



*Tax Exempt and Government Entities
Division Customers Receive Adequate
Service During Most Processing
Activities; However, Remittances May Not
Be Deposited Timely*

August 25, 2006

Reference Number: 2006-10-126

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

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 25, 2006

MEMORANDUM FOR COMMISSIONER, TAX EXEMPT AND GOVERNMENT ENTITIES
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Tax Exempt and Government Entities Division
Customers Receive Adequate Service During Most Processing
Activities; However, Remittances May Not Be Deposited Timely
(Audit # 200610012)

This report presents the results of our review of whether the Tax Exempt and Government Entities (TE/GE) Division Customer Account Services function (hereafter referred to as the TE/GE CAS function) ensures quality customer service is provided during the processing of TE/GE Division returns, payments, letters, notices, and account management transactions.

The TE/GE CAS function is responsible for overseeing the processing of TE/GE Division customer returns, which includes correcting errors that have prevented returns from posting to the Internal Revenue Service (IRS) Master File,¹ depositing payments, and reviewing for accuracy and clarity the notices and letters being issued to TE/GE Division customers after returns are processed. Quality service is provided to customers and taxpayer burden is minimized through timely, accurate processing of returns, payments, notices, and letters.

Synopsis

Policies and procedures established by the Ogden, Utah Campus,² in conjunction with oversight actions performed by the TE/GE CAS function, have ensured a sufficient level of service has

¹ The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² The Ogden Campus is in the IRS Wage and Investment Division. The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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been provided to TE/GE Division customers during the processing of returns, letters, notices, and other account management transactions. Specifically, we concluded the actions taken by the TE/GE CAS function and the Ogden Campus effectively ensured:

- TE/GE Division customer return information was processed timely and transmitted to the Computing Center³ for posting to the Master File, and problems in processing returns were resolved timely.
- Notices and letters sent to TE/GE Division customers were reviewed periodically to improve accuracy and clarity, when warranted.
- Procedures were established to process timely and accurately the account management transactions used for adjusting TE/GE Division customer accounts and for processing correspondence, penalty abatements, claims, and other inquiries.

However, in the area of depositing payments, service to customers did not meet the time periods established in IRS guidelines. Although the TE/GE CAS function has reasonable assurances that remittances received from customers are accurately processed, it does not have assurances they are deposited timely. We determined 113 (27 percent) of the 417 customer payments of \$50,000 or more received in the Ogden Submission Processing Site⁴ during the period October 1, 2004, through July 20, 2005, were deposited more than 4 calendar days after the earliest IRS received date, which indicates a potential delay in the depositing of these remittances. IRS procedures require that all remittances of \$50,000 or more be deposited by the next business day (excluding Saturdays and Sundays).

We estimate that timely deposit of the 113 large-dollar payments (totaling more than \$22.4 million) would have resulted in additional interest of \$112,054.60 for the Federal Government.

Recommendation

We recommended the Director, CAS, TE/GE Division, determine whether TE/GE Division customer payments of \$50,000 or more, that are not deposited timely, can be identified and, if so, work with the Director, Ogden Submission Processing Site, Wage and Investment Division, to develop methods for ensuring more timely deposits of TE/GE Division customer payments of \$50,000 or more.

³ IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.

⁴ Submission Processing sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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Response

TE/GE Division management agreed with our recommendation to work with the Wage and Investment Division to improve the timely processing of remittances. The TE/GE CAS function will initiate the use of the Electronic Federal Tax Payment System for all Tax Exempt Bonds settlement payments received in voluntary compliance and examination cases and issue an alert to other TE/GE Divisions reiterating the importance of routing remittances to the Ogden Campus in an expeditious manner. TE/GE Division management was informed by the Wage and Investment Division that it would be cost prohibitive for a report to be developed that would distinguish TE/GE remittances from customers of other IRS business divisions. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Nancy Nakamura, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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Background

