

**Further Testing and Refinement Are  
Needed Before Expanding Case  
Resolution Authorities for Currently Not  
Collectible Accounts**

**August 2000**

**Reference Number: 2000-30-121**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 16, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Further Testing and Refinement Are Needed  
Before Expanding Case Resolution Authorities for Currently Not  
Collectible Accounts

This report presents the results of our review of the prototype for testing expanded case resolution authorities on currently not collectible accounts. Our review focused on determining whether the prototype was effectively designed and executed to provide Internal Revenue Service (IRS) management with reliable decision-support information for implementing the expanded authorities nationwide.

In summary, we found that additional testing and refinements to the measurement system are needed to determine if the expanded authorities are achieving the desired outcomes. In addition, access to nationwide locator services at each call site is needed for effective and efficient case resolution in a telephone environment. We are also concerned that the benefits of implementing the expanded authorities in the toll-free and Examination functions may not justify the training costs.

Management's response was due on August 7, 2000. As of August 10, 2000, management had not responded to the draft report.

Copies of this report are being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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### Executive Summary

As part of its modernization efforts, the Internal Revenue Service (IRS) established a project office in 1998 to develop a high level redesign of the collecting process. One of the redesign team's recommendations was to expand case resolution authorities for certain delinquent tax accounts that are currently not collectible due to taxpayer hardship (i.e., inability to pay), because the IRS was unable to locate the taxpayers or their assets, or because the IRS was unable to contact the taxpayers. Several benefits were envisioned from the redesign. First, customer burden would be minimized by resolving accounts at the earliest point of contact. Second, the redesign would leave Revenue Officers free to work cases that can be resolved only with their involvement. Other expected benefits were fewer cases would require re-work and fewer cases would be assigned to the automated holding file of unresolved cases.

This initiative would allow Customer Service function employees assigned to the Automated Collection System (ACS) or the toll-free telephone system to close significantly higher dollar accounts than they currently have authority to close. The initiative would also allow employees in the Examination, Appeals, and Taxpayer Advocate Service functions to close accounts up to the same higher dollar amount. Currently, employees in these functions have no authority to close accounts as currently not collectible.

In 1999, the IRS' Collection Reengineering Program Office developed a prototype for testing the feasibility of expanding the case resolution authorities for currently not collectible accounts. At the present time, the expanded authorities are being tested in the Kansas City Customer Service Center and in selected Examination groups in the Kansas City metropolitan area. Employees in the Customer Service (both ACS and toll-free) and Examination functions began closing cases under their expanded authorities in July 1999 and October 1999, respectively. The test period is scheduled to end on October 30, 2000.

We conducted this audit to determine whether the prototype was effectively designed and is being effectively executed to provide IRS management with reliable decision-support information concerning whether the prototype model should be implemented, modified, or terminated.

### Results

The prototype for testing the expanded case resolution authorities for currently not collectible accounts may not provide IRS management with sufficient and reliable decision-support information for implementing the expanded authorities nationwide. The

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volume of cases closed under the expanded authorities in the Customer Service (both ACS and toll-free) and Examination functions has fallen significantly short of expectations. As of March 2000, testing of the expanded authorities in the Appeals and the Taxpayer Advocate Service functions had not been started due to insufficient resources.

At the time we completed our review in March 2000, the Collection Reengineering Program Office was planning, based on the test results to date, to partially implement the expanded authorities by allowing employees in the ACS function nationwide to close higher dollar accounts involving taxpayer hardship. The Program Office was also considering having employees in the toll-free areas accelerate the accounts to the ACS for resolution. The testing of the expanded authorities for closing currently not collectible cases in the Examination function was to continue.

The limited test results do not, as yet, clearly support a business decision to expand the case resolution authorities in the ACS. Additional testing, refinements to the measurement system, and access to national locator services at each call site are needed before implementing the expanded authorities. In addition, the volume of cases closed by the toll-free and Examination functions under the expanded authorities may not justify the training costs.

### **Further Testing Is Needed Before Expanding Case Resolution Authorities for Automated Collection System Employees**

The sampling plan for the prototype required a test group of 2,500 cases closed currently not collectible by the Customer Service function (1,250 cases closed due to taxpayer hardship and 1,250 cases closed as unable to locate or unable to contact) and a control group of approximately the same size. Through the first 7 months of testing the expanded authorities, however, Customer Service function employees working in the ACS closed only 44 hardship cases; none were closed by Customer Service function employees working on the toll-free telephone system.

