

**Management Advisory Report:  
Actions to Improve the Automated  
Collection System Should Be Taken  
Within a Sound Strategic Framework**

**August 2000**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 23, 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 Management Advisory Report - Actions to Improve the  
Automated Collection System Should Be Taken Within a Sound  
Strategic Framework

This report presents the results of our review which focused on determining whether the Internal Revenue Service (IRS) has developed effective management strategies for improving the Automated Collection System (ACS) in response to Congressional concerns involving reduced delinquent account collections and enforcement activities.

In summary, we found the business results of the ACS have significantly declined in recent years. The decline is attributable to:

- Reduced number of Full Time Equivalents used by the ACS.
- Reassignment of ACS employees to customer service duties during the filing season.

- Implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98),<sup>1</sup> with its emphasis on taxpayer rights protections.

This has had a profound effect on the number of enforcement actions taken by ACS employees.

The IRS has recognized the need to restore and maintain adequate ACS staffing levels in its Fiscal Year 2001 budget request. In addition, the IRS is currently implementing or studying various initiatives to improve the efficiency of the ACS and to address the growing ACS inventory levels. To ensure that they are successful, we believe that these initiatives need to be integrated and managed within a sound strategic framework that includes a master work plan for improving the ACS, a clarification of the ACS mission, and an executive process owner for the ACS Program.

Management's response was due on August 17, 2000. As of August 18, 2000, management had not responded to this draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. 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.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

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### Executive Summary

The Automated Collection System (ACS) is an integral part of the Internal Revenue Service's (IRS) process for collecting unpaid taxes and securing unfiled tax returns from both individual and business taxpayers. When taxpayers do not comply with the IRS' computer-generated notices, ACS tax examiners attempt to contact them by telephone to secure payments or unfiled returns. The ACS is the computer system that assigns these cases to the individual tax examiners.

Recent Congressional, senior IRS executive, and media attention have been focused on the increasing delinquent account inventory and the declining resources applied to work the delinquent cases. Business results have also declined. From Fiscal Years (FY) 1997 to 1999, for example, the enforcement revenue collected by the ACS declined by \$1.2 billion. Some stakeholders are also concerned about whether taxpayer compliance may suffer when traditional enforcement staffing is shifted to taxpayer education efforts. In fact, in February 2000, Congressional hearings were held which questioned the soundness of the IRS' strategy for ensuring compliance with the tax laws. The overall objectives of this audit were to evaluate the performance of the ACS and to determine whether the IRS has developed effective management strategies for improving the ACS.

### Results

Since FY 1997, ACS resources have steadily declined, while the number of ACS employees reassigned to customer service duties during the filing season has been increasing. The implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98),<sup>1</sup> with its emphasis on taxpayer rights protections, has profoundly impacted ACS employees' ability to take enforcement actions. For example, the use of liens and levies both dropped by 87 percent from FYs 1997 to 1999. As a result of these factors, ACS business results have significantly declined.

The IRS has recognized the need to restore and maintain adequate ACS staffing levels in its FY 2001 budget request. In addition, the IRS is currently implementing or studying various initiatives to improve the ACS' effectiveness and efficiency and to address its growing inventory levels. These initiatives need to be integrated and managed within a sound strategic framework that includes a master work plan for improving the ACS, a clarification of the ACS mission, and an executive process owner for the ACS Program.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

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## **Fewer Resources Have Been Applied to the Automated Collection System**

From FYs 1997 to 1999, the Full Time Equivalent<sup>2</sup> (FTE) used by the ACS declined by more than 20 percent, from 2,661 to 2,123. During the same period, the number of ACS employees reassigned to the toll-free telephone operations during the filing season steadily increased. During FY 1999, for example, IRS records show that at least 163 FTEs were reassigned from the ACS to the toll-free operations. The actual FTEs reassigned to toll-free operations could be in excess of that figure since the exact figure cannot be determined because the process used for reporting time was not consistently followed by all ACS sites.

Recently, the IRS has recognized the need to increase ACS resources. The IRS' budget for FY 2001 will include an additional 225 FTEs for the ACS.

## **Automated Collection System Performance Has Significantly Declined**

The number of delinquent accounts and delinquent return investigations assigned to the ACS increased by nearly 588,000 from FYs 1997 to 1999; however, ACS tax examiners contacted fewer taxpayers about their delinquent accounts and/or delinquent returns. Other key business results have declined substantially from FY 1997 to 1999:

- Outgoing telephone calls decreased by approximately 1.5 million (42 percent).
- Incoming calls answered decreased by approximately 2.8 million (49 percent).
- Accounts closed declined by approximately 648,000 (20 percent).
- Enforcement revenue collected declined by approximately \$1.2 billion (19 percent).
- Full payment closures declined by approximately 205,000 (23 percent).
- Installment agreement closures declined by approximately 770,000 (52 percent).
- Accounts closed as currently not collectible increased by approximately 371,000 (74 percent).

Likewise, the number of enforcement actions taken has dramatically declined since the implementation of the RRA 98. From FYs 1997 to 1999, the number of liens and levies filed by ACS tax examiners decreased by 87 percent.

The declining ACS performance has contributed to the growth of the active ACS inventories as well as the growth of the Queue, which is an automated holding file of unresolved cases. From FYs 1997 to 1999, the ACS' delinquent accounts inventory grew

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<sup>2</sup> A FTE is the amount of time that 1 person would expend in 1 year.

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by 26 percent. During the same time period, the number of delinquent accounts assigned to the Queue increased by 21 percent.

The increase in the Queue inventory is also due in part to the systemic removal of cases from the ACS inventory based on certain age and risk factors. According to a Customer Service analyst, an estimated 1.6 million cases had been systemically removed from the ACS inventory as of January 2000. Many of these cases were removed from the ACS inventory without filing a lien and without taking the normal investigative actions. The assumption behind the systemic removal was that the cases that remained in inventory would have a greater opportunity to be collected.

### **The Internal Revenue Service Is Redesigning the Automated Collection System to Address Increased Inventory and Productivity Concerns**

IRS management has begun several initiatives that are designed to improve ACS performance levels. For example, the use of a single 1-800-number is designed to improve the efficiency of the ACS and better serve the taxpayer. An ACS Improvement Task Force was started in January 2000 to improve both ACS systems and procedures in the RRA 98 environment and the quality and efficiency of ACS case processing, with an emphasis on the timely use of liens and levies when enforcement actions are appropriate.

### **The Internal Revenue Service's Actions to Improve the Automated Collection System Need to Be Planned, Implemented, and Managed Within a Sound Strategic Framework**

The various initiatives that are being implemented or planned are a positive sign that the IRS recognizes the need to take actions to improve the effectiveness of the ACS. However, these initiatives have not been integrated into a consolidated master work plan and are not being centrally coordinated and controlled by an IRS executive with total authority and responsibility for the ACS. In addition, the IRS has not clearly established and communicated the role that the ACS is expected to serve within the new organizational structure, the new IRS mission statement, and the new taxpayer rights protections provided by the RRA 98.

