



DEPARTMENT OF THE TREASURY
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INSPECTOR GENERAL
for TAX
ADMINISTRATION

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MEMORANDUM FOR COMMISSIONER ROSSOTTI

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FROM: David C. Williams
Inspector General

SUBJECT: Major Challenges Facing the Internal Revenue Service

Attached is the Treasury Inspector General for Tax Administration's (TIGTA) listing of the major challenges facing the Internal Revenue Service (IRS) management in Fiscal Year (FY) 2002. Because of the September 11, 2001, terrorist attacks and the subsequent anthrax scare, the overall security of the IRS, including its employees, facilities, and information systems, is ranked as the number one challenge to IRS management for FY 2002. The IRS continues to be security conscious because of the very nature of its business; and although the risks of foreign terrorist attacks may not be high, the chances of copycat attacks are much greater because of the events during 2001.

Second on our list is the systems modernization of the IRS. Because the IRS has substantially completed its organizational restructuring, this part of the modernization challenge area has been removed for FY 2002. However, the IRS must now turn its attention to renovating its business processes and practices. This part of the modernization initiative will primarily involve modernizing its computer systems; and because of the high dollar costs and failures in the past, systems modernization of the IRS remains high on our list of challenges.

Although other challenges facing IRS management in FY 2002 have not changed substantially from last year, we have recategorized or renamed some issue areas. Challenge areas formerly titled *Financial Management* and *Implementation of the Government Performance and Results Act of 1993* have been combined under one area entitled *Performance and Financial Management*. The customer service issues previously included in the challenge area entitled *Customer Service and Tax Compliance Initiatives* have been moved to the *Providing Quality Customer Service* challenge, leaving a challenge area entitled *Tax Compliance Initiatives*. Issues in the challenge area formerly titled *Impact of the Global Economy on Tax Administration* have been incorporated in the *Tax Compliance Initiative* challenge area. The challenge previously entitled *Revenue Protection – Minimizing Tax Filing Fraud* has been renamed *Erroneous Payments* to emphasize presidential and congressional concerns in this area. The TIGTA also believes that two additional issues will challenge the IRS in

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the coming years. *Human Capital* and *Complexity of the Tax Law* are being added to the TIGTA's list of challenges facing the IRS.

The TIGTA believes the major management challenges, in order of priority, facing the IRS in FY 2002 are:

- Security of the Internal Revenue Service
 - Employees and Facilities
 - Information Systems
- Systems Modernization of the Internal Revenue Service
- Integrating Performance and Financial Management
 - Performance Management
 - Financial Management
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Complexity of the Tax Law
- Tax Compliance Initiatives
- Providing Quality Customer Service Operations
- Erroneous Payments
- Taxpayer Protection and Rights
- Human Capital

A summary of each issue, including comments on the progress the IRS has made toward resolving the challenge or the vulnerabilities the IRS continues to face in achieving results, is included where appropriate. Appendix I is a listing of the audit reports issued in FY 2001 that addressed the major management challenge areas. Appendix II contains information on the challenge area, *Organizational Restructuring*. The TIGTA believes that the organizational restructuring is complete but, to be effective, new business processes and computer systems need to be implemented. The new processes and systems implementation will be examined under the other challenge areas.

If we can provide additional information, please contact me at (202) 622-6500, or your staff may contact Pamela J. Gardiner, Deputy Inspector General for Audit, at (202) 622-6510.

Attachment

cc: Secretary of Treasury

**Major Management Challenges
Facing the Internal Revenue Service
Fiscal Year 2002
Table of Contents**

Security of the Internal Revenue Service	Page	1
The Employees and the Facilities	Page	1
The Information Systems	Page	2
Systems Modernization of the Internal Revenue Service	Page	3
Integrating Performance and Financial Management.....	Page	5
Performance Management.....	Page	5
Financial Management.....	Page	6
Processing Returns and Implementing Tax Law Changes During the Tax Filing Season.....	Page	8
Complexity of the Tax Law	Page	10
Tax Compliance Initiatives	Page	12
Providing Quality Customer Service Operations	Page	15
Erroneous Payments.....	Page	17
Taxpayer Protection and Rights	Page	20
Human Capital	Page	23
Appendix I – Listing of Fiscal Year 2001 Audits that Addressed the Challenge Areas.....	Page	25
Appendix II – Challenge Area Removed from the Major Management Challenges Facing the Internal Revenue Service	Page	34
Appendix III – Taxpayer Rights Provisions.....	Page	35

Major Management Challenges Facing the Internal Revenue Service

Fiscal Year 2002

Security of the Internal Revenue Service

The terrorist attacks on September 11, 2001, and the subsequent anthrax scare highlighted new vulnerabilities in many businesses and government agencies. Although the Internal Revenue Service (IRS) has always been extremely security conscious because of the very nature of its work, security of IRS employees, facilities, and information systems is now considered as the number one challenge facing the IRS management for Fiscal Year (FY) 2002.

The Employees and the Facilities

Recent terrorist activity within the United States demonstrated very graphically that the physical security of IRS employees, equipment, and structures should be of utmost concern to IRS management. Immediately after the tragic events in New York City and Washington, DC, all Facilities Management Officers were directed to make an immediate assessment of each IRS office within their service area and, in concert with the General Services Administration and local law enforcement, to take whatever action is necessary to safeguard IRS personnel and assets. Information was also provided to the appropriate personnel with regard to the inspection of incoming mail and packages.

The Deputy Commissioner assembled a team consisting of representatives from Real Estate and Facilities Management, Criminal Investigation, Treasury Inspector General for Tax Administration (TIGTA), and Security Evaluations and Oversight. This team is charged with the review of the recently completed IRS Security Standards, especially in light of recent events. After the review, the standards will be presented to the Commissioner and the Business Units for their concurrence.

In addition, a preliminary risk assessment survey was recently completed for all 785 IRS offices. The data from these surveys will be used to determine which locations meet the new security standards, and the IRS will identify and prioritize upgrade projects for those locations that do not meet the new standards. Funding will be made available through Real Estate and Facilities Management to ensure that all critical security needs required by the new standards will be corrected.

TIGTA's Office of Investigation has already been heavily involved in the terrorist investigation. The Strategic Enforcement Division (SED), for example, assisted the FBI Headquarters Strategic Information Operations Center (SIOC) in securing and analyzing massive amounts of information on hundreds of people and businesses identified by the SIOC. The Office of Audit is planning several audits around the security of the IRS' offices.

The Information Systems

Considering the amount and sensitivity of the data the IRS is charged with protecting and the amount of revenue it collects, the IRS is a highly visible target for hackers, disgruntled employees, etc. Access to the Internet and the linking of internal computer systems have greatly increased the risk of loss or theft.

Despite the IRS' significant efforts and accomplishments over the past few years, the Office of Audit found that the overall level of security over the IRS' information systems is not yet adequate. Several audits have focused on the adequacy of controls to prevent hackers from intruding into the IRS systems or networks, and on controls to detect those who try. Other audits have focused on controls inside the IRS.

At the Internet gateways, which control external access into the IRS network, firewalls and routers were not upgraded to protect against commonly known weaknesses, configurations were weak, changes to configurations were not documented, activity logs were not generated or reviewed, and sufficient and capable staffing was not assigned to administer the firewalls. Furthermore, the IRS still does not have the capability to detect intrusions at all entry points from the Internet.

Internally, the Office of Audit noted weaknesses with network operating system controls, physical security, and access privileges. Due to the interconnectivity of systems within the IRS, these weaknesses are significant. Unauthorized persons gaining access to a computer in even the smallest post-of-duty can potentially access data in any of the computing centers. The IRS, however, still does not routinely run or review activity logs on network servers to detect potential internal security breaches.

The Office of Audit attributes many of the conditions identified to:

- A lack of clear accountability for security throughout the IRS.
- Insufficient knowledge and skills.
- Insufficient security awareness among managers and employees.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

The IRS has made strides toward improving security over its information systems. The overall security environment of the large processing centers has improved. In addition, mainframe computer operating system controls are generally adequate; however, improvements are needed to limit the number of individuals who have access to these systems and programs, and to increase the use of audit trail information from these systems. Significant progress has been made in preparing adequate disaster recovery plans. The IRS has also taken actions to protect its critical information systems. During the last year, the IRS has identified the critical

assets, assessed the vulnerability of those assets, and requested funds to improve the physical security of the assets.

However, over the years, the IRS has not routinely considered security when designing new systems. In an audit of the security certification process in June 2000,¹ the Office of Audit noted that only 10 percent of the IRS' sensitive systems had been certified and all but one of those had been certified after they had been implemented. The IRS is addressing this issue, but progress has been slow. As of May 2001, only 15 percent of the IRS' sensitive systems had been certified.

Systems Modernization of the Internal Revenue Service

The IRS Restructuring and Reform Act of 1998 (RRA 98),² mandated that the IRS reorganize around groups of taxpayers with similar needs and place a greater emphasis on serving taxpayers and meeting their needs. The four major groupings of taxpayers include: wage and investment taxpayers, the self-employed and small businesses, middle and large corporations, and exempt organizations. This organizational structuring reflects a customer service oriented organization similar to changes that major corporations have put into place. In addition, the IRS' reorganization is dependent upon revising its business processes and implementing new computer systems to better serve the specialized needs of these groups.

Modernization of the IRS' technology is crucial to implementing the new business vision, espoused by the IRS Commissioner and the Congress, of providing world-class service to taxpayers. Key goals, such as 80 percent of tax returns being filed electronically by Year 2007 and significantly improving levels of service in answering taxpayer questions, are contingent on the development of new technology. Furthermore, while the development of new technology evolves, existing operations must continue plus improvements must be made to meet the needs of tax administration and to demonstrate to taxpayers the IRS' commitment to improved services.

Given the IRS' past history in modernizing its computer systems, this is a major challenge. For more than a decade, at a cost of \$4 billion, the IRS attempted to modernize its antiquated tax systems. These efforts fell far short of what is required to prepare the IRS for the next century.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

The IRS has made notable progress in modernizing its technology systems. It installed an upgraded telephone communications system that improves its ability to

¹ *Certifying the Security of Internal Revenue Service Computer Systems Is Still a Material Weakness (Reference No. 2000-20-092).*

² Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

receive, route, and respond to the more than 150 million taxpayer telephone calls received each year. The improvements include voice-activated programs that recognize English or Spanish-speaking callers, and capabilities that more accurately route taxpayer calls to the most appropriate IRS resource. The IRS also began installation of, and training for, a new software application that assists revenue agents in accurately computing some of the most complex corporate tax transactions.

However, the IRS is still struggling with developing and integrating the discipline and repeatable processes needed to effectively and efficiently modernize its technology. The Office of Audit continues to monitor and report on the following areas that, at this stage, pose potential barriers to the success of Business Systems Modernization:

- *Delays and cost overruns in delivering tangible benefits to taxpayers.*
All of the modernization projects have taken longer and cost more to develop than originally estimated. To date, the IRS has spent or obligated over \$500 million in modernization funds. The IRS plans to deliver several projects with direct taxpayer benefits in FY 2002; however, some of these projects will be installed later than planned. Other projects have also been scaled back in order to install them.
- *Potential funding problems.*
Because the projects have cost more than estimated, all modernization funds provided by the Congress, through FY 2001, have been spent or obligated. While the IRS will receive an additional \$391 million from the Congress in FY 2002, some ongoing or planned projects may need to be postponed or scaled back to fit within the funding provided.
- *Inconsistencies in implementing key systems development processes.*
Project teams are having problems implementing and following key processes, such as risk, configuration, and contract management.
- *Business needs not always being well defined.*
Changing requirements during the development of projects have contributed to the delays and cost overruns.
- *Lack of clarity as to which systems development projects should be classified as modernization projects.*
The Congress intends to closely oversee and control funding for systems modernization because the IRS' previous attempts to modernize are viewed as having failed. However, the IRS has not developed authoritative guidelines to determine which of its many systems development projects should be classified, managed, and separately funded as modernization projects. This could result in certain projects not receiving the oversight intended or funds being used for purposes not intended or approved by the Congress.

