

**Additional Management Actions Are Needed  
to Ensure the Timely Processing of  
Customer Applications for Employee Plans  
and Exempt Organizations Technical  
Determinations**

**August 2000**

**Reference Number: 2000-10-129**

**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 30, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations

This report presents the results of our review of the Tax Exempt and Government Entities Division's (TE/GE) efforts to centralize the processing of Employee Plan/Exempt Organization (EP/EO) customer applications for technical determinations.

In summary, we concluded that TE/GE Division officials have made progress in implementing the centralized concept for processing customer applications for technical determinations by committing significant resources to recruit and train qualified applicants to process the applications. Nevertheless, additional measures are needed to ensure customers receive the highest quality service.

Our recommendations to improve the assignment practices and processing controls over EP/EO customer applications will help ensure the timely processing of customer applications for technical determinations. Also, our recommendation to inform taxpayers when delays occur in the processing of their applications should improve the quality of service. In addition, our recommendation that TE/GE Division management monitor the recruitment process at the Ohio centralized site would allow TE/GE executives to determine if the revised position descriptions prove effective in meeting future staffing needs.

TE/GE Division management agreed with our recommendations, and their comments have been incorporated into the report where appropriate. The full text of their comments is included as an appendix.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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# **Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations**

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## **Executive Summary**

The Tax Exempt and Government Entities (TE/GE) Division is committed to providing its customers with the highest quality service possible in a timely and efficient manner. The overall objective of this audit was to assess the effectiveness of the TE/GE Division's efforts to centralize the processing of Employee Plan/Exempt Organization (EP/EO) customer applications for technical determinations.

Specified organizations are required by Federal tax laws to file applications with the Internal Revenue Service (IRS) to be considered exempt from certain income taxes. Organizations not required to file tax forms may also choose to file applications in order to receive a determination letter that recognizes their exempt status. In addition, certain businesses and organizations must file employee pension plan applications with the IRS to receive a determination that the plan complies with Federal laws.

To improve customer service, the IRS decided to centralize the EP and EO determination process in the Ohio centralized site. However, the TE/GE Division has not fully staffed the Ohio centralized site, and customer applications for technical determinations continue to be processed by other field offices. For Fiscal Year (FY) 1999, 55 percent of the EP applications and 47 percent of the EO applications were assigned to these other offices.

## **Results**

The IRS has made progress in implementing its centralized concept for processing customer applications for technical determinations. Also, TE/GE Division officials have committed significant resources to recruit and train qualified applicants to process the applications. During FY 1999, the IRS issued 112,920 determination letters to its customers. Nevertheless, additional measures are needed to ensure customers receive the highest quality service. Specifically, the TE/GE Division needs to:

- Increase management involvement to ensure EP/EO customer applications are processed timely.
- Take additional management actions to ensure future staffing needs are achieved.

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### **Additional Actions Are Needed to Better Manage the Inventory of Employee Plans/Exempt Organizations Customer Applications for Technical Determinations**

The TE/GE Division's modernization vision is to provide improved customer service. However, the TE/GE Division has not established the necessary procedures that would ensure the timely processing of EP/EO customer applications that cannot be worked by the Ohio centralized site. We believe the timely processing of these applications is crucial in delivering the overall Determination program. Also, the inability to timely process customer applications can adversely impact the delivery of other significant TE/GE programs, such as the Examination program. Further, some customers experienced delays in receiving technical determinations because of existing TE/GE practices.

Initially, the IRS' vision for the centralization of determination applications was that all applications would be processed in one geographic location. However, budget limitations combined with a difficult hiring market have prevented the IRS from fully realizing that vision, and customer applications continue to be processed in several field offices.

Our discussions with field managers responsible for processing the determination applications identified various methods to control the applications that cannot be initially assigned or worked by determination specialists. Field managers advised us that unassigned inventory pools are used to control the applications until they can be assigned to determination specialists. None of the managers contacted indicated that the TE/GE Division has established any procedures on how long determination cases should remain in unassigned inventory pools.