The mission of the Tax Exempt and Government Entities (TE/GE) Division is to provide customers top-quality service by helping them to understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all. The TE/GE Division Customer Account Services (CAS) function (hereafter referred to as the TE/GE CAS function) offers assistance to customers of the various TE/GE Division offices: Employee Plans, Exempt Organizations, and Government Entities. The TE/GE CAS function is responsible for overseeing the processing of TE/GE Division customer returns by the Wage and Investment (W&I) Division. The processing involves several steps, including correcting errors that have prevented returns from posting to the Internal Revenue Service (IRS) Master File,¹ depositing payments, and reviewing for accuracy and clarity notices and letters being issued to TE/GE Division customers after returns are processed. The TE/GE CAS function seeks to ensure quality service is provided to customers and taxpayer burden is minimized through timely, accurate processing of returns, payments, notices, and letters.

TE/GE Division customer returns are processed by the Ogden Campus² in Ogden, Utah, which is part of the W&I Division. Because there are two business divisions involved, there is a Service Level Agreement between the W&I and TE/GE Divisions. Under the Service Level Agreement, the W&I Division is responsible for processing submissions accurately and timely, monitoring performance, and notifying the TE/GE CAS function of problems. The TE/GE CAS function's staff has program oversight responsibility; they work with W&I Division personnel to ensure submissions are processed accurately and timely and to assist W&I Division personnel in striving for continuous improvement in customer satisfaction, employee satisfaction, and business results.

In addition to the Service Level Agreement, the W&I Division established business results measures for Submission Processing site functions. The purpose of the Submission Processing Business Results Measures program is to collect data that will provide a basis for measuring and improving work products by:

- Identifying sources of errors from processing systems, procedural instructions, and campus and taxpayer action or inaction.
- Identifying and analyzing defect trends.

¹ The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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- Recommending and submitting corrective action.
- Following up with reviews to ensure the corrective action was effective.

The W&I Division Ogden Accounts Management Site (OAMS) in part plans, directs, manages, and executes activities specific to management of customer accounts and is responsible for all Exempt Organizations, Tax Exempt Bonds, and Employee Plans office customer accounts. OAMS management is responsible for monitoring the processing area for recurring problems, initiating a Quality Analysis³ when appropriate, and meeting required time periods. OAMS management is required to report to the TE/GE CAS function analysts any problems in meeting time periods and the results of all Quality Analysis reviews.

This review was performed at the TE/GE CAS function office and the Ogden Campus located in Ogden, Utah, where most of the TE/GE Division customer returns and account management transactions were processed, during the period December 2005 through June 2006. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ A Quality Analysis is an appraisal of an operation or process to determine and report on whether it is functioning properly and whether it is conforming to established procedures or to determine the core cause of quality problems.



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Results of Review

Adequate Customer Service Is Provided to Tax Exempt and Government Entities Division Customers During the Processing of Their Returns, Letters, Notices, and Account Management Transactions

Policies and procedures established by the Ogden Campus, in conjunction with oversight actions performed by the TE/GE CAS function, have ensured a sufficient level of service has been provided to TE/GE Division customers during the processing of returns, letters, notices, and other account management transactions. Consistent with the Service Level Agreement established with the TE/GE Division, the Ogden Campus ensured submissions from TE/GE Division customers were processed accurately and timely. We did not evaluate the efficiency of the Ogden Campus, which is managed by the W&I Division.

Specifically, we concluded the actions taken by the TE/GE CAS function and the Ogden Campus effectively ensured:

- TE/GE Division customer return information was processed timely and transmitted to the Computing Center⁴ for posting to the Master File, and problems in processing returns were resolved timely.
- Notices and letters sent to TE/GE Division customers were reviewed periodically to improve accuracy and clarity, when warranted.
- Procedures were established to process timely and accurately the account management transactions used for adjusting TE/GE Division customer accounts and for processing correspondence, penalty abatements, claims, and other inquiries.

We identified one area, depositing payments, in which service to customers did not meet the time periods established in IRS guidelines. This issue is presented later in the report.