Integrating Performance and Financial Management

Improving Government performance is an overall goal of the current administration. The President stated in *The President's Management Agenda for Fiscal Year 2002* that performance and results – making good on promises – will be the standard for Government offices. Both the President and the Secretary of Treasury have also expressed concern about the financial management of Government agencies and believe that a clean financial audit is a basic prescription for any well-managed organization. Without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Performance Management

The Government Performance and Results Act of 1993 (GPRA) is intended to increase agency accountability and improve the quality and delivery of government services. The GPRA holds Federal agencies accountable for program results by emphasizing goal setting, customer satisfaction, and results measurement. Federal agencies are required to prepare multi-year strategic plans, annual performance plans, and annual program performance reports. In FY 1999, Federal agencies were required to submit, to the President and the Congress, annual performance plans that set annual goals with measurable target levels of performance. Beginning with FY 2000, Federal agencies were required to report, in an annual program performance report, on their successes in achieving the goals established in the prior year's performance plan. The process of setting the goals, measuring the performance, and reporting the results is a major challenge to IRS management.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

During FY 2001, the Office of Audit summarized, in one report, the findings from 8 FY 2000 reviews relating to the GPRA. The reviews evaluated the IRS' implementation of the GPRA, 6 of the 11 IRS *Customer Satisfaction Surveys*, and the IRS' *Annual Program Performance Report (APPR)*. In the consolidated report, the Office of Audit stated that the IRS did not have a centralized process to ensure that all of the requirements of the GPRA were achieved and maintained.³ Additionally, the individual operating units did not adequately administer the *Customer Satisfaction Survey* process, and the process for completing the IRS' *APPR* did not provide management adequate time to assess performance. The Office of Audit recommended that the IRS management consider centralizing the GPRA oversight, better administer the *Customer Satisfaction Surveys* and qualify the data as needed, and improve the *APPR* process. In addition, three audit reports addressing selected IRS business results measures were issued in FY 2001. The Office of Audit reported that the IRS should further develop and improve some of its business results measures. During FY 2001, the TIGTA also audited the GPRA

³ *Management Advisory Report: The Internal Revenue Service's Implementation of the GPRA During Fiscal Year 2000 (Reference No. 2001-10-085).*

quantity measures in the customer service area. The audit report stated that the IRS should adopt the industry-wide measurement standard called "Level of Service" that gives a better measure of communicating the service that taxpayers are experiencing on the toll-free system.

The IRS management generally agreed with the recommendations contained in TIGTA's reports, and has taken several steps to address these concerns. The IRS Commissioner designated the Deputy Commissioner and the Chief Financial Officer as responsible for the macro-level GPRA processes and the operating unit executives as responsible for implementing the GPRA in their respective areas. The IRS has made changes to its performance management process to help better define and report on measures and is planning to qualify some data. The IRS has also issued procedures for reporting on the IRS' critical measures. These procedures contain the requirement that data and supporting documentation must be verified and approved prior to being reported to the Treasury Department. The IRS also indicated that recommendations pertaining to the GPRA customer service measures will not be implemented for FY 2003.

Financial Management

The IRS' financial management systems and internal control weaknesses also remain a challenge to the IRS management. According to the General Accounting Office's (GAO) report for the FY 2000 audit of the IRS, the IRS continues to face most of the pervasive systems and internal control weaknesses that have been reported each year since GAO began auditing the IRS' financial statements in FY 1992. Despite these weaknesses, in FY 2000 the IRS was able to produce, for the first time, combined financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. This achievement was the culmination of two years of extraordinary effort on the part of the IRS. The IRS developed compensating processes to work around its serious systems and control weaknesses in order to derive year-end balances for its financial statements. In addition, the IRS addressed several of the management issues raised in previous reports.

Although the IRS laid the groundwork for sustainable improvements in several critical areas, its approach to obtain this unqualified opinion relied heavily on costly, time consuming processes; statistical projections; external contractors; substantial adjustments; and monumental human efforts that extended well after the September 30, 2000, fiscal year-end. The tremendous commitment on the part of both IRS senior management and staff was the key to the IRS' ability to achieve its goal of receiving an unqualified audit opinion. At the same time, these costly efforts would not be necessary if the IRS' systems and controls operated effectively. In addition, the absence of effective systems and controls means that the IRS lacks, on

an ongoing basis, the timely, accurate, and useful information needed to make informed management decisions.⁴

The TIGTA's audit of the IRS' remediation plans through September 30, 2000, concluded that the IRS continued to not fully comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA)⁵, in that resource commitments were not identified for all remedial actions. Further, the IRS was not performing independent verifications of implemented remedial actions, and it was not sufficiently providing explanations in its remediation plans for the necessity of revised remedial action intermediate target dates.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

During its audit, the GAO noted that the IRS had made many improvements to address some of the financial management issues raised in previous reports. For example, the IRS had significantly improved its controls over reconciling its appropriated fund balance with Treasury accounts and in minimizing the number and dollar amount of transactions held in suspense accounts. Additionally, the IRS had significantly improved the quality of its documentation of unpaid tax assessments. The IRS had also made important improvements in its handling of taxpayer receipts and data, and had made progress in addressing both long-standing weaknesses in controls over its property/equipment and weaknesses in budgetary controls. The IRS' progress is attributable to the extraordinary efforts of IRS senior management and staff and the continued strong commitment by senior management to address the agency's financial management issues.⁶

The TIGTA also acknowledged that the IRS has made significant improvements with its remediation plan. A follow-up review of the previously reported TIGTA findings⁷ showed that all weaknesses identified by the GAO during its FY 2000 financial statement audits were included in the remediation plan and that intermediate target dates were identified for all remedial actions. Except for issues noted in the report, remedial actions included in the remediation plan directly addressed the identified weaknesses and, if fully implemented, could reasonably correct the associated weaknesses. Further, the TIGTA did not identify any missed intermediate target dates during the period of the review that would require specific reporting by the TIGTA as outlined in the FFMIA.

IRS management agreed with the TIGTA's recommendations that resulted from the review of its FFMIA remediation plan and has initiated corrective actions to identify resources for all remediation plan actions; independently verify and test completed

⁴ *United States General Accounting Office Report to the Secretary of the Treasury – IRS' Fiscal Year 2000 Financial Statements*, March 2001.

⁵ 31 U.S.C. § 3512.

⁶ *United States General Accounting Office Report to the Commissioner of the Internal Revenue Service – Progress Made, but Further Actions Needed to Improve Financial Management*, October 2001.

⁷ Letter Report: *Improvements Are Needed in the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan*, August 2000.

remedial actions; and verify and monitor the reasonableness of revised remedial action intermediate target dates.

On the other hand, the TIGTA's Office of Audit found that the IRS does not adequately validate Earned Income Credit (EIC) results information, causing an inaccurate reporting to the Congress of the use of EIC appropriation funds. In addition, although establishment of some compliance initiatives and a process to track the spending of funds have improved the application of the credit, the IRS has been unable to measure improvement outcomes in EIC compliance for the approximately \$297 million spent on improving the EIC application.

The IRS agreed to establish a process to ensure information reported to the Congress is complete, accurate, and reliable. The IRS also completed several studies covering efforts to measure the impact of initiatives in improving EIC compliance. The TIGTA will continue to monitor this area for significant risks.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

The filing season impacts every American taxpayer and is, therefore, always a highly critical program for the IRS. Programs, activities, and resources have to be planned and managed effectively each filing season. This is further complicated by the modernization efforts that are updating and replacing the very core tax processing systems needed to deliver a successful filing season. In addition, the IRS must ensure systems capacity and telecommunications will accommodate the new electronic filing requirements and the accuracy and utility of information received and processed.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

During the 2000 Filing Season, the IRS effectively processed paper individual tax returns. Nevertheless, the Office of Audit determined that there are several areas in which improvement can still be achieved.

For example, management has not placed enough emphasis on setting goals and standards for the Innocent Spouse Program (ISP). Not having adequate goals and standards has made it difficult to properly manage the ISP. It is even more difficult to manage Small Business/Self-Employed (SB/SE) resources used to evaluate claims because the ISP Manager does not have direct control over those resources. As a result, significant inventory backlogs continue; program resources may not be properly directed; program accomplishments may not be accurately measured; and program results may not be accurately reported to the IRS Commissioner and to the Congress. At the same time, taxpayers' total liabilities are increased because penalties and interest continue to accrue while the claim is being considered. The longer it takes to work the claim, the greater the resulting tax liability.

In addition, the Innocent Spouse Tracking System (ISTS) did not provide accurate information on the status and location of claims assigned to the IRS examiners, and SB/SE managers were not using the ISTS to effectively manage inventory and resources. Also, the ISP manager did not receive accurate information to update the inventory model or to evaluate and report program results to the IRS Commissioner and to the Congress. Several factors contributed to the inaccuracies in the ISTS. First, management had not developed adequate inventory controls. Second, the inventory controls that had been developed were not properly implemented. Third, field managers relied primarily on traditional Examination inventory controls such as the Audit Information Management System and the Examination Returns Control System instead of the ISTS.

The IRS also could have more effectively implemented tax law changes during the 2000 Filing Season for certain program areas, such as the Child Tax Credits, Credits for the Elderly or the Disabled, Child and Dependent Care Credits, Mortgage Interest Credits, and Education Credits. For example, the IRS did little to validate the accuracy of the 151,083 Credits for the Elderly or the Disabled, totaling \$31 million, for TY 1999. As a result, it did not ensure that taxpayers met several important requirements for receiving this credit. While the amount refunded for this credit is relatively small in comparison to other tax credits, its significance will likely grow as the age of the taxpayer population increases.

Furthermore, opportunities still exist for the IRS to more effectively implement tax law changes and process tax returns for business taxpayers. Some small business taxpayers who appeared to be exempt from paying the corporate Alternative Minimum Tax (AMT) may have mistakenly paid this tax. The TIGTA recommended that the IRS enhance its efforts to inform small business taxpayers and tax professionals of the exemption from the AMT. These recommendations could provide entitlements for over 2,000 small business corporate taxpayers who may have paid \$25 million in AMT for which they were not liable.

Additionally, the IRS processes thousands of payments submitted with business tax returns for which the associated business tax returns are not processed. Many of these instances were the result of taxpayers omitting identifying information on their tax returns. Although this taxpayer identifying information was available on payment vouchers included with the returns, lockbox banks forwarded these tax returns to IRS centers for processing without first supplying the missing information. Without this information, the IRS centers declared the returns unprocessable and destroyed them. This results in unnecessary work for the IRS and unnecessary burden on taxpayers. The TIGTA recommended modifying instructions to taxpayers and lockbox banks.

The United States (U.S.) Returns of Partnership Income (Forms 1065) Program is another business taxpayer processing area that could be improved. The IRS' initial processing of electronically filed Forms 1065 has been successfully implemented in compliance with the modified requirements of the Taxpayer Relief Act of 1997, but problems exist with the validity of related Schedules K-1. Additional controls should

be developed to increase the accuracy of information provided by taxpayers on electronic Forms 1065, which could improve the success of subsequent matching programs; thereby including approximately 204,000 partnership Schedules K-1 in the IRS matching program that otherwise would be unusable. Although the IRS generally agreed with TIGTA's recommendations and planned corrective actions, it did not agree with our recommendation to ensure that Schedules K-1 filed with electronic partnership returns are available for matching programs.

Also, the IRS does not have a process to identify those taxpayers that incorrectly file Personal Service Corporation Income Tax Returns. The TIGTA found that in Tax Year (TY) 1999, over 10,400 personal service corporations with taxable income might have underpaid their taxes by over \$15 million. The IRS needs to take steps to ensure that all businesses are classified by their principal business activity when business tax returns are filed. To help ensure the accurate classification of 2.8 million business taxpayers, the TIGTA recommended improved controls and using information provided by taxpayers when an Application for Employer Identification Number (Form SS-4) is filed.

Other opportunities for reducing the burden of taxpayers in filing their returns involve the estimated tax (ES) penalty. The TIGTA found that taxpayers are spending, unnecessarily, almost 1.9 million hours to satisfy their tax obligations in regards to the ES penalty. Taxpayers who file *Underpayment of Estimated Tax by Individuals, Estates and Trusts* (Form 2210) and use the short method option are submitting paperwork that is actually a duplication of normal IRS return processing procedures. The TIGTA recommended that the IRS evaluate the design and clarity of Form 2210, including the instructions, and coordinate any redesign of the form with the taxpayer education and outreach programs in this area.