The field managers advised us that the TE/GE Division has not provided specific direction for resource allocations between the Examination and Determination program areas. Without specific guidance, field managers must balance their limited resources between the Examination and Determination program areas.

In addition to the above observation that TE/GE management could better control unassigned inventory pools in the field offices, we found that additional management actions could be taken to improve the timeliness of the initial processing of EP/EO customer applications at the Cincinnati Submission Processing Center (CSPC). The Memorandum of Understanding (MOU) between the TE/GE Division and the CSPC does not contain performance measures for processing customer applications. Also, the MOU does not require the CSPC to capture performance information to determine whether EP/EO customer applications are timely processed.

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### **Additional Management Actions Are Needed to Ensure Future Staffing Needs Are Achieved**

The TE/GE Division's long-range strategy is to hire 109 revenue agents (RA) by FY 2002 to perform technical determinations at the Ohio centralized site. However, after extensive marketing efforts, the TE/GE Division has had some difficulties attracting applicants meeting the RA skill requirements.

Although TE/GE Division field managers advised us that their offices have been successfully using Tax Law Specialists and Tax Technicians with a variety of skill levels to perform EP/EO determinations, TE/GE management originally decided to hire only RAs at the Ohio centralized site.

We were advised by TE/GE management that new position descriptions will be developed for processing determination cases at the Ohio centralized site. The new position descriptions will not require the accounting background currently required for RAs. This initiative to staff positions at the Ohio centralized site should be closely monitored to ensure total TE/GE Division staffing needs are achieved.

### **Summary of Recommendations**

To improve the quality of customer service, the Commissioner of the TE/GE Division should establish the necessary procedures that would ensure the timely processing of EP/EO customer applications that cannot be worked by the Ohio centralized site and inform taxpayers when delays occur in the processing of their determinations. In addition, the Commissioner of the TE/GE Division should revise the MOU with the CSPC to improve customer service. To meet future staffing needs, the TE/GE Division should monitor the recruitment process at the Ohio centralized site and, if the revised position descriptions do not prove effective, appropriate steps should be taken to further determine the educational and work experience level needed to process EP/EO customer applications.

Management's Response: TE/GE Division management is continuing with its efforts to consolidate all determination work at the Ohio centralized site. When consolidation is accomplished, they believe the conditions identified in this report will largely disappear. In the interim, TE/GE Division management will take the following actions to improve customer service:

- Establish uniform procedures that all field offices will use to process customer applications.
- Establish a consistent method to clearly identify unassigned determination applications on the EP/EO inventory control system.

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- Establish a practice for timely informing taxpayers when delays occur in the processing of their applications.
- Negotiate revisions to the current MOU with the CSPC to improve customer service.
- Monitor the recruitment process at the Ohio centralized site to evaluate the impact that the new position descriptions have on recruitment and, if necessary, consider alternatives to insure the timely processing of customer applications.

Management's complete response to the draft report is included as Appendix IV.



# Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations

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## Objective and Scope

*We evaluated the effectiveness of the TE/GE Division's efforts to centralize the processing of EP/EO customer applications.*

The overall objective for this audit was to assess the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's efforts to centralize the processing of Employee Plan/Exempt Organization (EP/EO) customer applications for technical determinations. The Internal Revenue Service's (IRS) intended benefit for this initiative is to reduce taxpayer burden.

In accomplishing our objective, we:

- Determined whether TE/GE Division management ensured the timely processing of EP/EO customer applications.
- Evaluated the success of the TE/GE Division's efforts to staff the Ohio centralized site.

Since the TE/GE Division had not fully staffed the Ohio centralized site, some of our planned tests to determine whether the TE/GE Division met the IRS' vision to centralize the processing of EP/EO customer applications were not conducted.

This audit was conducted in the National Headquarters and selected TE/GE field offices between August 1999 and March 2000 and was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

## Background

Specified organizations are required by Federal tax laws to file applications with the IRS to be considered exempt from certain income taxes. Organizations not required to file tax forms may also choose to file applications in

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*The IRS decided to centralize the EP/EO determination process.*

order to receive a determination letter that recognizes their exempt status. In addition, certain businesses and organizations must file employee pension plan applications with the IRS to receive a determination that the plan complies with Federal laws.