## **Summary of Recommendations**

IRS management needs to stabilize the ACS workforce, improve controls over reporting time diverted to the toll-free operations, and re-emphasize the appropriate use of liens and levies within the confines of the RRA 98. The IRS also needs to take a totally integrated approach to ensure that the actions for improving the ACS are effectively planned,

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implemented, and managed within a sound strategic framework. This includes developing and using a comprehensive organizational master work plan for improving the ACS, clarifying and articulating the ACS mission, and appointing an executive to serve as the ACS system or process owner.

### Management's Response

Management's response was due on August 17, 2000. As of August 18, 2000, management had not responded to this draft report.



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### Objectives and Scope

*The audit addressed declining ACS revenues and enforcement activities and related management initiatives.*

The overall audit objectives were to evaluate the performance of the Automated Collection System (ACS) and to determine whether the Internal Revenue Service (IRS) has developed effective management strategies for improving the ACS in response to recent Congressional concerns involving reduced delinquent account collections and enforcement activities. To accomplish these objectives, we analyzed various statistics regarding staff resources and related business results, interviewed IRS executives and managers in the Collection and Customer Service functions in the National Headquarters and selected field offices, and reviewed available documented files.

The audit was conducted from January through March 2000. The audit period covered ACS performance data from Fiscal Years (FY) 1997 to 1999 and ACS management initiatives in FY 2000. We did not conduct tests to verify the accuracy of the statistical data in the IRS reports or to evaluate the effectiveness of the actions being taken or planned by the IRS to improve the ACS' effectiveness and efficiency.

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

### Background

An emerging issue identified by the IRS' Senior Council for Management Control (SCMC) is the increasing inventory of delinquent tax accounts coupled with declining resources available to work these cases. The processing of delinquent cases has been greatly impacted by the IRS' reallocation of resources to provide improved customer service and by the passage

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and implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup>.

The IRS collects 95 percent of the Federal government's revenue through a tax system that primarily depends on voluntary compliance. There is concern that the rate of compliance may decrease as traditional compliance staffing is refocused on customer service activities. This issue has been the focus of recent Congressional and media attention.

The Collection function's mission is to promptly collect the proper amount of Federal tax from all persons who have not filed returns and/or paid taxes as required by law and to encourage future compliance with the law. The Collection process begins with the IRS service centers sending balance due or return delinquency notices to taxpayers. These notices request the taxpayers to fully pay the taxes owed, file the overdue returns, and/or provide information to otherwise resolve their situations.

The ACS is a telephone collection system where tax examiners attempt to speak with taxpayers who did not comply with the service center balance due or return delinquency notices. These taxpayers often represent difficult collection cases involving multiple tax years and complicated financial problems. An overview of the role of the ACS in the collecting process is presented in Appendix IV.

The IRS' expectation is full payment of unpaid taxes. If this is not possible, the ACS tax examiners have guidelines for considering an installment agreement to pay the tax over a period of time and for determining situations where the case should be reported as currently not collectible (CNC).

The collection potential of delinquent accounts is scored by computer. Higher priority balance due accounts and delinquent return investigations that are not successfully resolved by the ACS are transferred to the Collection

*The IRS maintains a computerized inventory of balance due accounts and tax return delinquency investigations at 18 ACS call sites.*

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

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Field function, where Revenue Officers (RO) make field contacts with the taxpayers.

Lower priority cases that are not successfully resolved by the ACS are assigned to an automated holding file called the Queue. These cases are held in an inactive status until a change in the circumstances of the case causes it to be reassigned to the ACS or assigned to a RO. For example, a new balance due account on a different tax year can cause the case to be reassigned to an active status. Cases can remain in the Queue until the 10-year statute of limitations has expired.

### Results

The ACS operations have been significantly impacted in recent years by reduced staffing and the reallocation of resources to provide improved customer service.

Another factor was the implementation of the RRA 98 which, in some respects, went beyond the intent of the law and placed increased demands on the IRS at a time when overall resources were declining.

*From FYs 1997 to 1999, ACS performance declined as the result of reduced staffing, an emphasis on providing customer service, and the implementation of the RRA 98.*

From FYs 1997 to 1999, many key statistical indicators show that the ACS' performance was in a state of decline and was not being emphasized by IRS management. These performance indicators include:

- Decreasing number of outgoing telephone calls made and incoming calls answered.
- Declining number of accounts closed.
- Declining revenue collections.
- Declining number of enforcement actions taken.
- Decreasing number of accounts closed with full payment.
- Decreasing number of installment agreement closures.

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*The increase in CNC cases was caused by the systemic removal of lower priority cases.*

- Increasing number of cases closed as CNC.
- Growing ACS and Queue inventories.

The IRS is currently implementing or evaluating various initiatives to improve the effectiveness and efficiency of the ACS and to address the increasing ACS inventory levels. While we did not evaluate these initiatives, they are a positive sign that the IRS recognizes the need to take action to improve the ACS. In our opinion, the IRS could significantly enhance its chances for success by taking a totally integrated approach to ensure that these actions are effectively planned, implemented, and managed within a sound strategic framework.

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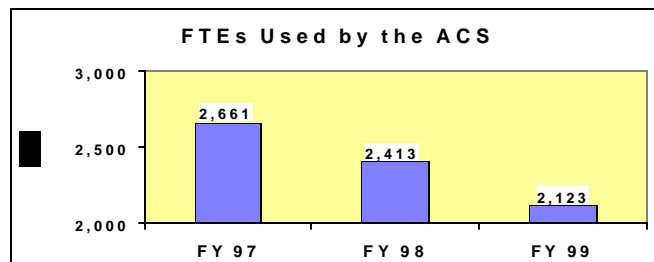
### Fewer Resources Have Been Applied to the Automated Collection System

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The IRS workforce has decreased by more than 16 percent since 1992 while handling significant increases in workload due to tax law changes and customer demand. Likewise, the staffing realized for the ACS has been steadily decreasing.

The following chart shows that the number of Full Time Equivalents<sup>2</sup> (FTE) used for the ACS over the past 3 years has decreased by more than 20 percent.

*ACS staffing declined by more than 20 percent from FYs 1997 to 1999.*



Source: National Headquarters ACS Function

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<sup>2</sup> An FTE is the amount of time that 1 person would expend in 1 year.

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The IRS has recognized the need to restore and maintain adequate staffing levels in key program areas. The IRS' budget for FY 2001 includes an additional 225 FTEs for the ACS.

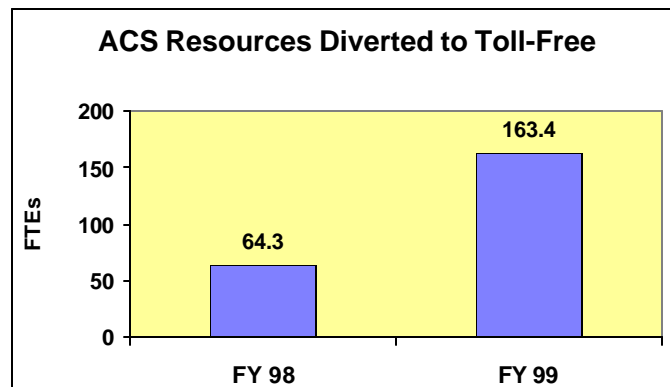
### **ACS resources have been increasingly used to support the toll-free telephone operations**

Three years ago, the IRS moved the ACS into the Customer Service function. One of the IRS' visions was to use Customer Service Representatives (CSR) interchangeably between the ACS and the toll-free telephone system. Instead, however, the overwhelming majority of the CSR movement has been **from** the ACS **to** the toll-free operations. Also, the CSRs assigned to the toll-free system have not been sufficiently cross-trained to provide them with ACS skills.