Complexity of the Tax Law

In April 2001, the Joint Committee on Taxation issued a report entitled *Study of the Overall State of the Federal Tax System and Recommendations for Simplification, Pursuant to Section 8022 (3) (B) of the Internal Revenue Code of 1986*. The report states that one of the effects of complexity is that it makes it more difficult for the IRS to administer the law.

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the *FY 2000 Taxpayer Advocate's Annual Report to the Congress*. The Advocate also identified tax law complexity as the root cause of many of the other problems on the Top 20 problem list; this list remains substantially unchanged since the first report in 1996. The problem areas on the Top 20 list that are affected by complexity include "Clarity and Tone of IRS Communications," "Inability to Access the Toll-Free Number," "Compliance Burden on Small Business," "Administration of the Earned Income Tax Credit," "Lack of One-Stop Service," "Penalty Administration," "Understanding Federal Tax Deposits," and "Divorced and Separated Taxpayers."

The National Taxpayer Advocate recently issued its *FY 2001 Annual Report to Congress*. The report takes tax law simplification a step further, focusing on key legislative proposals that create a more burdensome and confusing voluntary tax system for even the most compliant taxpayers. The report outlines proposals to simplify or clarify six areas of tax law – family status issues, joint and several liability, alternative minimum tax for individuals, penalty and interest issues, home-based service workers, and IRS collection procedures. It also lists additional legislative issues, as well as some potential legislative issues that merit further consideration.

Many problems exist because of tax law complexity. These problems range from individual tax issues, to complex corporate and international issues. Stakeholders from divergent constituencies have informed decision-makers about the problems and recommended solutions. However, there are multiple conditions that cause complexity. The Joint Committee on Taxation stated:

Among these sources of complexity the Joint Committee staff identified are: (1) a lack of clarity and readability of the law; (2) the use of the Federal tax system to advance social and economic policies; (3) increased complexity in the economy; and (4) the interaction of Federal tax laws with State laws, other Federal laws and standards (such as Federal securities laws, Federal labor laws and generally accepted accounting principles), the laws of foreign countries, and tax treaties. The lack of clarity and readability of the law results from (1) statutory language that is, in some cases, overly technical and, in other cases, overly vague; (2) too much or too little guidance with respect to certain issues; (3) the use of temporary provisions; (4) frequent changes in the law; (5) broad grants of regulatory authority; (6) judicial interpretation of statutory and regulatory language; and (7) the effects of the Congressional budget process.

With these sources of complexity, it is unlikely that the Internal Revenue Code will be simplified at one time. Therefore, the IRS has the challenge to remove as much complexity as possible as a service to taxpayers. This can be accomplished by providing regulations and written clarifications, educating taxpayers, simplifying forms and instructions, clarifying notices, increasing access to toll-free systems and other contact center channels, and systemically identifying and eliminating processes and procedures that are burdensome.

The effect of tax law complexity is compounded as the IRS modernizes. Since complexity can be a major factor in the cost of operations, the IRS must devote resources to simplifying taxes while at the same time modernizing its systems and processes.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

Since the complexity of the tax law affects so many aspects of the IRS operations, the TIGTA reports related to this challenge cover a broad spectrum of issues from

walk-in services for individual taxpayers to pre-filing programs designed for the largest corporations.

During FY 2001, the TIGTA evaluated the effect of changes made to the Internal Revenue Code (I.R.C.) by the Omnibus Budget Reconciliation Act of 1993 (OBRA).⁸ Current interest laws limit the IRS' ability to carry out its mission to provide top quality service and fairness to all taxpayers. Interest payments are determined by the method used to identify an overpayment, the method of delivering an overpayment to the taxpayer, and the type of taxpayer receiving the overpayment. Basing the computation of interest on these factors treats taxpayers inequitably, leaves the tax system open to profit-motivated manipulation, penalizes taxpayers who wish to pay future taxes with their overpayments, and produces needless complexity in interest computations.

The Collection Partnership Redesign Team implemented the Mentor and Monitor (M&M) Prototype to help small business owners understand their tax responsibilities. The prototype was designed to inform new employers of education and assistance opportunities, assist them in complying with employment tax requirements, monitor their tax compliance, and identify and help resolve delinquencies in paying taxes and filing returns. The M&M Prototype project manager has estimated that, if fully implemented, the M&M Prototype would help 250,000 new employers annually at a cost of \$51 million, or about \$200 per employer.

For LMSB Division taxpayers, the IRS has a suite of pre-filing initiatives that are in the early phases of piloting or implementation. While the pilot met the established objectives, changes were needed to operate a pre-filing program.

Tax Compliance Initiatives

The IRS' goal of providing world-class service to taxpayers hinges on the theory that, if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The compliance program (examining tax returns and collecting tax liabilities) would then address those taxpayers who did not voluntarily comply. The challenge to the IRS management is to establish a tax compliance program that identifies those citizens who do not meet their tax obligations, either by not paying the correct amount of tax or not filing proper tax returns.

During the last decade, the number of tax returns selected for examination by the IRS has decreased, while the number of tax returns filed by taxpayers has increased. As a result, the number of tax returns examined went from 1 out of every 79 in FY 1988 to 1 out of every 232 in FY 2000. This drop has been particularly drastic since the beginning of 1998.

⁸ Pub. L. No. 103-66, § 13271, 107 Stat. 312 (1993).

Decreases in the examination rate can be partially attributed to:

- A 25 percent decline in the number of revenue agents and tax auditors since FY 1995.
- A decline in the percent of direct examination time, from 49 percent in FY 1998 to 41 percent in FY 2000.
- An increase in time per return by revenue agents. For example, hours per return for individual and corporate returns increased by 24 percent and 47 percent, respectively, from FY 1998 to FY 2000.

In addition to the increase in the number of returns filed, income amounts from various sources, such as capital gains increased between TYs 1990 and 1998. Revenue receipts processed by the IRS increased from \$1.5 trillion in FY 1996 to \$1.9 trillion in FY 2000. However, revenue collected as a result of compliance activity decreased by \$5 billion and gross accounts receivable increased by \$41 billion during the same period. Both IRS management and stakeholders have concerns about the reduced resources allocated to compliance activities. In February 2001, the Congress approved approximately \$140 million for the IRS to hire over 2,800 employees to improve both customer service and compliance coverage. Decreased enforcement has also been attributed to IRS employees' concerns over the mandatory employment termination provision in Section 1203 of RRA 98.

Currently, the IRS has no reliable method to measure voluntary compliance or the impact that increased customer service and decreased enforcement are having on voluntary compliance. However, the IRS needs to strengthen its enforcement capacity before voluntary compliance is severely eroded.

One of the major strategies of the IRS' Large and Mid-Size Business (LMSB) Division is to build a tax administration to effectively deal with globalization. As taxpayers' international transactions and operations increase, the IRS is concerned about identifying and examining the issues presenting the greatest risks. The TIGTA's Office of Audit conducted three reviews that addressed several of these issues and concluded, overall, that the IRS needs to increase its focus on international compliance programs. In addition, data quality problems were identified in the system that processes returns showing foreign persons' income information. The problems can potentially result in providing inaccurate information to foreign treaty partners and/or for use in examinations. Examples of some issues identified by the Office of Audit include:

- Between 1995 and 1998, the estimated number of U.S. partnerships with foreign partners increased by over 63 percent. The Office of Audit reported that the IRS could more effectively monitor foreign partnerships that are required to withhold taxes for taxable income connected with the conduct of a trade or business in the U. S. Also, IRS management could better use the information from partners' tax returns and withholding information documents to identify their non-compliance. Over 50 percent of a small sample of reviewed

partnerships did not withhold about \$758 million that may have been required on approximately \$2.2 billion of effectively connected income.

- Foreign Controlled Corporations (FCCs) comprise about 3 percent of the approximately 2.2 million corporation returns that were filed in the U.S. for TY 1997. FCCs are incorporated in the U.S., but are controlled, directly or indirectly, by a foreign entity or entities.

The Office of Audit reported that controls over the identification and selection of FCCs for examination need improvement. The LMSB Division's referral control needs to ensure that all FCC returns selected for examination are timely referred by domestic revenue agents to the International Examination so significant issues involving hundreds of millions of dollars are not excluded from examination.

- Foreign persons are subject to a U.S. tax of 30 percent on U.S. source income unless an income tax treaty establishes a lower rate. This type of income has grown from \$79 billion in TY 1990 to over \$124 billion in TY 1998. The Office of Audit reported that the IRS could improve the quality and use of information received on income of foreign persons and better ensure their reporting compliance.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

The IRS is attempting to increase its compliance activities in several ways. During FY 2001, the SB/SE Division hired at least 1,300 technical compliance employees. The hiring and training of these employees should eventually help increase the number of tax returns examined and the number of accounts collected. In addition, the SB/SE Division will continue to reduce the number of compliance resources detailed to the Customer Service Section in FY 2002, as it did in FY 2001. The SB/SE Division is also using private contractors and compliance employees to reengineer its Collection and Examination processes. Implementation of recommended changes from the reengineering projects are planned for FY 2002. Finally, the Division has established a 3-year strategy to deal with the increasing number of taxpayers who are not filing tax returns.

While these initiatives should help IRS compliance activities, the TIGTA identified continuing compliance risks during FY 2001. For example, the number of criminal investigations per year resulting from Examination function referrals has declined from a high of 1,223 in FY 1996 to only 256 in FY 2000. Examination function managers and employees are not always recognizing and developing potential fraud issues and, therefore, are not referring some cases to Criminal Investigation (CI) when appropriate. In addition, the Collection function does not consistently use the Trust Fund Recovery Penalty (TFRP) to enforce collection of trust fund taxes and, when utilized, it is used ineffectively, incorrectly, or too late in the process. Additionally, management was not always involved in the decision-making process. Also, some Collection function employees are reluctant to take enforcement actions

against taxpayers because they are concerned about certain RRA 98 provisions. SB/SE Division management plan to have fraud referral specialists work with examiners on open cases, identify trends and patterns of non-compliance, and identify training needs. They also plan to set a dollar threshold for cases that are required to be discussed with the fraud referral specialists and remind managers to document involvement in potential fraud cases. Management also agreed to review time frames for making the TFRP determination, revise guidelines, and improve manager access and controls.

The first phase of the implementation of the Federal Payment Levy Program (FPLP) has been mostly successful in assisting taxpayers in paying their taxes owed. However, opportunities exist for the IRS to enhance the FPLP by ensuring that deceased taxpayers are not included in the Program and that sufficient information is available to determine why FPLP payments are reversed. The IRS made programming corrections to properly remove deceased taxpayers from the FPLP and plans to issue internal instructions to its field employees for providing a full explanation to taxpayers.

Providing Quality Customer Service Operations

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. There are many ways in which the IRS provides customer service. The most direct include toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws. Providing these services in a high-quality manner can also be a challenge to the IRS.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

Quality service at IRS Taxpayer Assistance Centers (TAC) continues to be a major concern. An IRS study conducted during the 2000 Filing Season reported that approximately 19 percent of the tax law questions answered by a sampling of IRS assistors were accurate. A TIGTA audit, conducted a year later during the 2001 Filing Season, found that only 27 percent of the tax law questions answered by a sampling of IRS assistors were accurate.

TIGTA auditors, who posed as walk-in taxpayers, were not provided correct or sufficient answers 73 percent of the time. Additionally, in some instances the auditors were treated with discourtesy and had excessive wait times for service requiring 30 minutes or more. The auditors also observed some IRS practices that may have caused confusion, embarrassment, and anger among the taxpayers visiting TACs. Taxpayers who are treated less than professionally will voice their dissatisfaction with their friends and neighbors. As a result, a few mistreated

taxpayers can have a significant impact on the IRS' goal of world-class customer service.

In addition, the Office of Audit placed test calls to the Spanish language option on the IRS' toll-free telephone helpline and found that improvement was needed in the quality of responses being provided to Spanish-speaking taxpayers asking tax law questions. Office of Audit test calls and the IRS' quality assurance staff identified the non-use or incomplete use of the reference guide for answering tax law questions during Spanish language calls as the primary reason for low quality performance.

The TIGTA estimated that the full cost of the IRS' toll-free telephone service in FY 2001 was at least \$627 million. The IRS was unable to provide this information. Without full cost information for toll-free telephone service, Executive Branch decision-makers (including IRS managers), the Congress, and the IRS Oversight Board do not have sufficient information to make decisions about allocating resources, evaluating and improving program performance and comparing alternative courses of action. In addition, the taxpaying public does not have sufficient information to determine whether the value of the service is at least equal to the cost.

