The Internal Revenue Service Needs to Improve the Development and Management Oversight of the Collection Field Function Inventory Priorities

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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR COMMISSIONER ROSSOTTI

Pamela J Gardiner

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Needs to Improve the Development and Management Oversight of the Collection Field Function Inventory Priorities

This report presents the results of our review of the Collection Field function (CFf) Inventory Priorities. In summary, we found the Collection function did not develop and follow an effective process to reduce inventories and prioritize its most important work. Management did not use analytical data to establish the CFf priorities or oversee the program. Further, unassigned inventories have not been reduced, and procedures may allow for inconsistent treatment of taxpayers. We made eight recommendations related to these issues.

Management's response was due on August 11, 2000. As of August 18, 2000, management had not responded to this draft report.

Copies of this report are also being sent to the Internal Revenue Service 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

The Collection function of the Internal Revenue Service (IRS) is responsible for collecting unpaid taxes and obtaining returns that are due but have not been filed. Customer Service Representatives (CSR) use the Automated Collection System (ACS) to contact taxpayers by telephone. If the collection issue is not resolved in the ACS function, the CSR transfers the case to the Collection Field function (CFf). Revenue officers (ROs) in the CFf are assigned an inventory of cases and make field (i.e., face-to-face) contacts to attempt to resolve these accounts.

During the past 4 years, the number of ROs available to make field contacts has decreased. Consequently, case inventories increased significantly, and ROs could not work cases timely. In March 1999, the Assistant Commissioner (Collection) issued procedures to establish six priorities for case assignments and to close cases not meeting those criteria. These procedures gave priority to taxpayer requests for face-to-face contacts and for larger dollar cases, especially those for taxes owed by in-business taxpayers for taxes withheld from their employees' wages.

The objective of this review was to determine whether Collection's inventory priorities and new procedures to identify, prioritize, and manage CFf cases effectively identified and worked the most important accounts.

Results

The Collection function's inventory practices do not ensure ROs work the highest priority accounts. Management did not use analytical data to establish the priorities or oversee the program. Further, unassigned inventories have not been reduced and procedures may allow for inconsistent treatment of taxpayers. The Collection function implemented the inventory priorities in March 1999 as a short-term solution to bring the collection inventory into balance with available resources. However, the priorities have evolved into a longer-term solution to alleviate inventory problems.

The Internal Revenue Service Implemented the Collection Field Function Inventory Priorities Without Analytical Data to Support the Decision

National Headquarters Collection management did not analyze data to ensure the CFf priorities would identify casework having the greatest impact on compliance and decrease inventory levels. Although some analysis was performed by a task force with respect to the ACS inventory levels and taxpayer contact issues, no analysis was done to determine if the initiative would be effective in working the most productive cases and reducing unassigned inventory.

The Internal Revenue Service Has No Methodology to Measure the Impact of the Priorities on Collection Field Function Inventory Levels

The National Headquarters is not overseeing the case assignment priorities. As a result, management cannot ensure districts are working only the priority cases and are removing cases from the inventory that do not meet the six priorities. Further, the CFf is not fully using its management information system to help ensure ROs work only the priority cases.

The Internal Revenue Service Has Not Consistently Followed Its Inventory Priorities

Cases continue to remain unassigned for extended periods, and we were unable to determine whether a significant portion of assigned inventory met one of the six priorities. We analyzed all 4,791 unassigned cases in 3 districts and determined that 2,327 (49 percent) of them remained unassigned to a RO for over 60 days. Unassigned group inventory should be limited to inventory that managers expect to assign within 30 days.

In addition, we used the Collection function's automated inventory system to analyze all 29,119 open cases in 3 districts and determined only 13,551 (47 percent) of them met at least 1 of the CFf inventory priorities. Due to systemic limitations, we could test for only five of the six priorities without obtaining information from a separate automated system. As a result, we did not determine whether the remaining cases met the other priority.

Actions on Closed Cases May Cause Inequitable Taxpayer Treatment and Do Not Ensure the Government's Interest Is Protected

The March 1999 guidelines do not require ROs to make a determination of whether or not to file a Federal Tax Lien to record the government's interest in taxpayers' property. The procedures also allow ROs to close accounts with no automatic reactivation for future collection actions. These procedures differ from those used to close cases not covered by the March 1999 guidelines. As a result, taxpayers subject to normal collection processing (i.e., unable to pay) have liens filed against them and could be subjected to future collection actions. However, other taxpayers (i.e., those meeting the March 1999 guidelines) have no liens filed and probably will never have their accounts reactivated. In addition to inequitable treatment, the government's interest is not protected on the accounts with no liens filed or on which no follow-up is made.