*Fewer taxpayers are contacted about their delinquent accounts when ACS employees are reassigned to the toll-free telephone system.*

An increasing number of ACS employees were detailed to support the toll-free telephone operations during the 1999 Filing Season. As a result, many ACS employees were answering taxpayer questions and assisting taxpayers with preparing their returns rather than performing their normal duties of collecting taxes and securing delinquent returns.

The following graph shows that the IRS diverted nearly 100 more FTEs from the ACS to the toll-free telephone system in FY 1999 than were diverted the previous year.



Source: National Headquarters Customer Service

The average amount of dollars collected per FTE by the ACS is \$1,425,605. Therefore, the diversion of

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163.4 FTEs from the ACS to the toll-free telephone system in FY 1999 resulted in estimated foregone revenue of more than \$232 million.

### **The IRS does not have reliable information on the amount of ACS resources diverted to the toll-free telephone system**

At the ACS Customer Service Field Operations Meeting held in February 2000, IRS executives stated that a key element for ACS success is good management information. Correct time reporting is a basis for sound management information. This, in turn, is the basis for FTE distribution in future years.

However, the IRS did not effectively track all of the ACS resources that were diverted to answering the toll-free telephone lines. A Customer Service analyst informed us that the FTEs shown in the previous graph represent only a portion of what was actually diverted to the toll-free telephone system in FYs 1998 and 1999 because the process used for recording and/or reporting time was not followed consistently and completely by all ACS sites. We were also informed there were no specific data for FY 1997 because the same program code was used for recording time to both the toll-free and ACS telephone activities.

### **Recommendations**

Customer Service management should:

1. Stabilize the ACS workforce by minimizing details to toll-free operations while continuing efforts to restore authorized ACS staffing to a level that can effectively cope with the growing number of delinquent returns and accounts receivable.
2. Improve the controls over the process for reporting time so that reliable and accurate decision information is available. This would provide an accurate measurement of the amount of resources diverted to toll-free operations and provide an accurate basis for future resource allocations.

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Management's Response: Management's response was due on August 17, 2000. As of August 18, 2000, management had not responded to this draft report.

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### Automated Collection System Performance Has Significantly Declined

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During FY 1999, the IRS made several organizational changes in the Customer Service function to improve the management of the ACS. However, many key statistical performance indicators show that, from FYs 1997 to 1999, the ACS program was in a state of decline and was not being emphasized by IRS management. Several factors contributed to the diminished performance as well as the growth of the ACS inventories and the growth in the number of cases assigned to the Queue. These factors included the declining number of FTEs used by the ACS, the increasing number of resources temporarily reassigned to the toll-free telephone operations, and the declining use of enforcement tools.

*Fewer resources devoted to ACS activities, along with problems associated with the implementation of the RRA 98, contributed to the declining ACS program results.*

The implementation of the RRA 98 had a profound impact on the number of enforcement actions taken by ACS employees. During Senate hearings that were held in September 1997, the IRS was criticized by taxpayers who testified that they had been harassed and mistreated. The Congress subsequently passed the RRA 98, which required the IRS to incorporate 71 new or modified taxpayer rights provisions into its collection work processes. These included additional notices, new rights for innocent spouses, new administrative review and approval requirements, and new appeal procedures.

RRA 98 § 1203 also provided for the removal of IRS employees who violated certain taxpayer rights and the implementation of a new balanced measures program. Because of RRA 98 § 1203, some ACS employees no longer felt they were protected if they were firm with the deadlines they gave to delinquent taxpayers. As a result, there was some confusion and hesitancy in handling some routine enforcement actions.

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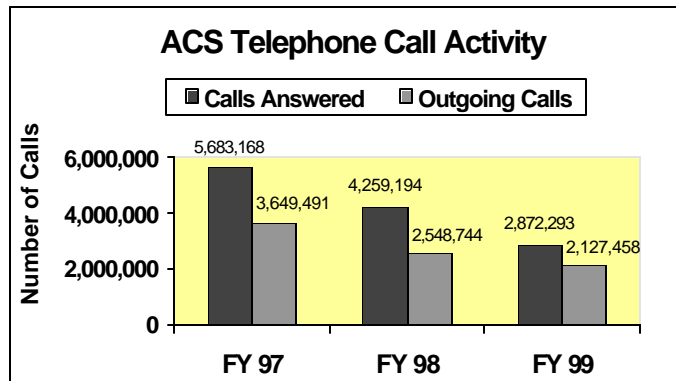
### Decreasing number of outgoing telephone calls made and incoming calls answered

*ACS examiners use telephone contacts to work cases which the service center notice process was unable to resolve.*

Although the ACS was initially designed as an outgoing telephone operation, it has never functioned exactly as designed. Many outgoing calls are unproductive because there are no answers, they encounter busy signals, or they reach answering machines. Over time, outgoing calls have steadily decreased and incoming calls (which are triggered by collection notices, collection telephone contacts, liens, levies, etc.) have steadily increased as a percentage of total calls.

The following chart shows that the total number of outgoing telephone calls made to taxpayers by the ACS from FYs 1997 to 1999 decreased by 42 percent. During the same period, the number of incoming calls answered decreased by 49 percent.

*The total number of incoming and outgoing calls in the ACS decreased by more than 40 percent from FYs 1997 to 1999.*



*Source: National Headquarters ACS Function*

With the emphasis placed on incoming calls and the high priority placed on achieving Level of Service goals, most ACS call sites were unable to handle their outgoing call inventory as effectively as needed. This caused the inventory to age. In addition, many outgoing calls were unproductive due to no answers, busy signals, or answering machines.

The IRS is currently implementing a predictive dialer program which is designed to increase the efficiency of the ACS by systemically making outgoing calls on a



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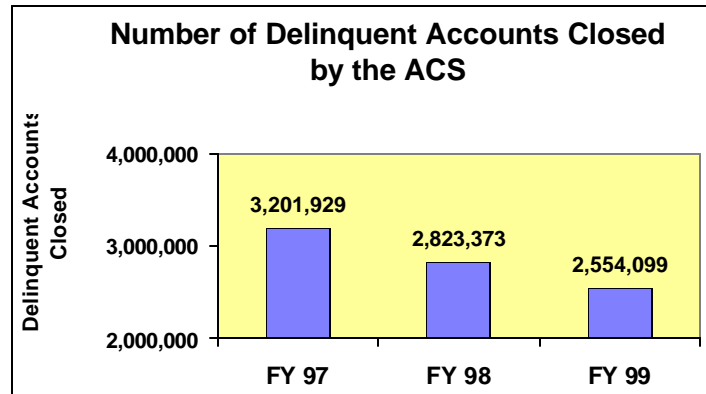
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predetermined inventory of cases. The predictive dialer is discussed in more detail on page 20 of this report.

### **Decreasing number of delinquent accounts closed by the ACS**

The following chart shows that the number of accounts closed by the ACS declined by 20 percent from 3.2 million in FY 1997 to nearly 2.6 million in FY 1999.