Improvements at call sites and TACs are heavily dependent on the success of the IRS' systems modernization initiative. The Customer Communications Project, for example, is designed to route taxpayer calls to a customer service representative anywhere in the United States, who is best qualified to answer the question. It will also provide expanded self-service telephone and Internet services.

Internet technology also affords the IRS many opportunities to dramatically improve customer service. The IRS has made strides in using these technologies. However, inadequate systems design and planning have hindered some of these efforts, and put them at risk of not being completed timely. For example, to better serve customers and relieve some of the call volumes from the toll-free system, the IRS has been planning, since 1996, to implement an Internet-based refund status application. This application is currently scheduled to be available to taxpayers by the beginning of the 2002 filing season. While general planning and analysis work has been accomplished, detailed design and development were still needed to meet its 2002 target date. The IRS has also developed a web site that provides taxpayers with convenient access to tax forms and information. During this past filing season alone, the web site received over one billion accesses.

Many other improvements are still needed. For example, improvements in recording third party addresses from tax returns will reduce the IRS' undeliverable mail to business taxpayers. In 1998, 1999, and 2000, the IRS updated address information for over 7.8 million business taxpayers during the processing of all paper and electronically filed returns. The IRS database did not reflect the names contained in the third party addresses as shown on 20 percent of these returns. This was caused, in part, by systemic limitations of electronic and paper return processing

systems. Since the IRS has no reliable method to collect data on undeliverable mail and to identify trends, management was not aware of the problem.

In addition, Customer Service functions need a new planning process that provides a more structured methodology than the previous planning process. The long-range strategic planning, as well as the annual planning, for the toll-free telephone operations is being done without a comprehensive understanding of customer needs. The annual planning process for the toll-free system also needs a more effective monitoring system for timely determining that action items are on track.

The IRS has also begun to implement training to give new and experienced employees the probe and response tools necessary to accurately answer taxpayer questions. The IRS plans to integrate these tools into various IRS publications and to standardize their use by Field Assistance technical employees. In addition, the IRS is also working on a mechanism to expedite access to "complete and accurate information" in order to ensure that taxpayers that come into the IRS' TACs receive accurate answers to their questions.

Erroneous Payments

Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies each year. Improper payments include inadvertent errors, such as duplicate payments and miscalculations; payments for unsupported or inadequately supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or federal employees. The risk of improper payments increases in programs with complex criteria for computing payments, a significant volume of transactions or emphasis on expediting payments. Stewardship responsibility over public funds is a major challenge facing IRS management.

As the nation's tax administrator, the IRS collects 95 percent of the federal tax revenues. For FY 2001, the IRS collected approximately \$2 trillion and processed over 233 million tax returns. Although many IRS programs are susceptible to erroneous payments, particularly vulnerable is the Earned Income Credit (EIC) Program. In addition, the many credits and deductions available to some taxpayers increase the likelihood of errors, by both the taxpayer and the IRS, plus raise the chances of deliberate evasion of the law.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

The EIC Program continues to be a highly visible area of potential fraud. Historically, the EIC has been subject to abuse by taxpayers claiming credits they are not entitled to receive. As a result, the Congress passed legislation in 1997 requiring taxpayers whose EIC was denied during audits to prove their eligibility for the credit before they

could receive the EIC again. In response to this legislation, the IRS implemented the EIC Recertification Program in January 1999. The EIC Recertification Program should reduce the amount of incorrect EIC allowed by the IRS. The TIGTA estimates that, as of September 30, 1999, the IRS properly placed recertification indicators on 336,000 taxpayer accounts while denying, during audits, an estimated \$620 million in EIC claims. An August 2000 IRS EIC compliance study reported that the amount of overclaims submitted was approximately \$9.3 billion, or 31 percent of the amount claimed.

To combat potential EIC fraud, the IRS launched promising new compliance initiatives. For example, partnerships with the Department of Health and Human Services (HHS) and the Social Security Administration (SSA) will permit the IRS to crosscheck information regarding how the child is related to the taxpayer, the age of the child, and whether the taxpayer is the child's custodial parent. For the 2000 Filing Season, the IRS began checking, on EIC returns, all secondary Social Security Numbers (SSN) in addition to the primary and qualifying child SSN. The IRS rejects returns if the names and numbers do not match SSA records.

The Office of Audit, however, identified a continuing problems in the EIC Program: Each year, an average of 334,000 individuals file tax returns and claim the EIC using one or more nonwork SSNs.⁹ These filers may receive erroneous EIC because the IRS does not have a process to identify and stop the processing of tax returns filed with nonwork SSNs before refunds are issued. The IRS receives data from the SSA to identify many of the nonwork SSNs issued to individuals; however, it does not receive available data that could help identify the approximately 3 million nonwork SSNs issued before 1980. Also, data received from the SSA do not distinguish nonwork SSNs that may qualify for EIC from those that do not qualify. The outcome measure of potential revenue protection is about \$652 million annually.

Other areas, identified by the Office of Audit, in which the IRS made improper payments include:

- The IRS could have implemented tax law changes related to the child tax credit more effectively. The Office of Audit identified over 750,000 TY 1998 and 1999 tax returns with over \$339 million of potentially unqualified Child Tax Credits (CTC) and 33,000 tax returns that had over \$12 million in potentially unqualified Additional Child Tax Credits that could not be supported by IRS date-of-birth information. By not programming its computers to validate date-of-birth information, the IRS allowed these claims for some dependents who were over the acceptable age.
- The IRS successfully processed 5.7 million Child and Dependent Care Credit claims totaling \$2.5 billion. It validated **most** of the requirements for the credit, which should significantly increase the likelihood that the credits were correct. However, the IRS did not ensure other requirements were met before allowing the credits. For example, taxpayers were allowed incorrect amounts for credits on prior year expenses.

⁹ Nonwork SSNs are issued to obtain federal benefits and are not valid for work in the United States.

- The IRS did not validate the accuracy of approximately 102,000 Mortgage Interest Credits (MIC) processed for TY 1999. As a result, it did not have any assurance that approximately \$121 million in credits were correct.
- The IRS was at risk of lost revenue, totaling approximately \$20.56 million, because it did not have automated controls in place to identify and resolve erroneous Education Credits. TIGTA originally reported that erroneous Education Credits were being allowed nationwide in a separate report covering the 1999 Filing Season; however, the IRS continued to allow these credits erroneously to taxpayers during the 2000 Filing Season.

In addition, each year the IRS identifies an average of 1.6 million taxpayers who incorrectly claim dependents also claimed on someone else's tax return (commonly called "duplicate dependent overclaims"). However, the IRS does not identify the duplicate dependent overclaims until several months after the erroneous refunds are issued. For tax years 1995 through 1998, taxes owed were reduced and erroneous refunds, totaling approximately \$2.8 billion for the 4.4 million overclaims, were processed.

Taxpayers did not receive consistent treatment when the IRS wrote off their taxes owed in its effort to reduce the Automated Collection System (ACS) Inventory. Some taxpayers had liens filed against them to protect the Government's interests, while other taxpayers received an unwarranted tax break because liens were not filed. The inconsistency in filing liens caused an estimated \$500 million in taxes owed to be unprotected. This issue is addressed by the Wage and Investment Income (W&I) Division's implementation of the FY 2002 IRS Service Center Transition, which includes the hiring and training of more than 300 new ACS frontline employees and transitioning the existing St. Louis and Dallas ACS call site to Toll-free Operations. Also, new systemic changes are being implemented to require a lien filing determination for all cases scheduled for automatic removal from ACS.

Despite extensive IRS programs and efforts to address certain refund schemes, relatively little effort has been made to systematically identify those schemes involving business returns and associated credits. While a few business schemes have been identified, it has generally been through labor-intensive manual procedures. The IRS is concerned that fraudulent refund claims may be expanding to include business returns, and that scheme perpetrators may be using the Internet or other means to promote and advertise their schemes.

In one such scheme, the TIGTA found that some individual taxpayers are inappropriately receiving tax credits intended for businesses that provide access for disabled Americans. These taxpayers were claiming business incentive credits despite having no eligible business. TIGTA recommended the IRS warn taxpayers who may be victims of fraudulent investment promotions, and develop a compliance approach for taxpayers taking the Disabled Access Credit without qualifying businesses. By taking immediate action, the IRS can potentially increase revenue by more than \$2 million. IRS management agreed with TIGTA's overall finding that some individual taxpayers are inappropriately receiving Disabled Access Credits,

and agreed to take actions to identify additional cases of this type and publicize the problem.

Taxpayer Protection and Rights

The Senate Finance Committee held hearings in late 1997 that uncovered a wide array of taxpayer abuses by the IRS. As a result, the Congress enacted the RRA 98, which was signed into law on July 22, 1998. The RRA 98 contains 71 provisions that increase or help protect taxpayers' rights. The IRS' efforts and resources needed to implement the RRA 98 were substantial because of the comprehensive nature of this reform law. The RRA 98 included fundamental changes to tax law procedures, and required the IRS to change its organizational structure from one that was geographically structured to one that was set up to serve particular groups of taxpayers with similar needs. Implementing and monitoring these processes and procedures to ensure taxpayers' rights are protected is a continuing major challenge for the IRS.

Additionally, the IRS Commissioner has expressed concerns before the Congress about treating taxpayers fairly. He has testified that higher income taxpayers generally file returns that contain items that cannot be verified by matching, while lower income taxpayers file returns that can be verified. The Commissioner is concerned that this will lead to the perception that the tax system is unfair. The TIGTA shares this concern as it relates to the different taxpayer groups serviced by the IRS' new business divisions.

The IRS' reorganization into four separate divisions focused on taxpayer groups presents both a risk of treating groups of taxpayers differently and an opportunity to use specialized knowledge to promote compliance among all taxpayers equitably. The IRS has indicated to the Congress its commitment to treat all taxpayers equitably, and strategic plans indicate equitable treatment of taxpayers is included in efforts to promote compliance among business taxpayers.

The Internal Revenue Service Has Made Progress Toward Resolving This Challenge But Continues to Face Risks

The Office of Audit reviewed, in FY 2001, 18 of the 71 RRA 98 provisions and found that the IRS has made progress in the implementation of some of the taxpayer rights provisions. Nonetheless, significant improvement is still needed for some of the provisions.

The IRS is now fully compliant with 3 provisions, i.e., *Mitigation of the Failure to Deposit Penalty (RRA § 3304(a))*, *Seizure of Property (RRA §§ 3401(b) and 3421)*, and *Notice of Levy (RRA 98 § 3401(b))*. For another 7 provisions, the IRS is taking additional corrective actions to increase compliance. An extension of the implementation deadline had been requested or the compliance could not be fully evaluated on another 6 provisions. See Appendix III for a summary of these 13 provisions.

The IRS did not fully comply with two of the RRA 98 provisions because of delays and other implementation problems. Additional actions are needed to implement these provisions:

- **Dual Notices for Joint Filers (RRA 98 § 3201)**

This section of the law requires the IRS, where practicable, to send any notice, relating to a joint return, separately to each spouse shown on the return. The Congress was concerned that the failure to timely notify both spouses of their joint tax liabilities creates burden to the spouse who has not been notified.

Although this provision became effective July 22, 1998, the IRS did not appoint a centralized office for completing the dual notice requirement until February 1999, over 6 months after the law went into effect. The IRS also had problems determining which notices should be included, and the computer programming necessary to send all applicable notices systematically will probably not be completed before January 2003. As a result, notices were not being sent to each spouse separately.

- **Collection Statute Extensions (RRA 98 §§ 3461(a) and (c))**

RRA 98 § 3461(a) prohibited the IRS from extending the collection statute of limitations except in connection with an installment agreement or levy release. RRA 98 § 3461(c) provides that collection statute extensions requested before the effective date of the law, January 1, 2000, that are not in connection with an installment agreement, will expire on the later of the 10-year collection statute of limitations date or December 31, 2002.

In FY 2001, the TIGTA reported¹⁰ that the IRS was not fully complying with these requirements. Collection statute extensions were sometimes secured without also securing the related installment agreement or levy release as required by law and internal procedures. In most of the cases in which the case history was available, it appeared that the IRS and the taxpayer intended to establish an installment agreement; however, the installment agreement was never processed or approved.