⁴ IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.



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TE/GE Division customer return information was processed timely and posted to the Master File

The Ogden Submission Processing Site (OSPS)⁵ timely processed and transmitted return information for TE/GE Division customers to the IRS Business Master File.⁶ The timeliness of return information processing is assessed by determining whether timely filed and error-free returns have completed OSPS processing and been transmitted for posting to customers' Master File accounts before a predetermined date, known as the Program Completion Date.

We analyzed processing statistics for 1,740,081 TE/GE Division customer returns processed between October 1, 2004, and July 21, 2005, and determined 1,733,752 (99.6 percent) were successfully processed by the OSPS. The remaining 6,329 TE/GE Division customer returns had not completed processing by the Program Completion Date. In these instances, the IRS posted a transaction to the customer's account indicating the filing requirement had been satisfied, which prevented the issuance of any notices or systemically generated correspondence to the customer requesting that a return be filed.

One reason the OSPS has been able to meet the Program Completion Date consistently is the ability of TE/GE CAS function analysts to effectively work with the W&I Division to continually improve the quality of customer service during the processing of TE/GE Division customer returns. For example, in January 2006, TE/GE CAS function program analysts made significant changes to programs involving political organizations. These improvements were designed to improve accuracy and to enhance efforts for ensuring political organizations comply with applicable laws and regulations.

The TE/GE CAS function also took effective corrective actions as a result of prior audits performed by the Treasury Inspector General for Tax Administration. Specifically, one audit⁷ found additional actions were needed in the TE/GE CAS function's oversight of the OSPS Error Resolution System to reduce the burden on TE/GE Division customers. Technicians from the OSPS Error Resolution unit compare problem returns with a report generated by the Error Resolution System to attempt to correct specific types of errors that are made by either the customer or another OSPS operation. As part of the prior audit, we recommended the Director, CAS, TE/GE Division, establish procedures to review certain correspondence cases. The Director agreed and also initiated actions to develop a unique TE/GE Division aged inventory report to increase the TE/GE CAS function's ability to monitor over-age error returns. Based on analysis of the actions taken by the TE/GE CAS function to reduce over-age inventory, we

⁵ Submission Processing sites process paper and electronic submissions for analysis and posting to taxpayer accounts.

⁶ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁷ *The Tax Exempt and Government Entities Division Ensures Reject Procedures Are Current, but Increased Controls and Analysis May Reduce Customer Burden* (Reference Number 2004-10-177, dated September 2004).



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believe taxpayer burden for customers has been reduced because errors are being resolved and returns are being posted to the Master File more quickly.

Another Treasury Inspector General for Tax Administration audit⁸ determined the TE/GE CAS function needed to improve the monitoring of TE/GE Division customer return inventories in the OSPS unpostable unit. Customer returns are routed to the OSPS unpostable unit when there is a problem posting information to the Master File. The Director, CAS, indicated TE/GE Division analysts would use reports generated by the OSPS unpostable unit to monitor inventories of returns for TE/GE Division customers and alert the OSPS when a potential unmanageable condition existed. Based on analysis of the actions taken by the TE/GE CAS function since the prior audit, we believe taxpayer burden has been reduced by the timely correction of problems associated with posting return information to the Business Master File.

Notices and letters sent to TE/GE Division customers were reviewed periodically to improve accuracy and clarity

The OSPS and TE/GE CAS function have established review processes to assure the accuracy and clarity of notices sent to TE/GE Division customers. Specifically, the TE/GE CAS function established a process to periodically review notices and letters sent to TE/GE Division customers and make suggestions to clarify or improve the quality when warranted. The TE/GE CAS function also periodically reviews processes for generating notices and suggests improvements that may improve the consistency or result in processing efficiencies. Also, the W&I Division established measures to address the quality of letters and notices issued to all types of IRS customers, including TE/GE Division customers.

