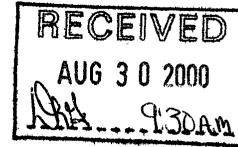




COMMISSIONER

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

August 28, 2000



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

for Charles O. Rossotti *Bohlander*
Commissioner of Internal Revenue

SUBJECT:

Draft Management Advisory Report - "Actions to Improve
the Automated Collection System Should Be Taken Within
a Sound Strategic Framework"

We appreciate the opportunity to respond to your draft Management Advisory Report entitled "Actions to Improve the Automated Collection System Should Be Taken Within a Sound Strategic Framework." The Automated Collection System (ACS) is an integral part of the Service's collecting process. As a remote, high volume collection operation, ACS has the potential to resolve delinquent accounts and investigations both more efficiently and less intrusively than other methods, a benefit not only to the individual taxpayers in ACS inventory, but also to the taxpaying public as a whole.

Accordingly, we view the success of ACS as critical to improving public trust in the integrity of the tax system. If the public believes the IRS is not promoting voluntary compliance by ensuring all pay their fair share by the due date, the foundation of our system is at risk. ACS must be a proactive operation that promptly assists those who want to pay or cannot pay, and takes action against those taxpayers who will not pay.

We thank you for your observations, analysis, and recommendations concerning this program, and appreciate your acknowledgement of significant actions already underway to reverse the decline in ACS compliance effectiveness.

Our comments on the specific recommendations in your report are as follows:

IDENTITY OF RECOMMENDATION 1

Customer Service management should stabilize the ACS workforce by minimizing details to toll-free operations while continuing efforts to restore authorized ACS staffing to a level that can effectively cope with the growing number of delinquent returns and accounts receivable.

ASSESSMENT OF CAUSE

With limited resources, the Internal Revenue Service must continually make decisions on how best to meet customer needs. In Fiscal Year (FY) 1998 and 1999, the IRS shifted some resources from ACS to toll free operations to improve the level of service to compliant taxpayers. In part, management made this decision to trade off activity on delinquent accounts and better serve other customers. We also made the decision to make better use of ACS employees, some of whom may have been idle because of a reduction in certain activities following the passage of the Restructuring and Reform Act of 1998 (RRA 98). We also wanted to change the culture, by instilling a greater sense of customer service in our compliance employees, including ACS. By the end of FY 1999, we decided we had met our objective, and could shift the balance back towards compliance.

CORRECTIVE ACTION

In FY 2000, the ACS program is on schedule to deliver all Full Time Equivalents (FTE) allocated to the program, and we expect to fully deliver staffing in FY 2001 and beyond. In addition, the President has asked the Congress to increase hiring to address the staffing/inventory imbalance (STABLE initiative). We will allocate some of the additional staffing to ACS. This extra staffing will help ACS work the delinquent account and investigation inventories. In addition, we will assign some of the expansion hiring to toll free operations. These assignments will help ACS indirectly, by reducing the need for ACS to provide seasonal support to Customer Account Services.

IMPLEMENTATION DATE

Proposed: April 30, 2001

RESPONSIBLE OFFICIAL

Commissioner, Small Business/Self Employed Division
Commissioner, Wage & Investment Division

CORRECTIVE ACTION MONITORING PLAN

Resource monitoring will take place on a routine basis.

IDENTITY OF RECOMMENDATION 2

Customer Service management should improve the controls over the process for reporting time so that reliable and accurate decision information is available. This would provide an accurate measurement of the amount of resources diverted to toll-free operations and provide an accurate basis for future resource allocations.

ASSESSMENT OF CAUSE

Because the FY 1999 time-charging guidelines were unclear, we could not accurately identify the amount of resources diverted to other operations. Some of the instructions

allowed too much local discretion. Therefore, sites did not consistently report details of employees to toll free operations, making their figures questionable.

CORRECTIVE ACTION

In August 1999, National Office convened a task force to address this problem. The task force included representatives from the call sites and Field Operations. As a result of their work, National Office issued new reporting guidelines on October 14, 1999, and refined them on June 19, 2000. Feedback from the field indicates time reporting is now clear and consistent, and the reports accurately depict the amount of resources shifted between operations.

In FY 2001, ACS will move to the Wage and Investment (W&I) and Small Business/Self Employed (SB/SE) Operating Divisions. As part of the strategic planning process, operating divisions are revising time charging guidelines to enable the organization to determine: 1) allocation of time by division, 2) allocation of time by type of work (Filing Compliance or Payment Compliance), and 3) details of time to and from other functions, including toll free operations (Customer Account Services).

IMPLEMENTATION DATE

Proposed: November 1, 2000

RESPONSIBLE OFFICIAL

Director of Compliance, Small Business/Self Employed Division
Director of Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

Current operating guidelines have already addressed the problem. Future time charging guidelines will maintain the current level of accuracy.

