



*The Taxpayer Advocate Service Needs to
Improve Its Processing of Economic
Burden Cases*

April 21, 2008

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Redaction Legend:

1 = Tax Return Information

3(d) = Identifying Information – Other Identifying Information of an Individual or Individuals

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FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

April 21, 2008

MEMORANDUM FOR NATIONAL TAXPAYER ADVOCATE

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Taxpayer Advocate Service Needs to Improve Its Processing of Economic Burden Cases (Audit # 200610049)

This report presents the results of our review to determine whether the Taxpayer Advocate Service (TAS) has an effective system to process taxpayer requests for relief due to economic burden. This audit was part of our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

Economic burden cases typically involve taxpayers who are requesting TAS assistance because an Internal Revenue Service (IRS) action or inaction is creating (or potentially creating) a financial hardship. Over 50 percent of the economic burden cases we sampled had errors and delays that might have burdened taxpayers and/or affected Federal Government revenues. Many of these taxpayers, who had been unable to receive necessary assistance from the IRS, were potentially further burdened or experienced potential violations of their rights or privacy by the TAS.

Synopsis

Economic burden cases are the most critical and time-sensitive cases in the TAS inventory. In most cases, the taxpayer has asked the TAS to stop an IRS enforcement action (e.g., a wage levy) or to expedite a process (e.g., issuing a refund from a tax return being audited). Many of these taxpayers have previously tried, unsuccessfully, to obtain the needed assistance directly from the IRS. Given the potentially urgent nature of its cases, the TAS has been granted special authorities and tools to assist taxpayers who might have urgent financial needs. However, we noted significant inconsistencies in how these tools and authorities were used.



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Often, the details of a taxpayer's burden were not documented in the case history, so we could not determine if the taxpayer received the most appropriate type of service. We also found it difficult to determine why some taxpayer cases were afforded priority handling and others were not. In addition, although the TAS has formal guidelines to ensure that cases are processed accurately, completely, and in a timely manner, more than 50 percent of the cases we sampled had errors and delays that might have burdened taxpayers and/or affected Federal Government revenues. We found evidence of untimely actions, technical errors, and procedural errors. In some instances, the taxpayer's issue was not fully addressed. Further, some taxpayers might have had their rights or privacy violated because the TAS bypassed authorized representatives, made unauthorized disclosures to third parties, did not pay the proper interest on refunds, or denied claims erroneously.

In addition to processing errors, we identified administrative issues that require attention. For example, a significant number of cases were miscoded, which might preclude the TAS from identifying systemic problems that affect large groups of taxpayers. Further, the TAS' internal quality controls appeared to have reported an overall quality rating significantly higher than of that in our audit results. We were unable to determine the reasons for the difference within the scope of this audit and plan to conduct a separate audit in this area in the future.

Recommendations

We recommended that the National Taxpayer Advocate:

- Develop and implement formal procedures to identify and correct errors on account adjustments and manual refunds. In addition, the National Taxpayer Advocate should conduct regular reviews before cases are closed to ensure that all taxpayer issues are addressed.
- Update Internal Revenue Manual Part 13 to require that case advocates¹ document the details of the taxpayer's economic burden as part of the initial case analysis. When reasonably practical, case advocates should recommend granting the taxpayer full, partial, or no relief and document the decision.
- Update the Memorandum on Early Intervention Review Guidelines to require that the taxpayer's financial circumstances be considered as part of the "best approach" for each case.
- Update the Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order) (Form 911) to require that the initiator include a complete description of the taxpayer's problem and the burden it is creating.

¹ Case advocates work directly with taxpayers and their representatives to resolve TAS cases.



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- Analyze a sample of internally referred Forms 911 to assess the accuracy of the case coding and the adequacy of the problem description. Based on this analysis, the National Taxpayer Advocate should consider requiring that the business units conduct managerial reviews on all cases referred to the TAS.
- Provide additional training to case advocates, management, and intake personnel to explain appropriate use of the Primary Core Issue Code.²

Response

The National Taxpayer Advocate agreed with five of the six recommendations in our report. Management acknowledged the importance of processing economic burden cases accurately and in a timely manner. The TAS agreed to formalize review procedures on account adjustments, manual refunds, and pre-closure reviews and intends to incorporate these policies into a Managers Guide that will be included in Internal Revenue Manual Part 13 in Fiscal Year 2008. In addition, the TAS will use “lead” case advocates to perform certain non-evaluative reviews, including pre-closure reviews. The National Taxpayer Advocate agreed to require management to consider the taxpayer’s financial circumstances as part of their early intervention reviews. The TAS agreed to change the wording on Form 911 to allow taxpayers to provide the details of their economic burden and the impact of an IRS action or inaction. The TAS also agreed to analyze a sample of internally referred Forms 911 for proper coding and consider requiring the IRS operating divisions to conduct reviews of cases referred to the TAS. Finally, although management believed that it was often difficult to provide an exact designation for the Primary Core Issue Code when multiple issues are involved, they agreed to provide training to TAS personnel on the appropriate use of these Codes.

However, the National Taxpayer Advocate did not agree with Recommendation 2 to update Internal Revenue Manual Part 13 to require that case advocates document the pertinent details of the taxpayer’s economic burden in the case history of the Taxpayer Advocate Management Information System (TAMIS).³ The TAS stated that “the details of the taxpayer’s economic burden are already documented by the case advocate” either in the TAMIS history or other TAMIS screens. Additionally, case advocates are already required to develop an initial action plan that should be modified as the case progresses.

Although the TAS agreed with most of our recommendations, the National Taxpayer Advocate questioned the types of errors we identified and indicated that our auditors applied standards

² The Primary Core Issue Code identifies the most significant issue, policy, or process causing the taxpayer’s problem.

³ This is a database dedicated to recording, controlling, and processing taxpayer cases. It is used by the TAS to analyze core tax issues, laws, policies, and internal IRS processes.



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different from those used by the TAS. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment

We acknowledge the tremendous challenges faced by case advocates in their day-to-day handling of some of the most difficult and time-sensitive issues facing IRS employees. However, we believe that the conclusions and recommendations in this report are valid. While we recognize that there are procedures for describing the taxpayer's hardship in the TAMIS, we often found in our exception cases that there was little or no information in the TAMIS to help clarify the details of the taxpayer's circumstances. Consequently, we could not always determine whether the TAS had provided the most appropriate types of service to taxpayers.

Further, we believe that better documentation in the electronic case file (TAMIS) will help TAS management evaluate the quality of casework and ultimately provide better service to taxpayers. The TAMIS should include some basic details about the taxpayer's situation and a description of any research conducted so users can assess whether the action plan and case actions are appropriate. Taxpayers often contact other employees (such as the National Taxpayer Advocate toll-free telephone line) to obtain information or status reports on their cases. These employees would not have access to the actual paper files, only the TAMIS history. Finally, closed TAS cases can, on occasion, get lost. Of the 250 cases we sampled, 4 case files were missing and 14 were incomplete.

The National Taxpayer Advocate decided not to require the IRS business units to conduct managerial reviews of all cases referred to the TAS. We believe that the TAS should reconsider this decision after it conducts an analysis of a sample of referrals from the IRS business units.

Further, TAS management stated that they disagreed with approximately 35 percent of our initial exceptions. We are unsure why the TAS is now disagreeing with some of the exceptions it had agreed to during the audit. We held several meetings with TAS representatives and presented them with an in-depth analysis of the initial errors we identified. During these meetings, we agreed with the TAS on some issues and reduced the total number of errors accordingly. Ultimately, we chose to focus our report on the most significant types of errors we had identified on 177 cases. Of the 177 cases, 141 contained errors that potentially affected taxpayers or Federal Government revenues, and the TAS agreed with us on 86 percent of these cases.

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 Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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Abbreviations

FY	Fiscal Year
IRS	Internal Revenue Service
TAS	Taxpayer Advocate Service
TAMIS	Taxpayer Advocate Management Information System



The Taxpayer Advocate Service Needs to Improve Its Processing of Economic Burden Cases

Background

The Taxpayer Advocate Service (TAS) is an independent organization within the Internal Revenue Service (IRS) whose mission is to help taxpayers resolve problems with the IRS and to recommend changes to prevent future problems. The TAS also assists taxpayers who are experiencing economic harm because of the manner in which Federal tax laws are administered. The goals of the TAS are to protect individual and business taxpayer rights and to reduce taxpayer burden.

Although there are other ways in which a taxpayer might qualify for TAS assistance, most taxpayers accepted into the program are classified as either economic burden or systemic burden cases. Economic burden cases are broadly defined as those in which an IRS action or inaction has caused or will cause financial difficulties or a hardship for the taxpayer. Systemic burden cases are those in which an IRS process, system, or procedure has failed to operate as intended and, as a result, the IRS has failed to respond to or resolve a taxpayer issue in a timely manner.

Economic burden cases are the most critical and time-sensitive cases in the TAS inventory. In most cases, the taxpayer is asking the TAS to stop an IRS enforcement action (e.g., a wage levy) or to expedite a process (e.g., issuing a refund from a tax return being audited). Many of these taxpayers have previously tried, unsuccessfully, to obtain the needed assistance directly from the IRS. Given the potentially urgent nature of these cases, the TAS requires that initial actions be completed within 3 workdays of case receipt.