In January 2000, analysts from the Collection Reengineering Program Office reviewed these 44 cases and concluded that a proper currently not collectible determination had been made on each case. Based on this very limited testing, the Collection Reengineering Program Office is planning to allow ACS employees nationwide to close taxpayer hardship cases under the expanded resolution authorities.

In our opinion, it is not possible to make a reliable inference of case quality from such a small volume of cases. Since there are approximately 179,000 delinquent tax accounts totaling \$8.4 billion that potentially could be closed by ACS employees under the expanded authority criteria, we believe that more testing needs to be completed before nationwide implementation is undertaken.

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### **A Better Measurement System Is Needed to Demonstrate That the Expanded Case Resolution Authorities Are Achieving the Desired Outcomes**

The action plan for the prototype contained several performance measures that were not fully developed during the testing of the expanded case resolution authorities. Although key data from the closed cases were being tracked to assist the Collection Reengineering Program Office in monitoring and measuring the prototype results, controls over the data collection process were not adequate to ensure that complete and accurate information was being captured. As a result, there is inadequate performance measurement data to conclusively show that the expanded case resolution authorities are achieving the desired outcomes in a cost-effective manner.

### **Access to Nationwide Locator Services at Each Call Site Is Needed for Effective and Efficient Case Resolution in a Telephone Environment**

Collection procedures under the expanded authorities require verification of financial information before an account can be closed as currently not collectible. The verification can include a review of the taxpayer's latest tax return and a check of motor vehicle records and local property (real estate and personal) records to verify the accuracy of the taxpayer's financial statement and to locate additional sources from which to collect taxes owed.

Automated locator services provide access to information to locate taxpayers and their assets and can be used to assist IRS employees in collecting the proper amount of tax revenue at the least cost. In a telephone environment, on-line access to nationwide locator service information is essential for effective and efficient first point-of-contact resolution, since the IRS' call-routing technology frequently sends incoming calls to call sites that are outside of the taxpayer's local area where property records are located.

During the testing of the expanded case resolution authorities, Customer Service function employees had on-line access to a nationwide locator service. However, on-line access to locator services is not available in all IRS offices to enable employees to research motor vehicle and local property records to verify that all assets have been included on the taxpayer's financial statement.

### **The Volume of Test Cases Closed by Toll-Free and Examination Function Employees Does Not Justify the Training Costs to Implement the Expanded Authorities in These Functions**

The IRS provided approximately 3 days of specialized training to the 12 toll-free employees and the 71 Examination function employees who were assigned to participate in the testing of the expanded case resolution authorities. The training covered obtaining

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and evaluating financial data, including allowable expenses, to determine the taxpayer's ability to pay; locating and contacting taxpayers; and researching IRS computer files.

Between July 7 and December 31, 1999, only 8 of 24,886 incoming calls handled by the 12 participating toll-free employees involved taxpayers with delinquent tax liabilities that met the criteria under the expanded authorities. None of the 8 accounts was closed as currently not collectible. During the first 6 months (October 1999 - March 2000) of testing the expanded authorities in the designated Examination groups, only 3 of 185 cases were reported currently not collectible.

We are concerned that the potential benefits derived from expanding case resolution authorities in the toll-free and Examination functions may not justify the costs of providing training to all employees nationwide. We estimate the opportunity costs to train the Examination employees would exceed \$12.7 million.

### **Summary of Recommendations**

The Collection Reengineering Program Office should continue testing the expanded case resolution authorities in the ACS function. The expanded authorities for ACS employees should not be implemented nationwide until sufficient test data are collected and the measurement system is improved to more conclusively show that the intended program objectives are being effectively and efficiently accomplished. In addition, access to locator services needs to be available at each ACS call site prior to nationwide implementation. Due to the training costs involved, implementing the expanded case resolution authorities in the toll-free and Examination functions should be reconsidered, given the extremely limited volume of cases closed during the test period.

Management's Response: Management's response was due on August 7, 2000. As of August 10, 2000, management had not responded to the draft report.

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### Objective and Scope

*The objective of the audit was to determine whether the test of the expanded case resolution authorities was effectively designed and executed to provide reliable decision-support information.*

Our overall objective was to determine whether the prototype of the expanded case resolution authorities for currently not collectible accounts was effectively designed and was being effectively executed to provide Internal Revenue Service (IRS) management with reliable decision-support information concerning whether the prototype model should be implemented, modified, or terminated. To accomplish this objective, we evaluated the risks of expanding the authorities, reviewed action plans for conducting the prototype, interviewed IRS managers and analysts involved with the prototype, evaluated the effectiveness of the prototype design for capturing data and measuring results, reviewed the procedures for closing cases under the expanded authorities, and analyzed a sample of cases to determine the quality of the closure actions.