Summary of Recommendations

Collection management should use existing management information systems to identify high-priority work and develop a methodology to track the success of the inventory prioritization. Collection management should ensure cases are timely assigned and not prematurely closed while potentially lower priority work remains in the open inventory. Collection management should also re-evaluate its lien policy and reactivation process to ensure equitable treatment of all taxpayers and protection of the government's interest.

Management's Response: Management's response was due on August 11, 2000. As of August 18, 2000, management had not responded to the draft report.

Objective and Scope

The objective of this review was to determine whether Collection's inventory priorities and new procedures effectively identified and worked the most important accounts.

The objective of this review was to determine whether Collection's inventory priorities and new procedures to identify, prioritize, and manage Collection Field function (CFf) cases effectively identified and worked the most important accounts.

To accomplish this objective, we:

- Determined whether National Headquarters Collection management performed sufficient analysis to support implementation of the priorities.
- Determined whether the National Headquarters provided ongoing management oversight of the priorities.
- Determined whether the priorities effectively reduced inventory levels in the CFf.
- Determined whether internal controls over currently not collectible determinations, shelving actions,[1] and transfers to the Queue[2] were adequate to prevent manipulation of revenue officer (RO) inventories.

We conducted fieldwork in the National Headquarters, the Northeast and Southeast Regional Offices, and in the Georgia, Pennsylvania and Southwest Districts between November 1999 and April 2000. This audit was performed 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.

[1] Shelved cases are delinquent investigations which are closed without performing any additional work.
[2] Transferred cases are balance due returns or delinquent investigations which are transferred to the Queue, which is an automated holding file of unresolved cases.

Background

The Collecting Mission of the Internal Revenue Service (IRS) is to promptly collect 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. If taxpayers do not pay the proper amount of tax due (i.e., have a tax delinquency), the IRS collection process starts with a letter to the taxpayer requesting the balance due. If payment is not received, an employee in the Automated Collection System (ACS) function attempts to contact the taxpayer by telephone to resolve the tax delinquency.

Computer programs score delinquent accounts for their collection potential. If the ACS function cannot resolve cases, they are transferred to the Queue or assigned to the CFf in the district offices, where ROs make field contacts with taxpayers.

The Entity/Integrated Collection System (Entity/ICS) is a tool Collection Group Managers use to manage their inventory workloads. The Entity/ICS uses codes to differentiate between types of taxpayers (e.g., in-business or out-of-business). These codes are further broken down into sub-codes defining the taxpayer's collection issue (e.g., installment agreement, offer-in-compromise, etc).

During the past 4 years, the number of ROs available to make field contacts has decreased. Consequently, case inventories increased significantly, and ROs could not work cases timely.

In late Fiscal Year 1997, the IRS created a Delinquent Inventory Task Force (DITF) consisting of National Headquarters analysts and field personnel. The purposes of the DITF were to establish a collection case priority policy for balance due and non-filer cases, and to improve and standardize national and district case selection procedures. In August 1998, the DITF issued an interim report, which concluded that the CFf RO resources should be used to foster compliance within the in-business trust fund and self-employed taxpayer populations. The DITF proposed the Collection function use an automated program to select priority cases. A second proposal was to have the automated program tested in one district in each region. Due to the impact of the IRS Restructuring and Reform Act of 1998 (RRA 98)[3] and resource commitments to Customer Service, neither of these proposals were tested or implemented.

The Assistant Commissioner (Collection) established the CFf inventory priorities in March 1999.

In January 1999, managers in district offices were concerned with increased workload inventories and requested relief from the National Headquarters. As a result, the Assistant Commissioner (Collection) issued a memorandum in March 1999 to the Regional Chief Compliance Officers and the Assistant Commissioner (International) entitled, *"Bringing the Collection Inventory into Balance with Resources – Casework Priorities and Internal Revenue Manual Deviations."* The goal of these casework priorities was to use the CFf resources to work cases in the field inventory that actually required CFf expertise. Several of the priorities were based on the work of the DITF.

Taxpayer requests for face-to-face contact and in-business trust fund taxpayers are the top priorities for the CFf.

The Assistant Commissioner (Collection) established the following six CFf inventory priorities:

1. Taxpayer requests for face-to-face contact.
2. In-business trust fund cases where the aggregate balance exceeds a certain dollar amount.[4]
3. Other in-business trust fund cases exceeding district inventory cutoff score.
4. Other in-business trust fund cases.
5. Non-filer cases where the net tax due exceeds a certain dollar amount.

