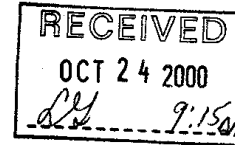




COMMISSIONER

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

October 23, 2000



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Charles O. Rossotti *Bob Wenzel*  
Commissioner of Internal Revenue

SUBJECT: Draft Audit Report—The Internal Revenue Service Can  
Better Use Collectibility Information During the Examination  
Process

Thank you for the opportunity to review and comment on your recent draft report titled "The Internal Revenue Service Can Better Use Collectibility Information During the Examination Process". In general, we agree with your concerns that examiners sometimes conduct audits on taxpayers that may be a collection risk. However, we are pleased you found payment solicitation efforts on agreed examinations were frequently successful.

We have taken some measures to communicate and reinforce the requirements for considering collectibility prior to and during the course of an examination:

- We revised the Internal Revenue Manual (IRM) sections concerning collectibility considerations and payment solicitation by examiners, into one comprehensive handbook, IRM 4.3.2, Exam Collectibility Handbook. Chapter 2 of the handbook deals exclusively with the requirement for considering collectibility prior to and during the course of an examination.
- We issued a memorandum to field personnel to tell them of the IRM revision and included a reminder to consider Collectibility Indicators and/or Collection potential prior to and during the course of an examination.
- We initiated a Request for an Information Systems (RIS) change to identify taxpayers where an Offer-in-Compromise is currently under consideration or has been accepted on a previously filed tax year. We expect the change to be functional on or by Fiscal Year 2002.

- We conducted a field visit to solicit recommendations for improving Collectibility Indicators, the Examination-Collection referral process, and the extent to which coordination occurs in determining collection potential. Final development and nation-wide implementation of the recommendations is under consideration by Examination & Collection personnel.
- We initiated development of a formal training course on Examination Collectibility Procedures. We expect the course material to be completed on or by January 2001.

The following responses are provided to the recommendations contained in the draft report:

**IDENTITY OF RECOMMENDATION/FINDING 1**

The Director, Compliance (SB/SE) should stress the need for first line managers and examiners to become more involved in collectibility determinations before and after assignment. This should be monitored during operational reviews of the managers.

**ASSESSMENT OF CAUSE**

Your case reviews show that once a case was sent to a group after classification, little (if any) documentation existed showing the examiner and/or his/her manager had discussed or considered the Collectibility Indicators present. Current IRM guidelines require the examiner to document his or her consideration of collectibility, consult with the manager when a collectibility issue is identified, and obtain managerial approval on survey or limited scope dispositions.

While I concur that front-line managers and employees should become more involved in collectibility determinations, this responsibility is shared with the classifier and/or Planning & Special Programs (PSP) Branch. When reviewing a case for examination, examiners and front-line managers may have concluded that collectibility had already been sufficiently considered during the return classification process.

**CORRECTIVE ACTIONS**

The Director, Compliance Policy (SB/SE) will issue clarifying guidance and update the IRM to require:

- Chiefs PSP to ensure the classification checksheet is documented to reflect consideration of collection potential on returns with Collectibility Indicators sent to the field for examination.

- Examiners and managers to document their discussion of collection potential on activity record, Form 9984, for returns with Collectibility Indicators put under Examination.

**IMPLEMENTATION DATE**

January 1, 2001

**RESPONSIBLE OFFICIAL(S)**

Director, Compliance Policy (SB/SE)

**CORRECTIVE ACTION(S) MONITORING PLAN**

We will use:

- Operational and case reviews to monitor the level of adherence to the procedures.
- EQMS results to determine the level of compliance with documentation requirements.

**IDENTITY OF RECOMMENDATION/FINDING 2**

The Director, Compliance (SB/SE) should instruct managers and employees to make a collectibility determination before an examination starts, especially on taxpayers that are not voluntarily filing tax returns. This can be accomplished by reviewing a summary of the taxpayer's account. The corrective action for this recommendation should be coordinated with the new Non-Filer Strategy being developed for taxpayers that are not voluntarily filing tax returns.

**ASSESSMENT OF CAUSE**

Many of the "exception" cases identified from your case reviews were non-filers with large unpaid deficiencies. In one instance, you identified an internal memorandum which stated that the examination should be pursued regardless of collection potential. While the Non-Filer Strategy has historically excluded consideration of collection potential, we are revising this aspect of the strategy.