In cases where the extension was requested before January 1, 2000, the IRS' actions may not allow the necessary time to accurately update collection statute expiration dates and to collect over \$289 million in tax liabilities. Further, the IRS could not provide the documents needed to support some of the collection statute extensions recorded on its computer systems. Finally, many of the collection statute extensions and installment agreements reviewed did not have the full payment date calculated properly, which caused the collection statute date to be miscalculated.

¹⁰ *Improvements Are Needed to Comply With Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements* (Reference Number 2001-10-103, dated August 2001).

IRS management agreed with the TIGTA recommendations and plans to take appropriate corrective action, including sending notices to taxpayers, submitting requests for additional programming, tracking programming changes through to completion, and providing employees with a centralized site to access current job-related procedures. Also, the IRS' plans include training for IRS employees and managers on computing collection statute extension and installment agreement time periods, revising the conditions for approval of these documents, and updating the requirements for their storage. The IRS will also take additional actions to implement the provisions of RRA 98 § 3461(c) and develop a plan to address the collection potential from accounts with reduced collection statute expiration dates.

One of the IRS' challenges is improving taxpayer compliance while ensuring that all taxpayers are treated fairly. The W&I Division characterizes its taxpayers as highly compliant, which it attributes to its document-matching program. The IRS' data indicate that this group of taxpayers directly submits significantly fewer tax dollars to the federal government than do business taxpayers, primarily because the responsibility for remitting and reporting taxes withheld from wage earners rests with the employers. Conversely, the SB/SE Division acknowledges that the largest part of the tax gap is attributed to the taxpayers it serves. In fact, IRS data indicate that this taxpayer group accounts for most of the taxes owed the federal government.

In FY 2001, the TIGTA reported that the IRS verifies wage income reported by all wage earners through its document-matching programs, while business income is not subject to such matching. At the same time, while businesses are examined at a higher rate than wage earners, more examinations are conducted on wage earners than all small business, self-employed taxpayers, and corporations combined. The TIGTA previously reported weaknesses in the IRS' verification of information on business returns for self-employed taxpayers and employers, which illustrate our concern. For example, the IRS uses data provided by a wage earner's employer, such as Wage and Tax Statement (Form W-2), and financial institution data, such as Interest Income (Form 1099-NT), to ensure that wage earners report their income. When a taxpayer receives only wages and interest income, all income reported on a tax return is verified through document matching. However, the same Form W-2 submitted by an employer that is used to verify a wage earner's income on Form 1040 is not used to verify taxes owed by the employer, as reported on the Employer's Quarterly Federal Tax Return (Form 941).

Part of the SB/SE Division's mission statement provides for overall fairness in compliance programs. However, this is a very difficult goal to accomplish. The TIGTA issued several reports in FY 2001 that pointed out some disparities and difficulties in conducting compliance activities. Examples of some of these inconsistencies include:

- The use of special circumstance provisions varies significantly depending upon which Offer in Compromise (OIC) specialist works the case and where the taxpayer lives. This is due, in part, to the subjectivity of the factors involved in each case. The number of special circumstances offers worked in FY 2000 ranged from a low of

10 in one office (which represented .55 percent of the total offers worked in that office), to a high of 253 in another office (which represented 6.67 percent of the total offers worked in that office).

- Use of the Tip Program varies by district depending upon the resources applied to the program, district management prioritization, and practices used. Specifically, the number of restaurants with agreements ranged from 77 in 1 district to 613 in another district, and the number of examinations of employee tax returns ranged from 1 to 176.

In addition, the IRS did not effectively gather and use information available from the audit reconsideration process to improve its compliance program and increase customer service. In FY 1999, the IRS abated audit assessments on the accounts of approximately 106,000 individual taxpayers through its audit reconsideration process. This represents a burden on taxpayers because it requires them to address excessive tax assessments that should have been resolved during the initial audit. The IRS is also burdened by this rework because it must redirect its current compliance resources away from today's compliance issues.

As a result of TIGTA's audit, the IRS created a management information system to provide data from the audit reconsideration cases worked by the various IRS functions. Each function would be held responsible for reviewing a monthly report and identifying trends, including the causes of audit reconsiderations, and for developing corrective actions to reduce the volume of future audit reconsideration cases. The TIGTA believes that the IRS' initiatives, if effectively implemented, will help promote fairness in administering the tax system; however, this area remains a challenge to IRS management for FY 2002.

Human Capital

Many Federal departments and agencies are moving towards becoming results-based organizations. Leading results-based organizations understand that effectively managing their employees is essential to achieving results. Human capital planning must be an integral part of an organization's strategic and program planning.

The GAO considers strategic human capital management as a high-risk area for the government, and the President's FY 2001 budget has added human capital to its list of Priority Management Objectives. Inadequate attention to strategic human capital management has created a government-wide risk of eroding the capacity of some agencies to economically, efficiently, and effectively perform their missions.

Like many other government agencies, the IRS faces a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. During FY 2001, the IRS struggled with a continuing need to properly staff, train, and

provide adequate tools for employees. In some cases, such as the lack of resources for visually impaired telephone assistors, the IRS was at risk of civil suits.

Retention of a qualified work force continues to be a challenge for the IRS. For example, when the LMSB Division was created during the IRS' reorganization, many employees experienced in complex tax issues were assigned to the Division. However, within 5 years, around 4,800 (67 percent) of the Division's approximately 7,200 employees will be eligible to retire. Forty-three percent of the SB/SE Division workforce will be eligible for retirement by October 1, 2006.

During FY 2001, the TIGTA reported that the LMSB Division needs to coordinate with Strategic Human Resources to implement the IRS-wide workforce-planning model that encompasses all organizational components. The model would identify strategic workforce requirements and be used in developing the strategic plan and budget. The LMSB Division also needs to elevate, to a single executive, the responsibility and execution of the Division's role in the IRS-wide workforce-planning model.

Both the LMSB and SB/SE Divisions have taken various steps in establishing a human capital plan. Both divisions identified the recruiting, retaining, and training of a highly skilled workforce as one of their priorities in FY 2001. The LMSB Division developed an accelerated skill attainment program, a coaching/mentoring implementation plan, and an innovative recognition program. The SB/SE Division developed a learning and education organization blueprint and conducted career path reviews. They also successfully hired at least 1,300 technical compliance employees and provided them upfront training that included fostering inter-functional cooperation among compliance disciplines.

Other reorganization/human resource issues include program areas worked jointly by two or more divisions. For example, programs, such as the Innocent Spouse Program (ISP) owned by the W&I Division, do not have direct control over field employees in the SB/SE Division that examine ISP claims. The lack of direct control resulted in continued significant inventory backlog and the possibility of misdirecting program resources, inaccurate measurement of program accomplishments and reporting inaccurate program results to the IRS Commissioner and the Congress.

Listing of Fiscal Year 2001 Audits that Addressed the Challenge Areas

Security of the Internal Revenue Service's Information Systems

- *Management Advisory Report: Annual Assessment of the Internal Revenue Service's Information Security - Fiscal Year 2001, Report Reference No. 2001-20-191, September 2001.*
- *Letter Report: Planning Efforts to Protect Critical Infrastructure Facilities Are Adequate, Report Reference No. 2001-20-111, July 2001.*
- *Persistent Physical Security Vulnerabilities Should Be Corrected to Better Protect Facilities and Computer Resources, Report Reference No. 2001-20-108, July 2001.*
- *Controls Over the Masterfile System Are Generally Adequate, But Some Improvement Is Needed, Report Reference No. 2001-20-092, June 2001.*
- *Controls Over the Internet Gateway Should Be Improved to Better Deter and Detect External Attacks, Report Reference No. 2001-20-101, June 2001.*
- *Additional Management Actions Are Needed to Enhance Data Security When Processing User Fee Payment Information, Report Reference No. 2001-10-091, May 2001.*
- *Security Over Data from the Department of Health and Human Resources Should Be Improved, Report Reference No. 2001-20-065, April 2001.*
- *Disaster Recovery Plans for Mainframe Systems at the Tennessee Computing Center Have Improved, But Mid-Range Systems Still Need Attention, Report Reference No. 2001-20-072, April 2001.*
- *Computer Security Controls Should Be Strengthened in the Former Northern California District, Report Reference No. 2001-20-036, January 2001.*
- *The Control Environment Over the Consolidated Computer System for Collection Activities Needs to Be Strengthened, Report Reference No. 2001-20-034, December 2000.*
- *Computer Security Controls Should Be Strengthened in the Former Brooklyn District, Report Reference No. 2001-20-020, November 2000.*
- *Employees' Extensive Personal Use of the Internet Should Be Controlled, Report Reference No. 2001-20-016, November 2000.*
- *Management Should Take Action to Address Employees' Personal Use of E-Mail, Report Reference No. 2001-20-017, November 2000.*

Systems Modernization of the Internal Revenue Service

- *Improvements Are Needed in the Management of the E-Services Project to Enable Timely Progress Towards Future Goals, Report Reference No. 2001-20-144, September 2001.*
- *Uncertainties Facing the Customer Communications 2002 Project May Jeopardize Its Timely Deployment, Report Reference No. 2001-20-179, September 2001.*

- **Letter Report: Authoritative Guidelines and Processes Are Needed for Classifying Information Technology Projects, Report Reference No. 2001-20-152, September 2001.**
- **The Customer Relationship Management Examination Project Experienced Delays and Increased Costs, But Lessons Learned Should Improve Future Modernization Projects, Report Reference No. 2001-20-140, August 2001.**
- **The Telecommunications Modernization Project Provided Some Benefits, But Process Improvements Are Needed for Future Projects, Report Reference No. 2001-20-143, August 2001.**
- **The Internal Revenue Service Is Making Progress, But Is Not Yet in Full Compliance With the Requirements of the Clinger-Cohen Act, Report Reference No. 2001-20-146, August 2001.**
- **Progress in Developing the Customer Communications Project Has Been Made, But Risks to Timely Deployment in 2001 Still Exist, Report Reference No. 2001-20-055, March 2001.**
- **The Business Systems Modernization Office Has Made Solid Progress and Can Take Additional Actions to Enhance the Chances of Long-Term Success, Report Reference No. 2001-20-039, February 2001.**
- **Management Advisory Report: The Probability of Meeting Electronic Tax Administration Goals Remains Questionable, Report Reference No. 2001-40-047, February 2001.**
- **Electronic Signature Initiatives Could Be Better Defined and Evaluated, Report Reference No. 2001-20-043, February 2001.**
- **Controls Over the Development of the Practitioner Secure Messaging System Prototype Should Be Improved, Report Reference No. 2001-20-022, December 2000.**
- **Implementation of the New Methodology for Systems Modernization Needs Increased Focus and Support, Report Reference No. 2001-20-015, November 2000.**

Integrating Performance and Financial Management

Performance Management

- **Letter Report: Opportunities Exist to Improve the Performance Indicators Used to Convey Toll-Free Telephone Accuracy, Report Reference No. 2001-40-130, August 2001.**
- **Better GPRA Quantity Indicators Are Needed for Toll-Free Telephone Service, Report Reference No. 2001-30-131, August 2001.**
- **Future Internal Revenue Service Strategic Plans Should Provide More Information, Report Reference No. 2001-10-082, May 2001.**
- **Further Business Results Measure Development Can Improve Management of the Information Systems Organization, Report Reference No. 2001-20-083, May 2001.**
- **Management Advisory Report: The Internal Revenue Service's Implementation of the GPRA During Fiscal Year 2000, Report Reference No. 2001-10-085, May 2001.**
- **GPRA: Weaknesses in the Service Center Correspondence Examination Process Reduce the Reliability of the Customer Satisfaction Survey, Report Reference No. 2001-10-067, April 2001.**
- **Federal Tax Information Used by Customer Satisfaction Survey Contractors Needs to Be Better Protected, Report Reference No. 2001-10-012, November 2000.**

- *The Internal Revenue Service Needs to Ensure that Its Future Annual Program Performance Reports Include All Requested Information, Report Reference No. 2001-10-009, November 2000.*