To improve customer service, the IRS began centralizing its EP/EO determination process in October 1995 and instructed organizations and businesses to send applications to the Cincinnati Submission Processing Center (CSPC). The related user fees are deposited and the applications are input on the EP/EO Determination System (EDS)<sup>1</sup> at the CSPC. The applications are then forwarded to the Ohio centralized site for a technical determination of the tax-exempt status. The IRS' vision was to have the EP and EO determination process fully centralized in the Ohio centralized site by the end of Fiscal Year (FY) 1998.

The TE/GE Division has not fully staffed the Ohio centralized site to process all of the EP/EO customer applications for technical determinations. As a result, the EP/EO customer applications that the Ohio centralized site is unable to work continue to be processed in the various field offices. For FY 1999, 55 percent of the EP applications and 47 percent of the EO applications were assigned to these other offices.

### Results

*The IRS has made progress in implementing its centralized concept for processing customer applications for technical determinations.*

The TE/GE Division is committed to providing its customers with the highest quality service possible in a timely and efficient manner. For example, the IRS has made progress in implementing its centralized concept for processing customer applications for technical determinations. Also, TE/GE Division officials have

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<sup>1</sup> The EDS is the TE/GE Division's inventory system that controls the EP/EO customer applications from receipt to issuance of the determination letter.

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committed significant resources to recruit and train qualified applicants to process the applications. During FY 1999, the IRS issued 112,920 determination letters to its customers. Nevertheless, additional measures are needed to ensure customers receive the highest quality service. Specifically, the TE/GE Division needs to:

- Increase management involvement to ensure EP/EO customer applications are timely processed.
- Take additional management actions to ensure future staffing needs are achieved.

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### **Additional Actions Are Needed to Better Manage the Inventory of Employee Plans/Exempt Organizations Customer Applications for Technical Determinations**

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*The TE/GE Division has not established the necessary procedures that would ensure the timely processing of EP/EO customer applications that cannot be worked by the Ohio centralized site.*

The TE/GE Division's modernization vision is to provide improved customer service. However, the TE/GE Division has not established the necessary procedures that would ensure the timely processing of EP/EO customer applications that cannot be worked by the Ohio centralized site. We believe the timely processing of these applications is crucial in delivering the overall Determination program. Also, the inability to timely process customer applications can adversely impact the delivery of other significant TE/GE program areas, such as the Examination program. Further, some customers have experienced delays in receiving technical determinations because of existing TE/GE practices.

Initially, the IRS' vision was that all applications would be processed in one geographic location. However, that vision has not been realized, and customer applications continue to be worked in several field offices. For FY 1999, these offices worked 55 percent of the EP applications and 47 percent of the EO applications. Local TE/GE Division officials are now not only responsible for other program areas, such as the

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Examination program, but are also charged with ensuring that the customer applications are properly and timely processed.

The TE/GE Division developed an allocation formula with the purpose of ensuring an equitable distribution of customer applications that could not be processed by the Ohio centralized site. The formula does not provide the flexibility to adjust the customer application allocations when field office inventories become unmanageable. As a result, some customers may experience delays in receiving technical determinations regarding their exempt status. All eight TE/GE Division group managers that we contacted indicated that applications that cannot be initially processed by determination specialists have been suspended in unassigned inventory pools until additional resources are available to work these cases. One office's unassigned EO inventory pool for December 1999 contained 649 customer applications. The age of the cases in unassigned inventory ranged from 0 to 73 days and averaged 13 days. The same office had 351 EP customer applications in the unassigned file. The age of the EP cases ranged from 1 to 198 days and averaged 27 days.

*Various methods are used to control on the EDS those cases that cannot be initially assigned or worked by determination specialists.*

Field group managers responsible for processing the determination applications advised us that they use various methods to control on the EDS those applications that cannot be initially assigned or worked by determination specialists. For example, some inventory pools are controlled using a "dummy group" code or an unassigned code titled "EO Customer Service." Other managers assign the inventory pools to the manager until the determination applications can be assigned to a determination specialist.