*Balancing customer service and tax compliance initiatives was a FY 2000 emphasis area for the TIGTA.*

This review supports one of the Treasury Inspector General for Tax Administration's (TIGTA) Fiscal Year (FY) 2000 emphasis areas to evaluate whether the IRS is effectively balancing customer service and tax compliance initiatives.

We performed the audit work in the National Office, the Kansas City Customer Service Center, and the Kansas-Missouri District between January and March 2000. The audit was conducted in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.



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### Background

*Accounts can be closed as currently not collectible for a variety of reasons such as taxpayer hardship, the IRS' inability to locate the taxpayer or assets, or the IRS' inability to contact the taxpayer.*

The IRS' policy<sup>1</sup> provides for removing a delinquent tax account from active inventory if, after taking all required steps in the collection process, the account is determined to be currently not collectible. Closing an account as currently not collectible stops the current efforts to collect it but does not abate the assessment. Collection actions can start again at any time before the statutory period for collection expires (usually 10 years from the tax assessment date).

The type of investigation required to close an account as currently not collectible varies with the dollar amount and type of case. The investigation can include obtaining, analyzing, and verifying the taxpayer's financial information; reviewing the taxpayer's latest filed return; and using locator services to research local property and motor vehicle records to ensure that all assets have been disclosed or to locate the taxpayer. Currently not collectible determinations generally require the approval of the immediate manager to ensure the investigation met established standards.

*Only Collection and Customer Service function employees presently have the authority to close delinquent tax accounts as currently not collectible.*

Revenue Officers in the Collection Field function are delegated authority to close any account as currently not collectible. In addition, Customer Service function employees assigned to the Automated Collection System (ACS) or the toll-free telephone system<sup>2</sup> are delegated authority to close accounts as currently not collectible if the amount owed is below a prescribed dollar limit.

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<sup>1</sup> Policy Statement P-5-71.

<sup>2</sup> The IRS' toll-free telephone system consists of a variety of 1-800 numbers to assist taxpayers in meeting their Federal tax obligations. It includes separate 1-800 numbers for tax law inquiries; questions regarding notices, letters, or bills received from the IRS; and inquiries on the status of tax refunds.

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*In 1998, an IRS collection redesign team recommended expanding the case resolution authorities for currently not collectible accounts.*

As part of the IRS' modernization effort, the Assistant Commissioner (Collection) established a "Redesign of the Collecting Process Project Office" in 1998 to develop a high-level redesign of the collecting process. One of the redesign team's recommendations was to expand case resolution authorities for making currently not collectible determinations.

If approved for nationwide implementation, this expanded authority will allow Customer Service function employees in both the ACS and toll-free telephone functions to close accounts involving significantly larger dollar amounts as currently not collectible. The expanded authorities will also allow employees from the Appeals, Examination, and Taxpayer Advocate Service functions to close accounts up to the new higher dollar amount. Currently, employees in these functions have no authority to close accounts as currently not collectible.

The rationale behind expanding the case resolution authorities was that empowering front-line employees to resolve accounts earlier in the process (i.e., resolution by the first point-of-contact) would minimize customer burden because taxpayers would not be shuffled from one function to another. This would also leave Revenue Officers free to work cases that can be resolved only in the field. It was also expected that the expanded case resolution authorities would result in fewer cases requiring re-work and fewer cases being placed in the queue.<sup>3</sup>

*The IRS started testing the expanded case resolution authorities for currently not collectible accounts in 1999.*

In 1999, the IRS' Collection Reengineering Program Office developed a prototype for testing the feasibility of expanding the case resolution authorities for currently not collectible accounts. At the time of our review, the expanded authorities were being tested in the Kansas City Customer Service Center and in selected

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<sup>3</sup> The queue is an unassigned inventory of delinquent accounts that were unresolved by written notices and telephone calls. It generally consists of lower priority accounts that do not warrant assignment to Revenue Officers.

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Examination groups in the Kansas City metropolitan area. The Customer Service (both ACS and toll-free) and Examination functions began closing cases under their expanded authorities in July 1999 and October 1999, respectively. The test period is scheduled to end on October 30, 2000.

### Results

During 1999, the Collection Reengineering Program Office:

- Established an action plan for conducting a prototype of the expanded case resolution authorities.
- Developed test procedures for making currently not collectible account determinations.
- Provided specialized training for the employees involved in the test.
- Obtained access to national locator services at the test sites.