Financial Management

- *Financial Review of Criminal Investigations Group I Undercover Operations, Report Reference No. 2001-10-174, September 2001.*
- *Report on Adequacy and Compliance of Revised Disclosure Statement, Effective December 30, 2000, Report Reference No. 2001-1C-153, September 2001.*
- *Additional Management Actions Are Needed to Better Process and Safeguard Tax Exempt and Government Entities Division User Fee Payments, Report Reference No. 2001-10-136, August 2001.*
- *Improvements Can Be Made to the Internal Revenue Service's Federal Financial Management Improvement Act Remediation Plan Process, Report Reference No. 2001-10-093, June 2001.*
- *Management Advisory Report: Improvements Are Needed to Assess the Use and Impact of the Earned Income Credit Appropriation, Report Reference No. 2001-40-064, March 2001.*
- *Letter Report: Improvements at the Lockbox Bank in Atlanta Are Needed to Better Protect Taxpayer Payments and Minimize Processing Costs, Report Reference No. 2001-40-048, February 2001.*
- *Controls Over Criminal Investigation Investigative Imprest Funds Should Be Strengthened, Report Reference No. 2001-10-040, January 2001.*
- *Letter Report: Attestation Review of the Internal Revenue Service's Fiscal Years 1999 and 2000 Office of National Drug Control Policy Accounting Submissions, Report Reference No. 2001-10-044, January 2001.*
- *Letter Report: Oversight of the Philadelphia Lockbox Bank Should Be Improved, Report Reference No. 2001-40-042, January 2001.*
- *The Asset Management Program Can Be Successful Through Active Executive Monitoring and Oversight, Report Reference No. 2001-10-018, November 2000.*
- *Letter Report: Chief Counsel Properly Administered Fees Paid for Internal Revenue Service Guidance, Report Reference No. 2001-10-011, November 2000.*

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

- *Tax Law Changes Are Needed to Improve Fairness in Paying Interest on Tax Refunds, Report Reference No. 2001-30-148, September 2001.*
- *Letter Report: The Misclassification of Erroneous Refunds Has Caused Some Taxpayers to Be Treated Unfairly and Actual Inventories to Be Understated, Report Reference No. 2001-40-161, September 2001.*
- *The Internal Revenue Service Has an Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty, Report Reference No. 2001-30-164, September 2001.*
- *Letter Report: Information on the Tax Return Is Not Used to Validate Many of the Requirements for the Credit for the Elderly or the Disabled Before It Is Allowed, Report Reference No. 2001-40-182, September 2001.*

- *Millions of Dollars in Erroneous Education Credits Continue to Be Allowed, Report Reference No. 2001-40-183, September 2001.*
- *The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season, Report Reference No. 2001-40-192, September 2001.*
- *Opportunities Exist to More Effectively Process Personal Service Corporation Income Tax Returns, Report Reference No. 2001-30-165, September 2001.*
- *Letter Report: Controls During the Processing of the Adoption Credits Help Ensure Taxpayers Receive the Correct Benefit, Report Reference No. 2001-40-160, September 2001.*
- *Initial Electronic Filing of Large Partnership Returns Was Successful, But Additional Checks Are Needed to Ensure the Accuracy of Information from these Returns Used in Matching Programs, Report Reference No. 2001-30-167, September 2001.*
- *Actions to Develop Goals and Standards and Upgrade the Management Information System for the Innocent Spouse Program Have Not Been Fully Implemented, Report Reference No. 2001-40-162, September 2001.*
- *Letter Report: Additional Controls Are Necessary to Ensure that All Businesses Are Classified by Their Principal Business Activity, Report Reference No. 2001-30-117, August 2001.*
- *Letter Report: Overall, the Internal Revenue Service Processed Child and Dependent Care Credits Correctly, Report Reference No. 2001-40-120, July 2001.*
- *Letter Report: The Internal Revenue Service Did Not Thoroughly Validate the Accuracy of the Mortgage Interest Credits and the Related Mortgage Interest Deductions, Report Reference No. 2001-40-121, July 2001.*
- *Management Advisory Report: The Internal Revenue Service Could Reduce the Number of Business Tax Returns Destroyed Because of Missing Information, Report Reference No. 2001-30-099, June 2001.*
- *Management Advisory Report: Concerns with the Processing of Small Business Corporation Returns at the Atlanta Processing Center in July 1999, Report Reference No. 2001-30-080, June 2001.*
- *The Internal Revenue Service Had a Successful 2000 Filing Season; However, Opportunities Exist to More Effectively Implement Tax Law Changes, Report Reference No. 2001-40-041, January 2001.*
- *Electronic Returns Were Processed Effectively, Report Reference No. 2001-40-008, November 2000.*
- *Letter Report: More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision, Report Reference No. 2001-30-019, November 2000.*

Complexity of the Tax Law

- *The Internal Revenue Service Has an Opportunity to Relieve Considerable Taxpayer Burden Involving the Estimated Tax Penalty, Report Reference No. 2001-30-164, September 2001.*
- *A Prototype to Help New Small Business Employers Appears Effective But More Information Is Needed Before Expanding It Nationwide, Report Reference No. 2001-30-118, August 2001.*

- *The Pre-Filing Agreement Pilot Project Was Successful But Faces Challenges in Converting to an Operational Program, Report Reference No. 2001-30-125, August 2001.*
- *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers, Report Reference No. 2001-40-077, May 2001.*
- *The Internal Revenue Service Faces the Challenge of Increased Demands for Tax Return Preparation Assistance in the Future, Report Reference No. 2001-40-003, November 2000.*
- *Letter Report: More Small Corporate Taxpayers Can Benefit from the Alternative Minimum Tax Exemption Provision, Report Reference No. 2001-30-019, November 2000.*

Tax Compliance Initiatives

- *Management Advisory Report: Tax Return Filing and Examination Statistics, Report Reference No. 2001-30-175, September 2001.*
- *Management Advisory Report: Additional Analyses of Employer's Quarterly Federal Tax Returns Suggest Possible Tax Compliance Issues, Report Reference No. 2001-30-145, September 2001.*
- *The Case Processing - Examination Support Processing Function Is Timely Performing Many of Its Responsibilities, Report Reference No. 2001-30-154, September 2001.*
- *Letter Report: Some Taxpayers Are Being Incorrectly Included in the Federal Payment Levy Program, Report Reference No. 2001-40-150, September 2001.*
- *More Can Be Done to Help Taxpayers Comply with Alternative Minimum Tax Provisions, Report Reference No. 2001-40-184, September 2001.*
- *The Examination Function Developed Many Necessary Controls for Its Electronic Classification System, Report Reference No. 2001-30-176, September 2001.*
- *Management Advisory Report: The Strategy for Curbing Abusive Corporate Tax Shelter Growth Shows Promise But Could Be Enhanced by Performance Measures, Report Reference No. 2001-30-159, September 2001.*
- *Significant Efforts Have Been Made to Improve Information Reporting for Foreign Persons But Substantial Work Remains, Report Reference No. 2001-30-181, September 2001.*
- *The Internal Revenue Service Protects the Government's Interests When Taxpayers File for Bankruptcy, But Some Controls Could Be Improved, Report Reference No. 2001-30-123, July 2001.*
- *Management Advisory Report: Additional Options to Collect Tax Debts Need to Be Explored, Report Reference No. 2001-40-122, July 2001.*
- *Controls Over the Identification and Selection of Foreign Controlled Corporations for Examination Needs Improvement, Report Reference No. 2001-30-119, July 2001.*
- *Stronger Actions Are Needed to Insure Partnerships Withhold and Pay Millions of Dollars in Taxes on Certain Income of Foreign Partners, Report Reference No. 2001-30-084, June 2001.*
- *Opportunities Exist to Improve the Tip Rate Determination and Education Program, Report Reference No. 2001-30-076, May 2001.*
- *Management Advisory Report: The Notice Review Program Should Be Improved to Prevent Erroneous Notices from Being Sent to Taxpayers, Report Reference No. 2001-40-078, May 2001.*

- *More Consideration Is Needed During Examinations to Identify Potential Fraud Issues and Refer Cases to Criminal Investigation, Report Reference No. 2001-30-063, March 2001.*
- *Program Improvements Are Needed to Encourage Taxpayer Compliance in Reporting Foreign Sourced Income, Report Reference No. 2001-30-052, March 2001.*
- *The Internal Revenue Service Does Not Effectively Use the Trust Fund Recovery Penalty as a Collection Enforcement Tool, Report Reference No. 2001-30-014, November 2000.*

Providing Quality Customer Service Operations

- *Improvements in Recording Third Party Addresses from Tax Returns Will Reduce Undeliverable Business Mail, Report Reference No. 2001-30-168, September 2001.*
- *Spanish-Speaking Taxpayers Receive Expanded Access to Telephone Assistance, Report Reference No. 2001-40-163, September 2001.*
- *Opportunities Exist to Reduce the Time to Respond to Tax Protest Examiners' Findings and Request an Appeals Conference, Report Reference No. 2001-10-129, September 2001.*
- *Automated Referral System Weaknesses Have Placed Customer Service Goal Accomplishment at Risk, Report Reference No. 2001-30-169, September 2001.*
- *Management Advisory Report: Message Paging Could Enhance the Communication of Time-Sensitive Information Throughout the Toll-Free Telephone Enterprise, Report Reference No. 2001-30-172, September 2001.*
- *Management Advisory Report: The Electronic Tax Law Assistance Program Outperformed Other Free Internet Websites in Answering Small Business and Self-Employment Tax Law Questions, Report Reference No. 2001-30-155, September 2001.*
- *Better GPRA Quantity Indicators Are Needed for Toll-Free Telephone Service, Report Reference No. 2001-30-131, August 2001.*
- *The Internal Revenue Service Needs to Ensure the Accuracy of Publications, Report Reference No. 2001-40-142, August 2001.*
- *Letter Report: Opportunities Exist to Improve the Performance Indicators Used to Convey Toll-Free Telephone Accuracy Accomplishments, Report Reference No. 2001-40-130, August 2001.*
- *Management Advisory Report: The Estimated Cost of the Internal Revenue Service's Toll-Free Telephone Service Exceeds \$600 Million, Report Reference No. 2001-30-139, August 2001.*
- *Letter Report: Our Experience in Asking the Internal Revenue Service Tax Law Questions on Its Toll-Free System Was Not Satisfactory, Report Reference No. 2001-40-106, June 2001.*
- *The Performance of the Customer Service Toll-Free Telephone Program Needs Improvement to Better Handle Millions of Taxpayer Calls, Report Reference No. 2001-40-079, May 2001.*
- *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers, Report Reference No. 2001-40-077, May 2001.*
- *Improvements to the Tax Exempt and Government Entities Correspondence Operation Would Enhance Customer Service, Report Reference No. 2001-10-087, May 2001.*

- **Management Advisory Report: Substantial Work Remains if the Internal Revenue Service Is to Provide Refund Status Information on the Internet by the Beginning of the 2002 Filing Season, Report Reference No. 2001-30-031, December 2000.**
- **The Internal Revenue Service Faces the Challenge of Increased Demands for Tax Return Preparation Assistance in the Future, Report Reference No. 2001-40-003, November 2000.**
- **Management Advisory Report: Strategic Planning for Toll-Free Telephone Operations Has Made Significant Progress But Further Improvements Are Needed, Report Reference No. 2001-30-006, October 2000.**

Erroneous Payments

- **The Exempt Organizations Function's Examination Workplan Can Be Improved to Increase Its Effectiveness, Report Reference No. 2001-10-177, September 2001.**
- **Some Individual Taxpayers Are Inappropriately Receiving Tax Credits Intended for Businesses that Provide Access for Disabled Americans, Report Reference No. 2001-30-158, September 2001.**
- **Letter Report: Substantial Earned Income Credit Is Paid to Non-Entitled Individuals Who Use Not Valid for Work Social Security Numbers, Report Reference No. 2001-40-185, September 2001.**
- **Letter Report: Write-Off of Taxes Owed Resulted in Inequitable Treatment of Taxpayers, Report Reference No. 2001-40-027, August 2001.**
- **Letter Report: The Implementation of a New Audit Selection Program for Earned Income Credit Filers Could Result in Significant Taxpayer Burden, Report Reference No. 2001-40-102, July 2001.**
- **Management Advisory Report: An Evaluation of Digital Analysis as a Potential Technique for Identifying Erroneous Fuel Tax Claims, Report Reference No. 2001-30-088, May 2001.**
- **Duplicate Dependent and Qualifying Child Overclaims Result in Substantial Tax Revenue Losses Each Year, Report Reference No. 2001-40-059, March 2001.**
- **Additional Efforts Are Needed for Improving Revenue Protection, Report Reference No. 2001-40-021, January 2001.**
- **Letter Report: Revised Questionable Refund Program Procedures Were Not Consistently Implemented, Report Reference No. 2001-40-025, January 2001.**
- **Improvements Are Needed in the Earned Income Credit Recertification Program, Report Reference No. 2001-40-030, December 2000.**
- **The Program for Ensuring Compliance with Anti-Money Laundering Reporting Requirements Should Be Improved, Report Reference No. 2000-40-024, December 2000.**