IDENTITY OF RECOMMENDATION 3

Customer Service management needs to re-evaluate IRS policy and procedures concerning the use of enforced collection tools, such as liens and levies, to more effectively promote the use of these tools while, at the same time, ensuring that taxpayer rights are protected in accordance with the RRA 98.

ASSESSMENT OF CAUSE

Following passage of the RRA 98, ACS has not been able to take timely action on many cases where enforcement action is appropriate. In particular, RRA 98 Section 3401 Collection Due Process (CDP), RRA 98 Section 3421 Supervisory Approval of Liens and Levies, and RRA 98 Section 3417 Third Party Notification has required ACS to

make major systemic and procedural changes. Some of these changes involved serious philosophical decisions concerning how we will use enforcement tools in a post-RRA 98 environment.

CORRECTIVE ACTION

We appreciate your acknowledgement of several major actions we are taking to address the appropriate use of enforcement in ACS. Major actions include:

- Revision to Delegation Order No. 191 to delegate authority to request levies to full working level Customer Service Representatives (CSR) in ACS (October 1999)
- Systemic block to prevent processing of a levy request when CDP rights have not been given (January 2000)
- Inclusion of potential third party notification stuffer in Notices of Intent to Levy (CP504) (March 2000)
- Accelerated systemic balance due reminder notice with more specific notice of potential lien filing (June 2000)
- Systemic transfer of cases subject to a reminder notice to an inventory for a mandatory lien determination before the cases can be subject to removal to the queue or to currently not collectible status (June 2000)
- Issuance of CDP notification on new delinquent account receipts when enforcement action is imminent (June 2000)
- Procedural change requiring outgoing telephone call on new receipts subject to CDP notification, during the 30-day CDP period, to reinforce the intent of the notice and resolve as many cases as possible without need for enforcement (June 2000)
- Revision to Delegation Order No. 191 to delegate authority to request follow-up levies to grade 6 and above tax examiners (August 2000)
- Revision to Delegation Order No. 196 to delegate authority to request filing of Notices of Federal Tax Lien to full working level CSR's in ACS (August 2000)

We expect these changes will enable ACS to work cases where enforcement action is being considered faster. At the same time, the changes are consistent with RRA 98 and ensure taxpayer rights are protected.

IMPLEMENTATION DATE

Completed: August 10, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Customer Service)
Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION 4

Collection and Customer Service Management Officials need to develop a master implementation plan that integrates all of the ACS initiatives and necessary improvement actions and identifies the responsible management officials and related timelines.

ASSESSMENT OF CAUSE

We have prepared various action plans for specific initiatives in ACS; however, we have not integrated and incorporated them into a broader, strategic plan, with timeframes and responsible officials. We initiated a master implementation plan; however, suspended work until needed positions in the SB/SE and W&I Compliance organizations have been filled. Participation by future business owners of ACS is essential.

CORRECTIVE ACTION

After operations and staff positions in W&I and SB/SE have been filled, we will finalize the master plan and include both strategic and tactical actions necessary for ACS to succeed. Major action items include deferred ACS Redesign initiatives, and follow-through on ACS Improvement Team actions. The plan must be flexible enough to incorporate potential long term strategic changes such as Contact Center Optimization and Tax Administration Vision and Strategy for Filing and Payment Compliance.

IMPLEMENTATION DATEProposed: January 1, 2001**RESPONSIBLE OFFICIAL**

Director of Compliance, Small Business/Self Employed Division
Director of Compliance, Wage & Investment Division

CORRECTIVE ACTION MONITORING PLAN

Staffs for the Director, Compliance Policy, SB/SE, and Director, Collection Strategy Unit, W&I, will meet monthly in the first quarter, FY 2001.

IDENTITY OF RECOMMENDATION 5

Collection and Customer Service management officials need to develop clear goals and objectives for the ACS that incorporate and appropriately balance collection, customer service, and taxpayer rights' principles and clearly articulate those situations where enforced collection actions are appropriate.

ASSESSMENT OF CAUSE

ACS is a compliance operation, but one that must provide a high level of customer service in order to succeed. In 1997, we transferred ACS, as a large telephone operation, from Collection to Customer Service. This transfer created an identity crisis of sorts. The goals and objectives for ACS did not always balance collection and customer service.

CORRECTIVE ACTION

In FY 2001, ACS will move to the W&I and SB/SE Operating Divisions. Your report notes that ACS will be part of the Compliance operation in each division; thus clarifying the ACS role in the organization. ACS is one step in the collecting process, but the mission for ACS is the same as it is for the pre-ACS notice process and the post-ACS field process. In this regard, the recently updated, approved, and published (June 2000) Collecting Mission and Collecting Principles below apply to ACS.

