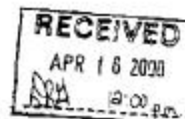


The Internal Revenue Service Can Improve the Treatment of Taxpayers During Service Center Audits

Management's Response



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



April 17, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM:

for Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT:

Treasury Inspector General for Tax Administration (TIGTA) Draft Report - The Internal Revenue Service (IRS) Can Improve the Treatment of Taxpayers During Service Center Audits (Audit No. 19990039)

Thank you for the opportunity to respond to your draft report entitled "The Internal Revenue Service Can Improve the Treatment of Taxpayers During Service Center Audits." Your report recognized the numerous initiatives undertaken by the IRS to better protect taxpayers' rights, particularly the implementation of the IRS Restructuring and Reform Act of 1998 and our continuing efforts to treat taxpayers as "customers."

We share your concern that the roughly 500,000 taxpayers audited annually by service center examination functions receive proper treatment by IRS personnel and that our procedures reinforce and support this treatment. To this end, we have made significant investments in updating the Internal Revenue Manual (IRM) and training procedures that govern how our employees interact with taxpayers during contacts. While we agree that improvements can be made, we do not necessarily share the opinion that all of the recommendations contained in the subject report warrant implementation. These recommendations are discussed in detail below.

IDENTITY OF RECOMMENDATION/FINDING

The Assistant Commissioner (Customer Service) should revise procedures to use locator services to find taxpayers' addresses who do not respond to audit contact letters.

ASSESSMENT OF CAUSE(S)

Current Service Center Examination Branch (SCEB) procedures require address research to be performed when letters are returned as undeliverable. They do not require use of locator services for cases where taxpayers fail to respond to contact letters and no indication of an undeliverable situation exists.

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CORRECTIVE ACTIONS

Compliance Research is studying why taxpayers do not respond to IRS letters. This study was initiated as a result of a recent GAO Report (GAO/GGD-99-48). If they determine a significant number of taxpayers do not respond to inquiry letters because they did not receive them, we will take additional actions to ensure that appropriate address research is performed. (At this time, we will not use locator services. Thus, we cannot concur with your outcome measure for this recommendation.)

IMPLEMENTATION DATE:

PROPOSED June 30, 2001

RESPONSIBLE OFFICIAL(S)

National Director, Compliance and Accounts Division

CORRECTIVE ACTION(S) MONITORING PLAN

The results of the study are scheduled to be available by December 31, 2000. Based on the findings, we will decide if any additional actions must be taken.

IDENTITY OF RECOMMENDATION/FINDING

The Assistant Commissioner (Customer Service) should take actions to ensure service center personnel are better informed about existing IRS procedures that are designed to ensure taxpayers are treated fairly during service center audits. These actions could include issuing a memorandum to the responsible employees that emphasizes the need to issue audit contact letters before proposing changes to tax returns, as well as initiating telephone contact with taxpayers who do not respond to audit letters.

ASSESSMENT OF CAUSE(S)

Depending on the type of audit worked, the appropriate initial contact varies. The IRM may not have been clear enough for the examiners to understand which initial contact applies for each audit.

CORRECTIVE ACTIONS

The IRM 21.8 was revised on January 1, 2000 to specify the appropriate contact letters to be issued on cases handled by SCEB. In addition, the IRM instructions provide guidance to SCEB personnel for follow-up by telephone, whenever possible, if taxpayers do not answer contact letters.

IMPLEMENTATION DATE:

COMPLETED January 1, 2000

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RESPONSIBLE OFFICIAL(S)
National Director, Compliance and Accounts Division

CORRECTIVE ACTION(S) MONITORING PLAN
We will include adherence to the initiation of correct initial contacts in the Special Assurance Reviews to be conducted by National Office in several service centers during Fiscal Year 2000.

IDENTITY OF RECOMMENDATION/FINDING
The Assistant Commissioner (Customer Service) should expand the Correspondence Audit Program's quality review system to provide additional feedback to managers on how well the IRS' procedures governing taxpayer treatment are followed during audits. Specifically, quality reviews should address the effectiveness of steps taken to locate taxpayers when they have not responded to audit letters and whether all required letters are being issued to taxpayers.

ASSESSMENT OF CAUSE(S)
Current examination procedures do not require Correspondence Examiners to use IRS locator services to research addresses when taxpayers do not respond to IRS contact letters. Existing procedures specify the method of initial taxpayer contact will vary according to the program worked.