In January 2006, the TAS developed broader guidelines for economic burden cases because of some confusion about the types of cases it should accept. In the past, taxpayers were required to prove they were experiencing an economic hardship at the time of case acceptance by providing documentation such as an eviction notice. With implementation of the broader guidelines, the TAS no longer requires taxpayers to provide documentation to substantiate their economic hardships because doing so could cause unnecessary burden and limit taxpayer access to the program. Currently, the TAS will accept a case based on the taxpayer's oral statement, but it might need the taxpayer to provide documentation to support his or her economic burden at a later date.

The majority of the TAS workload comes from taxpayers who call the IRS and National Taxpayer Advocate toll-free telephone lines, which are staffed primarily by employees in the Wage and Investment Division.¹ In Fiscal Year (FY) 2006, TAS case receipts increased considerably and continued to rise in FY 2007. Economic burden cases accounted for

¹ In Fiscal Year 2006, the TAS received 80.8 percent of its cases from the IRS toll-free telephone lines and the National Taxpayer Advocate toll-free telephone line.



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approximately one-third of the total inventory. Figure 1 shows that economic burden cases were a significant factor in the overall increase in inventory.

Figure 1: Economic Burden Case Receipts As a Percentage of TAS Inventory

Fiscal Year	TAS Case Receipts		
	Economic Burden Receipts	Total Receipts	Percentage of Total Receipts
2007	86,245	247,811	35%
2006	72,434	242,146	30%
2005	44,976	198,089	23%

Source: Taxpayer Advocate Management Information System (TAMIS)² database query, dated November 1, 2007.

We performed this review at the IRS TAS National Headquarters office in Washington, D.C., and the TAS field office in Denver, Colorado, during the period September 2006 through January 2008. 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.

² This is a database dedicated to recording, controlling, and processing taxpayer cases. It is used by the TAS to analyze core tax issues, laws, policies, and internal IRS processes.



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Results of Review

Taxpayers experiencing economic burden who contacted the TAS for assistance did not always receive timely, accurate, or complete service to resolve their problems. Although the TAS has special tools and authorities to help taxpayers in economic burden situations, it did not always use these tools appropriately or consistently. Often, the details of the taxpayer's burden were not documented in the case history, so we could not determine if the taxpayer received the most appropriate type of service. We also found it difficult to determine why some taxpayer cases were afforded priority handling and others were not. In addition, although the TAS has formal guidelines to ensure that cases are processed accurately, completely, and in a timely manner, more than 50 percent of the cases we sampled had errors and delays that might have burdened taxpayers and/or affected Federal Government revenues.

We also identified weaknesses in the guidance and policies that case advocates³ and toll-free telephone line employees should follow when collecting information from taxpayers about their economic burden. As a result, referrals from the toll-free telephone lines often did not include details about the taxpayers' financial burden, which would assist the TAS in properly classifying and expediting the cases.

Further, the TAS might be unaware of the extent of errors we found because managerial reviews and the quality review process might not be effective at identifying errors or delays in case processing. Although our statistical sample identified errors in more than one-half of the FY 2006 cases we selected, the TAS reported a quality rating of 89.7 percent for that period. We plan to perform a separate audit of the TAS quality control process.

Taxpayer Advocate Service Processing Errors Affected Taxpayers and Revenues

Effective case processing is essentially a three-phase system that requires the TAS to:

- Analyze the problem and determine the appropriate course of action.
- Implement the actions necessary to resolve the problem.
- Ensure that the actions are completed and the related issues are addressed.

We reviewed all three phases of case processing and identified errors and problems in each phase. For example, the TAS did not always contact taxpayers in a timely manner; there were delays in case processing; and, in one instance, [REDACTED]

³ Case advocates work directly with taxpayers and their representatives to resolve TAS cases.



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(b) (5) - DPP We also identified several errors in case processing, ineffective communication with taxpayers, and untimely correction of taxpayer problems. Of the 250 cases we reviewed, 177 (70.8 percent) had errors, most of which affected taxpayers, affected Federal Government revenues, or were beyond the TAS' authority. The most significant errors are identified in the narratives that follow.

The TAS made technical and procedural errors

Because the TAS often has to correct errors or address inaction by other IRS functions, its casework must be accurate and responsive to taxpayers. Furthermore, because the TAS is responsible for assisting taxpayers who did not receive timely or appropriate service from the IRS, it must not compound the taxpayer's problem with delays or errors. Although the TAS has policies and procedures in place to ensure that it provides quality customer service, we found a variety of errors in several key areas of case processing.

Improper or erroneous account adjustments

The IRS Commissioner has authorized TAS employees to make certain types of adjustments to taxpayer accounts⁴ to allow for resolution of routine cases. However, these employees are not authorized to take actions on cases that are assigned to another IRS function or to overrule determinations made by other IRS employees. The TAS has established formal agreements with the other IRS functions to request account adjustments that are beyond the TAS' authorities.⁵ If the TAS does not have the authority to directly assist a taxpayer, it should refer the case to the proper IRS business unit for resolution.⁶

However, the TAS violated its delegated authorities in 12 (4.8 percent) of the 250 cases we sampled. The violations included inappropriate releases of refunds, unauthorized tax adjustments, and bypassing of the collection process. If the TAS had properly referred these cases to the IRS functions that the taxpayer accounts were assigned to, the final case resolutions might have been different. Based on these results, we estimate that the TAS violated its authorities on 3,249 economic burden cases in FY 2006.⁷

We also identified several instances in which the TAS made incorrect, incomplete, or unnecessary account adjustments. Some caused delays and potentially burdened taxpayers. For example, in one instance (b) (5) - DPP

⁴ In general, TAS employees have the authorities granted to IRS Accounts Management function employees, which allow them to make account-related adjustments in limited circumstances.

⁵ To establish uniform standards for case processing, the TAS and the IRS operating divisions have established Service Level Agreements that outline the procedures and responsibilities for processing TAS casework when the TAS does not have the statutory or delegated authority to completely resolve a taxpayer's problem.

⁶ Referrals are made to the IRS functions through Operations Assistance Requests.

⁷ Our estimate is based on a precision range of ± 2.64 percent and a confidence level of 95 percent.



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[REDACTED]

We could not always determine the reasons for the errors. However, we believe that many of the errors made on taxpayer accounts could have been detected with better management oversight. The TAS does not have a formal policy to review account adjustments made by its employees on the IRS computer system.⁸ Consequently, management might not be identifying errors or violations of authority in time to correct them. In addition, some of the technical errors we identified were approved by management. Because each of the 73 Local Taxpayer Advocates has the discretion to independently set his or her own policies for adjustment reviews, some offices might not be reviewing and detecting errors when case advocates input account adjustments.

Unnecessary or duplicate documentation requests

We observed 18 instances in which case advocates requested unnecessary documentation from taxpayers. Although additional documentation is often needed to resolve issues, case advocates sometimes requested that taxpayers provide 1) proof of hardship or other documents that were not needed; 2) documentation previously provided by the taxpayers, even though there was information on the computer system indicating that the documentation had already been received by an IRS function; or 3) documentation when they could have accepted the information verbally. These requests for information potentially burdened taxpayers unnecessarily.

Taxpayer communications

We identified several types of errors involving taxpayer communications. For example, in two instances, the case advocates made unauthorized disclosures to third parties, which potentially violated the taxpayers' privacy.⁹ Verbal communication can enhance good customer service because it allows the taxpayer to explain his or her problem directly to the case advocate, have less chance of miscommunication, and gain a better understanding of how the TAS plans to resolve his or her issue. Although the Internal Revenue Manual¹⁰ requires that case advocates make initial contact with the taxpayer by telephone, we noted six instances in which telephone contact was not attempted. In addition, there were two instances in which case advocates contacted the taxpayer directly, although the taxpayer had authorized a power of attorney to represent him or her.¹¹

⁸ The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

⁹ Privacy Act of 1974, 5 U.S.C. Section 552a (2000).

¹⁰ Part 13 of the Internal Revenue Manual applies to the TAS.

¹¹ This potentially violates fair tax collection practices under 26 U.S.C. Section 6304 (2007), which are commonly referred to as "Fair Debt Collection Practices Act" violations.



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Refunds

The TAS is authorized to issue expedited (manual) refunds from accounts that are not controlled by other IRS functions. Manual refunds generally save between 1 week and 3 weeks over normal processing time. Typically, a manual refund is issued when the wait for a computer-generated refund would create a hardship for the taxpayer. We identified several problems with the issuance of manual refunds. For example, in two instances the manual refunds generated were erroneous (duplicate). The TAS apparently requested the manual refunds because it did not adequately research the taxpayer accounts to identify that computer-generated refunds were pending.

We also identified two cases in which taxpayers were underpaid because the TAS did not include interest in their refunds, and five cases in which taxpayers had to wait longer than necessary to receive their refunds due to inefficient case processing. There were an additional four instances in which the TAS expedited refunds manually when there was no documented need, which can result in additional costs to the Federal Government.