Collecting Mission

The Collecting Mission of the Internal Revenue Service is to collect promptly the proper amount of federal tax from all persons who have not filed returns and/or paid tax as required by law, and to encourage future compliance with the law.

Collecting Principles

- Service And Assistance

All taxpayers are entitled to courteous, responsive, and effective service and assistance in all their dealings with the Service.

We will actively assist taxpayers who try to comply with the law, and work to continually improve the quality of our systems and service to meet the needs of our customers. All taxpayers, whether delinquent or fully compliant, are entitled to prompt and professional service whenever they deal with Service employees.

- Taxpayer Rights

We will observe taxpayers' rights, including their rights to privacy and to fair and courteous treatment.

This affirms our commitment to observe both the spirit as well as the letter of all legal requirements, including the Taxpayer Bill of Rights I and II and the IRS Restructuring and Reform Act of 1998. Taxpayers will be protected from unauthorized disclosure of information.

- Compliance

The public trust requires us to ensure that all taxpayers promptly file their returns and pay the proper amount of tax, regardless of the amount owed.

The public as a whole is our customer, not just delinquent taxpayers. Our customers expect us to promote voluntary compliance by ensuring that everyone promptly pays their fair share. Employees should work with taxpayers to meet all their filing and paying requirements, not only the delinquency at hand. This involves identifying and addressing non-compliance to prevent future delinquencies. All types of taxpayers (individual and business) who fail to timely file their returns or pay their fair share of taxes must resolve both current and delinquent taxes to be considered compliant.

- Case Resolution

While we will actively assist taxpayers to comply, we will also take appropriate enforcement actions when warranted to resolve the delinquency. To resolve a case, good judgment is needed to make sound decisions on the appropriate action needed. All taxpayers are required to pay by the due date of the return. From a broad range of collecting tools, employees will select the one(s) most appropriate for each case. Case resolution, including actions such as: lien, levy, seizure of assets, installment agreement, offer in compromise, substitute for return, summons, and IRC 6020(b), is an important element of an effective compliance program. When it is appropriate to take such actions, it should be done promptly, yet judiciously, and based on the facts of each case.

**All Our Decisions About Collecting Are Guided By These Principles.
To The Extent That They Are, We Will Succeed In Our Mission.**

IMPLEMENTATION DATE

Completed: June 30, 2000

RESPONSIBLE OFFICIAL(S)

Assistant Commissioner (Collection)

Assistant Commissioner (Customer Service)

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION 6

Collection and Customer Service management officials need to appoint a lead executive to serve as the system/process owner who will ultimately be responsible for managing

the performance of the ACS. The other affected business unit would be the partner in the improvement project and would work with the lead executive to ensure the effective and efficient use of systems and resources and to ensure the equitable treatment of taxpayers.

ASSESSMENT OF CAUSE

In the current organization, the role and use of ACS has been fractured, because the Assistant Commissioner (Collection) controls the collecting process of which ACS is a part, the Assistant Commissioner (Customer Service) controls the ACS program itself, and the Chief, Customer Service Field Operations controls the ACS resources. Conflicts exist which have made it difficult to implement an integrated plan to make ACS an effective operation.

The draft report notes forthcoming changes to the ACS role and reporting structure in the new operating divisions. These changes should resolve the current problems.

CORRECTIVE ACTION

In the new IRS, the collecting process that includes ACS will be largely unified under one management structure in the Compliance organization in the SB/SE Division. SB/SE will have the majority of resources needed for policy, procedures, risk assessment, and inventory delivery, and own the appropriate Internal Revenue Manuals. In addition, SB/SE Compliance will also have direct oversight and be directly accountable for business results for the SB/SE ACS sites. The Director of Compliance in SB/SE will have responsibility for SB/SE general policy and procedures, program direction, priorities, balanced measures, and accountability for business results.

However, the majority of ACS inventory is made up of W&I taxpayers, and the majority of sites are allocated to the W&I Division. Although general policy and procedures will be based in SB/SE, W&I will be responsible for developing procedures and treatment decisions unique to the needs of W&I taxpayers. The Director of Compliance in W&I will be responsible for program direction, policy, procedures, balanced measures, and business results, as they relate to W&I taxpayers. Since there is only one ACS system, both directors will be jointly responsible for system improvements.

We do not believe an executive in one division will have overall responsibility for all aspects of ACS because that would be inconsistent with the fundamental reason for shifting to operating divisions. In each division, the Director of Compliance will be the lead executive responsible for managing the performance of ACS.

IMPLEMENTATION DATE

Completed: August 1, 2000 (Both Compliance Directors are in place.)

RESPONSIBLE OFFICIAL(S)

Director of Compliance, Small Business/Self Employed Division
Director of Compliance, Wage & Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

If you have any questions about our response, please contact me at (202) 622-9511 or your staff may contact Robert C. Wilkerson, Assistant Commissioner (Customer Service), at (202) 622-5044.