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[3] Pub. L. No. 105-206, 112 Stat. 685.
[4] Trust fund taxes are paid by employers for taxes they withhold from employees' wages.

6. Individual cases where the balance due exceeds a certain dollar amount.

If delinquent account cases did not meet one of the above priorities, the Assistant Commissioner's deviation authorized the CFf to close them as uncollectible and shelve (i.e., close accounts without performing any work) the delinquency investigations.[5]

Results

The CFf inventory priorities can be improved by using historical data to select priority work, measuring their impact on inventory levels, and consistently applying them.

The Collection function's inventory practices do not ensure ROs work the highest priority accounts. Management did not use analytical data to establish the priorities or oversee the program. Further, unassigned inventories have not been reduced, and procedures may allow for inconsistent treatment of taxpayers.

The Internal Revenue Service Implemented the Collection Field Function Inventory Priorities Without Analytical Data to Support the Decision

The National Headquarters Collection management is responsible for analyzing the Collection inventory and recommending changes that affect inventory selection and assignment among Collection organizational levels. However, the National Headquarters did not analyze data to ensure the CFf priorities would identify casework having the greatest impact on, as well as decrease, unassigned inventory levels.

In January 1999, district offices appealed for the National Headquarters to issue new inventory guidelines that would relieve the districts from working certain types of cases. Districts were experiencing high inventory levels due to:

[5] Delinquency investigations are assignments to obtain tax returns from taxpayers who have not filed a tax return (non-filers).

- New procedures to implement the RRA 98.
- Commitments to work a large volume of offer-in-compromise and bankruptcy cases.
- Low staffing levels due to employee attrition and customer service commitments.

For example, between March 1998 and March 1999, inventory receipts increased from 167,905 to 168,317; however, inventory dispositions decreased from 188,127 to 120,032.

Because of these high inventory levels, Collection management agreed to set priorities for case workload. According to National Headquarters Collection management, decisions regarding the new priorities were based on Collection management's institutional knowledge of the make-up of the CFf inventory, as well as priority criteria developed by the DITF. However, the recommendations of the DITF only addressed some of the priorities ultimately selected by the Assistant Commissioner (Collection).

Raising the Queue cutoff score had little effect on the issuance of inventory to the field.

Without determining the effect, the National Headquarters requested the districts to raise Queue cutoff scores to whatever level necessary to limit the issuance of excess inventory. Each district sets its own Queue cutoff score. Cases with scores below the district's cutoff score are automatically transferred to the Queue. By working the higher score cases first, revenue should be increased, and the volume of less productive cases received should be reduced. However, since certain types of cases must be worked (e.g., federal retirees who owe back taxes), raising the cutoff score had little effect on decreasing the issuance of inventory to the field.

Although the DITF performed some analysis with respect to the ACS inventory levels and taxpayer contact issues, no analysis was done to determine if the initiative would be effective in working cases having the greatest impact on compliance and reducing unassigned inventory.

TDA module inventory levels reached a point where seven districts requested additional authority to close cases within the priorities.

Our analysis of the 33 district offices showed taxpayer delinquent account (TDA) module inventories decreased only slightly (1,034,563 to 976,461) between March and June 1999. Therefore, 7 of the 33 districts requested additional inventory relief from the National Headquarters. The National Headquarters authorized these districts to close cases within the 6 inventory priorities. This resulted in a decline of 19 percent (1,034,563 to 835,318) of the cases in the CFf by March 2000. Further, the CFf taxpayer inventory also declined approximately 23 percent (269,540 to 207,113).[6]

Recommendation

1. The Assistant Commissioner (Collection) should use data from existing management information systems (i.e., the Entity/ICS) to identify high-priority work.

Management's Response: Management's response was due on August 11, 2000. As of August 18, 2000, management had not responded to the draft report.

The Internal Revenue Service Has No Methodology to Measure the Impact of the Priorities on Collection Field Function Inventory Levels

The National Headquarters Collection management is responsible for monitoring collection activities in IRS district offices. However, the National Headquarters is not overseeing the field's adherence to the inventory priorities. As a result, management cannot ensure that ROs are working the correct cases, or that they are not closing delinquent accounts as uncollectible or shelving delinquency investigations that meet the six priorities.

[6] Source of Information: Taxpayer Delinquent Account Monthly Report (NO-5000-1).