The TAS did not always address all taxpayer issues

The TAS' goal is to ensure that the taxpayer's case is accurately and completely resolved, so that the taxpayer will not have to contact the IRS again on that particular issue. However, the case advocates did not always address all taxpayer issues or complete all necessary actions before closing the taxpayers' cases. Failure to complete all relevant case actions potentially creates an additional burden to taxpayers because they might have to contact the IRS again to fully resolve their issues. For example, we identified the following cases in which case advocates did not provide complete responses to taxpayers or complete all pertinent case actions before closing the cases:

- In 25 cases, the taxpayers were not informed of delinquent tax returns, outstanding balances due, or refund dates and amounts.
- In five cases, the taxpayer accounts were not updated to reflect current information such as changes to names and addresses. Six cases were closed before all account actions were completed (or before the TAS confirmed they were completed).
- Case advocates did not always fully address all pertinent issues. Seven cases were closed with the primary taxpayer issue unresolved (e.g., the taxpayer was still waiting for a refund). In addition, the TAS closed six cases prematurely without addressing all issues raised by the taxpayers. For example, [REDACTED]

[REDACTED] As a result, taxpayers might have had to contact the IRS again to resolve their secondary and related issues.



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Management informed us that the TAS also does not have a formal policy to review all cases for completeness or accuracy before closure. We observed that some offices conducted a review prior to case closure, but most offices did not.

Some case actions were untimely

In addition to making technical errors, the case advocates took some actions late and missed established target dates. Internal Revenue Manual Part 13 establishes time periods for completing certain case actions such as making the initial taxpayer contact, completing followup actions, and responding to correspondence received. Also, when communicating with taxpayers, case advocates must establish “Next Contact Dates,” which are essentially due dates for providing responses or updates to the taxpayers.

A total of 68 cases in our sample had processing delays or missed deadlines, including 20 cases that had more than 1 type of delay. Some of the most significant delays involved:

- Initial contacts with the taxpayer – given the potentially urgent nature of TAS cases, taxpayers must be contacted in a timely manner. However, contacts with taxpayers were late by an average of 2 calendar days on 13 cases.
- Requests for documentation – frequently, documents such as tax returns and supporting schedules are needed from the taxpayer to resolve an issue. However, we identified 16 cases for which these documents were never requested or were not requested as soon as reasonably practical.
- Next contact dates – although taxpayers were promised that they would be contacted by a given date, these contacts were not made or were not made in a timely manner for nine of the cases.
- Followup actions – followup dates were missed by more than 5 workdays on 8 of the cases. Followup dates are established to ensure that the next required case action is completed in a timely manner.
- Closing actions – although delays in closing actions generally have no taxpayer impact, these delays affect how new case receipts are assigned. We identified delays in closing cases averaging 27 calendar days on 20 cases.

Frequently, the untimely actions led to delays in resolving taxpayers’ problems and, in some cases, taxpayers had to wait longer than necessary to receive their refunds. TAS management attributed the untimely casework to the large case inventories held by most case advocates.



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TAS errors might have affected taxpayer rights and privacy

We identified 7 potentially serious violations of taxpayer rights and privacy in our sample of 250 cases. This included cases in which case advocates made unauthorized disclosures to third parties¹² and bypassed authorized representatives.¹³ Case advocates also failed to pay credit interest on two refunds and (b) (3)(d)

TAS errors affected Federal Government revenue

Some actions resulted in the issuance of erroneous (duplicate) refunds to taxpayers or exceeded the TAS' authority. We identified 4 cases in which TAS actions or inactions resulted in a loss of Federal Government revenue totaling \$21,296. These cases involved either erroneous refunds, offsets to other Federal Government obligations, or improper removal from the Compliance function. Based on these results, we estimate that 1,083 taxpayer accounts resulted in loss of revenue to the Federal Government in FY 2006.¹⁴

Summary of how TAS errors affected taxpayers

Many of the errors previously discussed directly affected taxpayers. Of the 177 cases with errors, 141 involved adverse effects on taxpayers or Federal Government revenue due to TAS actions or inactions. Figure 2 summarizes the potential taxpayer impact and loss of Federal Government revenue based on the results of our statistical sample.

¹² This potentially violates Internal Revenue Code Section 6103 (2007).

¹³ This potentially violates fair tax collection practices under 26 U.S.C. Section 6304 (2007).

¹⁴ See Appendix IV for details.



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Figure 2: Impact of TAS Errors, Omissions, and Delays¹⁵

Type of Error	Potential Taxpayer Burden Cases	Potential Taxpayer Rights Violation Cases	Potential Taxpayer Privacy & Security Violation Cases	Loss of Revenue (Actual) Cases
Technical and Procedural	27	5	2	3
All Issues Not Addressed	16	-	-	1
Hardship Not Addressed	20	-	-	-
Untimely Actions	16	-	-	-
Multiple Errors	54	-	-	-
Total Errors	133¹⁶	5	2	4
Number of Taxpayers Affected (Potential) ¹⁷	36,003	1,354	541	-
Lost Revenue (Dollars)	-	-	-	21,296

Source: Treasury Inspector General for Tax Administration review of a statistically valid sample of TAS economic burden cases closed in FY 2006. Our results are based on a population of 67,675 cases closed in FY 2006.

Manager reviews and the Quality Review function might not identify many of the errors or omissions in casework

The TAS relies on both managerial reviews and a quality control process to ensure that its case advocates are working cases accurately and responsively. In our sample of 250 cases, 66.4 percent were noted as having had a managerial review. However, managers rarely entered comments to case advocates in the case histories, so we could not determine if the review process was effective. When managers did enter comments in the case histories, they often addressed administrative issues, such as case coding, and not the taxpayer's concerns or issues. Managerial reviews should add value and help case advocates move the taxpayer's case to resolution.

¹⁵ Figure 2 reflects errors that affect taxpayers and Federal Government revenues. However, we also identify other procedural errors throughout the report.

¹⁶ Taxpayers or Federal Government revenue might have been adversely affected by TAS actions or inactions in 141 cases. These include three cases that fall into more than one category. In addition to potential taxpayer burden,

(b) (5) - ACP, (b) (5) - DPP

¹⁷ Our statistical sample was based on a confidence level of 95 percent and a precision range of ± 5 percent. See Appendix IV for details.



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The TAS has a policy to conduct “Early Intervention Reviews” on 25 percent of new cases within 10 calendar days of receipt.¹⁸ These reviews are meant to ensure that case advocates are properly analyzing the case and have a plan to address the taxpayer’s situation. While these reviews are meant to be a proactive step to ensure that the case advocate is on the “right track,” we could not determine if they are effective.

Further, we could not reconcile our results with those reported by the TAS quality assessment process. In FY 2006, the TAS Quality Review function reported an overall quality rating of 89.7 percent.¹⁹ This conflicts with our results, which showed case advocates made errors that affected taxpayers or Federal Government revenues in 141 (56.4 percent) of the 250 cases²⁰ in our statistical sample. We attempted to reconcile the difference by reviewing the sampling methodology the TAS uses to select cases for its quality review process and determining if our sample cases were also included in the TAS sample. However, the TAS quality review team did not identify which, if any, of the cases in our sample were selected as part of its quality review process. As a result, we were unable to determine the reasons for the difference within the scope of this audit. We plan to conduct a separate audit in this area.

Recommendation

Recommendation 1: The National Taxpayer Advocate should develop and implement procedures to ensure that 1) cases are worked accurately and in a timely manner; 2) all issues are addressed; and 3) errors are detected, especially when online adjustments are made. These policies and procedures should address the following:

- Before approving manual refunds, management should ensure that case advocates have thoroughly researched the Integrated Data Retrieval System to prevent duplicate refunds.
- Online adjustments should be reviewed for accuracy and to ensure that the TAS does not violate its delegated authorities.
- A formal policy should be implemented to expand the use of pre-closure reviews to ensure that all taxpayer issues are addressed before the taxpayer’s case is closed.

Management’s Response: TAS management agreed with this recommendation and will formalize their review procedures for account adjustments, manual refunds, and pre-closure reviews. They intend to incorporate these policies into a Managers Guide that will be included in Internal Revenue Manual Part 13 in Fiscal Year 2008. In addition, the TAS will use “lead” case advocates to perform certain non-evaluative reviews, including pre-closure reviews.

¹⁸ TAS management is allowed 30 calendar days to review systemic burden cases.

¹⁹ The Quality Index includes both systemic burden and economic burden cases.

²⁰ This includes 140 cases that affected taxpayers and 4 cases in which revenues were affected. Three cases fell into two different categories.



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More Specific Guidance Would Improve Case Processing and Help the Taxpayer Advocate Service Identify Systemic Issues

The TAS' mission involves both assisting individual taxpayers and identifying systemic problems affecting large groups of taxpayers. The TAS uses various codes to help it properly categorize individual taxpayer cases as either an economic burden or a systemic burden. It uses other codes to help it identify trends that affect groups of taxpayers.

