processing and to maximize customer service.

In your report, you stated that workload reviews did not properly identify problems, such as training needs and trends. We use Embedded Quality (EQ) and National Quality (NQ) reports, which are sorted by Organization Function Programs (OFP), to identify trends and training needs and supplement workload reviews.

We agree with your observation that IRS management relies on several reports to manage and monitor the Balance Due Notice Program. This provides our various levels of management with data necessary for their respective purposes. Due to the variety of uses, numerous reports are necessary to provide different key program information. We agree that the physical inventory must match the report data for the comparable time periods. We will ensure procedures are followed for reconciliation.

We also want to address several references in your report regarding closures. We only count cases as closures when there is correspondence attached that has been worked. Because cases often involve multiple pieces of correspondence, there may be an appearance of overcounting or inaccuracy. We also want to clarify that when a payment is received without correspondence, there is no count taken as a closure.

We believe there may be a misunderstanding regarding the count of transshipped work. The Headquarters Staff closely monitors inventory balances between sites and adjusts those when necessary to maximize resources and enhance customer service. If it becomes necessary to transship work, both the gaining and losing campuses are involved in discussions. Typically, new receipts are transshipped; however, there may be times when aged receipts are transferred to balance the workload and provide timely customer service. These inventory realignments are not counted as closures. Procedures require that the cases be removed from the Accounts Management tracking system at the losing Campus and included as receipts into inventory at the gaining Campus. These are listed as adjustments – not closures.

3

We do not concur with your calculation of Outcome Measures in the report. All taxpayers with unpaid taxes receive an initial notice which demands full payment of the balance due, and publications are enclosed which explain payment options. Those taxpayers meeting streamlined criteria can request an installment agreement from the IRS without first proving that they have an inability to pay the liability in full.

We believe that the CSCO program is well-documented as to its limited scope and intent. This low-cost component of the collection process enables the IRS to effectively handle large volumes of correspondence and collect billions of dollars in unpaid taxes from taxpayers who are trying to comply with their tax obligations.

If you have any questions, please call me at (202) 622-0600, or Cheryl Sherwood, Director, Campus Compliance Services, Small Business/Self-Employed Division, at (202) 283-2518.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection Policy, SB/SE Division, should consider revising the streamlined installment agreement procedures to ensure agreements are beneficial to both the IRS and the taxpayer.

CORRECTIVE ACTION:
While we believe the current policy already achieves this goal, we will consider changes to enhance the benefits to taxpayers and the IRS.

IMPLEMENTATION DATE:
September 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection Policy, SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 2:
To improve the handling of Balance Due Notice Program the Director, Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should remind employees about the need to properly document and timely work case actions, and review systemically generated actions such as interim letters to identify and resolve any systemic inconsistencies with Internal Revenue Manual requirements.

CORRECTIVE ACTION:
The IRS currently uses Embedded Quality and National Quality reports to monitor documentation and timeliness issues and provide feedback to employees. In addition to our current procedures, we will remind employees about the ongoing need to properly document and timely work case actions. We also agree to include the proper use of interim letters in our 2010 Campus reviews and also identify and resolve systemic inconsistencies with Internal Revenue Manual requirements.

IMPLEMENTATION DATE:
September 15, 2010

2

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE
Director, Filing and Payment Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:
To improve the handling of Balance Due Notice Program cases, the Director, Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should establish workload review criteria to ensure Balance Due Notice Program cases are worked in compliance with Collection function guidelines and policy, including encouraging timely processing of case actions, and proper documentation.

CORRECTIVE ACTION:
The IRS uses Embedded Quality and National Quality review criteria to ensure balance due cases are worked within established guidelines and policies. We will ensure that this criteria is effectively utilized in future reviews and Headquarters will continue to periodically review Campus cases to ensure compliance with these requirements/guidelines.

IMPLEMENTATION DATE:
September 15, 2010

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE
Director, Filing and Payment Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 4:
To improve the handling of Balance Due Notice Program the Director, Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should use existing codes in the Embedded Quality Review System to isolate the results of cases subject to the workload reviews for the Balance Due Notice Program to help identify training needs.

3

CORRECTIVE ACTION:
The IRS uses Embedded Quality and National Quality reports, sorted by Organizations Function Program, to identify trends and training needs at each Campus. Additional efforts will be made to integrate the results of these reviews/reports to better identify Enterprise training needs to further improve the Balance Due Notice Program.

IMPLEMENTATION DATE:
September 15, 2010

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE
Director, Filing and Payment Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:
To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should establish procedures to timely and effectively reconcile inventory reports to the physical inventory.

CORRECTIVE ACTION:
We are following the Servicewide procedures provided in Internal Revenue Manual 25.14.1 to reconcile inventory reports to the physical inventory and will continue to ensure these procedures are followed.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 6:
To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should ensure CSCO inventory reports accurately reflect information that is common among the various reports where applicable, such as the number of closed balance due notice cases during a given time period.

CORRECTIVE ACTION:
To achieve consistency in this area, we will implement this recommendation in SB/SE by establishing a requirement for Campuses to reconcile local reports to Work Planning and Control (WP&C) on a quarterly basis. The W&I Division already reviews and reconciles local reports on a quarterly basis.

IMPLEMENTATION DATE:
April 15, 2010

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 7:
To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should establish uniform procedures on the type of balance due notice cases that are reflected on CSCO inventory reports. Procedures should include separate identification of cases that do not require Balance Due Notice Program resources.

CORRECTIVE ACTION:
The SB/SE and W&I Divisions will review and discuss the need for uniform procedures on balance due notice cases that are reflected on Compliance Services Collection Operations (CSCO) inventory reports.

IMPLEMENTATION DATE:
September 15, 2010

5

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE
Director, Filing and Payment Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 8:
To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should request programming changes to the Accounts Management System/Desktop Integration to accurately identify repeat cases.

CORRECTIVE ACTION:
We do not believe the Accounts Management system/Desktop Integration system needs programming changes to identify repeat cases as this system is only used to count cases when there is correspondence attached that has been worked. Since cases often include multiple pieces of correspondence, there may be an appearance of repeater activity. We rely on the Integrated Data Retrieval System (IDRS) to record actions taken by employees to complete a case.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 9:
To improve oversight of the Balance Due Notice Program and the usefulness of CSCO inventory reports, the Director Campus Compliance Services, SB/SE Division and the Director, Filing and Payment Compliance, W&I Division, should establish controls to ensure cases that are transshipped in order to alleviate inventory backlogs cause the least delay to taxpayers.

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CORRECTIVE ACTION:
The Headquarters staff closely monitors inventory imbalances between sites and adjusts when necessary to maximize resource availability and enhance customer service. If it becomes necessary to transship work, both the gaining and losing Campuses are involved. Usually, new receipts are transshipped to avoid impact on taxpayers. When necessary, aged receipts are realigned to balance workloads. While controls are already in place to accomplish the movement of these cases, we will review whether these controls are sufficient and effective to alleviate inventory backlogs while minimizing the delay to taxpayers.

IMPLEMENTATION DATE:
July 15, 2010

RESPONSIBLE OFFICIAL:
Director, Filing and Payment Compliance, SB/SE
Director, Filing and Payment Compliance, W&I

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of our internal management system of controls.