Taxpayer Protection and Rights

- **The National Taxpayer Advocate Needs to Ensure Operations Employees Receive Training to Identify Cases, Report Reference No. 2002-10-002, October 2001.**
- **The Office of Chief Counsel Has Made Significant Progress in Making Its Advice Documents Available to the Public, Report Reference No. 2002-10-001, October 2001.**
- **The Internal Revenue Service Needs to Improve Controls Over Computer Codes Used to Accelerate Tax Enforcement Actions, Report Reference No. 2001-10-187, September 2001.**

- ***Providing Incomplete Taxpayer Complaint Information Increases the Risk that Statutory Reporting Requirements Are Not Met, Report Reference No. 2001-10-186, September 2001.***
- ***Compliance with the Internal Revenue Service Restructuring and Reform Act of 1998 Section 1204 Has Not Yet Been Achieved, Report Reference No. 2001-10-178, September 2001.***
- ***Compliance with Certain Taxpayer Rights Provisions Contained in the Internal Revenue Service Restructuring and Reform Act of 1998 Could Be Improved, Report Reference No. 2001-10-147, September 2001.***
- ***The National Taxpayer Advocate Provided Appropriate Training on the Associate Advocates' Role and Responsibilities, Report Reference No. 2001-10-170, September 2001.***
- ***Improvements Have Been Made to Eliminate Illegal Tax Protester Designations, Report Reference No. 2001-10-141, September 2001.***
- ***Most Taxpayers Are Advised of Their Rights Before Signing an Agreement to Extend the Assessment Statute of Limitations, Report Reference No. 2001-10-157, September 2001.***
- ***Improvements Should Be Made to Better Control and Report Internal Revenue Service Restructuring and Reform Act of 1998 Section 1203 Information, Report Reference No. 2001-10-188, September 2001.***
- ***Full Compliance with Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved, Report Reference No. 2001-10-127, August 2001.***
- ***Improvements Are Needed to Comply with Legal and Procedural Requirements for Collection Statute Extensions and Installment Agreements, Report Reference No. 2001-10-103, August 2001.***
- ***Letter Report: Full Compliance with Statutory Requirements for the Disclosure of Collection Information to Joints Filers Cannot Be Determined (Fiscal Year 2001), Report Reference No. 2001-10-126, August 2001.***
- ***Letter Report: Increased Oversight Is Needed to Ensure Taxpayers Receive Credit for Millions of Dollars in Excess Collections Accounts, Report Reference No. 2001-30-124, July 2001.***
- ***Management Advisory Report: No Violations of the Fair Debt Collections Practices Act Resulted in Administrative or Civil Actions (Fiscal Year 2001), Report Reference No. 2001-10-081, July 2001.***
- ***Letter Report: The Internal Revenue Service Has Not Implemented a Process to Monitor Compliance with Direct Contact Provisions, Report Reference No. 2001-10-116, July 2001.***
- ***The Internal Revenue Service Complied with Levy Requirements, Report Reference No. 2001-10-113, July 2001.***
- ***The Internal Revenue Service Should Continue Taking Action to Improve Compliance with the Freedom of Information Act and Related Procedures, Report Reference No. 2001-10-112, July 2001.***
- ***Letter Report: The Internal Revenue Service Complied with Legal and Internal Guidelines When Seizing Property for Payment of Tax, Report Reference No. 2001-10-061, May 2001.***
- ***Taxpayer Service on Lien and Levy Appeals Could Be Further Improved, Report Reference No. 2001-10-068, May 2001.***

- *The Internal Revenue Service Needs to Consistently Use Special Circumstances in the Offer in Compromise Program, Report Reference No. 2001-30-096, May 2001.*
- *Management Advisory Report: Ineffective Administration of the Individual Taxpayer Penalty Program Creates Inequity, Report Reference No. 2001-40-069, April 2001.*
- *Letter Report: The Internal Revenue Service Complied with Federal Privacy Policies Regarding the Collection of Personal Information on Federal Web Sites, Report Reference No. 2001-20-071, April 2001.*
- *The Taxpayer Advocate Service Effectively Responded to Taxpayers Requesting Relief from a Hardship, Report Reference No. 2001-10-073, April 2001.*
- *The Treasury Inspector General for Tax Administration Can Rely Upon Data on the Electronic Disclosure Information Management System for Its Statutory Review, Report Reference No. 2001-10-051, March 2001.*
- *Audit Reconsideration Cases Create Unnecessary Burden on Taxpayers and the Internal Revenue Service, Report Reference No. 2001-40-053, March 2001.*
- *Improved Case Monitoring and Taxpayer Awareness Activities Can Enhance the Effectiveness of the Tax Practitioner Disciplinary Proceedings Program, Report Reference No. 2001-10-027, January 2001.*
- *The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities, Report Reference No. 2001-10-028, December 2000.*
- *The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process and Referrals and Information Items, Report Reference No. 2001-10-002, October 2000.*
- *The National Taxpayer Advocate Can Improve the Service Provided to Taxpayers, Report Reference No. 2001-10-001, October 2000.*

Human Capital

- *Actions to Develop Goals and Standards and Upgrade the Management Information System for the Innocent Spouse Program Have Not Been Fully Implemented, Report Reference No. 2001-40-162, September 2001.*
- *Letter Report: The Misclassification of Erroneous Refunds Has Caused Some Taxpayers to Be Treated Unfairly and Actual Inventories to Be Understated, Report Reference No. 2001-40-161, September 2001.*
- *Significant Efforts Have Been Made to Address the Large and Mid-Size Business Division's Human Capital Concerns But a Formal Workforce Planning Model Has Not Been Developed, Report Reference No. 2001-30-137, August 2001.*
- *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers, Report Reference No. 2001-40-077, May 2001.*
- *The Performance of the Customer Service Toll-Free Telephone Program Needs Improvement to Better Handle Millions of Taxpayer Calls, Report Reference No. 2001-40-079, May 2001.*
- *The Internal Revenue Service Faces the Challenge of Increased Demands for Tax Return Preparation Assistance in the Future, Report Reference No. 2001-40-003, November 2000.*

Challenge Area Removed from the Major Management Challenges Facing the Internal Revenue Service

Modernization of the Internal Revenue Service: Organizational Restructuring

On October 1, 2000, the Internal Revenue Service (IRS) achieved the first milestone toward modernization by implementing its new organizational structure. The four major components of the new IRS – the Wage and Investment Income, the Small Business/Self-Employed, the Large and Mid-Size Business, and the Tax Exempt and Government Entities Divisions – substantially completed the critical elements needed for standing up. Specifically, most key management positions were filled, most employees had been realigned, finance offices and budgets were established, many delegations of authority were revised, and detailed plans of workarounds (temporary solution to a problem that allows a new organization to be operational until a final solution can be developed and implemented) were developed. In addition to the four major business units, other key IRS offices, such as the Criminal Investigation function, the Taxpayer Advocate Service, and the Appeals function, also successfully implemented a new structure. The TIGTA believes that the organizational restructuring is complete but, to be effective, new business processes and computer systems need to be implemented. The new processes and systems implementation will be examined under the other challenge area.

Fiscal Year 2001 Audits that Addressed the Challenge Area

- *The Criminal Investigation Function Substantially Accomplished Organizational Stand-Up; Report Reference No. 2001-10-097; June 2001.*
- *Review of the Effectiveness of Criminal Investigation's Strategic Planning Process; Report Reference No. 2001-10-098; June 2001.*
- *The Criminal Investigation Function Needs to Improve Its Oversight During Implementation of the Webster Report Recommendations; Report Reference No. 2001-10-100; June 2001.*
- *Existing Compliance Function Processes Were Transferred into the New Small Business/Self-Employed Division; Report Reference No. 2001-30-05; May 2001.*
- *The Small Business/Self-Employed Division Needs to Improve Taxpayer Correspondence and Availability of Management Information; Report Reference No. 2001-30-056; April 2001.*
- *Management Advisory Report: Additional Management Actions Are Needed for Placing Small Business/Self-Employed Division Transition Employees; Report Reference No. 2001-30-054; March 2001.*
- *Management Advisory Report: The Wage and Investment Division Substantially Completed the Five Stand-Up Elements; Report Reference No. 2001-40-033; February 2001.*
- *Additional Management Actions Are Needed to Ensure the Timely and Successful Modernization of the Tax Exempt and Government Entities Division; Report Reference No. 2001-10-026; December 2000.*

Taxpayer Rights Provisions

Additional corrective actions are being taken to increase compliance with seven provisions of The IRS Restructuring and Reform Act of 1998 (RRA 98):

Innocent Spouse Relief (RRA 98 § 3201)

This section of the law made it easier for spouses filing joint returns to qualify for relief under the innocent spouse provisions. In Fiscal Year (FY) 2000, the TIGTA reported¹ that the IRS was not prepared to effectively process the increased volume of innocent spouse claims for relief received after passage of the RRA 98. IRS management did not react timely to predictions of increased innocent spouse claims and did not adequately staff the program when the predictions materialized. This created significant inventory backlogs. While the IRS has made improvements to the Innocent Spouse Program, management has not set sufficient program goals and standards to fully measure and report accomplishments of the program. In addition, the Innocent Spouse Tracking System² does not provide accurate or useful information to management. For example, the status of claims is not always timely and accurately recorded.

Third Party Contacts and Summonses (RRA 98 §§ 3415, 3416, and 3417)

These sections of the law provided taxpayers additional rights when the IRS contacts third parties and issues third-party summonses to obtain financial information about the taxpayer. They were passed to help protect taxpayers from inappropriate summonses and contacts that might be issued or solicited by the IRS.

In FY 2000, the TIGTA reported³ that the IRS had properly implemented controls and processes to protect many of the taxpayer rights established by the summons and third-party contact provisions of the RRA 98. However, it could take additional actions to fully protect taxpayer rights. The IRS did not have a system to record and track summonses issued to third parties and its quality review process did not adequately evaluate whether IRS employees complied with third-party summons requirements. In addition, a more customer-friendly third-party contact notice needed to be timely developed to inform taxpayers of their rights and explain the IRS' policy of working with the taxpayers to obtain needed information before third parties are contacted. In response, the IRS has revised the notice, is currently implementing a process to modify systems to ensure that taxpayer rights are protected, and plans to include third-party summons requirements in the quality review process.

¹ *Increased Attention Is Needed to Ensure Timely, Accurate Determinations on Innocent Spouse Claims for Relief* (Reference Number 2000-40-063, dated May 2000).

² This system is used by the IRS to track Innocent Spouse relief cases.

³ *The Internal Revenue Service Should Enhance Processes and Controls To Protect Taxpayers' Rights When Issuing Third Party Summonses and Making Third Party Contacts* (Reference Number 2000-40-064, dated April 2000).

Notices of Lien (RRA § 3401(a))

This section of the law required the IRS, as of January 19, 1999, to notify taxpayers in writing, within 5 business days, of the filing of a federal tax lien. The IRS letter, “Notice of Federal Tax Lien Filing and Your Right to a Hearing” (Letter 3172), is used for this purpose. In FY 2001, the TIGTA reported⁴ the IRS has not yet achieved full compliance with the law and its own internal guidelines. A review of 167 lien notices identified 14 cases (8 percent) with potential legal violations of taxpayers’ rights. In some instances, due to employee error, the notices were either not mailed to the taxpayer, the taxpayer’s spouse, or to the taxpayer’s business partners; or were not mailed to the taxpayer’s or spouse’s last known address. We also identified instances in which notices were late because they were not printed timely or were not mailed timely.

In addition, IRS employees did not comply with internal guidelines for 58 of the 167 lien notices (35 percent) reviewed. In some instances, the IRS could not provide proof of mailing. For others, neither the case histories nor other documentation indicated the taxpayer’s representative was provided with a copy of the lien due process notice.