*The ACS case closures declined by 20 percent from FYs 1997 to 1999.*



Source: Collection Report 5000-2

This decreasing number of ACS case closures is attributable to both the decline in resources and the constraints placed on the collection process by the RRA 98. In a questionnaire response to the National Headquarters on the SCMC emerging<sup>3</sup> issue of increasing inventories and decreasing resources, for example, one ACS manager stated that:

*Properly balancing taxpayer rights and ACS productivity is a challenge that IRS management has begun to address.*

*Employees are concerned that if they give the taxpayer the wrong answer or take an action on the case which they have taken in the past, their jobs may be jeopardized. There is now no room for judgement calls. When working accounts, they are spending more time researching the Internal Revenue Manual, asking advice from*

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<sup>3</sup> The IRS sent questionnaires to ACS managers to obtain field input on the impact of reallocating compliance resources to provide improved customer service as well as the impact of implementing the RRA 98.

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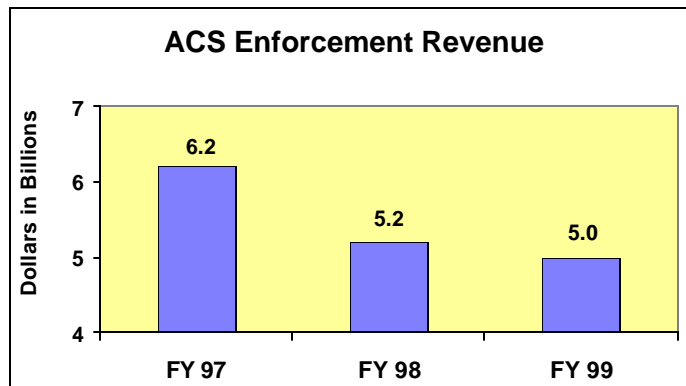
*team leaders and outside sources to make sure that a (Section) 1203 complaint is not filed. This has made the employees insecure in working the cases so they are not as productive as they have been in the past.*

*Enforcement revenues are declining despite the growing economy.*

### **Declining ACS revenue collections**

During the last few years, the unparalleled growth in the nation's economy has contributed to overall increases in tax revenues and to the Federal government operating with a budget surplus. In FY 1999, for example, the IRS collected \$1.7 trillion -- the highest amount in history. Despite the growing economy, overall enforcement revenue<sup>4</sup> decreased by \$4.3 billion (12 percent) from FYs 1997 to 1999, while gross accounts receivable<sup>5</sup> increased by \$21 billion (9 percent).

The following chart shows that ACS enforcement revenue declined from \$6.2 billion in FY 1997 to \$5 billion in FY 1999 -- a decrease of 19 percent.



Source: *Enforcement Revenue Information System*

In addition to the declining resources applied to the ACS and the declining number of accounts closed by the

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<sup>4</sup> Enforcement revenue is any tax, penalty, or interest received from a taxpayer by an IRS enforcement action -- usually an examination or a collection action.

<sup>5</sup> Gross accounts receivable includes all unpaid assessments of tax, penalty, and interest recorded on taxpayers' accounts.

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ACS, the reduction in ACS revenue collections can be attributed to the following interrelated factors:

- Declining number of enforcement actions.
- Declining number of delinquent accounts closed with full payment.
- Declining use of installment agreements as a technique for collecting delinquent taxes.
- Increasing number of delinquent accounts closed as CNC.

### **Declining number of enforcement actions taken by the ACS**

*ACS enforcement actions significantly dropped after the implementation of the RRA 98.*

The ACS tax examiners have the authority to take certain enforcement actions, when appropriate, to collect balance due accounts that are not voluntarily paid. However, the implementation of the RRA 98, which provided additional protections to taxpayers and resulted in a substantial alteration of IRS collection procedures, created confusion and hesitancy in handling some routine enforcement actions. In addition, ACS management needed time to make all of the system changes necessitated by the new law. As a result, there has been a dramatic drop in enforcement actions taken by ACS employees since the implementation of the RRA 98.

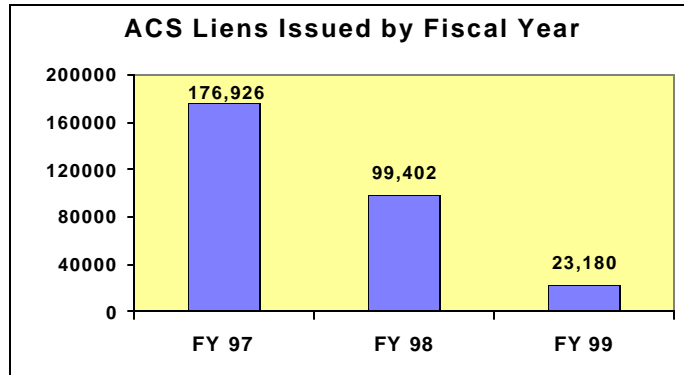
One of the ACS' enforcement tools is filing liens against real or personal property owned by the taxpayer. When a taxpayer does not pay taxes for which a demand for payment has been made, the Internal Revenue Code provides the IRS with the statutory authority to file Federal Tax Liens to protect the government's right of priority in the taxpayer's property. The lien remains in effect until the tax liability is satisfied or the statute of limitations expires.

*The ACS has not effectively used liens as a compliance tool since the implementation of the RRA 98.*

The following chart shows that the number of liens filed by the ACS decreased by 87 percent between FYs 1997 and 1999.

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Source: National Headquarters Collection Division

In a questionnaire response to the National Headquarters on the SCMC emerging issue of increasing inventories and decreasing resources, one ACS manager stated that:

*When liens are not filed, taxpayers with delinquent tax liabilities are free to transfer or sell assets.*

*The most significant compliance tool for those who are already delinquent with established tax liabilities is the federal tax lien. We are not using this tool effectively and, as a result, millions of dollars in assets against which we could take a security interest remain free to be sold or transferred.*

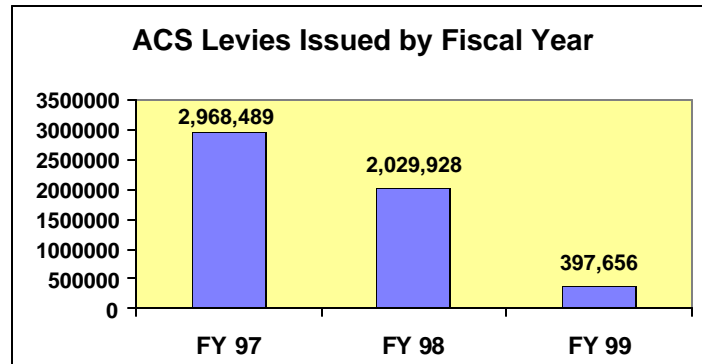
Another ACS enforcement tool is a notice of levy on wages and bank accounts. RRA 98 §§ 3401 and 3421 brought about changes in how levies were issued by the ACS. The systemic levies, which had previously accounted for a majority of the levies, were discontinued in FY 1999. In lieu of a computer-generated letter advising the taxpayer that enforcement action is pending, followed by the automatic issuance of the levy, these actions now need supervisory review prior to being taken.

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The following chart shows that the number of levies issued by the ACS decreased by 87 percent from FYs 1997 to 1999.