*The prototype results are not providing sufficient and reliable decision-support information for expanding the case resolution authorities nationwide.*

However, the prototype results may not provide IRS management with sufficient and reliable decision-support information for implementing the expanded authorities nationwide. The volume of cases closed under the expanded authorities by the Customer Service and Examination functions fell significantly short of expectations. Due to insufficient resources, testing of the expanded authorities in the Appeals and the Taxpayer Advocate Service functions had not been started at the time we completed our review in March 2000.

Based on the limited results obtained to date, the Collection Reengineering Program Office is planning to partially implement the expanded authorities nationwide to allow employees in the ACS to close accounts as currently not collectible due to taxpayer hardship. In the toll-free areas, the Program Office was considering

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*Additional testing, refinements to the measurement system, and on-line access to national locator services are needed before rolling out the expanded authorities nationwide.*

having the employees accelerate the accounts to the ACS for resolution. Testing of the expanded authorities for closing currently not collectible cases in the Examination function will continue.

The limited test results do not, as yet, clearly support a business decision to expand the case resolution authorities in the ACS. Additional testing, refinements to the measurement system, and on-line access to national locator services at each call site are needed before rolling out the expanded authorities to the ACS functions nationwide. In addition, the volume of cases closed by the toll-free and Examination functions under the expanded authorities may not justify the training costs.

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## **Further Testing Is Needed Before Expanding Case Resolution Authorities for Automated Collection System Employees**

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The sampling plan for the prototype was developed for the Collection Reengineering Program Office by the IRS Statistics of Income (SOI) function. The plan required a test group of 2,500 cases closed as currently not collectible by the Customer Service function. This test group was to include approximately 1,250 cases closed as unable to pay and approximately 1,250 cases closed as unable to contact or unable to locate. The plan also called for a control group of approximately the same size.

During the first 7 months of testing the expanded case resolution authorities, Customer Service function employees closed only 233 delinquent accounts that met the new expanded dollar criteria. Of these, 227 cases were closed by employees assigned to the ACS, and only 6 cases were closed by employees assigned to the toll-free telephone system.

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*Customer Service function employees closed only 98 accounts as currently not collectible during the first 7 months of testing the expanded case resolution authorities.*

These 233 cases included only 98 that were closed as currently not collectible. Of the remaining 135 cases, 81 were referred to Revenue Officers in the Collection Field function for appropriate action; 31 were closed with an installment agreement; and 23 were closed with various other actions.

Of the 98 currently not collectible cases, 44 were closed due to taxpayer hardship, 23 were closed as unable to locate, 17 were closed as unable to contact, and 14 were closed because the taxpayer was deceased. All of the 98 cases had been closed by ACS employees. Customer Service function employees assigned to the toll-free telephone system did not close any cases as currently not collectible during the first 7 months of the test.

In January 2000, analysts from the Collection Reengineering Program Office reviewed 142 cases that had been closed by the Customer Service function. These included 70 cases that had been closed currently not collectible (44 cases closed due to taxpayer hardship, 13 cases closed unable to contact, and 13 cases closed unable to locate).

*Based on very limited testing, the IRS is planning to allow ACS employees nationwide to close taxpayer hardship cases as currently not collectible under the expanded resolution authorities.*

While their reviews identified procedural errors in 3<sup>4</sup> (7 percent) of the 44 hardship cases, the analysts concluded that a proper currently not collectible determination had been made on each case. Based on these results, the Collection Reengineering Program Office was moving forward as soon as possible with implementing -- first in the ACS and then in the toll-free function -- the expanded resolution authorities for cases involving taxpayer hardship. Unable-to-contact and unable-to-locate cases are not being included in the immediate implementation plans because the analysts from the Collection Reengineering Program Office were not comfortable with the consistency of the preliminary test results.

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<sup>4</sup> Federal Tax Lien determinations were not made in two cases, and an error in calculating allowable living expenses was made in one case.

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*Approximately \$8.4 billion in delinquent accounts are potentially subject to closure under the expanded case resolution authorities.*

We reviewed a sample of 30 cases closed as currently not collectible by the Customer Service function under the expanded authorities and concluded that the case quality was generally good. In addition, the cases closed by the Customer Service function generally had Resource and Workload Management System (RWMS)<sup>5</sup> scores that were well below the level that would have required them to be assigned to Revenue Officers. Therefore, the cases would have likely been assigned to the queue if the Customer Service function had not closed them.

Based on our computer analyses of the IRS' accounts receivable inventory, we estimate that about 179,000 delinquent accounts totaling approximately \$8.4 billion meet the expanded case resolution dollar criteria. Since it is not possible to make a statistical inference of quality from the limited volume of cases that have been closed to date under the expanded authorities, we believe that the amount of uncollected taxes that are potentially at risk warrants additional testing before nationwide implementation is undertaken.