The IRS established procedures that require an error rate be determined by reviewing statistical samples of notices and letters. Letters and notices issued to TE/GE Division customers were included in these samples, and staff from the OSPS Program and Analysis Section took the necessary actions to correct discovered errors. The measures used to evaluate notices and letters, as well as the oversight provided by the TE/GE CAS function and the procedures used by the OSPS to correct identified errors, provide reasonable assurance that quality customer service is provided during the processing of TE/GE Division customer letters and notices.

Procedures were established to process timely and accurately the account management transactions for TE/GE Division customers

Transactions to TE/GE Division customer accounts were processed timely and accurately by the OAMS. The IRS established procedures to have all Exempt Organizations, Tax Exempt Bonds, and Employee Plans office account-related issues and correspondence worked by the

⁸ *Additional Emphasis Is Needed to Reduce the Burden for Tax Exempt and Government Entities Division Customers During Returns Processing* (Reference Number 2003-10-204, dated September 2003).



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Account Resolution Section of the OAMS. Some of the account issues worked in the OAMS include:

- Processing Exempt Organizations office tax and penalty adjustments.
- Resolving Tax Exempt Bonds office inquiries.
- Processing Exempt Organizations, Employee Plans, and Tax Exempt Bonds office claims.
- Routing Employee Plans Master File correspondence.

OAMS management is responsible for monitoring processing operations for recurring problems, initiating a Quality Analysis when appropriate, and meeting predetermined time periods for processing account-related items. If a problem is identified, OAMS management is required to report the problem to the TE/GE CAS function on the same business day.

The IRS established timeliness standards for processing account management transactions (e.g., a maximum of 45 calendar days for transactions initiated by customers and a maximum of 75 calendar days for internally generated adjustment transactions). During October 1, 2004, through July 21, 2005, there were 269,421 account management transactions generated to the accounts of TE/GE Division customers and the average time to complete each transaction was 21.1 days. The low number of days required to complete the account management transactions, along with the oversight provided by the TE/GE CAS function and the procedures used by the OAMS to monitor processing operations, provide reasonable assurance that TE/GE Division customers are receiving sufficient service during the processing of account maintenance transactions.

Remittances Were Processed Accurately but May Not Have Been Deposited Timely

Although the TE/GE CAS function has reasonable assurances that remittances received from customers are accurately processed, it does not have assurances they are deposited timely. The accuracy of remittance processing is measured by determining whether remittances are correctly recorded on the customers' Business Master File accounts. Inaccuracies are recorded on an error report and the cause of each error is determined. Analysts from the OSPS then initiate corrective actions based on the cause of each error.

Because remittances from TE/GE Divisions customers are combined with those from other customers serviced by the OSPS, we reviewed records maintained by the OSPS Program and Analysis Section staff and determined whether remittances from TE/GE Division customers were included in the samples. We noted no deposit errors were identified for TE/GE Division payments during the period October 1, 2004, through December 31, 2005, indicating remittances received from TE/GE Division customers were generally processed accurately.



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However, the TE/GE CAS function does not have reasonable assurances that remittances are deposited timely. The W&I Division Customer Account Services Submission Processing Report for Fiscal Year (FY) 2005 indicated the OSPS did not achieve its goal for deposit timeliness during April through September 2005. In addition, the FY 2006 report indicated the goal was not met for the period November 2005 through February 2006. OSPS Program and Analysis Section analysts are responsible for assessing the timeliness of deposit activity by reviewing a report that identifies all remittances processed by the Integrated Submission and Remittance Processing System⁹ that are not deposited within 1 business day.

Management for the OSPS Program and Analysis Section advised us no distinction is made between remittances received from TE/GE Division customers and remittances received from customers of other IRS business divisions, indicating that remittances for all business division customers may have been deposited late. Although the OSPS reports do not separately identify TE/GE Division customer remittances, TE/GE Division customer accounts are identifiable on the Business Master File. We analyzed 130,416 TE/GE Division customer payments received during the period October 1, 2004, through July 21, 2005, and determined 10,005 (7.7 percent) were deposited more than 6 calendar days after the earliest IRS received date, which indicates a potential delay in the depositing of remittances. These potential late deposits totaled approximately \$33 million and ranged from approximately \$1.00 to over \$3 million. We did additional research on a sample of these deposits and confirmed deposits were delayed between 1 to 162 calendar days for the sampled remittances.