To ensure that taxpayers receive the most appropriate types of service, the TAS must obtain and document specific information about the taxpayers' problems and needs. In addition to providing direct assistance to taxpayers on individual cases, the TAS collects information to identify potential systemic problems that can affect numerous taxpayers. However, the guidance and forms used by the TAS and employees on the toll-free telephone lines did not include specific details about the types of information that should be collected from taxpayers. This caused inconsistencies in how case advocates and referring business units collected and recorded information and, consequently, inconsistencies in how taxpayers' cases were processed.

Referrals to the TAS are often unclear or incomplete

Many of the referrals from the IRS toll-free telephone lines were not descriptive and did not provide enough details about the taxpayers' situations. In FY 2006, the TAS received 80.8 percent of its economic burden cases from the National Taxpayer Advocate and IRS toll-free telephone lines. These "intake" employees talk to taxpayers and determine if their issues meet the criteria for either an economic or systemic burden case.

The Internal Revenue Manual states that intake employees should not refer the case to the TAS if they can resolve the taxpayer's problem within 24 hours. If the intake function cannot immediately assist the taxpayer, it must transmit the case electronically to the TAS on the Request for Taxpayer Advocate Service Assistance (And Application for Taxpayer Assistance Order) (Form 911). Unlike systemic burden cases, economic burden cases are not subject to managerial review prior to submission to the TAS. Further, the TAS' policy is to accept all referrals from the National Taxpayer Advocate toll-free telephone line, regardless of merit.

Although the intake function should provide a description of a taxpayer's hardship and the relief requested, many of the case files we reviewed had little or no information pertaining to the taxpayer's financial circumstances or specific needs. In some cases, it was not apparent whether the case should have been classified as an economic burden or a systemic burden issue. Better upfront screening and documentation from the intake function would help the TAS properly classify the case, so that taxpayers might receive the most appropriate types of service.

We are also concerned about the Form 911 itself, which the TAS updated in June 2007. Unlike previous versions, the current Form 911 does not require a description of the impact or harm that the tax problem is causing the taxpayer. Thus, the Form could compound the current problem.



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The TAS does not always document the details of the taxpayer's problem

During initial case analyses, case advocates did not always communicate with taxpayers to fully identify the taxpayers' problems or needs. If communication did occur, case advocates did not always document it in the file. Analysis of each taxpayer's circumstances is needed because the TAS might be able to provide specialized or expedited service if the situation warrants it. However, in 77 (30.8 percent) of the 250 cases we reviewed, case advocates either did not adequately communicate with taxpayers or did not document the communication.

Many of these cases did not include the details needed to determine the extent of the taxpayer's economic burden. In some instances, the case history was so vague we could not determine if the taxpayer's issue was fully addressed and if the case was worked appropriately. We also identified some inconsistencies in the way cases were processed. Some case advocates automatically expedited case processing without any supporting explanation in the case history.²¹ In other instances, advocates processed cases using standard (non-expedite) procedures without addressing the taxpayers' financial needs. Thorough research and analysis when the case is initially received could improve how case advocates process the cases.

Management did not always agree with us as to whether a taxpayer's hardship was adequately detailed in the case history. For example, management believed that general comments such as "medical problems" were sufficient to expedite case processing. In addition, management indicated that limited descriptions such as "hardship documents received" were adequate to support the case actions taken, when supporting documentation was provided. We believe that more specific information should be included in the case files because there are additional costs associated with expedited processing for manual refunds and a greater potential for error, such as issuance of duplicate refunds.

TAS management advised us that, due to high inventories, case advocates do not always have time to document their case histories with a thorough analysis. While we acknowledge the time constraints created by large caseloads, we do not believe that this relieves case advocates of their responsibility to make complete assessments and to document the taxpayers' financial situations to ensure that cases are worked as efficiently and effectively as possible. Further, anyone reviewing the case, such as another TAS employee or manager, should be able to determine how a case was processed and why the chosen method was used. A poorly documented case file could delay case resolution and cause additional contacts with the taxpayer.

Further, TAS guidance related to the initial taxpayer contact does not include specific instructions as to the kind of information that should be collected from the taxpayer. The Internal Revenue Manual requires case advocates to "clarify" the taxpayer's problem and the relief or assistance requested. We believe that more specific emphasis on the importance of

²¹ For example, the TAS can expedite the processing of a taxpayer's case by issuing a manual refund or faxing (rather than mailing) a release of levy to a taxpayer's employer or bank.



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obtaining pertinent details such as dates, amounts, and consequences of the taxpayers' burden would improve the processing of cases and the recording and tracking of information.

The TAS might be unable to identify systemic issues due to errors in case coding

The TAS is responsible for identifying systemic issues that increase burden or create problems for taxpayers. It also identifies trends within the IRS, such as increased collection activity, to help project future workload within the TAS. For this purpose, it tracks the types of issues by using a Primary Core Issue Code²² for each case in its TAMIS. However, 52 (20.8 percent) of the 250 sample cases had incorrect Primary Core Issue Codes.

We could not always determine if identified errors were made by intake employees or by case advocates. Many of the errors occurred because either TAS or intake employees recorded the type of assistance requested (e.g., a refund) rather than the underlying cause of the problem (e.g., an audit or collection procedure). The TAS has a separate code (Taxpayer Issue Code) to identify the taxpayer's perception of the problem/issue. We realize the underlying causes of some problems might not be evident until the cases are being worked. However, TAS employees are required to verify the accuracy of the codes before they close the taxpayers' cases. If case advocates were verifying the codes at closure, they did not recognize the incorrect codes in our sample cases. In our opinion, TAS employees and intake employees do not understand the proper use of case codes and might require additional training.

Based on our statistical sample results, we estimate that 14,076 cases closed in FY 2006 might be improperly coded and might not provide meaningful data to the TAS.²³ This might reduce the TAS' ability to identify trends and problems within the IRS. The National Taxpayer Advocate agreed that employees might need additional training to ensure that they code cases properly. In addition, the TAS might not identify these errors because its Casework Quality Index²⁴ does not capture these types of administrative errors.

Recommendations

The National Taxpayer Advocate should:

Recommendation 2: Update Internal Revenue Manual Part 13 to require that case advocates document the details of the taxpayer's economic burden as part of the initial case analysis in the TAMIS. The documentation should include a recommendation as to whether the TAS should grant the taxpayer full, partial, or no relief and include an explanation for the determination in the TAMIS. This recommendation should be documented as soon as reasonably practical. In

²² The Primary Core Issue Code identifies the most significant issue, policy, or process causing the taxpayer's problem.

²³ See Appendix IV for details.

²⁴ The Casework Quality Index is a numerical indicator of the extent to which TAS casework meets prescribed quality standards.



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addition, case advocates should update the TAMIS case history if the taxpayer's circumstances change as the case progresses.

Management's Response: TAS management disagreed with this recommendation, stating that the details of the taxpayer's economic burden are already documented by the case advocate either in the TAMIS history or on the Hardship Description/Relief Requested and Determination of Hardship/Recommendation for Relief screens on the TAMIS. Further, management contends that because case advocates are already required to develop an initial action plan based on the taxpayer's circumstances, this recommendation would further encumber case advocates with additional administrative requirements.

Office of Audit Comment: While we recognize that there are procedures for describing the taxpayer's hardship in the TAMIS, we often found in our exception cases that there was little or no information in the TAMIS to help clarify the details of the taxpayer's circumstances. Consequently, we could not always determine whether the TAS had provided the most appropriate types of service to taxpayers.

Further, we believe that better documentation in the electronic case file (TAMIS) will help TAS management evaluate the quality of casework and ultimately provide better service to taxpayers. The TAMIS should include some basic details about the taxpayer's situation and a description of any research conducted so users can assess whether the action plan and case actions are appropriate. Taxpayers often contact other employees (such as the National Taxpayer Advocate toll-free telephone line) to obtain information or status reports on their cases. These employees would not have access to the actual paper files, only the TAMIS history. Finally, closed TAS cases can, on occasion, get lost. Of the 250 cases we sampled, 4 case files were missing and 14 were incomplete.

Recommendation 3: Assist TAS management in conducting case reviews by updating the Memorandum on Early Intervention Review Guidelines, dated February 22, 2006, to include a requirement that the taxpayer's financial circumstances be considered as part of the determination of the "best approach" for each case. The National Taxpayer Advocate should also update Internal Revenue Manual Part 13 to reflect all Early Intervention Review Guidelines.

Management's Response: TAS management agreed with this recommendation. They will update the Memorandum on Early Intervention Review Guidelines to include a requirement that the taxpayer's financial circumstances be considered as part of the determination of the "best approach" for each case. The TAS will also update the Internal Revenue Manual to reflect Early Intervention Review Guidelines.

Recommendation 4: Update Form 911 to require the initiator to include a detailed description of the taxpayer's situation (including the taxpayer's financial status) and the circumstances that are creating the economic burden. This should include how the taxpayer could be adversely affected if the requested assistance is not provided.



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Management's Response: TAS management agreed with this recommendation. They will change Form 911 to include a field to enter a detailed description of the taxpayer's situation, the circumstances that are creating the economic burden, and how the taxpayer could be adversely affected if the requested assistance is not provided.