### Recommendation

1. The Collection Reengineering Program Office should continue testing the expanded case resolution authorities in the ACS to ensure that sufficient and reliable performance data are available before making a decision to implement the expanded authorities on a nationwide basis.

Management's Response: Management's response was due on August 7, 2000. As of August 10, 2000, management had not responded to the draft report.

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<sup>5</sup> A Collection case scoring system based on an estimate of net yield. The RWMS score is used to determine whether the ACS reassigns an unresolved account to the queue or to the Collection Field function for personal contact by a Revenue Officer.

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**A Better Measurement System Is Needed to  
Demonstrate That the Expanded Case  
Resolution Authorities Are Achieving the  
Desired Outcomes**

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The action plan for conducting the prototype called for evaluating the effectiveness of the expanded case resolution authorities by measuring results, revenue, process activities, time on cases, customer service, and employee satisfaction. The plan also called for a control group of about 2,500 cases that would be processed by Customer Service function employees in the traditional manner and would be subject to the same quality review process as the test cases closed under the expanded authorities.

*An adequate measurement system for tracking the prototype results was not developed.*

At the time we completed our review in March 2000, however, the Collection Reengineering Program Office had not designed or used many of the performance measures specified in the action plan to gauge the prototype results. These included:

- Determining the impact on revenue stream/cash flow.
- Determining the volume of cases that would not have been resolved without the expanded authorities.
- Measuring the time that would have been spent on case dispositions without the expanded authorities.
- Developing a survey to assess employee satisfaction.
- Developing a survey to assess customer satisfaction.

In addition, a control group of cases had not been identified to provide a benchmark against which to compare the test cases closed under the expanded authorities. The Collection Reengineering Program Office was unable to accurately estimate the potential customer base for any individual function since the IRS' current data does not reflect the first point-of-contact. In addition, the costs for training, locator services, and computer programming were not adequately tracked.

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*Without sufficient effectiveness measures, reliable cost data, and knowledge of the expected customer base, it is difficult to demonstrate that implementing the expanded case resolution authorities would be beneficial.*

*An accurate data collection process is a key component of an effectiveness measurement system.*

As a result, sufficient performance indicators may not be available from the prototype to effectively measure the results of the expanded case resolution authorities or to provide IRS management with reliable decision-support information for implementing the expanded authorities. Consequently, it is difficult for the IRS to clearly demonstrate that implementing the expanded authorities nationwide would be cost-beneficial.

An accurate data collection process is a key component of an effectiveness measurement system. Certain key data from closed cases were being tracked to assist the Collection Reengineering Program Office in measuring the effectiveness of the expanded case resolution authorities. However, the action plan for conducting the prototype did not provide for adequate controls over the data collection process. As a result, the database used to track cases closed by Customer Service function employees under the expanded resolution authorities contained incomplete and inaccurate information. For example, our analysis showed that:

- Of the 229 cases shown as closed, 5 were duplicates.
- Only 2 of the 6 cases closed by employees from the toll-free function were included in the database. However, these 2 cases were not specifically identified as originating from the toll-free function since they were categorized with the ACS closures as incoming calls.
- There was no unique identifying number to identify specific cases.
- Two case disposition categories were sometimes used interchangeably.
- There was an insufficient number of categories to properly cover all types of case dispositions. For example, cases closed by full payment were either not categorized or were combined with cases closed by installment agreement.
- Data were sometimes inaccurately entered into the database. For example, time spent on case processes



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was inaccurately shown for 10 of 30 cases we sampled.

### Recommendations

The Collection Reengineering Program Office should:

2. Ensure that sufficient measures are developed and used to demonstrate that the expanded case resolution authorities are achieving the intended objectives in an effective and efficient manner before implementing them nationwide.
3. Improve controls over the data collection process to ensure that more reliable information is available to measure the effectiveness of the expanded case resolution authorities.

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### Access to Nationwide Locator Services at Each Call Site Is Needed for Effective and Efficient Case Resolution in a Telephone Environment

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*Collection procedures require verification of financial information before an account can be closed as currently not collectible under the expanded authorities.*

The IRS' collection procedures generally require employees to obtain, analyze, and verify a financial statement from the taxpayer before making a currently not collectible determination under the expanded authorities on an unable-to-pay case. The verification can include a review of the taxpayer's latest tax return and a check of motor vehicle records and local property (real estate and personal) records to verify the accuracy of the taxpayer's financial statement and to locate additional sources of collection.