No control mechanism exists to ensure priority cases are being worked and/or closed. For example:

- None of the three districts reviewed evaluated the priorities during their operational reviews.
- The National Headquarters requested that districts submit monthly reports to their respective regional offices detailing the number of cases meeting the six priorities that have been closed as currently not collectible or shelved. However, the regional offices do not review or analyze these reports or forward them to the National Headquarters.

No methodology exists to measure the impact of the priorities on inventory levels or overall collections. One difficulty in measuring the overall success of the program is that management cannot use its automated management information system, the Entity/ICS, to identify all priority work. While a manager can use the Entity/ICS sub-codes to identify trust fund, non-filer and non-business cases (Priorities 2 through 6), the Entity/ICS does not identify the Priority 1 cases – face-to-face contact. However, districts did not use the sub-code function of Entity/ICS to identify priority cases. Consequently, management cannot ensure ROs only work priority cases.

Finally, the priorities were originally envisioned as a short-term fix. However, they have evolved to an indefinite solution to alleviate inventory levels.

According to National Headquarters Collection management, many of the problems in identifying priority cases will be corrected through planned system and procedural changes. These changes will allow the IRS' collection systems to work as one on managing inventory issues. When implemented (planned date of January 2001), Collection will have a single coordinated compliance strategy using a risk-based methodology.

Recommendations

The Assistant Commissioner (Collection) should:

2. Develop a method to uniformly identify Priority 1 cases.
3. Use the existing capabilities of the Entity/ICS to track Priorities 2 through 6.
4. Develop a methodology to measure the impact of the priorities on the CFf inventory levels.

The Internal Revenue Service Has Not Consistently Followed Its Inventory Priorities

Cases remain unassigned for extended periods of time and the districts we reviewed did not effectively use Entity/ICS sub-codes to identify priority inventory. Therefore, we were unable to determine whether a significant portion of assigned inventory met one of the six priorities.

The priorities have not alleviated unassigned inventory concerns

The March 1999 memorandum from the Assistant Commissioner (Collection) advised that unassigned group inventory should be limited to inventory that managers expected to assign within 30 days.

We analyzed 3 hold files in each of the 3 districts reviewed and identified group managers frequently keeping cases in hold files for more than 60 days.[7] Our analysis of all 4,791 unassigned cases determined that 2,327 (49 percent) of them remained unassigned to a RO for over 2 months as shown in the following chart.

[7] Hold files are for cases that cannot be assigned in less than 30 days.

In the 9 hold files analyzed, 49 percent of the unassigned cases remained unassigned for over 2 months. The percentages ranged from none in 1 group to 73 percent in another group.

ANALYSIS OF UNASSIGNED INVENTORY						
	DISTRICT A		DISTRICT B		DISTRICT C	
	Total Cases	Older than 60 Days	Total Cases	Older than 60 Days	Total Cases	Older than 60 Days
1	1,251	556 (44%)	145	43 (30%)	455	281 (62%)
2	1,623	1,111 (68%)	175	61 (35%)	505	152 (30%)
3	120	88 (73%)	71	35 (49%)	446	0

Source: Integrated Collection System - March 2000

The Fiscal Year 2000 IRS Operations Plan indicates that studies have shown that the sooner an account receivable is addressed, the lighter the burden on the taxpayer and the greater the likelihood payment will be received. Allowing accounts to sit in hold files increases the risk of not being able to collect the money by further delaying the collection process.

Many cases in the CFf inventory may not be priority cases

The Entity/ICS uses codes to identify the type of taxpayer (e.g., in-business) and sub-codes to identify the collection issue (e.g., installment agreement). Each district has reserved sub-codes, which are locally defined by the district. Only one of three districts reviewed used an Entity/ICS sub-code to identify priority cases. However, in this district, the coding was not consistently applied.

We were unable to determine whether 53 percent of the cases in the 3 districts met any of the 6 CFf inventory priorities.

We used the Entity/ICS to analyze open inventories in the three districts. Our analysis of all 29,119 open cases determined that only 13,551 (47 percent) of them met at least 1of the CFf inventory priorities. Due to systemic limitations, we could test for only 5 of the 6 priorities without obtaining information from a separate automated system (the ACS). As a result, we did not determine whether the remaining 15,568 cases were taxpayer contact cases (the other priority category). However, the potential exists that many of these cases did not meet Collection's priorities and should not have been assigned to ROs. As stated earlier in this report, incomplete coding prevents managers from quickly ensuring only priority cases are in the inventory.