None of the managers contacted indicated that the TE/GE Division has established any procedures on how long determination cases should remain in the unassigned inventory pools. Overall, field managers advised us that the TE/GE Division has not provided specific direction for resource allocations between the

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*Our review of annual TE/GE planning guidelines indicated that only general guidance was provided for assigning EO determination applications and no guidance was provided concerning the assignment of EP determination applications.*

Examination and Determination program areas. Without specific guidance, field managers must balance their limited resources between the Examination and Determination programs.

Our review of annual TE/GE planning guidelines indicated that only general guidance was provided for assigning EO determination applications and no guidance was provided concerning the assignment of EP determination applications. The FY 2000 EP/EO workplans specify that “sufficient resources” be applied to working EO determination applications to ensure that these applications are worked “as soon as possible.” We noted that the TE/GE Phase IIB Implementation Planning document dated July 30, 1999, indicated that the TE/GE Division will establish new processes to ensure that customer applications are promptly distributed to the field groups for processing.

The various methods used to control the excess inventory pools do not provide TE/GE management with effective tools to clearly identify and analyze the total universe of applications that cannot be timely assigned to determination specialists. In addition, the inability to effectively identify the determination applications in unassigned inventory pools prevents the TE/GE Division from contacting these taxpayers concerning the status of their determination applications. We were advised that only those taxpayers whose applications are assigned to a determination specialist are contacted concerning the status of their determination action.

In addition to the above observation that TE/GE management could better control unassigned inventory pools in the field offices, we found that additional management actions could be taken to improve the timeliness of the initial processing of EP/EO customer applications at the CSPC. The Memorandum of Understanding (MOU) between the TE/GE Division and the CSPC does not contain performance measures for processing customer applications. Also, the MOU does

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*The current MOU between the TE/GE Division and the CSPC does not ensure that cases will be processed in a timely manner.*

not require the CSPC to capture performance information to determine whether EP/EO customer applications are timely processed.

The TE/GE Division processing guidelines provide that EP/EO customer applications should be screened and controlled on the EDS within 10 workdays after receipt. Available data indicate that the CSPC may not be meeting the TE/GE Division's goal to process applications within the 10-day requirement. Using FY 1999 EDS data, we noted that the average number of days between the application postmark date and the date entered on the EDS was 22 days for EP applications and 20 days for EO applications. TE/GE Division management advised us that they currently do not have any authority over CSPC resources and, as a result, cannot ensure that customer applications are timely processed. Although CSPC employees do not directly report to TE/GE Division management, we believe that a more effective MOU with the CSPC would establish the necessary control over the processing of customer applications by the CSPC.

Because the MOU between the TE/GE Division and the CSPC does not specify timeliness standards, the TE/GE Division has limited control over the amount of time taken to perform the initial determination processes.

### **Recommendations**

The Commissioner of the TE/GE Division should:

1. Establish uniform procedures for controlling and assigning determination applications that cannot be initially processed by a determination specialist.
2. Establish a consistent method to clearly identify unassigned determination applications on the EDS.
3. Establish a practice for timely informing taxpayers when delays occur in the processing of their applications.

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4. Revise the MOU with the CSPC to improve customer service. Specifically, the MOU should:
  - Incorporate the TE/GE Division's timeliness guidelines for the initial processing of customer applications.
  - Require the CSPC to capture appropriate processing data and provide the TE/GE Division with pertinent performance reports.

Management's Response: TE/GE Division management will take the following actions to improve customer service:

- Establish uniform procedures that all field offices will use to process determination letter applications.
- Instruct field managers to use a new "unassigned inventory" status code on cases that are awaiting assignment to a specialist.
- Re-engineer the correspondence sent to the taxpayers regarding the status of their EP/EO customer applications.
- Negotiate with the CSPC to include timeliness guidelines in the FY 2001 MOU with the CSPC and provide the TE/GE Division the appropriate information to evaluate the processing of customer applications at the CSPC.