During the testing of the expanded case resolution authorities, the Collection Reengineering Program Office provided Customer Service function employees with on-line access to a nationwide locator service.<sup>6</sup> The

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<sup>6</sup> Automated or manual services that provide access to information to locate taxpayers and their assets. They are used to assist IRS employees in collecting the proper amount of tax revenue at the least cost.

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*Access to nationwide locator services is currently not available in all IRS offices.*

*On-line access to a nationwide locator service is essential to optimize the benefits of the expanded case resolution authorities.*

ACS employees received verbal instructions to use the locator service before closing test cases as currently not collectible due to hardship. However, the toll-free employees did not receive these instructions and, as a result, used locator services on only one of six cases they closed under the expanded authorities.

Local locator services are available in many IRS offices to assist employees with the verification of financial statements and with the location of taxpayers and their assets. During recent years, the IRS has worked towards developing more nationwide locator services. The IRS is presently evaluating a number of vendors but has not awarded a national locator services contract. As part of its redesign of the Offer in Compromise process, the IRS is also testing the feasibility of using the Internet for determining the value of assets during the course of the investigation. Currently, however, access to nationwide locator services is not available in all offices.

In a telephone environment, national call-routing technology frequently sends incoming calls to IRS call sites that are outside of the taxpayer's local area where property records are located. Therefore, on-line access to nationwide locator service information is essential for effective and efficient first point-of-contact resolution.

Without access to a nationwide locator service, the employees at these call sites would have to inform the taxpayers that their hardship situation is subject to financial verification. It would then be necessary to prepare referrals to the appropriate IRS offices for researching locator services. If those offices identify a discrepancy, the accounts would have to be reactivated.

### Recommendations

The Collection Reengineering Program Office should:

4. Continue testing and measuring the benefits of Customer Service function employees using locator services when closing cases under the expanded resolution authorities.

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5. If the use of locator services proves to be beneficial, ensure that all of the call sites have on-line access to these services before the expanded case resolution authorities are implemented nationwide.
6. Coordinate with the Offer in Compromise redesign team to take advantage of the work that has already been done to test the feasibility of using the Internet to research motor vehicle and property records to verify financial statements.

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### **The Volume of Test Cases Closed by Toll-Free and Examination Function Employees Does Not Justify the Training Costs to Implement the Expanded Authorities in These Functions**

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*The volume of cases closed during the prototype is not substantiating the cost effectiveness of expanding case resolution authorities in the toll-free and Examination functions.*

The IRS provided approximately 3 days of specialized training to the 12 toll-free employees and the 71 Examination function employees who were assigned to participate in the testing of the expanded case resolution authorities. The training covered obtaining and evaluating financial data, including allowable expenses, to determine the taxpayer's ability to pay; locating and contacting taxpayers; and researching IRS computer files.

During the first few months of the test period, however, employees from the toll-free and Examination functions closed very few accounts as currently not collectible under their expanded case resolution authorities. Between July 7 and December 31, 1999, for example, only 8 (.03 percent) of 24,886 incoming calls handled by the 12 participating toll-free employees involved taxpayers with liabilities above the new threshold level for closing accounts currently not collectible. None of the 8 accounts was closed as currently not collectible.

*Examination function employees do not frequently encounter situations that warrant a currently not collectible determination.*

A sampling plan for the Examination function was not developed because of the small volume of cases they were expected to close under the expanded case resolution authorities. During the first 6 months (October 1999 – March 2000) of testing the expanded

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*The salary costs to provide expanded case resolution authority training to toll-free and Examination function employees would total approximately \$5.4 million.*

authorities in the designated Examination groups, only 3 of 185 cases were reported currently not collectible.

The IRS has approximately 8,175 Full Time Equivalents<sup>7</sup> (FTE) allocated to its toll-free telephone system and approximately 1,550 FTEs allocated to its General Examination Program. We estimate that the salary costs to provide 3 days of training to these employees would total approximately \$5.4 million.

While the IRS does not have goals to collect a certain amount of dollars per FTE, revenue is tracked on a historical basis. Using this historical IRS data, we estimate that it would cost over \$12.7 million in foregone revenue to provide 3 days of expanded case resolution authority training nationwide in the Examination function.

In total, we estimate that the IRS would incur at least \$18.1 million in salary costs and opportunity costs (i.e., foregone revenue) to provide each toll-free and Examination function employee with 3 days of training in making currently not collectible determinations.

*Toll-free and Examination function employees should have the ability to directly refer taxpayer hardship cases to the ACS and the Collection function, respectively.*

Rather than expanding the case resolution authorities in the toll-free telephone function, a more cost-effective approach may be to route incoming calls from taxpayers who profess inability to pay to ACS employees who already have the requisite skills and training for making currently not collectible determinations.