**CORRECTIVE ACTIONS**

The Director, Compliance Policy (SB/SE) will issue clarifying guidance and update the IRM and the Non-Filer Strategy (Policy Statement) to allow consideration of collection potential in determining whether examination of a non-filer should be pursued.

**IMPLEMENTATION DATE**

April 1, 2001

**RESPONSIBLE OFFICIAL(S)**

Director, Compliance Policy (SB/SE)

**CORRECTIVE ACTION(S) MONITORING PLAN**

As a part of the ongoing revision process for the IRM, we will periodically survey/interview field employees to ensure the IRM guidance remains complete and clear.

**IDENTITY OF RECOMMENDATION/FINDING 3**

The Director, Compliance (SB/SE) should revise the Collectibility IRM to explain how to identify the Collectibility Indicator and consider making the indicator more obvious on the tax return charge out.

**ASSESSMENT OF CAUSE(S)**

Your field visits show many examiners do not know how to identify the Collectibility Indicator on the return charge out document (Form 5546). The indicator appears only as one letter on the charge out document, and could easily be overlooked. Further, the charge out document is not always available before an examination is initiated.

**CORRECTIVE ACTION(S)**

The Director, Compliance Policy (SB/SE) will issue clarifying guidance and update the IRM to explain how to locate Collectibility Indicators on the charge out document, an AMDISA print, and on a MACS print. The guidance will also require that alternative steps be taken in instances where a charge out document is not available (i.e. view AMDISA print for Collectibility Indicators, view master file summary of taxpayer's account).

A RIS for modifications to the Collectibility Indicators is in place and expected to be operational in January 2002. We will amend the RIS to request the charge-out document reflect a literal indicator rather than a one character indicator, using the same format as is currently reflected on an AMDISA print.

**IMPLEMENTATION DATE**

January 1, 2001

February 1, 2002

**RESPONSIBLE OFFICIAL(S)**

Director, Compliance Policy (SB/SE)

**CORRECTIVE ACTION MONITORING PLAN**

As a part of the ongoing revision process for the IRM, we will periodically survey/interview field employees to ensure the IRM guidance remains complete and clear. Once the RIS has been completed, we will conduct sample testing to ensure the requested changes are functioning properly.

**IDENTITY OF RECOMMENDATION/FINDING 4**

The Director, Compliance (SB/SE) should request a revision to the Collectibility Indicator programming to exclude accounts where collection was not or is no longer at risk.

**ASSESSMENT OF CAUSE(S)**

Your reviews show that in some instances, the Collectibility Indicator was still present when the module which prompted the indicator had been full paid or the Collection Statute Expiration Date had passed. Systems changes were discussed with the programmer; however, he stated that the indicator should not be present in such instances because of the criteria built into the program. He is currently reviewing the program language, criteria, and modules in question to determine whether we will need a RIS for corrective programming changes. The indicators are meant to alert the examiner to consider collection potential. Upon identifying an indicator, the examiner (manager, or classifier) will conduct some research to determine collection potential—the examiner should not be surveying (non-examining) a return merely because the indicator is present without conducting any background research.

**CORRECTIVE ACTION(S)**

The Director, Compliance Policy (SB/SE) will continue to coordinate with the systems programmer to ensure the indicator(s) is functioning properly, and to determine whether corrective program changes will be needed. We will amend the current RIS on Collectibility Indicators, if necessary, to include the corrective programming changes.

**IMPLEMENTATION DATE**

February 1, 2002

**RESPONSIBLE OFFICIAL(S)**

Director, Compliance Policy (SB/SE)

**CORRECTIVE ACTION MONITORING PLAN**

Once the RIS and/or programming changes have been completed, we will conduct sample testing to ensure the requested changes are functioning properly.

**DESCRIBED BENEFITS**

Your report proposes certain measurable benefits that recommendations 1-4 would have on tax administration. While it is recognized that the benefits were not derived from a statistically valid sample, we otherwise take no exception with the methodology and concur with the reported benefit.

If you have any questions, please call Glenn Henderson, Director, Compliance, at (202) 927-1539.