Enforcement Statistics (RRA 98 § 1204)

This section of the law prohibited the IRS from using enforcement statistics to evaluate employees or to suggest production quotas or goals. In FY 2001, the TIGTA reported⁵ that the IRS has not yet achieved compliance with RRA 98 § 1204. Potential violations of RRA 98 §§ 1204 (a) and (b) were identified in 16 of the 200 sampled enforcement employees’ performance or related supervisory documentation.

- Records of tax enforcement results, production quotas, or goals were identified in performance and related supervisory files for 2 of the 200 sampled enforcement employees. These potential violations occurred because some IRS managers either misunderstood or did not follow IRS procedures.
- IRS managers could not substantiate use of the fair and equitable treatment of taxpayers as a performance standard to evaluate 14 of 200 sampled enforcement employees. This occurred because the IRS has not yet incorporated this performance standard into the appraisal form for all employees. The IRS plans to update the appraisal forms by October 2001.

Organizational Performance Division (OPD) management agreed to take appropriate action on the potential violations reported.

⁴ *Full Compliance with Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2001-10-127, dated August 2001).

⁵ *Compliance With the Internal Revenue Service Restructuring and Reform Act of 1998 Section 1204 Has Not Yet Been Achieved* (Reference Number 2001-10-178, dated September 2001).

Illegal Tax Protester Designation (RRA 98 § 3707)

This section of the law prohibits the IRS from designating taxpayers as Illegal Tax Protesters (ITP) or any similar designation. In FY 2001, the TIGTA reported⁶ that the IRS is in compliance with the prohibition on using the ITP designation or any similar designation. Past ITP codes were not reintroduced on the IRS' Masterfile,⁷ former ITP taxpayer accounts on the IRS' Masterfile were not reassigned to a similar ITP designation, and employees made very few references to taxpayers as ITPs in taxpayer case files. In addition, the IRS removed and is systematically preventing ITP codes from one computer case inventory system. However, the IRS needs to remove and prevent ITP codes on two other computer case inventory systems. Also, the IRS needs to continue its efforts to remove ITP references from the Internal Revenue Manual and other publications. The IRS was in the process of taking corrective actions to address these issues at the time of our review based on recommendations from a prior TIGTA report.

Offer in Compromise Determinations (RRA 98 § 3462)

This section of the law required that Offer in Compromise (OIC) processing guidelines include certain taxpayer rights and protections. For example, taxpayers entering into an OIC must be allowed an adequate means to provide for basic living expenses. An OIC must not be rejected based solely on the amount of the offer, and there must be an independent administrative review of any OIC the IRS rejects. In FY 2000, the TIGTA reported⁸ that the IRS overlooked opportunities to ensure taxpayers were treated consistently and received the full benefit of the changes made in the RRA 98 legislation for the OIC program. For example, taxpayers who had an OIC rejected by the IRS were not informed that the acceptance criteria were being revised and that they could resubmit the OIC if they thought the changes would be favorable to them.

In addition, IRS guidelines needed to be revised to allow further flexibility in determining an acceptable offer amount. The IRS form used by taxpayers for submitting an OIC should have explained in more detail all of the information a taxpayer needs to provide with his or her application to avoid processing delays or rejections. Further, OIC rejection letters did not always contain enough information for taxpayers to prepare an effective appeal. To address these concerns, the IRS has made changes to publications and its own internal procedures and is planning to provide more information to taxpayers when rejecting an OIC.

Assessment Statute Extensions (RRA 98 § 3461(b))

⁶ *Improvements Have Been Made to Eliminate Illegal Tax Protester Designations* (Reference Number 2001-10-141, dated September 2001).

⁷ The IRS database that stores various types of taxpayer account information, which includes data for individuals and businesses.

⁸ *More Taxpayers Can Benefit From the New Offer in Compromise Provisions* (Reference Number 2000-40-093, dated June 2000).

This section of the law required the IRS to advise taxpayers of their rights to refuse to extend the statute of limitations or to request that a statute extension be limited to a specific period of time or to specific issues. The law became effective for extensions requested after December 31, 1999. In FY 2001, the TIGTA reported⁹ that examiners properly advised taxpayers of their rights to refuse or restrict the scope of the statute extension in most of the cases (169 of 180) reviewed. However, in some cases (11 of 180 tax modules reviewed) examiners did not indicate in case files whether or not taxpayers were advised of their rights. The IRS plans to communicate to all Operating Divisions of the requirement of attaching the statute extension cover letters to the executed extension form in the case file to help document that taxpayers were advised of their rights. In addition, the current Internal Revenue Manuals and instruction training material will be revised to show adopted changes.

Overall, the IRS has made some progress in the implementation of these seven provisions. In addition, the proposed corrective actions should help the IRS achieve higher levels of compliance.

The deadlines for implementation have been extended for three provisions:

Annual Installment Agreement Statements (RRA § 3506)

This section of the law required the IRS to begin providing annual installment agreement statements no later than July 1, 2000, to taxpayers with active installment agreements. This deadline was extended to September 1, 2001, with the passage of the Community Renewal Tax Relief Act of 2000.

The IRS was unable to meet the original deadline due to programming problems with commercial off-the-shelf software products. IRS management decided not to use these products to generate the installment statements because of problems with programming, statement format, and printing.

During our review, we advised the IRS that a request for programming changes needed to generate these notices had not been finalized. Subsequently, the IRS finalized the request and completed programming of the Masterfile to generate the initial installment agreement statements. Approximately 5.7 million taxpayers with installment agreements will be affected by this requirement.

Notices of Penalties Imposed (RRA 98 § 3306)

This section of the law required the IRS to include with notices issued after December 31, 2000, the name of the penalty, the code section that imposes the penalty, and the computation for determining the amount of the penalty. However, the IRS programming was not in place to send taxpayers their

⁹ *Most Taxpayers Are Advised of Their Rights Before Signing an Agreement to Extend the Assessment Statute of Limitations* (Reference Number 2001-10-157, dated September 2001).

notices of penalties imposed by December 31, 2000. The Community Renewal Tax Relief Act of 2000 extended this deadline to June 30, 2001, for the IRS to provide a telephone number at which the taxpayer can obtain penalty information and, to July 1, 2003, to provide the detailed notice. The IRS completed the necessary programming to include this information with notices on the Individual Masterfile accounts by January 2001.

However, the IRS has not completed the necessary programming requests to send notices for taxpayer accounts on the Integrated Data Retrieval System (IDRS),¹⁰ Automated Collection System (ACS),¹¹ and Integrated Collection System (ICS).¹² Programming changes are needed for these systems in order to send the appropriate notices to approximately 8.7 million taxpayers.

Notices of Interest Assessed (RRA 98 § 3308)

This section of the law required the IRS to begin sending detailed computations of interest charges and the related Internal Revenue Code (I.R.C.) section which governed the rate and computation of interest with notices issued after December 31, 2000. The IRS did not have the programming in place to send the same approximately 8.7 million taxpayers their notices of interest by December 31, 2000, and advised the Congress that this deadline could not be met. The Community Renewal Tax Relief Act of 2000 extended the deadline to June 30, 2001, for the IRS to provide a telephone number at which the taxpayer can obtain interest information and, to July 1, 2003, to provide the detailed notice of interest.

The IRS completed the necessary programming to include this information with notices on the Individual Masterfile accounts by January 2001; however, the IDRS, ACS, and ICS have still not had the requests for programming completed.

¹⁰ The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

¹¹ The IRS computerized call site operation that contains taxpayer accounts that require telephone contact for resolution.

¹² The IRS computer system that contains the inventory of taxpayer accounts that require field contact for resolution.

Compliance could not be fully evaluated for three provisions:

Direct Contact with Taxpayers (RRA 98 § 3502)

This section of the law required IRS employees to stop an interview with a taxpayer whenever a taxpayer requests to consult with a representative.

In FY 1999,¹³ FY 2000,¹⁴ and FY 2001,¹⁵ the TIGTA reported that compliance could not be evaluated because the IRS was unable to readily identify cases in which the taxpayer requested to consult with a representative or cases in which the IRS contacted the taxpayer directly and bypassed the representative.

Complaints of Employee Misconduct (I.R.C. § 7803(d)(2)(A) (2000))

This section of the law required the TIGTA to include in each semiannual report to the Congress the number of taxpayer complaints, the number of employee misconduct and taxpayer abuse allegations, and a summary of the status and disposition of such complaints and allegations. This information should include complaints and allegations received by both the IRS and the TIGTA. Although the IRS provided the TIGTA with this information, the number of complaints and allegations could not be verified because of possible duplications on the IRS systems used to track this information. To improve its complaint processing system, the IRS has a short-term plan to develop a complaint database by integrating data from existing computer systems.

In FY 2001, the TIGTA reported¹⁶ that IRS management has made significant efforts to develop the Integrated Complaint and Reporting System (ICTRS); however, the system is not yet fully operational. The IRS has initiated testing of the ICTRS and determined that it can identify taxpayer complaints from the Automated Labor and Employee Relations Tracking System (ALERTS) and from the Executive Correspondence Management System (ECMS), as well as potential duplicate complaints between the two systems. Eliminating duplicate complaints would enable the IRS to provide more accurate information to the TIGTA. However, because the ALERTS and ECMS do not encompass all taxpayer complaints received by the IRS, there is a risk that incomplete data will be provided for the TIGTA Semiannual Reports to the Congress. As of July 2001, there are complaint data on other IRS computer systems that are not included in the ICTRS. Decisions to not include complaints from other systems were based on TIGTA and IRS management's interpretation of the reporting

¹³ *The Internal Revenue Service Needs to Enhance Guidance on and Monitoring of Compliance with Procedures for Directly Contacting Taxpayers and Their Representatives* (Reference Number 1999-10-076, dated September 1999).

¹⁴ *Letter Report: Improvements Have Been Implemented for Directly Contacting Taxpayers and Their Representatives* (Reference Number 2000-10-132, dated September 2000).

¹⁵ *Letter Report: The Internal Revenue Service Has Not Implemented a Process to Monitor Compliance With Direct Contact Provisions* (Reference Number 2001-10-116, dated July 2001).

¹⁶ *Providing Incomplete Taxpayer Complaint Information Increases the Risk That Statutory Reporting Requirements Are Not Met* (Reference Number 2001-10-186, dated September 2001).

requirements, which do not specify what types of taxpayer complaints need to be reported.

The CCPAG management agreed to take appropriate action for the recommendations, including meeting with the TIGTA to identify the types of taxpayer complaints to be reported and determining whether to include taxpayer complaints in the ICTRS.

Fair Debt Collection Practices Act (RRA 98 § 3466)

This section of the law requires the IRS to conform to certain applicable portions of the Fair Debt Collection Practices Act (FDCPA).¹⁷ This was to ensure that taxpayers are allowed representation and are not contacted at an inappropriate time or place. The provision also prohibits the harassment or abuse of taxpayers during the collection process. The IRS uses the Automated Labor and Employee Relations Tracking System (ALERTS) to track a wide range of employee misconduct cases, including potential violations of the FDCPA.

The TIGTA reviews in FYs 1999, 2000, and 2001 identified seven cases, closed during the period July 22, 1998, to December 31, 2000, where IRS management substantiated that a potential FDCPA violation occurred. Two of the seven cases resulted in administrative action against an employee and the remaining five resulted in oral or written counseling (less serious than administrative action).

However, we could not determine if these were the only potential FDCPA violations during this period for the following reasons:

- The ALERTS did not have codes for potential FDCPA violations until March 1999.
- Internal procedures restricted use of these codes until September 1999.
- Managers did not always recognize potential FDCPA allegations.
- Internal procedures did not specifically require IRS managers to forward all potential FDCPA violations to the local Labor Relations office until February 23, 2000.

In addition, we identified 26 cases on the ALERTS that were not correctly coded as potential FDCPA violations. If this information is not correctly tracked on the ALERTS, IRS management will not know the extent of the potential FDCPA violations. Also, if management is not sufficiently aware of applicable FDCPA provisions, taxpayer complaints of these issues may not be properly identified and reported to the local Labor Relations offices for determination of appropriate action.

¹⁷ 15 U.S.C. §§ 1601 note, & 1692-1692o (1994 & Supp. IV 1998).