IRS procedures state the deposit of the largest amount of money must be made in the shortest possible time, to achieve good cash management practices. The general rule is 90 percent of the remittances that do not require additional research must be deposited by the next business day. During peak periods or when the remittances in the deposit function exceed the deposit capacity, the deposit cycle may be extended to 2 business days. However, the extended deposit cycles must not exceed 5 business days.

Additionally, we determined that 417 of the 130,416 customer payments received in the OSPS during the period October 1, 2004, through July 20, 2005, were for \$50,000 or more and that 113 (27 percent) of the 417 were deposited more than 4 calendar days after the earliest IRS received date, which indicates a potential delay in the depositing of these remittances. IRS procedures require that all remittances of \$50,000 and over be deposited by the next business day (excluding Saturdays and Sundays), even during peak periods. We estimate that timely deposit of the 113 large-dollar payments (totaling more than \$22.4 million) would have resulted in additional interest of \$112,054.60 for the Federal Government.

⁹ The Integrated Submission and Remittance Processing System transcribes and formats data from paper returns, documents, or vouchers for input by key entry operators. It also captures check images for archiving.



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In a separate audit,¹⁰ we determined whether Tax Exempt Bonds office management ensured payments received in settlement of closing agreements¹¹ were processed timely and accurately to the appropriate customer accounts. That audit identified extensive delays in the processing of remittances by either the Tax Exempt Bonds office or the OSPS, including delays in depositing large-dollar remittances totaling approximately \$11 million.

Because the OSPS deposit timeliness reports do not distinguish TE/GE Division customer payments from those of other IRS customers, the TE/GE CAS function is unable to provide sufficient oversight of deposit timeliness for TE/GE Division customers to ensure its customers receive quality service. Separate identification of TE/GE Division customers on deposit timeliness reports would enable the TE/GE CAS function to alert the call site providing service to TE/GE Division customers when deposits are persistently delayed due to large volumes, to identify the causes for lengthy delays, and to assess whether changes are needed to policies and/or procedures.

Recommendation

Recommendation 1: The Director, CAS, TE/GE Division, should determine whether TE/GE Division customer payments of \$50,000 or more that are not deposited timely can be identified and, if so, work with the Director, OSPS, Wage and Investment Division, to develop methods for ensuring more timely deposits of TE/GE Division customer payments of \$50,000 or more.

Management's Response: The TE/GE CAS function will work with the W&I Division to improve the timely processing of remittances. TE/GE CAS function management will initiate the use of the Electronic Federal Tax Payment System for all Tax Exempt Bonds settlement payments received in voluntary compliance and examination cases and issue an alert to other TE/GE Divisions reiterating the importance of routing remittances to the Ogden Campus in an expeditious manner. TE/GE Division management was informed by the W&I Division that it would be cost prohibitive for a report to be developed that would distinguish TE/GE remittances from customers of other IRS business divisions.

¹⁰ *Insufficient Controls Resulted in Significant Delays in Depositing Tax-Exempt Bond Payments and Unreliable Payment Posting Dates* (Audit # 200610009).