NUMBER OF CFf CASES IN OPEN INVENTORY MEETING AT LEAST ONE OF THE SIX CFf PRIORITIES

	DISTRICT A	DISTRICT B	DISTRICT C
Priority 1	*Unable to determine*	*Unable to determine*	*Unable to determine*
Priority 2	593	1,435	648
Priority 3	160	12	9
Priority 4	2,579	1,881	2,770
Priority 5	2	3	*Unable to determine*
Priority 6	1,215	1,152	1,092
Total Priority 2 – 6	4,549	4,483	4,519
Total # of open cases	9,615	7,669	11,835
Percentage of Unable to Determine	53%	42%	62%

Source: Integrated Collection System - March 2000

The number of high-dollar cases in the CFf Queue increased by 498 percent during a recent 1-year period.

Our review also showed the three districts experienced a significant shift in the number of large dollar cases transferred to the Queue. Between January 1999 and January 2000, the number of cases above $100,000 in the Queue increased from 84 to 502.

Recommendations

The Assistant Commissioner (Collection) should:

5. Ensure managers assign inventory within the required 30-day time frame.
6. Use the sub-code capabilities of the Entity/ICS to identify and track priority work.
7. Take steps to ensure cases are not prematurely transferred to the Queue, shelved, or closed while potentially lower priority cases (under a certain dollar amount) are in the open inventory.

Actions on Closed Cases May Cause Inequitable Taxpayer Treatment and Do Not Ensure the Government's Interest Is Protected

The March 1999 procedures to reduce inventories cause the IRS to potentially treat taxpayers differently. Situations for filing Federal Tax Liens and providing for follow-up on uncollectible accounts are two such instances.

Internal Revenue Manual procedures allow ROs to write off accounts as uncollectible when they have determined the taxpayer cannot be located or the taxpayer has no ability to pay the tax liability (referred to as "hardship" cases). In these cases, the accounts could be "reactivated" at some time in the future if the taxpayer can be located (e.g., if the taxpayer files a return with a new address) or his/her income is at least as much as the reported closing code. In addition, the RO must determine whether or not to file a Federal Tax Lien to record the government's interest in the taxpayer's real or personal property. This determination must be made if the balance due is greater than $5,000.

Under the March 1999 procedures, ROs are instructed to write the accounts off as uncollectible using a special computer closing code. This code does not provide for any type of automated reactivation of the account for future collection action. These procedures also allow ROs to write the account off without making a lien determination.

As a result, some taxpayers (i.e., closed as "unable to pay") have liens filed against them and could be subjected to future collection actions, while other taxpayers have no liens filed and probably will never have their accounts reactivated. In addition to inequitable treatment, the government's interest is not protected on the accounts when no liens are filed or no follow-up is made.

From March to October 1999, the CFf used the special procedures to close approximately 35,000 tax periods[8] totaling over $390 million. In addition, Federal Tax liens were not filed on 6,445 of 13,324 (48 percent) tax periods over $5,000.

Recommendation

8. The Assistant Commissioner (Collection) should re-evaluate the March 1999 procedures and consider the impact of potential inequitable taxpayer treatment and the risk of not protecting the government's interest.

Conclusion

The Collection function's inventory practices do not ensure ROs work the highest priority accounts. Management did not use analytical data to establish the priorities or oversee the program. Further, inventories

[8] A "tax period" is a reporting period that depends on the filing requirements of the taxpayer (i.e., quarterly or annually).

have not been reduced, and procedures may allow for inconsistent treatment of taxpayers.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether Collection's inventory priorities and new procedures to identify, prioritize and manage Collection Field function cases effectively identified and worked the most important accounts. To achieve this objective, we:

I. Determined whether National Headquarters Collection management performed sufficient analysis to support implementation of the priorities.

   A. Met with members of the Delinquent Inventory Task Force and reviewed all available documentation.

   B. Determined how priority levels were selected.

   C. Determined how priorities were monitored.

   D. Determined how National Headquarters measured the impact of the priorities on inventory levels and overall collections (i.e., payments received, returns secured).

   E. Determined how priorities tie into the Collection Fiscal Year 2000 Work Plan.

   F. Determined whether National Headquarters maintained statistics showing how many cases have been affected by the new priorities (i.e., number of cases closed as currently not collectible, shelved,[1] or systemically returned to the Queue).[2]

   G. Obtained the deviation authorized by the Assistant Commissioner (Collection), permitting the use of specified transaction codes and closing codes.