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## **Additional Management Actions Are Needed to Ensure Future Staffing Needs Are Achieved**

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*The TE/GE Division's long-range strategy is to hire 109 RAs by FY 2002 to perform technical determinations at the Ohio centralized site.*

The TE/GE Division's long-range strategy is to hire 109 revenue agents (RA) by FY 2002 to perform technical determinations at the Ohio centralized site. However, budget limitations combined with a difficult hiring market have prevented the IRS from fully realizing that vision, and customer applications continue to be processed in several field offices. After extensive

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marketing efforts, the TE/GE Division has had some difficulties attracting applicants meeting the RA skill requirements.

We determined that 1999 vacancies were marketed by sending several flyers to more than 118 colleges and universities. Also, an Internet web site was established, and advertisements were placed in several major newspapers and at numerous IRS offices. As a result of these efforts, the Ohio centralized site received 32 qualified applicants that resulted in hiring 14 RAs during 1999. The hiring projection for FY 2000 is 40 to 45 RAs. As of March 2000, nine RAs had been recruited and scheduled for training.

Although TE/GE Division field managers advised us that their offices have been successfully using Tax Law Specialists and Tax Technicians with a variety of skill levels to perform EP/EO determinations, TE/GE management originally decided to hire only RAs at the Ohio centralized site.

TE/GE management advised us that new position descriptions will be developed for processing determination applications at the Ohio centralized site. The new position descriptions will not require the accounting background currently required for RAs. We believe this action may provide the TE/GE Division a greater opportunity to attract a more diverse workforce, thus realizing the TE/GE Division's goal to process all determinations in a more consistent and timely manner. This initiative to staff positions at the Ohio centralized site should be closely monitored to ensure total TE/GE Division staffing needs are achieved.

### **Recommendation**

5. The TE/GE Division should monitor the recruitment process at the Ohio centralized site to evaluate the impact that the new position descriptions have on recruitment. If recruitment efforts do not prove successful, appropriate steps should be taken to



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further determine the educational and work experience level needed to process EP/EO customer applications.

Management's Response: TE/GE Division management will review the job qualifications needed for working customer applications, develop new position descriptions for the determination specialist positions at the Ohio centralized site and, if necessary, consider alternatives to ensure customer applications are processed timely.

### **Conclusion**

The TE/GE Division did not establish the necessary procedures that would ensure the timely processing of EP/EO customer applications that cannot be worked by the Ohio centralized site. In addition, the TE/GE Division's original decision to hire only RAs at the Ohio centralized site may have contributed to the inability to attract a sufficient number of applicants meeting the skill requirements.

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to assess the effectiveness of the Tax Exempt and Government Entities (TE/GE) Division's efforts to centralize the processing of Employee Plan/Exempt Organization (EP/EO) customer applications for technical determinations. We conducted the following audit tests to accomplish the objective:

- I. To determine whether the objectives of centralization have been achieved, we:
  - A. Interviewed National Headquarters TE/GE Division executives and implementation team members to evaluate their:
    1. Role in the decision to centralize the processing of EP/EO determinations.
    2. Involvement in developing the process for centralization of determinations.
    3. Involvement in addressing any barriers that may have hindered the implementation of centralizing determinations.
    4. Methodology for measuring the progress of the implementation process.
    5. Methodology for determining whether the centralization objectives have been met or will be met.
    6. Methodology used to identify performance measures.
  - B. Interviewed Ohio centralized site management to:
    1. Obtain their perspective on the decision to centralize EP/EO determinations.
    2. Identify any barriers in the implementation process and the actions to overcome the barriers.
    3. Determine the current status of the implementation process including any future plans to complete the centralization of determinations.
    4. Obtain their perspective on the level of support (guidance, direction, etc.) provided by TE/GE Division officials to ensure the success of centralization.
  - C. Reviewed the management information system reports for a 2-year period to evaluate the percentage of EP/EO determinations performed at the Ohio

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centralized site versus the support field offices and to evaluate the Internal Revenue Service's (IRS) progress to centralize determinations.

