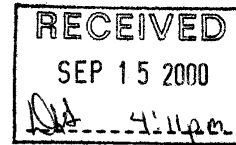




COMMISSIONER

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



September 15, 2000

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

for Charles O. Rossotti *Bob Klengel*
Commissioner of Internal Revenue

SUBJECT:

Draft Audit Report - Further Testing and Refinement Are Needed Before Expanding Case Resolution Authorities for Currently Not Collectible Accounts

We appreciate the opportunity to respond to your draft report entitled "Further Testing and Refinement Are Needed Before Expanding Case Resolution Authorities for Currently Not Collectible Accounts." The report is a review of the IRS' efforts to expand case resolution authorities for cases that are currently not collectible (CNC) due to taxpayer hardship, because we were unable to locate the taxpayers or their assets, or because we were unable to contact the taxpayer.

The IRS modernization activities include improvements in Collection case resolution processes. Both public and private agencies have made great progress in developing more effective collection practices. Since the IRS has limited resources, we must use our resources where they will be of most value in reducing noncompliance. We plan to prioritize our resources to target areas where they will have the greatest impact. Consistent with this, and as noted in your report, the IRS' Collection Reengineering Program Office initiated a test to expand case resolution authorities for CNC cases involving hardship or those in which we were unable to locate or contact the taxpayer in November 1999.

By June 2000, there were an insufficient number of cases to evaluate this approach. However, overall case inventories had continued to grow. This was the result of several factors. First, the IRS implemented 71 new RRA 98 taxpayer rights provisions, which required new procedures and increased time per case. Neither the Congress nor the IRS could have anticipated all the implications, including resources, needed to fully implement RRA 98. Additionally, because of budget constraints, IRS staffing levels have continued to decline. As a result, management discontinued the test and decided to expand case resolution authority to the Customer Service Automated Collection System (ACS) only. The expansion of authority was limited to an increase in the dollar amount of the account that could be closed as CNC due to taxpayer hardship. On June 19, 2000, the Acting Assistant Commissioner (Collection) and the Assistant Commissioner (Customer Service) issued a memorandum (copy attached) to the field to expand the case resolution authority in ACS to determine cases that are CNC. The authority was not implemented in any other Customer Service function or Examination.

Based on our decision to limit the expansion, the measurable benefits listed in the report (Appendix IV) no longer apply. This decision eliminates the potential increased revenue of \$12,739,000 and cost savings of \$5,382,000 cited in the report.

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

IDENTITY OF RECOMMENDATION #1

The Collection Reengineering Program Office should continue testing the expanded case resolution authorities in the ACS to ensure that sufficient and reliable performance data are available before making a decision to implement the expanded authorities on a nationwide basis.

ASSESSMENT OF CAUSE

As a part of the IRS' modernization effort, the Collection Reengineering Program Office was established to redesign the collecting process. One of their recommendations was to expand case resolution authorities for making CNC determinations in Customer Service toll-free, ACS and Examination functions. A test was conducted in Kansas City using these expanded authorities in these areas. However, inventories continued to grow. This was the result of several factors. First, the IRS implemented 71 new RRA 98 taxpayer rights provisions, which required new procedures and increased time per case. Neither Congress nor the IRS could have anticipated all the implications, including resources, needed to implement scope of RRA 98. Additionally, because of budget constraints, IRS staffing levels have continued to decline.

CORRECTIVE ACTION

Management discontinued this test in June 2000 because we did not have enough cases to evaluate the effectiveness of this approach. Faced with this growing inventory and a need to ensure that scarce resources are applied effectively, management decided to expand case resolution authority to the ACS only. We limited the expansion of authority to an increase in the dollar amount of the account that could be closed as CNC due to taxpayer hardship. The IRS will monitor the impact of this expanded authority as part of ongoing Accounts Receivables program management activities.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 2

The Collection Reengineering Program Office should ensure that sufficient measures are developed and used to demonstrate that the expanded case resolution authorities are achieving the intended objectives in an effective and efficient manner before implementing them nationwide.

ASSESSMENT OF CAUSE

Measurements were developed to use during the testing period in Customer Service toll-free and ACS. However, the test produced fewer cases than expected and the measurements did not provide the data needed to clearly evaluate the program.

CORRECTIVE ACTION

Since the decision to expand the case resolution authorities was made independently of the test data, no actions are being taken specific to the test. However, the IRS will monitor the impact as part of ongoing Accounts Receivable program management activities.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 3

The Collection Reengineering Program Office should improve controls over the data collection process to ensure that more reliable information is available to measure the effectiveness of the expanded case resolution authorities.

ASSESSMENT OF CAUSE

Employees at the test site collected the data regarding the disposition of the case. Quality control of the data being collected was not done until the end of the test, when several errors were detected.

CORRECTIVE ACTION

Since the decision to expand the case resolution authorities was made independently of the test data, no actions are being taken specific to the test data collection procedures. However, the IRS will monitor the impact as part of ongoing Accounts Receivable program management activities.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 4

The Collection Reengineering Program Office should continue testing and measuring the benefits of Customer Service function employees using locator services when closing cases under the expanded resolution authorities.

ASSESSMENT OF CAUSE

Locator services were obtained exclusively for use in Customer Service functions in the test site. They were physically located in ACS and supported by ACS clerical employees.

CORRECTIVE ACTION

We are securing a contract for National Locator Services so that all sites will have access to the information needed to correctly dispose of cases. The contract is in the bidding stage.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 5

If the use of locator services proves to be beneficial, ensure that all of the call sites have on-line access to these services before the expanded case resolution authorities are implemented nationwide.

ASSESSMENT OF CAUSE

Individual sites have had different types of locator services based on the needs of the individual offices.

CORRECTIVE ACTION

Although the test was discontinued in June, we are securing a contract for National Locator Services so that all sites will have access to the information needed to correctly dispose of cases. The contract is in the bidding stage.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 6

The Collection Reengineering Program Office should coordinate with the Offer in Compromise (OIC) redesign team to take advantage of the work that has already been done to test the feasibility of using the Internet to research motor vehicle and property records to verify financial statements.

ASSESSMENT OF CAUSE

Employees use the OIC redesign team's internet research to value the assets of taxpayers as shown on the financial statements filed with their offers. They are not using the locator services to locate taxpayers and unknown assets.

CORRECTIVE ACTION

The Collection Reengineering Program Office will coordinate with the OIC redesign team to identify areas, including locating and valuing assets, which might be applicable beyond the OIC program.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

IDENTITY OF RECOMMENDATION # 7

The Collection Reengineering Program Office should consider more cost-effective alternatives to expanding case resolution authorities into the toll-free and Examination functions.

ASSESSMENT OF CAUSE

One of the purposes of this initiative was to assist the taxpayer at the first point of contact. This would include toll-free account calls and all types of Examinations.

CORRECTIVE ACTION

The test was discontinued because management concluded it was not an efficient use of resources in training all toll-free and Examination employees to take financial statements needed for the large dollar cases. A June 19, 2000, memorandum expanded case resolution authority for ACS only – not for toll-free and Examination. Collection and Examination are currently working on referral procedures for cases outside the current authority of Examination.

IMPLEMENTATION DATE

Proposed: September 30, 2000

RESPONSIBLE OFFICIALS

Assistant Commissioner (Collection)
Assistant Commissioner (Examination)

CORRECTIVE ACTION MONITORING PLAN

N/A

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