Recommendation 5: Analyze a sample of internally referred Forms 911 to assess the accuracy of the case acceptance criteria coding (for economic burden and systemic burden cases) to determine if the cases were properly categorized. In addition, the review should address whether the problem description adequately states the IRS problem and the taxpayer impact. The results of this analysis should be used to identify case identification and referral process training needs for employees staffing the toll-free telephone lines. Based on this analysis, the TAS should consider requiring that the business units conduct managerial reviews of all cases referred to the TAS.

Management's Response: TAS management agreed with this recommendation. They will analyze a sample of internally referred Forms 911 to assess the accuracy of the case acceptance criteria coding and the adequacy of the description of the taxpayer's issue. The TAS will use this review to identify training opportunities for employees staffing the toll-free telephone lines. However, the National Taxpayer Advocate decided not to require that the IRS business units conduct managerial reviews of all cases referred to the TAS.

Office of Audit Comment: We believe that the TAS should reconsider requiring pre-referral reviews after it conducts an analysis of a sample of referrals from the IRS business units because this could help to identify incomplete and inappropriate referrals to the TAS. Pre-referral reviews could further serve to help educate business unit employees on the significance of providing detailed and complete referrals, which ultimately should help to ensure that TAS cases are worked as expeditiously as possible.

Recommendation 6: Provide additional training to case advocates, management, and intake personnel to explain the appropriate use of the Primary Core Issue Code.

Management's Response: TAS management agreed with this recommendation and will provide training for case advocates on identifying the root cause of a taxpayer's problem as part of the annual TAS Technical Training Symposium.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the TAS has an effective system to process taxpayer requests for relief due to economic burden. To accomplish our objective, we:

- I. Determined what guidance had been provided to TAS employees regarding the processing of Economic Burden Cases.
 - A. Reviewed Internal Revenue Manual Part 13 and other pertinent policies and procedures issued by the National Taxpayer Advocate pertaining to processing Economic Burden Cases.
 - B. Reviewed authorities delegated by the IRS Commissioner and the applicable Internal Revenue Code and Treasury Regulations pertaining to TAS authorities and responsibilities.
 - C. Assessed the TAS' internal controls for economic burden cases. We identified potential control weaknesses in the quality review process and sampling methodologies.
- II. Obtained an extract of Economic Burden Cases closed in FY 2006 from the TAMIS.¹ We validated the reliability of the extract by conducting a review of selected fields and running specialized queries. The results established that the data were valid for our sampling purposes.
 - A. Designed an attribute sample based on a 95 percent confidence level, a ± 5 percent desired precision rate, and a 20 percent expected error rate for a population of 67,675 Economic Burden Cases closed in FY 2006.
 - B. Used the Army Audit Software to determine the required sample size of 245 cases using the parameters in Step II.A. We rounded the sample size to 250 cases.
 - C. Randomly sampled 250 Economic Burden Cases closed in FY 2006. We chose this sampling methodology so we could project the number of cases with errors to the universe of Economic Burden Cases.
- III. Used the sample selected in Step II.C. to determine whether the TAS correctly identified the taxpayer's underlying issue(s) or problem(s) and established a course of action to rectify the situation.

¹ This is a database dedicated to recording, controlling, and processing taxpayer cases. It is used by the TAS to analyze core tax issues, laws, policies, and internal IRS processes.



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- A. Determined whether the taxpayer received contact in a timely manner.
- B. Determined whether the information/documentation necessary to resolve the taxpayer's issue was requested in a timely manner.
- IV. Used the sample selected in Step II.C. to determine whether the TAS correctly implemented the plan for relief.
 - A. Determined whether the appropriate corrective action(s) were initiated and completed in a timely manner.
 - B. Determined whether relief actions were fully implemented and addressed all pertinent issues to fully resolve the taxpayer's case.
 - C. Reviewed the TAMIS to determine whether the case coding pertaining to the types of issues involved was entered accurately.
- V. Used the sample selected in Step II.C. to determine whether a hardship determination was made and was accurate.
 - A. Determined whether the TAMIS contained information adequate to establish if the TAS had evaluated and documented whether a significant hardship existed and the extent of the taxpayer's hardship or economic burden.
 - B. Determined whether management was involved in providing guidance in making the determination and/or had approved the determination that was made.
- VI. For cases identified as potential exceptions:
 - A. Reviewed case-related documents to determine causes and trends.
 - B. Quantified the effect by estimating the number of exceptions over the population.
 - C. Discussed and confirmed causes and effects with TAS technical specialists.
 - D. Discussed exception cases with TAS technical specialists.
- VII. Evaluated the TAS Quality Review rating system.
 - A. Determined the TAS Casework Quality Index for FY 2006.
 - B. Reviewed the sampling methodology for the quality review process.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Office of Internal Control OS:CFO:CPIC:IC
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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 Burden – Potential; 36,003 taxpayer accounts affected (see page 3).

Methodology Used to Measure the Reported Benefit:

We identified a population of 67,675 Economic Burden Cases closed between October 1, 2005, and September 30, 2006. From this population, we selected a statistically valid attribute sample of 250 cases based on a confidence level of 95 percent, a precision range of ± 5 percent, and an expected error rate of 20 percent.

We determined that 133 taxpayers (53.2 percent) have been adversely affected by TAS actions or inactions. Therefore, we estimate that 36,003 taxpayer accounts were affected ($67,675 \times 53.2$ percent). The projection was made using attribute sampling, with a 95 percent confidence level and an actual error rate of 53.2 percent. As a result, the actual precision factor was ± 6.17 percent.

Type and Value of Outcome Measure:

- Taxpayer Rights – Potential; 1,354 taxpayer accounts affected (see page 3).

Methodology Used to Measure the Reported Benefit:

From the sample of 250 cases, we determined that 5 taxpayers (2 percent) might have been adversely affected by TAS actions or inactions. Therefore, we estimate that 1,354 taxpayer accounts were affected ($67,675 \times 2$ percent). The projection was made using attribute sampling, with a 95 percent confidence level and an actual error rate of 2 percent. As a result, the actual precision factor was ± 1.73 percent.

Type and Value of Outcome Measure:

- Taxpayer Privacy and Security – Potential; 541 taxpayer accounts affected (see page 3).



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Methodology Used to Measure the Reported Benefit:

From the sample of 250 cases, we determined that 2 taxpayers (.8 percent) might have been adversely affected by TAS actions. Therefore, we estimate that 541 taxpayer accounts were affected ($67,675 \times .8$ percent). The projection was made using attribute sampling, with a 95 percent confidence level and an actual error rate of .8 percent. As a result, the actual precision factor was ± 1.10 percent.

Type and Value of Outcome Measure:

- Protection of Revenue – Actual; \$21,296, of which \$1,325 was erroneously refunded, \$4,221 was offset to other Federal Government obligations instead of the IRS balances due, and \$15,750 was erroneously deemed uncollectible (and can no longer be collected due to expiration of the statute of limitations). The \$21,296 loss of revenue reported is from 3 cases. (b) (3)(d)
- Protection of Revenue – Potential; 1,083 taxpayer accounts with erroneous refunds, erroneous offsets, or circumvention of collection procedures (see page 3).

Methodology Used to Measure the Reported Benefit:

From the sample of 250 cases, we determined that 4 taxpayers (1.6 percent) lost revenue due to TAS actions or inactions. Therefore, we estimate that 1,083 taxpayer accounts were affected ($67,675 \times 1.6$ percent). The projection was made using attribute sampling, with a 95 percent confidence level and an actual error rate of 1.6 percent. As a result, the actual precision factor was ± 1.55 percent.

Type and Value of Outcome Measure:

- Reliability of Data – Potential; 14,076 taxpayer accounts affected (see page 11).

Methodology Used to Measure the Reported Benefit:

From the sample of 250 cases, we determined that 52 cases (20.8 percent) had incorrect Primary Core Issue Codes.¹ Therefore, we estimate that 14,076 taxpayer accounts were affected ($67,675 \times 20.8$ percent). The projection was made using attribute sampling, with a 95 percent confidence level and an actual error rate of 20.8 percent. As a result, the actual precision factor was ± 5.02 percent.

¹ The Primary Core Issue Code identifies the most significant issue, policy, or process causing the taxpayer's problem.



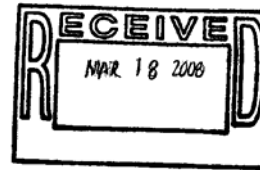
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Appendix V

Management's Response to the Draft Report




National Taxpayer Advocate



MAR 17 2008

MEMORANDUM FOR: Michael R. Phillips
Deputy Inspector General for Audit

FROM: Nina E. Olson 
National Taxpayer Advocate

SUBJECT: Draft Audit Report – The Taxpayer Advocate Service Needs
to Improve Its Processing of Economic Burden Cases (Audit
#200610049)

Thank you for giving me the opportunity to respond to the report, The Taxpayer Advocate Service Needs to Improve Its Processing of Economic Burden Cases. I appreciate the role of TIGTA and welcome recommendations that will help my organization improve.