¹¹ This program provides an opportunity for State and local government issuers and other parties to a bond transaction to voluntarily come forward to resolve violations of the Internal Revenue Code with the IRS.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess whether the Tax Exempt and Government Entities (TE/GE) Division Customer Account Services (CAS) function (hereafter referred to as the TE/GE CAS function) ensures quality customer service is provided during the processing of TE/GE Division returns, payments, letters, notices, and account management transactions. To accomplish our objective, we:

- I. Interviewed TE/GE CAS function personnel and reviewed applicable documents to determine whether quality customer service is provided during the processing of TE/GE Division customer returns and payments. Specifically, we:
 - A. Determined when actual production differed from production standards for TE/GE Division customer returns and whether production standards for TE/GE Division customer returns were met more or less frequently than they were for other IRS business division customer returns processed at the Ogden Campus.¹ We also determined whether TE/GE CAS function analysts determined the reasons production standards were not achieved and implemented actions to improve processing.
 - B. Determined the number of TE/GE Division customer returns processed at each Submission Processing site during the period October 1, 2004, through July 21, 2005, and whether the average time from received date to Master File² posting date differed from the average of all returns processed at the Ogden Campus. We also determined whether issues that affected the processing of TE/GE Division customer returns were identified and actions to resolve the conditions were implemented timely.
 - C. Analyzed whether the sample used to determine the Ogden Submission Processing Site³ Deposit Timeliness or Deposit Error Rate included any TE/GE Division

¹ The Ogden Campus is in the Internal Revenue Service (IRS) Wage and Investment Division. The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² The Master File is the IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data. We assessed the reliability of the IRS Business Master File (the IRS database that consists of Federal tax-related transactions and accounts for businesses, including employment taxes, income taxes on businesses, and excise taxes) by performing electronic testing of required data elements and reviewing existing information about the data and the system. We determined the data were sufficiently reliable for the purposes of this review.

³ Submission Processing sites process paper and electronic submissions for analysis and posting to taxpayer accounts.



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customer accounts, the cause of any error or untimely deposit was determined, and any actions were implemented. For Fiscal Year (FY) 2005 and the first quarter of FY 2006, we also determined whether payment processing problems were identified and resolved timely, any trends were identified, and actions were taken to address specific trends.

- II. Interviewed TE/GE CAS function personnel and reviewed applicable documents to determine whether quality customer service is provided during the processing of TE/GE Division customer letters and notices. Specifically we:
 - A. Analyzed the Letter Error Rate for the Ogden Submission Processing Site during FY 2005 and the first quarter of FY 2006 to determine whether the sample included any TE/GE Division customer accounts. We also determined whether the cause of any error was identified, corrective actions were implemented, and problems with TE/GE Division customer letters were identified and resolved timely.
 - B. Analyzed the Notice Error Rate for the Ogden Submission Processing Site during FY 2005 and the first quarter of FY 2006 to determine whether the sample included any TE/GE Division customer accounts. We also determined whether the cause of any error was identified, corrective actions were implemented, and problems with TE/GE Division customer notices were identified and resolved timely.
- III. Interviewed TE/GE CAS function personnel and reviewed applicable documents to determine whether quality customer service is provided during the processing of TE/GE Division customer account management transactions. Specifically we:
 - A. Determined the total number of TE/GE Division customer accounts resolved during Calendar Year 2005. We also compared the Customer Account Resolution Productivity for the Ogden Submission Processing Site Employee Plans and Exempt Organizations office account units for FY 2005 and the first quarter of FY 2006 with the productivity for adjustments processed by the Ogden Accounts Management Site for other IRS business division customers.
 - B. Determined whether problems with customer account productivity for TE/GE Division customers were identified and resolved timely, any trends were identified, and actions were taken to address specific trends.
- IV. Reviewed prior Treasury Inspector General for Tax Administration audit reports, TE/GE Division Customer Satisfaction Surveys, and IRS toll-free telephone operation site reports to determine whether processing issues regarding the quality of customer service were identified and whether TE/GE Division management implemented corrective actions to improve processing of TE/GE Division customer returns.



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Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Nancy Nakamura, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)
Jeffrey M. Jones, Acting Director
James Westcott, Audit Manager
Gregory Holdeman, Lead Auditor
Donald Martineau, Auditor
Carol Rowland, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Deputy Commissioner, Wage and Investment Division SE:W
Director, Customer Account Services, Tax Exempt and Government Entities Division
SE:T:CAS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Director, Communications and Liaison, Tax Exempt and Government Entities
Division SE:T:CL



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$112,054.60 (see page 6).