- II. To determine the effect that centralization has had on the processing of EP/EO applications and determine the impact of centralization on IRS resources, we:
  - A. Conducted a walk-through of the centralized determination process in the Ohio centralized site and the former Southwest and Western Key District Offices to identify the procedures for working determinations and to identify the methodology used by TE/GE Division management to monitor the impact of centralization on the processing of determinations.
  - B. Conducted a walk-through of the determination process at the Cincinnati Submission Processing Center (CSPC) to identify the procedures for the initial screening/processing of applications. Evaluated any agreements TE/GE Division management had with CSPC management for processing determinations. Determined if the staffing was adequate to ensure the timely processing of EP/EO customer applications.
  - C. Obtained and analyzed the EP/EO Determination System (EDS) reports used to monitor the processing of applications. Specifically, we evaluated the reports to:
    - 1. Determine if these reports reflect the total elapsed time (from receipt by the TE/GE Division to issuance of the determination letter) to process determinations. We compared a judgmental sample of 20 completed EP/EO applications on hand at the Ohio centralized site as of November 23, 1999, with the EDS reports to determine if the time spent to process cases by the support field offices is reflected in the total elapsed time to process determinations.
    - 2. Evaluated the EDS reports to determine if the EP/EO customer applications are being processed within the predetermined time standards.
  - D. Evaluated the IRS' efforts to fully use the Ohio centralized site staffing levels to reduce the number of EP/EO customer applications referred to support field offices. Specifically, we:
    - 1. Obtained the Ohio centralized site staff usage reports and evaluated the effectiveness of the reports to identify where the current resources are being used in the determination process.
    - 2. Determined if management was effectively using EDS reports to identify and remedy potential determination case processing deficiencies.

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3. Determined if management has evaluated alternative staffing methods to process EP/EO customer applications.
  4. Determined if TE/GE Division management is analyzing the different reasons for non-merit closures to develop strategies, such as taxpayer educational programs, designed to reduce the number of cases that require a technical determination.
- E. To determine the effectiveness of the IRS' efforts to refer the EP/EO customer applications that exceed the Ohio centralized site processing capacity to other field offices, we:
1. Evaluated the methodology used by the Ohio centralized site to distribute EP/EO customer applications to support field offices. Specifically, we:
    - a) Evaluated the resource allocation model used to distribute cases to the support field offices.
    - b) Evaluated procedures to ensure that cases are promptly distributed to the support field offices.
  2. Based on our analysis of the number of EP/EO customer applications referred to the support field offices, judgmentally selected the former Southwest and Western Key District Offices to visit and performed the following:
    - a) Evaluated controls over the receipt of work referred by the Ohio centralized site.
    - b) Analyzed the number of TE/GE Division customer applications received in the support field offices with the number of cases that should have been received based on the determination case allocation model.
    - c) Evaluated coordination efforts between the Ohio centralized site and support field offices for working technical determinations.
    - d) Evaluated the impact that working EP/EO customer applications has on the other work (such as examinations) performed by the field offices.
    - e) Determined if cases referred by the Ohio centralized site were workable.

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- F. Evaluated management's efforts to staff the positions at the Ohio centralized site by conducting the following steps:
1. Evaluated any initiatives taken to staff the positions.
  2. Evaluated the decision to fill determination positions with individuals who meet the skill requirements for the revenue agent job series. Evaluated the skill mix used to process determinations in the Ohio centralized site versus the support field offices.

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**Appendix II**

**Major Contributors to This Report**

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Joe Edwards, Director

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Michael Van Nevel, Senior Auditor

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Gerard Marini, Auditor

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**Appendix III**

**Report Distribution List**

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**Appendix IV**

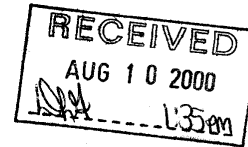
**Management's Response to the Draft Report**



COMMISSIONER

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

August 10, 2000



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Charles O. Rossotti *Bob Wenzel*  
Commissioner of Internal Revenue

SUBJECT: Response to Draft Audit Report – Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations

Thank you for the opportunity to respond to your draft report entitled "Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations." We appreciate your observations about our determination letter program, which is carried out in Cincinnati with the assistance of various area offices. We are continuing to consolidate all determination work in Cincinnati. When we accomplish this consolidation, the problems you identify in this report will largely disappear. In the meantime, we appreciate your recommendations for steps we can take to improve service to our customers now.