Processing economic burden cases efficiently is of vital importance to the Taxpayer Advocate Service (TAS), to the IRS operating divisions, and particularly to the taxpayers we serve. Although I feel that TAS has performed well in processing the high volume of cases, I acknowledge there is room for improvement. TAS is working on a number of initiatives to improve case processing and reduce delays and errors.

Before I address the audit's findings and recommendations, I will make two observations. First, I would like to acknowledge the extraordinary job assisting taxpayers that TAS case advocates have done since TAS was created. They work tirelessly to ensure that taxpayer problems are resolved timely and completely. Even though TAS case receipts have increased since fiscal year (FY) 2004 while the number of case advocates on-rolls has decreased in the same period (resulting in a significant increase in cases per advocate), our relief rate and customer satisfaction scores remain high. This is a testament to the type of effort put forth by our case advocates and managers.

The Office of the Taxpayer Advocate operates independently of any other IRS Office and reports directly to Congress through the National Taxpayer Advocate.



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Fiscal Year	Case Receipts	Average Inventory per Case Advocate	Relief Rate	Case Quality
FY 2007	247,839	47	73.3%	90.5%
FY 2006	242,173	42	70.4%	89.7%
FY 2005	197,679	35	68.1%	91.6%
FY 2004	168,856	26	67.3%	90.5%

Second, I would like to voice my concern that TIGTA may be risking a distorted perspective on TAS operations. This is the fourth major audit of TAS operations in recent years that has been staffed by an audit team based out of Denver.¹ As a result, TIGTA routinely selects our Denver office to conduct its pre-planning work (including interviews with case advocates). I am concerned that TIGTA may not be obtaining a "global" view of TAS if it continually conducts interviews with employees from the same TAS office, particularly a modest size office such as Denver (which has only 1.1 percent of all TAS employees²). While I recognize that there are some logistical reasons for choosing to visit the Denver field office, I ask that TIGTA select a different office to review in future audits.

TAS Comments on Findings

TIGTA's Findings May Be Reconciled with TAS's 90 Percent Quality Index Score

TIGTA reported that 56 percent of the FY 2006 cases it sampled for this audit contained errors. However, TAS reported an overall quality rating of almost 90 percent during the same period. TIGTA seemed confused at this apparent disparity, and noted that it plans to conduct an in-depth review of TAS's quality review program. We would like to take this opportunity to reconcile TIGTA's finding with TAS's quality score.

First, the methodology applied by TIGTA is very different from that applied by TAS. In TIGTA's audit, a case that contained a single error in processing was considered as part of the group of cases that contained an error – that is, TIGTA used a pass/fail approach. In contrast, TAS utilized a weighted system to assign quality scores on cases we reviewed. A case containing a single error could receive a quality score of up to 95 (there are eight distinct quality standards worth between five and 25 points). Assume that every one of TAS's cases somehow contained a single error (worth 10 points on a 100-point scale). In this hypothetical situation, TIGTA would find that 100

¹ See TIGTA, Ref. No. 2005-10-040, *Inefficiencies in Processing Operations Assistance Requests Caused Taxpayers Unnecessary Delays* (May 18, 2007); TIGTA, Ref. No. 2005-10-009, *Progress Has Been Made but Further Improvements Are Needed in the Administration of the Low Income Taxpayer Clinic Grant Program* (Sept. 21, 2005); TIGTA, Ref. No. 2002-10-044, *The National Taxpayer Advocate Could Enhance the Management of Systemic Advocacy Resources* (Sept. 30, 2003).

² Denver currently has 21 employees. As of the end of February 2008, TAS has 1,913 total employees.

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percent of the cases it reviewed contained errors and TAS would assert that it achieved a 90 percent quality score, and both assertions would be correct due to the vastly different methodology used to measure quality.

Second, TIGTA and the TAS quality review team were not looking for the same types of errors. What may be considered an error by TIGTA might not be considered an error by TAS, and vice versa (see Attachment 2 for a cross-walk of TIGTA's exceptions and TAS's quality standards). For example, case advocates are required to take an initial action on a case within three workdays for economic burden cases. TAS considered this timeliness measurement as met if one substantive initial action is taken. TIGTA required a greater number of actions to be taken based on their measurement of this process.

Third, there are differences of opinion in what constitutes an error in case processing. When TAS management reviewed the case files to validate the potential exceptions identified by TIGTA, we disagreed with TIGTA's conclusions in more than one third of TIGTA's identified exceptions (TAS disagreed in 155 instances out of 441 potential exceptions initially identified by the audit team).³

Finally, we note that TAS also measures the percentage of cases with no errors. In FY 2008, 56 percent of closed cases were error-free, meaning that 44 percent of the cases contained one or more errors. Considering that TAS does not currently review attributes listed by TIGTA as potential exceptions, this is not too far off from TIGTA's finding that 56 percent of closed cases contained at least one error.

Revised Delegated Authorities Now Allow TAS Case Advocates to Input Adjustments on Cases Open in Another Function, Which Will Reduce Delays and Instances of TAS Exceeding Such Authority

TIGTA noted that TAS exceeded our authorities in 12 of the 250 cases sampled. Five of those cases – approximately 42 percent – involved manual refunds issued to taxpayers with economic hardships whose refunds were frozen due to delinquent returns (Refund Hold program, or RHP). TAS recognized the problems created by the RHP processes and worked with the Wage and Investment (W&I) Operating Division to rewrite Internal Revenue Manual (IRM) 25.12, Delinquent Return Refund Hold Procedures. The revised IRM clarified both TAS and W&I procedures and as a result the problems were all but eliminated.

³ For example, on page 5 of the draft report, TIGTA stated that TAS [REDACTED]. However, upon further research, TAS discovered that the [REDACTED] so action taken by TAS was appropriate. On page 6 of the draft report, TIGTA stated that [REDACTED].



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The remaining seven cases involved adjustments made to accounts that either had open controls or were in a collection status.

The Acting Commissioner modified TAS authorities in August of 2007. The modified authorities now allow TAS to input adjustments on cases that are open in another function, so long as TAS secures written approval from the operating division. The issues TIGTA identified as problems will no longer be issues in the future because TAS has the authority to undertake these actions.

TAS Does Not Request Unnecessary or Duplicate Documentation from Taxpayers

TIGTA observed instances where case advocates requested unnecessary documentation from taxpayers and commented that these requests for information potentially burdened taxpayers. However, if the taxpayer can readily provide the information, it is sometimes easier and quicker to get it from the taxpayer than to try to get it from the IRS later. In such situations, asking the taxpayer for additional documents results in less of a delay and burden to the taxpayer by allowing TAS to provide relief sooner. We trust our case advocates' judgment in these situations.

TAS Generally Does Not Issue Manual Refunds If Refund Is Expected Within Two Weeks

TIGTA identified several problems with the issuance of manual refunds and noted that TAS is authorized to issue manual refunds from accounts that are not controlled by other IRS functions. However, if a systemically generated refund will be issued within two weeks, it is TAS's general policy not to issue a manual refund.⁴

Moreover, TAS respectfully disagrees with TIGTA's statement that manual refunds generally save between one and three weeks over normal processing time. This may be the timeframe for cases that require some type of input must occur (e.g., releasing a freeze code), but other refunds may take six weeks or longer (e.g., processing original return).

A General Description of Taxpayer's Hardship on TAMIS Is Sufficient, Provided That Details Are Maintained in the Case File

In many cases, TIGTA found that the taxpayer's hardship was not adequately detailed in the case history. For example, TIGTA felt that a general comment such as "medical problems" or "hardship documents received" was insufficient. While we encourage case advocates to capture the essence of the taxpayer's situation, we believe that in many instances a general description is sufficient to enter into the Taxpayer Advocate

⁴ See memorandum from the Deputy National Taxpayer Advocate to TAS employees, *Guidance on Manual Refunds*, dated June 16, 2006. Under TAS Delegation Order 267, TAS must follow the same guidelines found in IRM 21.4.4 regarding manual refunds, which states that a manual refund should not be initiated if an IDRS generated refund will be issued within two cycles (weeks). See IRM 21.4.4.2(3).



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Management Information System (TAMIS) case history, particularly where the case advocate will have to obtain documentation about the taxpayer's medical condition to resolve the taxpayer's tax problem. That documentation will become part of the case file.

If a case advocate enters a notation such as "hardship documents requested on 5/18 received" in the TAMIS case history, that is sufficient information to determine what occurred in the case. A reviewer would be able to look at the TAMIS entry on May 18 to see what documents were requested by the case advocate. At a minimum, the reviewer can look at the case file to see what documents were received from the taxpayer. Furthermore, if TAS requested the IRS to take action on the case, such as a manual refund, the business unit will not take the requested action until it has received the necessary documentation. This documentation would be attached to the OAR.⁵ TAS case advocates' judgment, the specific facts and circumstance of each case, and the IRM determine the kind of documentation needed.

