



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 27, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

Handwritten signature of Pamela J. Gardiner in cursive.

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Office of Audit's Comments Concerning Management's  
Response to the Letter Report, "*Collection Was Suspended  
Indefinitely for Some Accounts Because of Control Weaknesses  
in Processing Taxpayer Claims*"

This memorandum presents our concerns with the Internal Revenue Service's (IRS) management response to the audit report, "*Collection Was Suspended Indefinitely for Some Accounts Because of Control Weaknesses in Processing Taxpayer Claims*" (Reference Number 2000-30-127). The response to the report was received after the final report was released.

Although management agreed that correcting the condition cited would ensure the timely resumption of billing, management did not concur that it would generate an increase in revenue of \$6.5 million over the next five years.

Management's Response: The report does not provide sufficient detail to explain how the estimate was computed. For example, we do not know where these cases were in the collection process at the time the suspension occurred. Many of them may have already completed the cycle of issued notices.

The estimate appears to be based on an assumption that the suspended accounts represent true balances due that are as collectible as other notice accounts. We believe this assumption needs to be examined, because the audit does not address the validity of the taxpayer claims. For example, the report does not indicate whether the underlying problem is a delay in commencing collection of valid liabilities, or whether the problem is a delay in processing taxpayer claims to abate or adjust the liabilities.

Office of Audit Comment: The report does provide detail to explain how the estimate was computed. In the report, we stated that all cases were in "notice" status, meaning they had not completed the billing cycle. The only evidence of a taxpayer claim was the freeze codes entered by the employee. Employees were not using the proper codes to

suspend collection, and our report states that “the reasons for suspending collection activity on these accounts were not always apparent.”

Our estimate for revenue savings is based on what would potentially be saved over the next five years by correcting the condition found in cases that were incorrectly frozen during the last five years. We multiplied the total of the suspended balances due times the IRS’ historically developed percentage of collection based on account status (in this instance, “Notice” status). This historical percentage considers the collectibility of all assessments, including those that are not collectible. The result is an estimate of the additional revenue the IRS would collect in the next five years by preventing a reoccurrence of this condition. This does not include any collections resulting from releasing the incorrectly suspended cases identified during the audit.

For these reasons we feel that our estimates for increased revenue are accurately based on true balances due that are subject to collection.

Management also did not concur with one of the recommendations in the report. The recommendation, management’s response, and the Office of Audit’s comments follow.

Recommendation: Determine the reasons why transcripts were not produced for all of the suspended accounts we identified to ensure the future effectiveness of these controls.

Management’s Response: Management was not monitoring transcript control reports to ensure all transcripts were being generated. We have researched this problem with the programmer and cannot determine why these transcripts did not generate. The programmer is continuing to research some of the individual accounts to look for any problems.

Transcripts are now being generated for these types of cases. Additional time spent on researching this problem will be unproductive, since the generation of these transcripts was interrupted years ago. We will issue a memorandum to alert service center managers to monitor their transcript control reports to ensure this type of transcript is being generated and worked.

Office of Audit Comments:

Management’s response refers to transcripts that were interrupted years ago (STAT and AM-X) but does not address the transcripts that were in use and should have been used to identify and reverse the account suspensions in question. These transcripts (06W and DIAG-Q) provide a means to identify cases that remain unresolved for extended periods of time. Determining the reasons why there was no record that these transcripts were produced may prevent unnecessary delays in collection.

While we still believe this is a worthwhile recommendation, we do not intend to elevate it as a significant management decision to which we disagree. Consequently, no further action on your part is required.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. 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.