



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 12, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Office of Audit's Comments Concerning Management's
Response to the Audit Report, "*Improvements Are Needed in
Resolving In-Business Trust Fund Delinquencies To Prevent Tax
Liabilities From Pyramiding*"

This memorandum presents our concerns with the Internal Revenue Service's (IRS) management response to the audit report, "*Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies To Prevent Tax Liabilities From Pyramiding*" (Reference Number 2000-30-11). The response to the report was received after the final report was released.

Management agreed to five of the six recommendations in the report and is planning adequate corrective actions for these recommendations. However, management's response to recommendation #4 in the report was that it could not be implemented. The recommendation, management's response, and the Office of Audit's concerns follow.

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

Management's Response: 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.

Office of Audit Comment: We agree with IRS management that there would still need to be human involvement in the process and that the systemic notification would not automatically mean that FTDs are due. However, if there were systemic notifications to revenue officers about outstanding FTDs, and if the revenue officers could have an option to keep taxpayers' cases open although no balance due yet existed, the revenue officers may have a better chance of keeping taxpayers current with their FTDs and preventing future delinquencies. Also, it would replace relying solely on the revenue officers to do their own computer research about FTDs, since they were not doing this effectively for 34 percent of the cases we reviewed.

We believe that as IRS modernizes its systems, IRS management should test such a "front end" approach to determine the cost effectiveness of ensuring that taxpayers are current. This strategy is in agreement with the IRS mission of helping taxpayers meet their tax liabilities. When taxpayers are not current with their FTDs, this can result in future costs to the IRS for processing and responding to notices, answering telephone calls, and in some instances additional work for the same revenue officer.

While we still believe this is a worthwhile recommendation, we do not intend to elevate it as a significant management decision to which we disagree. Consequently, no further action on your part is required.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.