



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

April 30, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Office of Audit Comments Concerning Management's Response to the Audit Report, "The Internal Revenue Service Needs to Improve the Development and Management Oversight of the Collection Field Function Inventory Priorities"

This memorandum presents our concerns with the Small Business/Self-Employed (SB/SE) Division's response to the audit report, *"The Internal Revenue Service Needs to Improve the Development and Management Oversight of the Collection Field Function Inventory Priorities"* (Reference Number 2000-30-128). The response to the report was received after the final report was released.

The response stated that the Office of Audit review was too narrow in scope since it primarily focused on interim procedures described in the March 19, 1999, memorandum "Bringing the Collection Inventory into Balance with Resources – Casework Priorities and Internal Revenue Manual Deviations." Management also stated that they agreed in principle with many of the recommendations, but thought that they should be implemented in the planned risk-based methodology.

We believe the report clearly states why we considered it important to review the impact of these procedures, and places the interim procedures in the proper context within the Collection function's overall inventory management strategy. Furthermore, these were the primary procedures being used to assign Collection function fieldwork at the time of our review and were still in effect at the time the report was issued. We see evidence that these priorities carried forward into the subsequent fiscal year, and are included within the new risk-based methodology.

We agree that management should implement our recommendations within the framework of the new risk-based methodology. We also believe that the new risk-based

approach is a much-needed change in the Collection process and have agreed to participate on the reengineering team.

For the disagreed recommendations, we have the following comments.

Recommendation: Collection management should take steps to ensure cases are not prematurely transferred to the Queue, shelved or closed while potentially lower priority cases (under a specified dollar amount) are in open inventory.

Management's Response: This recommendation does not appear to be supported. This is one of the areas where a further review of work papers would have helped understand the true nature of the recommendation.

Office of Audit Comments: We did not deny access to our workpapers, as the response states. On July 6, 2000, we furnished the designated Collection analyst supporting documentation for the numbers in our report, including the month and line item of the Collection Activity Reports (CAR) and Integrated Collection System (ICS) which contain the source information. Subsequent to this, Internal Revenue Service staff (IRS) did not ask any questions concerning the documentation we provided, nor did they request any further information. We did not provide copies of the approximately 150 individual queries we made to those systems because they were not, in fact, in our workpapers, for the following reason. The IRS was unable, because of technical limitations, to provide us with full access to the ICS; in particular, our access was configured to *restrict* printing capabilities. As our July 6, 2000 response indicated, the IRS could access and research the same data as the auditors, and it would have been much easier for the IRS to do this due to the auditors' access limitations.

Additionally, we noted the following inconsistencies in the response, in which SB/SE Division management states the recommendation does not appear to be supported.

- The response attachment (page 5) agrees that the number of cases within the Queue with aggregate balances greater than \$100,000 has increased during the time period from January 1999 to January 2000. This agrees with the condition the auditors identified.
- On pages 4 and 5 of the attachment, SB/SE Division management recognized that non-priority work is still occurring within revenue officer inventories and that the IRS has not yet developed a system to identify or track cases identified as taxpayer needs or requests contact. This also agrees with the condition the auditors identified.

Although we disagreed with the Collection function analysts on how to best measure inventory activity during this review, there seems to be little disagreement with the basic findings of fact. Cases in excess of \$100,000 are increasing within the Queue, and field inventories are not composed of the type of cases the priority memorandum intended. For these reasons, we believe that this recommendation is still very important. As in prior recommendations, management should implement corrective actions within the framework of their new risk-based methodology to ensure that the higher priority cases are sent to the field and worked.

Recommendation: Collection Management should re-evaluate the March 1999 procedures and consider the impact of potential inequitable treatment and the risk of not protecting the government's interest.

Management's Response: We do not agree with this recommendation. To comply with legal requirements, we would have to attempt contact on each case. This would defeat the purpose of allowing cases to be shelved. It is important to note, however, that we continue to have discussions with our Counsel on how best to protect the government's interest without violating provisions of RRA 98.

Office of Audit Comments: The response does not disagree with the stated condition that cases are being shelved without liens being filed. The number of federal tax liens has dramatically dropped over the past four years, which has been widely recognized. Cases were shelved without liens being filed, although the basic requirements of contact apparently could have been satisfied. Further, once these cases are shelved, they may not be appropriately followed up for collection, thereby compromising the government's interests. There appears to be a fundamental disagreement or misunderstanding within the IRS as to what actually constitutes taxpayer contact and, therefore, does not violate provisions of RRA 98. During a meeting with SB/SE Division management on November 27, 2000, officials stated that taxpayer contact could be a "letter, phone call, or personal face to face visit." For shelved cases, the taxpayer usually has been sent a notice and, in some cases, could have been contacted by telephone; therefore, a lien could have been filed. This position is essentially the same criteria that the auditors understood and used when analyzing the shelved case inventory.

Consequently, we recently began an audit to determine whether Collection function policies on filing liens help the IRS achieve its goal of protecting the government's interest. We will include the nonfiling of liens on shelved cases in that review. We will follow up with SB/SE Division management and verify our understanding of these procedures.

We continue to believe our recommendations are worthwhile. However, we do not intend to elevate our disagreement to the Treasury Department for resolution. Therefore, no further action on your part is necessary at this time.

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.