*There has been a sharp reduction in the use of levies by the ACS since the implementation of the RRA 98.*



*Source: National Headquarters Collection Division*

Customer Service management advised us that several actions have been taken to allay employee concerns and prevent inadvertent enforcement actions that cause employees to hesitate to take appropriate actions. For example, higher graded CSRs now have the authority to request levies. In addition, changes were made which prevent the ACS from allowing a levy action unless a Collection Due Process notice has been provided on all delinquent tax periods at least 30 days prior to the request. Also, interactive job aids for liens and levy actions are under development.

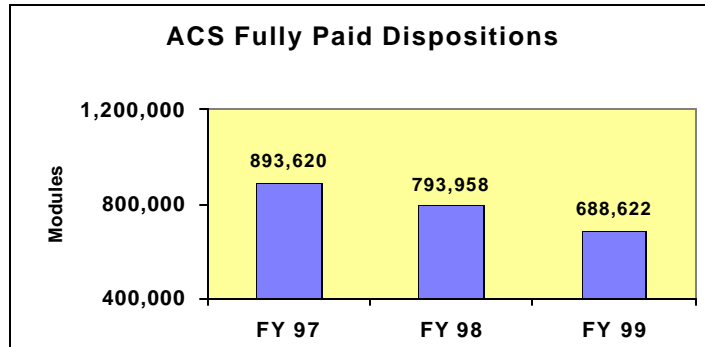
### **Decreasing number of fully paid accounts**

*The number of delinquent accounts closed as fully paid by the ACS declined by 23 percent the last 2 years.*

The IRS' expectation is full payment of unpaid taxes. However, the following chart shows that the number of delinquent account modules closed as fully paid by the ACS decreased by approximately 23 percent from FYs 1997 to 1999.

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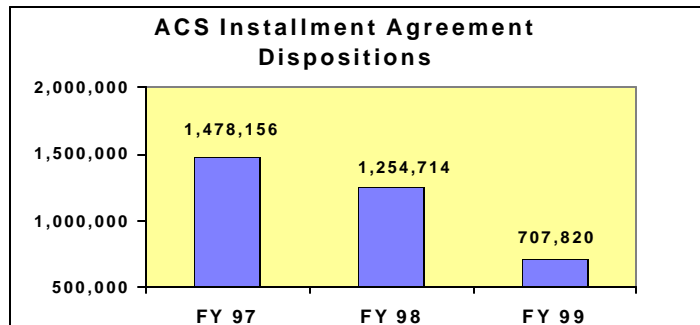
Source: National Headquarters Collection Division

**Decreasing number of installment agreements**

The IRS has a long-standing policy of allowing installment agreements when taxpayers claim an inability to immediately fully pay. Installment agreements, which require the taxpayer to make periodic payments toward the outstanding tax liability, are an effective and efficient tool for collecting a significant amount of tax revenue.

The following chart shows the number of delinquent accounts closed with installment agreements by the ACS has decreased by more than 52 percent from FYs 1997 to 1999. Customer Service management advised us that the implementation of RRA 98 § 3462, which added new administrative review requirements and increased the number of contacts required to resolve a case, was a significant factor in the declining number of installment agreements.

*The number of delinquent accounts closed with installment agreements has declined by more than 52 percent since FY 1997.*



Source: Collection Report 5000-2

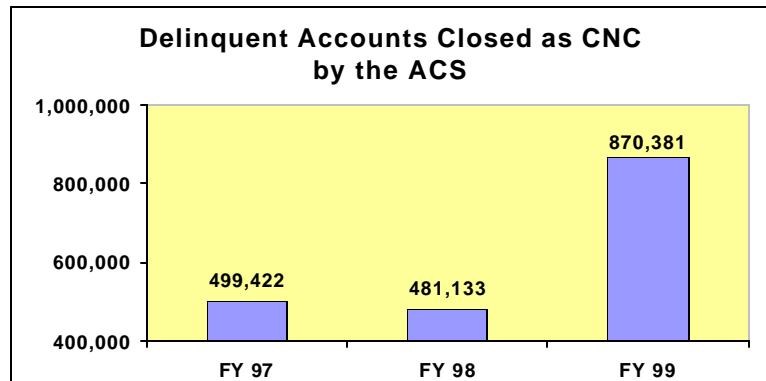
## Management Advisory Report: Actions to Improve the Automated Collection System Should Be Taken Within a Sound Strategic Framework

### Increasing number of cases closed as CNC

Classifying an account as CNC suspends the IRS' current collection efforts. Efforts to collect the account can start again at any time before the expiration of the 10-year statute of limitations.

The following chart shows that the number of cases closed as CNC by the ACS increased by over 74 percent from FYs 1997 to 1999.

*The number of delinquent accounts closed as CNC increased by more than 74 percent from FYs 1997 to 1999.*



Source: Collection Report 5000-2

Customer Service management advised us that the increase in CNC closures is attributable to the systemic removal of lower priority cases. In June 1999, IRS management began removing cases from the ACS inventory by systemically closing some cases as CNC and systemically reassigning other cases to the Queue. These CNC cases were closed without taking normal investigative actions. In addition, liens were not filed to protect the government's interest since these cases were below the IRS' dollar criteria for filing liens.

Customer Service management advised us that approximately \$800 million in delinquent accounts were systemically closed. However, Customer Service management stated that, without the systemic removal of these cases, the ACS inventory would have increased by more than 50 percent.

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*The inventory of delinquent cases in the collection process is increasing while the resources allocated to work these cases are decreasing.*

### Growing inventories in the ACS and the Queue

There are indications that compliance is beginning to decline as a result of the reduced resources, new legislative requirements from the RRA 98, and the diversion of resources to customer service activities. For example, ACS receipts were up by nearly 588,000 in FY 1999 -- an increase of over 16 percent.

The IRS does not have the resources to resolve all of the balance due accounts and delinquent returns in its workload inventory. To deal with this inventory imbalance, the IRS created the Queue, which is an automated holding file of balance due accounts and delinquent return investigations that were unresolved by written notices and telephone calls by the ACS. The Queue was established years ago to hold lower priority cases for future assignment to ROs who make personal contact with taxpayers.

Management can control the number of cases in the assigned RO inventory by changing the Queue cutoff scores. Raising the cutoff scores leaves more cases in the Queue, while lowering the scores means that more cases will be assigned from the Queue to ROs.

Based on recommendations from the Delinquent Inventory Task Force, the Assistant Commissioner (Collection) issued instructions in March 1999 allowing district offices that were experiencing inventory growth beyond their immediate control to raise the cutoff score to whatever level was required to keep too many cases from being assigned to ROs. Collection data show that 26 of the IRS' 33 district offices raised their Queue cutoff scores in 1999.