CORRECTIVE ACTIONS
In June 1999, the Quality Review Database (QRDb) went on-line for all Customer Service functions, including SCEB. Service Center Quality Staffs and managers have access to QRDb, which gives immediate feedback to the functional areas on completed reviews of taxpayer treatment so that corrective actions can be taken quickly. Quality reviews are based on the seven auditing standards and follow IRM procedures. The Service Center Quality Review staffs research undeliverable mail and ensure that the correct letters are used in all taxpayer correspondence.

IMPLEMENTATION DATE:
COMPLETED June 30, 1999

RESPONSIBLE OFFICIAL(S)
National Director, Compliance and Accounts Division

CORRECTIVE ACTION(S) MONITORING PLAN
Not Applicable

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IDENTITY OF RECOMMENDATION/FINDING

The Assistant Commissioner (Examination) should revise MACS guidelines to require that security officers document results of their future audit trail reviews on the Monthly Security Report. For oversight purposes, copies of the report should be provided to, and maintained by, both the national and local officials who are responsible for ensuring that security requirements are met. The Assistant Commissioner (Examination) should maintain a log to identify those offices who have not conducted the required reviews.

ASSESSMENT OF CAUSE(S):

Chiefs, Planning and Special Programs (PSP) and SCEB are required to ensure audit trail reviews are conducted monthly by the designated security officer. However, there is currently no requirement that the security officer provide a written report to the Chiefs, PSP/SCEB.

CORRECTIVE ACTION(S)

We will require the security officer to provide a written monthly report to the Chiefs, PSP/SCEB. We will add this requirement to the MACS Handbook (IRM), the MACS System Guide, and the audit trail training material. The addendum will require the reports to be maintained locally and made available to regional or National Office officials upon request. This requirement is consistent with current district/regional/National Office program oversight responsibilities. In addition, the Assistant Commissioner (Examination) issued a memorandum to the field addressing this requirement.

IMPLEMENTATION DATE:

PROPOSED: July 1, 2000 for addendum to MACS Handbook, System Guide and audit trail training material;

COMPLETED: March 29, 2000 for memorandum.

RESPONSIBLE OFFICIAL(S):

Assistant Commissioner (Examination)

CORRECTIVE ACTION MONITORING PLAN:

A managerial review will be made on or before July 1, 2000 to ensure that the corrective action is in progress or has been completed.

IDENTITY OF RECOMMENDATION/FINDING

Where audit trail reviews have not been conducted, the Assistant Commissioner (Examination) should take actions to ensure that taxpayer data have not been misused. These actions could include directing security officers to properly conduct, document, and report reviews over periods that were not previously evaluated.

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ASSESSMENT OF CAUSE:

Where audit trails were not reviewed monthly as required by the MACS Handbook (IRM), responsible local officials did not ensure that taxpayer data had not been misused.

CORRECTIVE ACTION(S):

We agree reducing the risk of employees misusing taxpayer data will increase the privacy and security for about 123 million individual and corporate taxpayers. The following corrective actions should ensure taxpayer data has not been misused:

1. The Assistant Commissioner (Examination) issued a memorandum to Chiefs, PSP/SCEB. The memorandum reiterated to the Chiefs, PSP/SCEB their responsibility to ensure taxpayer information is not misused and their accountability for meeting the security requirements contained in the MACS IRM, specifically the requirement that audit trails be reviewed monthly. The memorandum included instructions to review prior audit trails (from August 1997 forward) if they have not been reviewed. Also, it required either the review of the audit trails or certification that there has been no misuse of taxpayer data. The memorandum included information about a form for the annual self-assessment and certification process (discussed in #2 below) as part of the annual assurance process for management controls. The form will specifically address MACS security requirements.
2. The Assistant Commissioner (Examination) will develop a form for the 2000 Management Accountability (Federal Manager's Financial Integrity Act - FMFIA) annual assurance process, to address MACS security. It will include audit trail review and other security requirements.

IMPLEMENTATION DATE:

COMPLETED: March 29, 2000 for memorandum

PROPOSED: July 31, 2000 for attachment to FMFIA document.

RESPONSIBLE OFFICIAL:

Assistant Commissioner (Examination)

CORRECTIVE ACTION(S) MONITORING PLAN:

A managerial review will be made on or before July 31, 2000 to ensure that the corrective action is in process or has been completed.