The report indicates additional actions are needed to better manage the inventory of Tax Exempt and Government Entities (TE/GE) customer applications for technical determinations. However, it did not acknowledge the mechanisms TE/GE has in place for monitoring and evaluating the timeliness of processing these applications.

The Employee Plans and Exempt Organizations Divisions have cycle time goals for processing determination letter applications, both for cases worked in Cincinnati and for those transferred to area offices. In fact, the cycle time for processing EO determination letter applications decreased from 93 days as of May 1999 to 85 days as of May 2000. EP and EO Divisions constantly monitor cycle time to make sure applications are timely processed.



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In addition, the TE/GE Quality Measure System (TEQMS) measures timeliness of processing as a quality standard. We have time frames for each phase of the determination letter process that allow us to determine if any problems exist in the process, and where in the process they exist.

The report also overlooks the fact that hiring in Cincinnati had to be curtailed since positions could only be filled through attrition that occurred in the key district offices.

Our comments on the specific recommendations in the report are as follows:

### **IDENTITY OF RECOMMENDATION # 1**

Establish uniform procedures for controlling and assigning determination applications that cannot be initially processed by a determination specialist.

### **ASSESSMENT OF CAUSE(S)**

Because of staff shortages at the centralized determination letter site in Cincinnati, TE/GE must send a substantial percentage of determination letter applications to one of six area offices for processing. Each area office uses its own procedures for processing determination letter applications assigned to it, and these local procedures are not entirely consistent with one another.

### **CORRECTIVE ACTIONS**

TE/GE will establish uniform procedures that all area offices will use to process determination letter applications.

### **IMPLEMENTATION DATE**

December 31, 2000

### **RESPONSIBLE OFFICIAL(S)**

TE/GE Managers, EP and EO Determinations

### **CORRECTIVE ACTION(S) MONITORING PLAN**

The field instructions will be provided to the Commissioner, TE/GE.

## **Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations**

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### **IDENTITY OF RECOMMENDATION # 2**

Establish a consistent method to clearly identify unassigned determination applications on the EP/EO Determination System (EDS)

### **ASSESSMENT OF CAUSES(S)**

Area managers use various methods to control on EDS the determination letter applications that cannot be assigned to a determination specialist immediately. In some instances, managers control this unassigned inventory by assigning it to a "dummy group" code or to an "EP or EO Customer Service" code. The use of these codes may create the impression that a case has been assigned and is being worked, when, in fact, it is awaiting assignment.

### **CORRECTIVE ACTIONS**

TE/GE will instruct area managers to use a new "unassigned inventory" status code on cases that are awaiting assignment to a specialist. TE/GE is establishing new status codes on EDS so that cases in unassigned inventory can be distinguished from cases assigned to a specialist.

### **IMPLEMENTATION DATE**

December 31, 2000

### **RESPONSIBLE OFFICIAL(S)**

TE/GE Managers, EP and EO Determinations, TE/GE Directors, EP and EO Examinations, and TE/GE Division Information Officer.

### **CORRECTIVE ACTION MONITORING PLAN**

The time line for developing new EDS status codes will be provided to the Commissioner, TE/GE.

### **IDENTITY OF RECOMMENDATION #3**

Establish a practice for timely informing taxpayers when delays occur in the processing of their applications.

### **ASSESSMENT OF CAUSE(S)**

When TE/GE receives a determination letter application, they send a letter to the taxpayer acknowledging receipt of the application and providing an approximate time frame for processing it. However, if TE/GE then sends the application to an area office for processing, and the area office holds the application in unassigned inventory, the applicant may be unaware that his or her application has been delayed. Among the cases examined by TIGTA, the average length of time an EO case spent in unassigned inventory was 13 days; for EP cases, the average was 27 days.

## **Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations**

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### **CORRECTIVE ACTIONS**

In addition to sending an acknowledgement letter to the applicant, TE/GE is testing a procedure to send a second letter to the applicant when the case is assigned to an agent. We have recently revised our acknowledgement letters for both EP and EO to provide additional information to taxpayers based on feedback received from our Customer Satisfaction surveys. We will start using the assignment letter following negotiations with NTEU.