Similarly, it may be more cost-effective to have Examination function employees immediately refer taxpayers who profess an inability to pay to Collection employees who are co-located in the same office. These Collection employees would have the expertise to perform the necessary financial analyses and to make the currently not collectible determination.

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<sup>7</sup> A Full Time Equivalent is the amount of time that 1 person would expend in 1 year.

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### **Recommendation**

7. The Collection Reengineering Program Office should consider more cost-effective alternatives to expanding case resolution authorities into the toll-free and Examination functions.

### **Conclusion**

Expanding the case resolution authorities for currently not collectible accounts offers the potential for earlier case closures, reduced taxpayer burden, and the assignment of fewer cases to the queue. However, the limited testing of the expanded authorities has not, to date, clearly shown that the concept is ready for nationwide implementation. The testing and the measurement system used to date do not conclusively demonstrate that the expanded authorities would achieve their intended outcomes in an effective and efficient manner. Further, without access to nationwide locator services at each call site, Customer Service function employees working on the ACS or the toll-free telephone system do not have key information readily available to effectively make currently not collectible determinations. Finally, the volume of cases closed by the toll-free and Examination functions during the first months of testing indicates that the expanded authorities would have an insignificant impact and may not justify the training costs that would be involved in implementing the expanded authorities nationwide.

## **Further Testing and Refinement Are Needed Before Expanding Case Resolution Authorities for Currently Not Collectible Accounts**

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

Our overall objective was to determine whether the prototype of the expanded case resolution authorities was effectively designed and was being effectively executed to provide Internal Revenue Service (IRS) management with reliable decision-support information concerning whether the prototype model should be implemented, modified, or terminated. We conducted our review between January and March 2000 at the National Office, the Kansas City Customer Service Center, and the Kansas-Missouri District.

We performed the following audit work to accomplish our objective.

- I. To determine whether the Collection Reengineering Program Office effectively developed a plan and a process for implementing the expanded case resolution authorities, we:
  - A. Determined whether there was an assessment of the potential and actual risks associated with implementing the case resolution authorities.
    1. Evaluated the method of estimating the significance of the risks and the likelihood of their occurrence.
    2. Determined how the risks are to be managed.
    3. Analyzed the risks over case assignment controls in the Customer Service function and had the Treasury Inspector General for Tax Administration Strategic Enforcement Division analyze the appropriateness of the Customer Service function employees' access to taxpayer account information through the Integrated Data Retrieval System.
    4. Interviewed various levels of management officials from the Customer Service and Examination functions to identify the risks associated with the expanded case resolution authorities.
  - B. Determined whether an action plan was developed which:
    1. Included the need and rationale for the prototype objectives, goals, and measures.
    2. Identified the scope of the prototype with targeted completion dates for the Examination, Customer Service, Taxpayer Advocate Service, and Appeals functions.

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3. Identified the management officials responsible for the results.
- C. Assessed the integrity of the data collection process.
  1. Determined whether a sufficient sampling plan was developed for the Examination and Customer Service functions for conducting the prototype.
  2. Evaluated the implementation of the sampling plan and determined whether the results will produce valid measures for evaluating the prototype results.
- D. Evaluated whether the databases and control systems were designed to adequately track the results of test cases and included:
  1. The frequency of currently not collectible cases in the normal workload.
  2. The specific source of the case (e.g., incoming call to the Automated Collection System.)
  3. The size of the liability.
  4. The time spent performing case resolution authority actions.
  5. Customer and employee satisfaction.
- E. Evaluated whether the prototype was designed to include a method to measure the cost-effectiveness of closing cases with the expanded authorities and determined the following specific costs of the prototype:
  1. The costs for members of the Project Team.
  2. The costs to train employees in the Examination and Customer Service functions.
  3. The costs to work cases in the Examination and Customer Service functions.
  4. The costs to work cases reassigned to the Collection function for the field investigation to locate the taxpayer's last known address and for other fieldwork.
  5. The costs for computer support for necessary computer changes and specialized computer reports.
  6. Other costs to implement the prototype.
- II. Determined whether controls over expanded case resolution authorities ensure that taxpayers are treated consistently.