The increases in the Queue inventories are also due in large part to the systemic removal of ACS cases. In March 1999, the Assistant Commissioner (Collection) authorized the service centers to systemically remove unproductive cases from the ACS inventories based on age and risk factors. Starting in June 1999, groups of 25,000 modules per service center were removed from the ACS inventories each week as part of the IRS'



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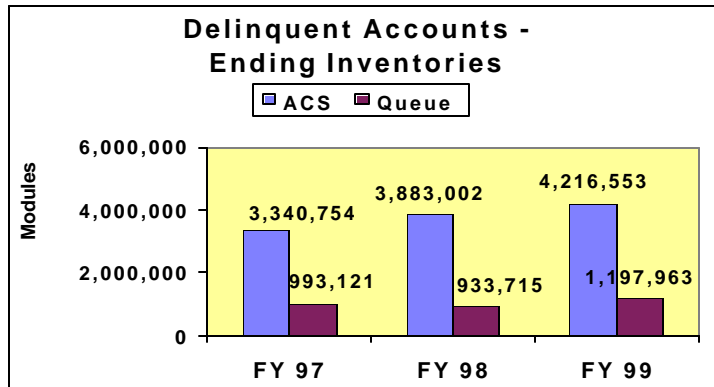
*The systemic removal of lower priority ACS cases is designed to focus ACS resources on those cases that have the greatest collection potential.*

strategy to focus ACS resources on the most productive cases.

The assumption behind the systemic removal was that approximately 2 million accounts nationwide would be removed from the ACS and that the remaining cases would have a greater opportunity to be collected. As of January 2000, according to Customer Service analysts, an estimated 1.6 million cases had been removed from the ACS inventory.

Many of these cases were removed from the ACS inventory without filing a lien and without the normal investigative actions having been taken. However, Customer Service management advised us that, beginning in June 2000, reminder notices will be issued and lien determinations will be made on cases that are systemically removed from inventory.

The following chart shows that, despite the systemic removal of cases, ACS delinquent account inventories grew by 26 percent from FYs 1997 to 1999. This growth is in addition to the 21 percent growth in the number of delinquent accounts assigned to the Queue for the same time period, which is primarily due to the systemic removal of cases from the ACS delinquent account inventory.



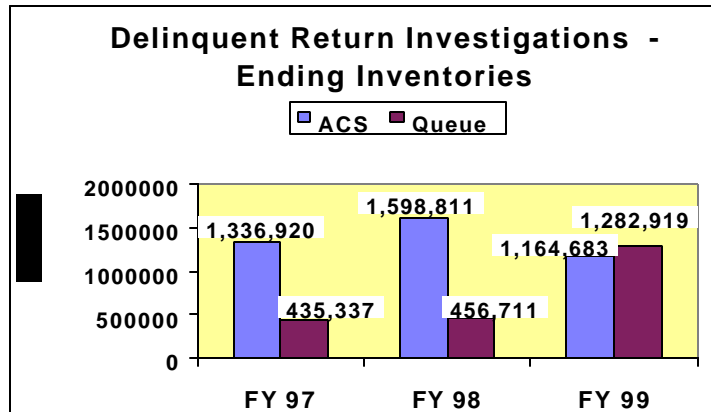
Source: National Headquarters Collection Division

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The following chart shows that, although the ACS inventory of delinquent return investigations decreased by more than 172,000 modules from FYs 1997 to 1999, nearly 848,000 modules were transferred to the Queue during this same period of time. This means that the overall number of delinquent return investigations in inventory is growing significantly.

*The number of unresolved delinquent return investigations assigned to the Queue has nearly tripled from FY 1997 to FY 1999.*



Source: Collection Report 5000-4

In a questionnaire response to the National Headquarters on the SCMC emerging issue of increasing inventories and decreasing resources, one ACS manager stated that:

*We should be filing federal tax liens on cases going into the queue that exceed a pre-established dollar criterion. With the (queue cutoff scores) being what they are, there are millions of dollars that could be collected passively just by the filing of the federal tax lien.*

The increases in the Queue inventory could have a significant impact on voluntary compliance. Before collection action was suspended on these cases, the IRS had sent one or more written notices to the taxpayers and may have also attempted telephone contact with the taxpayers. No IRS follow-through on these cases could affect future filing and payment choices by these taxpayers.

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### **Recommendation**

3. Customer Service management needs to re-evaluate IRS policy and procedures concerning the use of enforced collection tools, such as liens and levies, to more effectively promote the use of these tools while, at the same time, ensuring that taxpayer rights are protected in accordance with the RRA 98.

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### **The Internal Revenue Service Is Redesigning the Automated Collection System to Address Increased Inventory and Productivity Concerns**

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The IRS took a number of actions in FY 1999 to strengthen the management of the ACS. The National Director, Compliance and Accounts Division, was assigned the overall executive responsibility for policy and guidance. In addition, a Collection Branch was established in the Compliance and Accounts Division with responsibility for both call site and service center support activity in the ACS. Also, an ACS Section was reestablished by hiring a section chief and bringing together the ACS analysts who had been spread out among several sections within Customer Service.

In addition to systemically moving ACS inventory to the Collection Queue and closing accounts as CNC, Customer Service management officials are currently implementing or evaluating various initiatives to improve the efficiency of the ACS function and address the increasing ACS inventory levels. As previously mentioned, these initiatives include the use of a predictive dialer and a single 1-800-number for all ACS call sites. An ACS Improvement Task Force established in January 2000 is reviewing several other initiatives to make the ACS more effective and productive.

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*The IRS implemented the Predictive Dialer Program after initial tests showed that it increased outgoing call productivity.*

### **Predictive Dialer Program**

The predictive dialer is designed to increase the efficiency of the ACS tax examiners by systemically making outgoing calls on a predetermined inventory of cases. When contact is made, the dialer transfers the call to a tax examiner who handles it as an incoming call. If contact is made with an answering machine, a message is left to call the IRS. If there is no answer or a busy signal is reached, the dialer records that information and reschedules the case for a follow-up call later in the day. If there has been no contact with the taxpayer at the end of the day, the dialer uploads that information to the ACS database.

The IRS began testing the predictive dialer at its Upstate New York ACS call site in 1996. The IRS' evaluation of the predictive dialer showed that it resulted in increased outgoing call productivity and decreased inventory in the ACS Contact function.<sup>6</sup>

In June 1999, the IRS began consolidating the outgoing call programs from the individual ACS call sites to the Upstate New York call site. The consolidation was completed in January 2000.

For the predictive dialer to work the ACS inventory more efficiently, the inventory is broken up into small, more manageable workload groups (usually 500 to 1,000 taxpayers) called "campaigns." The IRS has created and prioritized 10 campaigns that the predictive dialer will run.

### **Single 1-800-number**

*The single 1-800-number is intended to increase ACS efficiency by promoting taxpayer callbacks.*

Beginning in FY 2000, a single 1-800-number was included on delinquency notices and ACS correspondence mailed to taxpayers. The use of the 1-800-number is designed to promote return calls from taxpayers since incoming calls are considered to be the most productive.

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<sup>6</sup> The Contact function in the ACS handles taxpayer telephone calls.

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With the use of the single 1-800-number, ACS hours for incoming call operations will be standardized at all call sites from 8 AM to 8 PM, Monday through Friday. The ACS will also be implementing call routing technology in FY 2001.

### **ACS Improvement Task Force**

An ACS Improvement Task Force was formed in January 2000 to improve both ACS systems and procedures in the RRA 98 environment and the quality and efficiency of case processing, including appropriate and timely enforcement action. The Task Force reported its findings to IRS executives in February 2000. As a result, IRS management plans to take a more proactive approach concerning enforcement actions while ensuring that taxpayer rights are protected.

For example, management plans to issue a semi-annual reminder notice that will advise taxpayers of a lien filing if there is no response to the notice. They will also systemically review cases to make lien determinations, possibly in connection with the semi-annual notice. They also plan to analyze the ACS inventory to determine the impact of lowering the lien filing dollar level.

