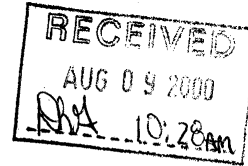




COMMISSIONER

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

August 7, 2000



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT:

Draft Audit Report - Improvements Are Needed in
Resolving In-Business Trust Fund Delinquencies to Prevent Tax
Liabilities from Pyramiding

We appreciate the opportunity to respond to your draft report entitled "Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities from Pyramiding." The report is a review of the Internal Revenue Service's efforts to collect delinquent taxes from in-business trust fund taxpayers. We will consider your recommendations in our efforts to improve collection from these taxpayers.

Our comments on your recommendations are as follows:

IDENTITY OF RECOMMENDATION #1

Collection function management should adopt quicker time frames for assigning in-business trust fund cases and contacting taxpayers.

ASSESSMENT OF CAUSE

A reduction in available revenue officers to work the traditional balance due cases has resulted in case assignment delays.

CORRECTIVE ACTION

Collection inventory will be handled differently. We will designate Business Master File balance due and delinquent return cases as high-risk cases. We will send high-risk cases to the queue after the fourth notice, instead of going to the Automated Collection System first. This change will enable revenue officers to get the cases sooner than they do today. The Entity program will also be able to prioritize the queue inventory by risk factor. When work is assigned, Entity will select the cases based on priority.

IMPLEMENTATION DATE

Proposed: January 2001

RESPONSIBLE OFFICIALS

Director, Compliance, Small Business/Self-Employed (SB/SE)

CORRECTIVE ACTION MONITORING PLAN

The Director, Compliance (SB/SE) will monitor the improvement of Entity to assure we accomplish the objective of the corrective action.

IDENTITY OF RECOMMENDATION # 2

Collection function management should use all collection tools, including enforcement tools, and require the filing of monthly, rather than quarterly, returns.

ASSESSMENT OF CAUSE

Appropriate enforcement action was not always taken on the cases included in the review.

CORRECTIVE ACTION

In May 2000, the Acting Assistant Commissioner (Collection) issued a memorandum entitled "In-Business Pyramiding Trust Fund Taxpayers." It discussed the project being run in four districts and Puerto Rico to test the viability of the monthly filing and/or special bank account procedures. While the project is running, the memorandum encouraged monthly filing and/or special bank account as described in Internal Revenue Manual (IRM) 5.7 Chapter 2, in the districts not included in the project. Changes in procedures that evolve from the project will be shared with the other districts.

IMPLEMENTATION DATE

Proposed: December 31, 2001

RESPONSIBLE OFFICIALS

Director, Compliance (SB/SE)

CORRECTIVE ACTION MONITORING PLAN

The test results will be used to determine what, if any, impact there will be on current procedures.

IDENTITY OF RECOMMENDATION #3

Collection management should consider using paraprofessionals to help revenue officers perform less technical aspects of the job such as monitoring Federal Tax Deposits (FTD). If these resources are not available, reemphasize the need for revenue officers to monitor these regularly.

ASSESSMENT OF CAUSE

Revenue officers were not consistently monitoring taxpayer compliance with FTD requirements.

CORRECTIVE ACTION

With current staffing, paraprofessionals are not available to monitor FTDs. We will emphasize monitoring of FTDs in IRM 5.7.8 In-Business Pyramiding Trust Fund Taxpayers, Section 3, Working Repeater Trust Fund Taxpayers.

IMPLEMENTATION DATE

Proposed: October 1, 2000

RESPONSIBLE OFFICIALS

Commissioner (SB/SE)

CORRECTIVE ACTION MONITORING PLAN

The appropriate functional staff will inform the Commissioner (SB/SE) of the status of the IRM revision. NOTE: The revision to the IRM is complete and awaiting publication.

IDENTITY OF RECOMMENDATION #4

Include in the planning process for modernizing the Collection computer systems, making programming changes to Collection Field function's automated case inventory system to not allow cases to be closed unless the taxpayer is current with FTD payments.

ASSESSMENT OF CAUSE

Revenue officers were not consistently monitoring taxpayer compliance with FTD requirements.

CORRECTIVE ACTION

This recommendation cannot be implemented. Systemic notifications are made when the taxpayers make payments. If we make changes to get current FTD information from the Master File, we will have no way to systemically determine: 1) if FTDs being made were satisfying the accruing liability, or 2) if FTDs were required at all for the period due to out-of-business, irregular payroll, or seasonal payroll situations. We would need considerable human involvement to see if the proper amounts had been deposited as FTDs.

IMPLEMENTATION DATE

Proposed: N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION #5

Continue to emphasize at the Commissioner and Executive level, use of enforcement actions when necessary and management support for employees when actions are appropriate.

ASSESSMENT OF CAUSE

Adverse publicity, fear of being charged with a 1203 violation, and substantial changes to procedures are among the causes for the decline in enforcement actions.

CORRECTIVE ACTION

We will continue to emphasize appropriate enforcement action at the Commissioner and Executive level. This topic was discussed at a meeting with Collection managers in Chicago in March. A meeting of all SB/SE managers is scheduled for September where compliance issues will be addressed. We will use any additional opportunities we find to reinforce the issue.

IMPLEMENTATION DATE

Proposed: October 1, 2000

RESPONSIBLE OFFICIALS

Commissioner (SB/SE)

CORRECTIVE ACTION MONITORING PLAN

The Commissioner (SB/SE) will ensure that the appropriate use of enforcement actions is discussed in the September meeting.

IDENTITY OF RECOMMENDATION #6

Gather information on delinquent in-business trust fund taxpayers, such as the types of industries, and identify trends to pinpoint industry groups for education.

ASSESSMENT OF CAUSE

Collection does not have a formal process to gather information on delinquent in-business taxpayers.

CORRECTIVE ACTION

Collection is working with the District Office of Research and Analysis (DORA) in the Arkansas-Oklahoma District to gather information on delinquent in-business trust

fund taxpayers. Nationwide, among accounts that have been reported currently not collectible, the industries with the highest number of delinquent modules have been identified by the Service.

DORA will provide information on these industries on the most delinquent industries for future use by Collection personnel.

The Office of Collection Re-engineering conducted a risk analysis in four states as part of the Mentoring and Monitoring Program to identify the industries most likely to accrue unpaid tax liabilities. New businesses in those industries will receive for phone calls and mail outs offering assistance, etc., to comply with federal tax requirements.

IMPLEMENTATION DATE:
September 1, 2000

RESPONSIBLE OFFICIALS
Assistant Commissioner (Collection)

CORRECTIVE ACTION MONITORING PLAN
The appropriate functional staff will report progress on the corrective action to the Assistant Commissioner (Collection).

If you have any questions, please call Harry T. Manaka, Acting Assistant Commissioner (Collection), at (202) 622-5100.