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- A. Evaluated whether effective case resolution procedures have been developed within each function.
    - 1. Identified the key Collection function procedures that are needed to implement the expanded case resolution authorities.
    - 2. Compared the Collection function's procedures with the Examination and Customer Service functions' new procedures to ensure that key provisions are accurately included for the prototype.
  - B. Reviewed the training schedule and material to determine whether the Examination and Customer Service functions have received adequate instructions for conducting the prototype.
- III. Determined whether internal controls over the expanded collection authorities are adequate to provide reliable data and whether the prototype is being effectively executed to provide IRS management with reasonable assurance that the expanded case resolution authorities are producing the desired outcomes in a cost-effective manner.
- A. Evaluated the results of a random judgmental sample of cases closed by the Customer Service function.
    - 1. Verified the accuracy of the data recorded in the Customer Service function's database by comparing the information collected on a sample of 30 of the 229 closed cases in the database.
    - 2. Evaluated whether there were effective internal controls in place to ensure that:
      - a) All documents had been input to ensure completeness of the tracking system.
      - b) The required investigative steps were taken and that cases were closed in a high quality and timely manner.
  - B. Evaluated whether there was an effective method in place to measure the results (i.e., business results, customer satisfaction, and employee satisfaction) of the test of the expanded case resolution authorities to establish a definitive determination of program effectiveness. (See I.C.-I.E.)
    - 1. Evaluated the process that the Collection Reengineering Program Office uses to ensure that milestones are being met.
    - 2. Identified the expected outcomes of the prototype and determined the measures that the Collection Reengineering Program Office is using to evaluate the program results.



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3. Determined whether there was a process to compare the program results from the expanded case resolution authorities to the results from a control group or other appropriate performance standard.
- C. Interviewed various levels of management officials from the Customer Service and Examination functions to identify any concerns and/or barriers to the effective implementation of the expanded case resolution authorities.

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**Appendix II**

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**Appendix III**

**Report Distribution List**

Deputy Commissioner Operations C:DO  
Commissioner, Small Business and Self-Employed Division S  
Chief Operations Officer OP  
Assistant Commissioner (Collection) OP:CO  
Assistant Commissioner (Customer Service) OP:C  
Assistant Commissioner (Examination) OP:EX  
National Taxpayer Advocate C:TA  
Chief, Appeals C:AP  
Director, Collection Redesign OP:CO:R  
National Director, Customer Service Compliance, Accounts & Quality OP:C:A  
National Director, Telephone Operations Division OP:C:T  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis M:O  
Office of the Chief Counsel CC  
Office of Management Controls CFO:A:M  
Audit Liaisons:  
    Examination OP:EX  
    Collection OP:CO  
    Customer Service OP:C

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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 the Congress.

Finding and recommendation:

The Internal Revenue Service (IRS) provided approximately 3 days of specialized training to the employees in the Customer Service and Examination functions who were assigned to participate in the testing of the expanded case resolution authorities. During the first 6 months of testing, however, neither the Customer Service function employees assigned to the toll-free telephone system nor the Examination function employees frequently encountered situations that warranted a currently not collectible determination. For example, the employees assigned to the toll-free telephone system received 24,886 incoming calls from taxpayers with unpaid liabilities that met the expanded case resolution authorities. However, these employees did not close any accounts as currently not collectible. During the first 6 months of testing the expanded authorities in the Examination function, only 3 cases were determined to be currently not collectible (see page 12).

We recommended that the Collection Reengineering Program Office consider more cost-effective alternatives to expanding case resolution authorities into the toll-free and Examination functions.

Type of Outcome Measure:

Increased Revenue/Revenue Protection - \$ 12,739,000 - Potential

Value of the Benefit:

If the expanded case resolution authorities are implemented nationwide and 3 days of training in making currently not collectible determinations are provided to the employees assigned to the Examination function, we estimate foregone revenue of over \$12.7 million during the time these employees would spend in training.

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Methodology Used to Measure the Reported Benefit:

Based on information provided by IRS management for Fiscal Year (FY) 1999, we developed an estimate of the tax revenue that would be foregone while the Examination function employees received 3 days of specialized training in making currently not collectible determinations. Using resource allocations presented in the FY 2000 IRS Operations Plan, we obtained the number of Full Time Equivalents (FTE) associated with examining individual income tax returns that would potentially be subject to expanded case resolution authority training. We estimated the total recommended dollars based on the average recommended dollar rates per FTE for FY 1997 through FY 1999. Our calculation of foregone revenue assessed per FTE was then reduced by the Examination function's ratio of dollars collected to dollars recommended.

***Increased Revenue/Revenue Protection***

<b>Measure</b>	
Number of Examination function FTEs subject to expanded case resolution authority training	1,550
Estimate of foregone Examination function dollars recommended <sup>1</sup>	\$28,309,344
Ratio of Examination function dollars collected/recommended	.45
<b>Total estimated foregone revenue</b>	<b>\$12,739,205</b>

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<sup>1</sup> Based on average of Examination dollars recommended for FY 1997 - FY 1999.