   H. Compared the current priorities with prior Collection inventory strategies to identify similarities and successes in reducing inventory levels.

II. Determined whether the National Headquarters is providing ongoing management oversight of the priorities.

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[1] Shelved cases are delinquent investigations, which are closed without performing any additional work.
[2] The Queue is an automated holding file of unresolved cases.

A. Determined how the Regional Chief Compliance Officers in the Northeast and Southeast Regions implemented and monitored inventory priorities and dispositions.

B. Obtained copies of reports management used to track the number of cases returned to the Queue, closed as currently not collectible, or shelved.

C. Determined how Collection Division Chiefs in the Georgia, Pennsylvania and Southwest Districts implemented and monitored inventory priorities and dispositions.

III. Determined whether the Collection priorities effectively reduced inventory levels in the field.

A. Determined problems unique to each district reviewed (i.e., staffing, resource commitments to Customer Service, rollout of the Entity/Integrated Collection System [ICS], etc.).[3]

B. Determined the level of guidance regarding priorities from the National Headquarters and the region.

C. Determined whether the Georgia, Pennsylvania and Southwest Districts used national or local priorities to prioritize its inventory.

D. Reviewed inventory reports (via the ICS) to determine whether cases met the priority levels set by the Assistant Commissioner (Collection).

E. Performed the following ICS analysis of all open inventory:

1) Volume of assigned/unassigned inventory.

2) Volume of Individual Masterfile (IMF) versus Business Masterfile (BMF) taxpayers.[4]

3) Volume of discretionary/non-discretionary inventory.

4) Volume of low-dollar cases in open inventory (i.e., stratification of TDA balances).

5) Volume of cases exceeding module balances of certain dollar amounts.

6) Volume of cases with module balances less than a certain dollar amount.

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[3] The Entity/Integrated Collection System (ICS) is a computer system that is used for collection inventory processing.

[4] The IMF is an IRS database that maintains transactions or records of individual tax accounts. The BMF is an IRS database that consists of federal tax-related transactions and accounts for businesses.

7) Volume of cases exceeding the Georgia, Pennsylvania and Southwest District's Revenue Workload Management System (RWMS) cutoff score.

F. For discretionary inventory identified in III-E, reviewed the ICS to determine whether all of the cases met at least one of the following six inventory priorities:

1) Taxpayer requests for face-to-face contact.

2) In-business trust fund cases where the aggregate balance exceeds a certain dollar amount.

3) Other in-business trust fund cases exceeding district inventory cutoff score.

4) Other in-business trust fund cases.

5) Non-filer cases where the net tax due exceeds a certain dollar amount.

6) Individual cases where the balance due exceeds a certain dollar amount.

G. Performed the following ICS analysis of the Queue inventory:

1) Volume of assigned/unassigned inventory.

2) Volume of the IMF versus the BMF.

3) Volume of discretionary/non-discretionary inventory.

4) Volume of low-dollar cases in the open inventory (i.e., stratification of TDA balances).

5) Volume of cases exceeding module balances of certain dollar amounts.

6) Volume of cases with module balances less than a certain dollar amount.

7) Volume of cases exceeding the district's RWMS cutoff score.

IV. Determined whether internal controls over currently not collectible determinations, shelving actions, and transfers to the Queue were adequate to prevent manipulation of revenue officer inventories.

A. Identified the volume of cases closed using specified transaction codes, closing codes and transfers to the Queue between March 1 and October 31, 1999.

B. Obtained monthly district listings (5000-1 and 3 Reports) from the National Headquarters showing inventory levels and dispositions (by type) from January through September 1999.

C. Ranked the districts by inventory levels and disposition types. Noted the number of TDA cases closed as currently not collectible and taxpayer delinquency investigation cases shelved.

D. Interviewed management in the Georgia, Pennsylvania and Southwest Districts to determine procedures in place to prevent unwarranted closures or transfers.

E. Determined (via the ICS) actions taken prior to closure or transfer to the Queue.

   1) Lien determinations.

   2) Financial statement analysis.

   3) Contact with the taxpayer.

   4) Quality review.

F. Determined (via the Entity/ICS) the volume of cases closed with specified transaction codes and closing codes, shelved or returned to the Queue with "TFQU," which fell outside of the National Headquarters' priorities.[5]

G. Determined whether the district obtained National Headquarters approval for any cases identified in step F.

[5] TFQU represents "transferred to the queue."

Appendix II

Major Contributors to This Report

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Appendix III

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