Methodology Used to Measure the Reported Benefit:

We analyzed the Internal Revenue Service (IRS) Business Master File¹ and determined there were 130,416 Tax Exempt and Government Entities Division customer payments received during the period October 1, 2004, through July 21, 2005. There were 417 customer payments of \$50,000 or more; 113 (27 percent) of these payments were deposited more than 4 calendar days after the earliest IRS received date, which indicates a potential delay in the depositing of these remittances. IRS procedures state all remittances of \$50,000 or more must be deposited by the next business day (excluding Saturdays and Sundays). During peak periods, all attempts must be made to deposit these items the day the payment is removed from the envelope or no later than the next business day.

We calculated the amount of potential interest lost for each of the 113 potentially late deposits by multiplying the amount of the deposit by the standard interest rate for deposit timeliness (8 percent). The result was divided by 365 calendar days and multiplied by the number of days late (any days beyond the 4 calendar days allowed). The formula is as follows:

$$([\text{Amount of payment}] \times [8 \text{ percent interest}^2] / [365 \text{ calendar days}]) \times [\text{Days deposit late}] =$$
increased revenue from interest earned.

We determined these potentially late deposits totaled \$22,457,236.00; their timely deposit could have increased revenue based on additional interest earned of \$112,054.60.

¹ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

² IRS procedures establish a constant 8 percent interest rate for deposit timeliness calculations.



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Appendix V

Management's Response to the Draft Report



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

RECEIVED
AUG 10 2006

AUG 09 2006

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:


Steven T. Miller
Commissioner, Tax Exempt and Government Entities

SUBJECT:

Response to Draft Audit Report – Tax Exempt and Government
Entities Division Customer Receive Adequate Service During Most
Processing Activities; However, Remittance May Not Be Deposited
Timely (Audit # 200610012)

I am pleased to respond to your draft report regarding our oversight responsibility to ensure quality customer service is provided during the processing of TE/GE returns, payments, letters, notices, and account management transactions.

I appreciate your observations that the TE/GE Division CAS function, as well as the Ogden campus, effectively ensured that return information was timely processed and transmitted to the computing center, that problems in processing returns were timely resolved, that notices and letters sent to our customers were reviewed for accuracy and clarity, and that timely procedures were issued to process the various submissions (e.g., inquiries) filed at the campus.

The depositing of remittances is primarily a Wage and Investment (W&I) activity. Although TE/GE does not control or provide oversight of the deposit operation or process, TE/GE and W&I stress the importance that all remittances are correctly received, accounted for, and timely deposited.

Our response to the recommendation in the report follows:



*Tax Exempt and Government Entities Division Customers
Receive Adequate Service During Most Processing Activities;
However, Remittances May Not Be Deposited Timely*

Recommendation 1

The Director, CAS, TE/GE Division, should determine whether TE/GE Division customer payments of \$50,000 or more that are not deposited timely can be identified and, if so, work with the Director, OSPC, Wage and Investment Division, to develop methods for ensuring more timely deposits of TE/GE Division customer payments of \$50,000 or more.

Corrective Action 1

TE/GE CAS will work with W&I to improve the timely processing of remittances. We will initiate the use of the Electronic Federal Tax Payment System (EFTPS) for all TEB settlement payments received in voluntary compliance and examination cases and issue an alert to other TE/GE divisions reiterating the importance of routing remittances to the Ogden campus in an expeditious manner. We are informed by W&I that it would be cost prohibitive for W&I to develop a report that would distinguish TE/GE remittances from customers of other IRS business divisions.

Implementation Date:

January 15, 2008

Responsible Officials:

Director, Customer Account Services

We concur in the benefit on tax administration you described in the report.

If you have any questions, please contact me or Steve Macchio at (202) 283-9682.