TE/GE also will shortly begin re-engineering the entire determination letter process to improve customer satisfaction and responsiveness. As part of the re-engineering process, we will consider whether additional correspondence with determination letter applicants is appropriate.

### **IMPLEMENTATION DATE**

The re-engineering process is scheduled to be completed by December 2001. The revised letters are targeted for nationwide use by March 31, 2001.

**RESPONSIBLE OFFICIAL(S)** Commissioner, TE/GE

### **CORRECTIVE ACTION(S) MONITORING PLAN**

The re-engineering team will report to the Commissioner, TE/GE on the progress and completion of the re-engineering project.

### **IDENTITY OF RECOMMENDATION #4**

Revise the Memorandum of Understanding with the Cincinnati Submission Processing Center (CSPC) to improve customer service. Specifically, the MOU should:

- Incorporate the TE/GE Division's timeliness guidelines for the initial processing of customer applications.
- Require the CSPC to capture appropriate processing data and provide the TE/GE Division with pertinent performance reports.

### **ASSESSMENT OF CAUSE(S)**

TE/GE Division processing guidelines provide that applications for an EP or EO determination letter should be screened and controlled on EDS within 10 working days of receipt. However, the memorandum of understanding between TE/GE and the CSPC does not specify the time frame in which the CSPC should enter determination letter applications on EDS. The data for 1999 shows that the 10 day standard was not always met.

## **Additional Management Actions Are Needed to Ensure the Timely Processing of Customer Applications for Employee Plans and Exempt Organizations Technical Determinations**

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### **CORRECTIVE ACTIONS**

The memorandum of understanding between TE/GE and the CSPC will come up for review by September 1, 2000. When the memorandum is reviewed, TE/GE and the CSPS will negotiate the changes identified in this recommendation.

### **IMPLEMENTATION DATE**

December 31, 2000

### **RESPONSIBLE OFFICIAL(S)**

Commissioner, TE/GE and Director, Exempt Organizations

### **CORRECTIVE ACTION(S) MONITORING PLAN**

The Director, TE/GE Customer Account Services will report on the revised memorandum of understanding to the Commissioner, TE/GE.

### **IDENTITY OF RECOMMENDATION # 5**

The TE/GE Division should monitor the recruitment process at the Ohio centralized site to evaluate the impact that the new position descriptions have on recruitment. If recruitment efforts do not prove successful, appropriate steps should be taken to further determine the educational and work experience level needed to process EP/EO customer applications.

TE/GE has discussed recommendation No. 5 with TIGTA officials, and believes it should be identified as an observation rather than a recommendation.

### **ASSESSMENT OF CAUSE(S)**

TE/GE historically has hired revenue agents to perform determination work at the Ohio centralized site. For the past several years, TE/GE has not been able to hire adequate numbers of people with the required skill, despite a widespread and determined effort to do so, because of the difficult hiring market in the Cincinnati area.

### **CORRECTIVE ACTIONS**

TIGTA's report notes that TE/GE is developing new position descriptions for determination specialists at the Ohio centralized site. TE/GE management is reviewing the job qualifications needed for a determination specialist.

In addition, if TE/GE remains unable to hire the necessary number of determination specialists in Cincinnati, we will consider alternatives to insure we timely process determination applications.

### **IMPLEMENTATION DATE**

March 31, 2001

**Additional Management Actions Are Needed to Ensure the Timely Processing of  
Customer Applications for Employee Plans and Exempt Organizations Technical  
Determinations**

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**RESPONSIBLE OFFICIAL(S)**

Commissioner, TE/GE, and TE/GE Managers, EP and EO Determinations.

**CORRECTIVE ACTION(S) MONITORING PLANS**

The Managers, EP and EO Determinations will report to the Commissioner, TE/GE, on the development of the position descriptions and the progress made in the hiring of determination specialists.

If you have any further questions, please contact Mike Daly at (202) 622-6174.