IRM 13.1.7.5.2.2 instructs case advocates to request information to support the hardship as well as information required to relieve the hardship.⁶ TIGTA notes that the IRM does not include a specific instruction as to the kind of documentation that should be collected. Because TAS cases can involve a wide range of issues, it would be difficult to include a laundry list of items that might be needed in any given situation. Case advocates should research other IRM sections to identify what information or documentation is needed from the taxpayer for the type of action requested. For example, if the issue involves a request for a release of levy, case advocates would obtain documentation outlined in IRM 5.19.4.4.10, Levy Release. Case advocates utilize their knowledge of IRS procedures in addition to their own judgment to determine what information should be requested from a taxpayer during an initial contact. Including a list of specific items in an IRM would limit case advocates' options and could potentially overlook unique or unusual circumstances that were adversely impacting the taxpayer.

Further Training Will Be Conducted to Accurately Capture Case Coding Information

TIGTA found that more than 20 percent of the sample cases contained incorrect Primary Core Issue Codes (PCICs). It is often difficult to designate primary and secondary issue codes, particularly when multiple issues arise. Often, the PCIC is assigned based on the taxpayer's initial description of the problem. If the issue code is entered into incorrectly on TAMIS, we do ask case advocates to change the PCIC to reflect the appropriate issue.⁷ We will provide additional guidance clarifying use of the PCIC and when it is appropriate to change it.

⁵ See IRM 13.1.19.4.

⁶ This is a reference to the IRM that was in effect during the timeframe of the cases that were audited; it has since been superseded.

⁷ See IRM 13.4.5.2.1.4(2)(c).

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The Taxpayer Advocate Service Needs to Improve Its Processing of Economic Burden Cases

While we agree that case advocates may need additional training to ensure they code cases properly, we would also like to point out that upcoming systems improvement will minimize this problem. In December 2008, TAS will upgrade the TAMIS system, allowing management more flexibility in determining the best way to track issue codes.

Response to Recommendations

We concur with five of the report's six recommendations. For each recommendation discussed below, we identify the actions we plan to take to implement the recommendation or explain why we disagree with the recommendation.

Recommendation 1: *The National Taxpayer Advocate should develop and implement procedures to ensure cases are worked accurately and timely, all issues are addressed, and errors are detected, especially when online adjustments are made. These policies and procedures should address the following:*

- *Before approving manual refunds, management should ensure case advocates have thoroughly researched the Integrated Data Retrieval System (IDRS) to prevent duplicate refunds.*
- *Online adjustments should be reviewed for accuracy and to ensure the TAS does not violate its delegated authorities.*
- *A formal policy should be implemented to expand the use of preclosure reviews to ensure all taxpayer issues are addressed before the taxpayer's case is closed.*

We agree that it is important to have clear procedures to review actions taken by case advocates. To the extent these procedures are not clearly delineated, we will formalize such guidance.

TAS Employees Follow Same Guidelines as Accounts Management Employees When Processing Manual Refunds

Under TAS Delegation Order 267, TAS case advocates and managers must follow the same guidelines as Accounts Management employees when issuing manual refunds. The guidelines for processing manual refunds are outlined in IRM 21.4.4, Manual Refunds, and require initiators of manual refunds to research for potential duplicate refunds. The IRM also requires managers who approve manual refunds to verify that proper research was conducted.

Guidance on Online Adjustment Reviews Will Be Reissued

Although there is no formal policy requiring TAS offices to perform online adjustment reviews, many offices currently perform some type of online adjustment reviews on a regular basis. The Deputy National Taxpayer Advocate provided guidance to all TAS managers in a Letter of Understanding dated May 11, 2004, regarding a change the manner in which IDRS actions are reviewed online. This guidance referenced IRM 1.4.17.2.3.3, Compliance IDRS Adjustment Reviews, and provides the basis for the

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online adjustment review process.⁸ Many TAS Area offices use Internal Memorandum Documents to formalize Area expectations for conducting these online adjustment reviews and online adjustments are generally covered during operational reviews performed by the Area.

Reviews are generally performed by managers and analysts. Most offices review online adjustments daily and attempt to reach 100 percent when possible; larger offices sometimes select a sample of online adjustments to review on a weekly basis. Managers discuss the results of the online adjustment reviews with the case advocate. Offices utilize review results to identify trends and training needs.

TAS Cases Are Subject to Various Types of Reviews, Some of Which Are Evaluative

To ensure that all issues are addressed completely and timely, TAS cases are subject to various levels of review. Following is a summary of the different types of management review that were in effect during FY 2006.

Early Intervention Review (EIR). An EIR helps ensure the case advocate is identifying all issues early in the case. Managers are required to review a minimum of 25 percent of open cases as a proactive step, thereby ensuring the case advocate is on the right track from the beginning. For economic burden cases, EIRs must be conducted within ten calendar days from the Taxpayer Advocate Received Date (TARD).⁹ Managers are required to update the TAMIS history to indicate that the EIR has been performed and include specific case directions provided if needed. EIRs are generally non-evaluative.

100-Day Case Review. For cases that are open longer than 100 days, managers are required to review the case within 15 days of a case reaching the 100-day mark. In addition, a manager must conduct a follow-up review a minimum of once every 60 days thereafter. This review helps ensure the case advocate is taking all steps possible to resolve the case. Managers are required to note in TAMIS that the review was conducted, along with any specific case direction.¹⁰

Workload Review/Mid-Year Review. These evaluative reviews are generally performed in conjunction with the employee's mid-year rating. As part of this workload review, the manager discusses the status of each open case assigned to a case advocate and selects five of the cases discussed to be written up on Form 13095, *Case Review Form*. When a case is selected for an evaluative review, the manager would note in the TAMIS history that the case was selected for workload review.

⁸ This memo was for a 90 day test only. This guidance was not in effect for the period under review (FY 2006).

⁹ For criteria 5–9 cases, an EIR must be conducted within 30 calendar days from the TARD.

¹⁰ See memorandum from the Deputy National Taxpayer Advocate, *Memorandum on Early Intervention Review Guidelines*, dated Feb. 22, 2006.



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Closed Case Reviews. Managers are required to review two closed cases per employee per quarter. These are evaluative reviews.

Inventory Validation. During FY 2006, Area Directors and Local Taxpayer Advocates conducted an annual inventory validation (IVL) of all open cases in January and again in August. This validation was repeated in January 2007. The focus of this review is on the accuracy of TAMIS coding.¹¹ This process is now referred to as the TAMIS Accuracy Review (TAR). Data points previously captured via the TAR process are now captured by quality reviewers on the cases pulled for the monthly case quality product review. This data is tracked to identify offices needing to perform a TAR on the full office inventory in August or September of 2008.

Pre-closure Reviews. We will develop procedures for non-evaluative pre-closure reviews.

Note that many of the reviews described above are intended to be non-evaluative (including the EIR, 100-Day Case Review, and IVL). It would be inappropriate for performance-related comments to be entered into the TAMIS case history; in fact, the agreement between TAS and the National Treasury Employees Union prohibits performance evaluations to be displayed in such a public forum.¹² If a manager had an evaluative comment expressing concerns about the case advocate not following procedure, the manager should have captured these comments in the case advocate's drop file (a temporary file containing documents related to an employee's conduct).

We agree with the general recommendation to formalize our policy on case reviews. We will formalize review procedures and include guidance to our employees on the various types of case reviews in a new part of IRM 13 under development for issuance in FY 2008 – the Managers Guide.

In addition, TAS has recently established the lead case advocate position. Lead case advocates will provide an additional level of review, focusing on providing guidance and coaching with regard to the action planning process and the progress of the case. The lead case advocate will perform many of the non-evaluative reviews, including EIR, 100-Day Case Reviews, and Pre-closure Reviews.

Recommendation 2: *The National Taxpayer Advocate should update Internal Revenue Manual Part 13 to require that case advocates document the details of the taxpayer's economic burden/hardship as part of the initial case analysis in the Taxpayer Advocate Management Information System. The documentation should include a*

¹¹ The IVL reviewed 31 data fields, including Power of Attorney, case acceptance criteria, PCIC, complexity, and others.

¹² See *Internal Revenue Service and National Treasury Employees Union Agreement Regarding the Taxpayer Advocate Service*, Article 3(F) (Apr. 2001).

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recommendation as to whether the TAS should grant the taxpayer full, partial, or no relief and include an explanation for the determination in the Taxpayer Advocate Management Information System. This recommendation should be documented as soon as reasonably practical. In addition, case advocates should update the Taxpayer Advocate Management Information System case history if the taxpayer's circumstances change as the case progresses.

We disagree with this recommendation. The details of the taxpayer's economic burden are already documented by the case advocate – either in the TAMIS history or on the Hardship Description/Relief Requested and Determination of Hardship/Recommendation for Relief screens on TAMIS. We would like case advocates to have the option to continue using the TAMIS screens to provide this information in lieu of documenting in the actual case history.

In addition, case advocates are already required to develop an initial action plan based on the taxpayer's circumstances.¹³ An initial action plan should contain a list of activities that the case advocate plans to perform while working a case. This action plan should be modified as the case develops.¹⁴ We intend to conduct additional training on preparing an initial action plan and updating it. I hesitate to encumber our case advocates with additional administrative requirements. If we have addressed the immediate economic burden, it will be obvious from the actions taken by the case advocate.