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### **The Internal Revenue Service's Actions to Improve the Automated Collection System Need to Be Planned, Implemented, and Managed Within a Sound Strategic Framework**

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*There are three specific areas where further ACS program improvements could be made.*

The initiatives discussed in the previous section of this report are a positive sign that the IRS recognizes the need to take actions to improve the effectiveness of the ACS function. The IRS needs to take a totally integrated approach to ensure that these actions are effectively planned, implemented, and managed within a sound strategic framework. The IRS could significantly enhance its chances for success by:

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- Developing and using a comprehensive organizational master work plan for improving the ACS.
- Clarifying and articulating the ACS mission.
- Appointing an executive to serve as the ACS system or process owner.

### **A master work plan for improving the ACS is needed**

IRS executives have stated that reinventing the ACS is the single most important action that can be taken to positively change the downward trends of IRS revenue collections and use of enforcement tools. At present, IRS executives from both the National Headquarters and field offices are attempting to address these concerns.

Currently, different IRS organizations are undertaking a number of initiatives to improve ACS performance. However, these initiatives have not been integrated into a consolidated work plan and are not being centrally coordinated and controlled by an IRS executive with total authority and responsibility for the ACS Program.

*A comprehensive master work plan could enhance the management of the various ACS improvement initiatives.*

The development and use of an organizational master work plan for improving the ACS would bring unity to all the independent initiatives being taken and provide IRS management with an overall planning and monitoring tool. A master work plan would provide objectives and direction to the overall project by laying out the activities, deliverables, time frames, milestones, decision points, and resource allocations for the effort and serve as the baseline for managing activities and measuring progress. The use of a master work plan would also minimize any duplication of ACS initiatives, ensure effective and consistent communication of ACS Program activities, and establish accountability for ACS initiatives, including timely implementation schedules.

### **The ACS mission needs to be clarified**

Three years ago, the IRS transferred the ACS from the Collection function to the Customer Service function.

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The purpose of this reorganization was to move all of the IRS' telephone operations into the same function.

Several important changes have occurred since the reorganization. For example, we were informed by an ACS analyst that:

- Some ACS procedures have been integrated into the Customer Service operating guidelines while others, such as the tier payment procedures, have been dropped.
- The ACS managers' span of control has increased from 8-10 to 15-17 caseworkers.
- Many of the ACS call site managers currently do not have an ACS or Collection background.

In September 1998, the IRS revised its mission statement to the following:

*The IRS has changed its mission statement to place more emphasis on providing customer service.*

*Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.*

The General Accounting Office's *Business Process Reengineering Assessment Guide* states that a redefinition of an organization's mission and goals is one of the components that is essential to a well-managed process. However, the IRS has not clearly established and communicated the role that the ACS is expected to serve within the new organization structure, the new mission statement, and the new taxpayer protections provided by the RRA 98.

*Various perceptions of the ACS mission exist.*

Our discussions with managers in the National Headquarters and field offices showed that there are a wide variety of perceived ACS missions. These perceptions range from "providing resources to the toll-free telephone system" to "providing reliable information to taxpayers" to "answering telephone calls" to "collecting taxes."

Some ACS managers responded to the previously mentioned SCMC questionnaire that the IRS' new

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emphasis on customer service and the new collection procedures, brought about by the RRA 98, have created frustration and confusion among the front-line ACS employees. For example, one ACS manager stated that:

*Employees are frustrated with the removal of their authority to take actions that they have been trained to do and always have done . . . .*

*We have forced them to go from protecting the government's interest to trying to help our customers. For many, that has been hard or even impossible to do.*

*Stop showing that collection is not important while saying it is. Pulling collection folks off of their work to help (toll-free) sends a signal to the employees that your work can wait and it is not important.*

Another ACS manager stated that:

*Employees' attitudes in the ACS Branch have changed dramatically since the changes mandated by the RRA 98. They feel that, unlike in the past, taxpayers are no longer treated in a 'firm but fair' manner. They feel that, due to the RRA 98 changes, the emphasis is on treating taxpayers in a 'fair' manner and, because of Section 1203, they, as collection representatives, are not protected if they are 'firm' in the deadlines or requests they make to taxpayers with delinquent accounts.*

A third ACS field manager stated that:

*We need to provide better guidance to personnel engaged in collection activity as to what are sustainable enforcement actions. Most collection personnel feel that they will not get any support with respect to hard decisions because the table is currently tipped to the extreme. In this climate, they are demoralized and feel that their work is devalued. Their own attitude toward compliance is changing as a*



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*result of current practices. . . . What has really been communicated to the field is the equivalent of a laissez faire approach to collection . . . .*

*A clear ACS mission statement is needed to establish direction and facilitate the measurement of program results.*

Without a clear mission statement, the ACS organization is finding it difficult to arrive at a set of performance goals and related balanced measures to effectively monitor the ACS' incremental progress in achieving improvement. At the end of January 2000, for example, the ACS balanced measures for FY 2000 had not been established.

### **A system or process owner is needed for the ACS**

*The ACS has not had an exclusive executive leader who can champion the Program.*

The ACS is one of the most visible and important IRS compliance programs. However, we were advised that, since its transfer from the Collection function to the Customer Service function approximately 3 years ago, there has been no IRS executive to "champion" the ACS Program.

Instead, the management of the ACS has been vested in various stakeholders. For example, the Collection function still "owns" the "Collection" process and, as a result, retains many of the policy and procedural responsibilities for the ACS Program. A Customer Service executive is responsible for the operational management of the ACS, in addition to having responsibilities for other major programs. Field Operation executives are also undertaking initiatives on an "ad hoc" basis to improve the effectiveness and the efficiency of the ACS Program.

Not having a central focal point may have impaired the IRS' ability to react promptly to the declining ACS business results and to strike the appropriate balance between providing customer service, protecting taxpayer rights, and effectively emphasizing the enforcement of the tax laws.

*The IRS is creating a new organizational structure with operating units serving taxpayers with similar needs.*

In response to the RRA 98, the IRS is currently in the process of creating a new organizational structure with four operating divisions that will be fully responsible for providing all of the tax administration needs of specific

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*The ACS will be split between the W&I and SB/SE Divisions in the IRS' new organizational structure.*

taxpayer segments. They are the Wage and Investment (W&I) Division, the Small Business/Self-Employed (SB/SE) Division, the Large and Mid-Size Business Division, and the Tax Exempt and Government Entities Division.

Under this new structure, the ACS will be split between the W&I and SB/SE Divisions. In each of these divisions, the ACS function will be under a Director of Compliance who reports to the Commissioner of the respective business operating division. Customer Service management advised us that the split of ACS cases between W&I and SB/SE is 64/36 percent, respectively. Some ACS call sites will be dedicated to W&I cases and others will be dedicated to SB/SE cases.

As the IRS proceeds with its reorganization, it is unclear whether the IRS executives currently assigned ACS Program responsibilities will continue with those responsibilities in the new operating divisions. It is also unclear how ACS policy and procedures will be implemented across the divisional lines.

Nationally, the management of the ACS is a complex responsibility that includes areas such as strategic planning, budget and finance, human resource management, business processes and products, and technology and support systems. Spanning each of these areas is performance, which includes measures, benchmarking, data analysis, and trend analysis.