Recommendation 3: *The National Taxpayer Advocate should assist TAS management in conducting case reviews by updating the Memorandum on Early Intervention Review Guidelines, dated February 22, 2006, to include a requirement that the taxpayer's financial circumstances be considered as part of the determination for the "best approach" for each case. The National Taxpayer Advocate should also update Internal Revenue Manual Part 13 to reflect all Early Intervention Review Guidelines.*

We agree with this recommendation. TAS case advocates are trained from their first day on the job that the taxpayer's economic circumstances are a key component of case analysis. We are confident that case advocates are taking these circumstances into consideration. However, we will update the Memorandum on Early Intervention Review Guidelines to include a requirement that the taxpayer's financial circumstances be considered as part of the determination for the "best approach" for each case. TAS will also update the IRM to reflect Early Intervention Review Guidelines.

Recommendation 4: *The National Taxpayer Advocate should update Form 911 to require the initiator to include a detailed description of the taxpayer's situation (including*

¹³ See IRM 13.1.18.2.

¹⁴ See memo from Deputy National Taxpayer Advocate, *TAMIS Action Plan Screen and Timely Case Documentation*, dated June 23, 2005.



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the taxpayer's financial status) and the circumstances that are creating the economic burden/hardship. This should include how the taxpayer could be adversely affected if the requested assistance is not provided.

We agree with this recommendation and will change the wording on Form 911 accordingly.

Recommendation 5: *The National Taxpayer Advocate should analyze a sample of internally referred Forms 911 to assess the accuracy of the case acceptance criteria coding (for economic burden and systemic burden cases), to determine if the cases were properly categorized. In addition, the review should address whether the problem description adequately details the IRS problem and the taxpayer impact. The results of this analysis should be used to identify training needs for employees staffing the toll-free telephone lines in the case identification and referral process. Based on this analysis, the TAS should consider requiring that the business units conduct managerial reviews of all cases referred to the TAS.*

Partially agree. We generally agree with the recommendation that TAS review whether referrals from the IRS were properly categorized. However, we do not agree with the requirement that business units conduct managerial reviews of cases prior to their referral to TAS. It is possible that such a requirement could have a chilling effect on TAS referrals.

Also, note that economic burden cases are excluded from IRS managerial review to prevent potential delays in transmitting the case to TAS due to the time sensitivity involved in cases where the taxpayer may need immediate assistance and intervention by TAS. We are exploring the benefits and drawbacks of continuing managerial reviews for systemic burden cases.

Recommendation 6: *The National Taxpayer Advocate should provide additional training to case advocates, management, and intake personnel to explain the appropriate use of the Primary Core Issue Code (PCIC).*

Agree. It is often difficult to designate primary and secondary issue codes, particularly when multiple issues arise. Often, the PCIC is assigned based on the taxpayer's initial description of the problem. We will provide additional guidance clarifying appropriate use of the PCIC.

Attached is a summary of our response outlining our corrective actions. If you have any questions, please contact me or call Christopher Lee, our TIGTA liaison, at (202) 622-8391.

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Attachment 1

Summary of TIGTA Recommendations and Management Response

RECOMMENDATION #1: *The National Taxpayer Advocate should develop and implement procedures to ensure cases are worked accurately and timely, all issues are addressed, and errors are detected, especially when online adjustments are made. These policies and procedures should address the following:*

- *Before approving manual refunds, management should ensure case advocates have thoroughly researched the Integrated Data Retrieval System to prevent duplicate refunds.*
- *Online adjustments should be reviewed for accuracy and to ensure the TAS does not violate its delegated authorities.*
- *A formal policy should be implemented to expand the use of preclosure reviews to ensure all taxpayer issues are addressed before the taxpayer's case is closed.*

CORRECTIVE ACTION: We will formalize review procedures and include guidance to our employees on the various types of case reviews in IRM 13.

IMPLEMENTATION DATE: July 2009.

RESPONSIBLE OFFICIAL: Deputy National Taxpayer Advocate.

RECOMMENDATION #2: *The National Taxpayer Advocate should update Internal Revenue Manual Part 13 to require that case advocates document the details of the taxpayer's economic burden/hardship as part of the initial case analysis in the Taxpayer Advocate Management Information System. The documentation should include a recommendation as to whether the TAS should grant the taxpayer full, partial, or no relief and include an explanation for the determination in the Taxpayer Advocate Management Information System. This recommendation should be documented as soon as reasonably practical. In addition, case advocates should update the Taxpayer Advocate Management Information System case history if the taxpayer's circumstances change as the case progresses.*

CORRECTIVE ACTION: TAS disagrees with this recommendation; as a result, there are no corrective actions associated with this recommendation.

IMPLEMENTATION DATE: N/A.

RESPONSIBLE OFFICIAL: N/A.

RECOMMENDATION #3: *The National Taxpayer Advocate should assist TAS management in conducting case reviews by updating the Memorandum on Early*

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Intervention Review Guidelines, dated February 22, 2006, to include a requirement that the taxpayer's financial circumstances be considered as part of the determination for the "best approach" for each case. The National Taxpayer Advocate should also update Internal Revenue Manual Part 13 to reflect all Early Intervention Review Guidelines.

CORRECTIVE ACTION: TAS will update the Memorandum on Early Intervention Review Guidelines to include a requirement that the taxpayer's financial circumstances be considered as part of the determination for the "best approach" for each case. TAS will also update the IRM to reflect Early Intervention Review Guidelines.

IMPLEMENTATION DATE: July 2009.

RESPONSIBLE OFFICIAL: Deputy National Taxpayer Advocate.

RECOMMENDATION #4: *The National Taxpayer Advocate should update Form 911 to require the initiator to include a detailed description of the taxpayer's situation (including the taxpayer's financial status) and the circumstances that are creating the economic burden/hardship. This should include how the taxpayer could be adversely affected if the requested assistance is not provided.*

CORRECTIVE ACTION: TAS will change Form 911 to include a field to enter a detailed description of the taxpayer's situation, the circumstances that are creating the economic burden, and how the taxpayer could be adversely affected if the requested assistance is not provided.

IMPLEMENTATION DATE: July 2009.

RESPONSIBLE OFFICIAL: National Taxpayer Advocate.

RECOMMENDATION #5: *The National Taxpayer Advocate should analyze a sample of internally referred Forms 911 to assess the accuracy of the case acceptance criteria coding (for economic burden and systemic burden cases), to determine if the cases were properly categorized. In addition, the review should address whether the problem description adequately details the IRS problem and the taxpayer impact. The results of this analysis should be used to identify training needs for employees staffing the toll-free telephone lines in the case identification and referral process. Based on this analysis, the TAS should consider requiring that the business units conduct managerial reviews of all cases referred to the TAS.*

CORRECTIVE ACTION: TAS will analyze a sample of internally referred Forms 911 to assess the accuracy of the case acceptance criteria coding and the adequacy of the description of the taxpayer's issue. TAS will use this review to identify training opportunities for employees staffing the toll-free telephone lines.

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IMPLEMENTATION DATE: October 2009.

RESPONSIBLE OFFICIAL: Executive Director of Case Advocacy.

RECOMMENDATION #6: *The National Taxpayer Advocate should provide additional training to case advocates, management, and intake personnel to explain the appropriate use of the Primary Core Issue Code (PCIC).*

CORRECTIVE ACTION: We will provide training for case advocates on identifying the root cause of a taxpayer's problem as part of the annual TAS Technical Training Symposium.

IMPLEMENTATION DATE: August 2008.

RESPONSIBLE OFFICIALS: Deputy National Taxpayer Advocate.

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Attachment 2

TIGTA Exception / QR Standard Crosswalk	
Exception Type	QR Standard
B.1 Initial contact was not timely	Standard 1 Currently QR does consider leaving a message on an answering machine/voice mail or a third party as an initial contact.
B.2 Information/documentation was not timely identified and/or requested	Standard 2
C.2 Action(s) taken by TAS violated TAS authority	Standard 6
C.6 Technical and procedural errors	Standard 6
C.8 Delays in subsequent actions	Standard 3
C.10 All issues not addressed	Standard 5, 6, or 7. Some application differences.
D.2 Hardship/economic burden – not addressed /clarified /documented	Standard 4 or Standard 6. Some applicant differences.
E.6 Primary Core Issue Code incorrect	Not currently a targeted review point, but proposed.
E.8 Relief Code incorrect	Not currently a targeted review point, but proposed.
F.3 Case file missing or incomplete	May not be a targeted review but may be captured under Standards #4, #6, or #7 depending on the extent of the missing documents.

TAS Quality Standards are:

1. Did TAS make timely contact with the taxpayer?
2. Did TAS take initial action/request information within the specified time frame?
3. Did TAS take all subsequent actions timely from the time action could have been taken?
4. Did TAS resolve all taxpayer issues?
5. Did TAS address all related issues?
6. Were all actions taken by TAS and the IRS operations/functional divisions technically and procedurally correct?
7. Did TAS give the taxpayer a clear, complete, correct explanation at closing?
8. Did TAS educate the taxpayer regarding any of his/her actions that contributed to the problem?

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