Without a top-down approach to managing the ACS as the IRS evolves into its new operating divisions, the risks are increased that high-level problems may not be solved, priorities may not be correctly assigned, efforts may not be effectively coordinated, and conflicting or duplicative actions may not be promptly identified.

Appointing a lead executive as the exclusive ACS system or process owner would increase the probability of a successful ACS Program in the IRS' future organizational structure. This executive could improve ACS performance by taking the following actions:

- Establishing clear ACS goals and objectives.

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- Setting clear ACS Program direction and priorities with related performance measures.
- Coordinating change proposals with the new IRS operating divisions.
- Integrating multiple ACS system improvements into the ACS process.
- Affixing clear accountability for business results.

### **Recommendations**

To ensure that the various initiatives that are underway are successful for reversing the undesirable performance trends in the ACS, Collection and Customer Service management officials need to:

4. Develop a master implementation plan that integrates all of the ACS initiatives and necessary improvement actions and identifies the responsible management officials and related time lines.
5. Develop clear goals and objectives for the ACS that incorporate and appropriately balance collection, customer service, and taxpayer rights principles and clearly articulate those situations where enforced collection actions are appropriate.
6. Appoint a lead executive to serve as the system/process owner who will ultimately be responsible for managing the performance of the ACS. The other affected business unit would be the partner in the improvement project and would work with the lead executive to ensure the effective and efficient use of systems and resources and to ensure the equitable treatment of taxpayers.

### **Conclusion**

The ACS Program has been negatively impacted in recent years by reduced funding, the diversion of resources to customer service activities, and the

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implementation of the RRA 98. IRS executives have recently recognized the seriousness of the decline in the ACS business results and are currently taking a number of actions to improve the effectiveness and efficiency of the ACS Program.

To best manage its accounts receivable inventories, maximize the collection of delinquent taxes, and promote taxpayer compliance, the IRS needs to stabilize the ACS workforce and take actions to ensure that its ACS employees understand that enforcement tools can and should be used when appropriate. The IRS also needs to take a totally integrated approach to ensure that the various actions that are underway for improving the ACS are effectively planned, implemented, and managed within a sound strategic framework. This includes developing and using a comprehensive organizational master work plan for improving the ACS, clarifying and articulating the ACS mission, and appointing an executive to serve as the ACS system or process owner.

### **Detailed Objectives, Scope, and Methodology**

The overall audit objectives were to evaluate the performance of the Automated Collection System (ACS) and to determine whether the Internal Revenue Service (IRS) has developed effective management strategies for improving the ACS in response to Congressional concerns involving reduced delinquent account collections and enforcement activities.

The audit was conducted in the National Headquarters Customer Service and Collection functions, with selected contacts with representatives from IRS field offices. The audit period covered ACS performance data from Fiscal Years (FY) 1997 to 1999 and ACS management initiatives in FY 2000.

To accomplish our objectives, we:

- I. Evaluated the performance of the ACS Program.
  - A. Researched and reviewed IRS management information system reports to evaluate trends for ACS performance indicators such as revenue collections, allocated resources, inventory levels, and enforcement actions taken.
  - B. Interviewed IRS executives and managers, as needed, to gain a perspective and understanding of the performance trends identified.
- II. Determined any initiatives IRS management is taking to improve the ACS Program.
  - A. Interviewed IRS executives and managers to gather information about initiatives that are being taken to improve the ACS Program.
  - B. Gathered and examined documentation about ACS improvement initiatives.
- III. Determined whether the IRS has a system owner who has program responsibility for the ACS Program and who can effectively champion the ACS Program's interests.
  - A. Interviewed IRS executives and managers in the National Headquarters and the field offices to determine their perceptions regarding responsible ACS Program officials.
  - B. Researched and reviewed IRS organizational material to evaluate the effectiveness of the ACS organizational structure.

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- IV. Determined whether the IRS has a master work plan to improve the ACS and whether the master work plan integrates all ACS initiatives and necessary improvement actions.
  - A. Interviewed IRS executives and managers in the National Headquarters and the field offices to determine whether there is an ACS master work plan that shows the improvement actions to be taken, along with the officials responsible for these actions, and related time lines.
  - B. Researched and reviewed IRS material regarding improvement initiatives to evaluate whether they are integrated into an overall master work plan.
- V. Determined whether the IRS has an ACS mission statement and related balanced measures that incorporate and appropriately balance both collection and taxpayer rights principles.
  - A. Interviewed IRS executives and managers in the National Headquarters and the field offices to determine their perceptions regarding the ACS mission and balanced measures.
  - B. Researched and reviewed IRS material regarding the ACS mission and balanced measures to evaluate whether there is an appropriate balance between collection and taxpayer rights principles.

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**Appendix II**

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**Appendix III**

**Report Distribution List**

Deputy Commissioner Operations C:DO  
Chief Operations Officer OP  
Commissioner, Large and Mid-Size Business Division LM  
Commissioner, Small Business/Self-employed Division S  
Assistant Commissioner (Collection) OP:CO  
Assistant Commissioner (Customer Service) OP:C  
National Director, Customer Service Compliance, Accounts & Quality OP:C:A  
Director, Collection Redesign OP:CO:R  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis M:O  
Office of the Chief Counsel CC  
National Taxpayer Advocate C:TA  
Office of Management Controls CFO:A:M  
Audit Liaisons:  
    Assistant Commissioner (Collection) OP:CO  
    Assistant Commissioner (Customer Service) OP:C



**Overview of the Role of the Automated Collection System in the Collecting Process**

The collecting mission of the Internal Revenue Service (IRS) is to promptly collect the proper amount of Federal tax from all persons who have not paid tax and/or filed returns as required by law, and to encourage future compliance with the law.

The IRS collecting process involves computer-generated notices, telephone contacts, and personal field contacts:

- Once delinquent taxpayers are identified, the IRS service centers send **notices** to those taxpayers requesting payment or information to otherwise resolve their tax problem.
- If the taxpayer does not comply with the notice by submitting payment in full or providing information to explain why payment cannot be made, a delinquent account may be assigned to the **Automated Collection System (ACS)** where tax examiners attempt to speak with the taxpayer by telephone.
  - If the taxpayer cannot pay all that is owed, ACS tax examiners have the authority to set up an **installment agreement** for the taxpayer to pay the tax over a period of time by making monthly payments.
  - ACS tax examiners have the authority to take **enforcement actions** when necessary to collect the balance due or to protect the government's interest. These include serving **levies** on the taxpayer's bank accounts or salary and filing **liens** against the taxpayer's property.
  - ACS tax examiners have the authority to report an account as **currently not collectible** if the taxpayer cannot be located or cannot pay due to hardship.
- Higher priority<sup>1</sup> accounts that are not resolved by ACS are reassigned to the Collection Field function (Cff) where Revenue Officers make **field contacts** with the taxpayers.
- Lower priority accounts that are not resolved by ACS are reassigned to an automated holding file called the **Queue** where they are held in an inactive status until a change in the circumstances of the case occurs which causes it to be reactivated.

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<sup>1</sup> The collection potential of each delinquent account is scored by computer. Accounts meeting certain criteria may bypass the ACS for direct assignment to the Cff.