

**The Internal Revenue Service Needs to  
Allocate Adequate Resources to Work  
Correspondence Cases Timely and  
Consistently**

**November 1999**

**Reference Number: 2000-40-006**

**This has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release had been redacted for this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

November 4, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

*Pamela J. Gardiner*

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service Needs to  
Allocate Adequate Resources to Work Correspondence Cases  
Timely and Consistently

This report presents the results of our review of the Internal Revenue Service's (IRS) Duplicate Social Security Number (SSN) Earned Income Tax Credit (EITC) Repeater Project. As part of the Fiscal Year 1998 Revenue Protection Strategy, two service centers conducted correspondence examinations of approximately 140,000 taxpayers in an effort to reduce the abusive use of SSNs to claim the EITC. The objective of this review was to determine the Project's effectiveness in reducing the abusive use of dependent SSNs.

In summary, we found that the IRS made significant strides during the 1998 filing season in preventing erroneous refunds and claims for the EITC from going to non-qualified taxpayers. However, the service centers experienced difficulty managing the amount of taxpayer correspondence generated by this Project. During the early stages of our review, we advised the National Director, Customer Service, Compliance, Accounts and Quality Division, to release the frozen refunds of thousands of taxpayers who had responded to their Initial Contact Letters, or did not claim the abused SSNs on their 1997 returns.

We recommended that the IRS allocate adequate resources to work the inventory timely and consistently, as well as handle the resulting Problem Resolution Program (PRP) and Application for Taxpayer Assistance Order (ATAO) cases. We also recommended that Project guidelines be revised to ensure consistency, maintain adequate case control, and reduce the risk of missed assessments. In addition, we recommended that

non-examined 1997 returns be closed off the control system properly to avoid distorted inventory reports and duplication of effort.

The Chief Operations Officer agreed to implement the recommended corrective actions presented in this report. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

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 Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 455-2475.

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# **The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently**

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## **Executive Summary**

As part of the Internal Revenue Service's (IRS) Fiscal Year (FY) 1998 Revenue Protection Strategy, two service centers conducted correspondence examinations of 140,000 taxpayers involving 350,000 tax periods. These taxpayers all filed income tax returns (1995 and/or 1996) claiming the Earned Income Tax Credit (EITC). The EITC qualifying child's Social Security Number (SSN) was also used by another taxpayer to claim the EITC. Taxpayers selected for the Duplicate SSN EITC Repeater Project were subjected to the normal notice and examination processes. The only exception was that their Tax Year 1997 refunds were systemically frozen from refunding.

The objective of this review was to determine the effectiveness of the Duplicate SSN EITC Repeater Project in reducing the abusive use of dependent SSNs by multiple taxpayers claiming the EITC.

## **Results**

The IRS made significant strides in preventing erroneous refunds and claims for the EITC from going to non-qualified taxpayers. By September 1998, approximately 89,000 Duplicate SSN EITC Repeater cases were examined, resulting in an estimated \$71 million in potential assessments. Over 35,900 taxpayers that were not entitled to use the abused SSN for EITC purposes did not claim the SSN again on their 1997 returns.

However, the service centers experienced difficulty managing the huge amount of taxpayer correspondence generated by this Project. During the early stages of our review, we advised Customer Service management to release the current year (1997) refunds of taxpayers who responded to Initial Contact Letters and/or filed 1997 returns without claiming the abused SSNs again. The IRS released current year refunds to both groups of taxpayers.

As of September 1998, there were still over 24,000 taxpayers waiting for their correspondence to be reviewed by tax examiners, and approximately 17,000 cases in Initial Contact Letter Status at one service center. The IRS needed to address the following areas to improve the operation of this Project, reduce taxpayer burden, and improve customer service:

### **Adequate Resources Were Not Allocated to Work Inventory Timely**

Due to the large inventory selected for the Project, tax examiners could not keep up with the volume of taxpayer correspondence. Inventories at both service centers soon became unmanageable.

## **The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently**

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### **Adequate Resources Were Not Allocated to Handle the Volume of Problem Resolution Program Cases Generated**

Since the general inventory of cases was not being worked timely, the number of cases meeting Problem Resolution Program (PRP) and Applications for Taxpayer Assistance Orders criteria grew rapidly. As of March 24, 1998, 1,354 taxpayers required PRP assistance, which was 93 percent above the norm for the number of taxpayers examined.

### **Taxpayers Were Not Always Treated Consistently**

The two service centers did not work the cases in a consistent manner. Some taxpayers received more time and opportunities to produce sufficient documentation. This inconsistent treatment potentially increased the burden placed on taxpayers handled at one service center, while putting program completion goals in jeopardy at the other service center.

### **Non-Examined Returns Were Not Always Closed Off the Control System Properly**

One service center did not always close non-examined 1997 returns off the Audit Information Management System properly. This resulted in distorted reports, duplication of effort, and impaired management's ability to determine required resources.

### **Project Guidelines Did Not Provide for Adequate Case Control and Increased the Risk of Missed Assessments**

The Project guidelines directed tax examiners to put a case into a specific holding status when additional information was requested from a taxpayer. However, there was no provision to distinguish between a case in which the taxpayer had already been issued a report of proposed tax changes and a case with merely a request for additional information. This increased the risk of missed assessments and loss of case control at one service center.

## **Summary of Recommendations**

We advised the National Director, Customer Service, Compliance, Accounts and Quality Division, that insufficient resources were allocated to handle the magnitude of taxpayer correspondence generated by the Duplicate SSN EITC Repeater Project. We recommended that adequate PRP resources be allocated to handle the fallout of cases from the Project. We also recommended that Project guidelines be revised to ensure that cases were worked consistently and the risk of missed assessments was reduced. In

## **The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently**

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addition, we recommended that tax examiners close non-examined returns off the control system properly when refunds were released.

Management's Response: Management responded that for the FY 1999 initiative they decreased the level of inventory selected, changed monitoring procedures, and developed contingency plans for shifting inventory if levels became unmanageable. A task force consisting of representatives from PRP, Counsel, the EITC Program Office, and the National Office Service Center Examination Branch revised all EITC letters.

In addition, changes were made to the Project guidelines. Management also agreed that it would be more efficient for tax examiners to close non-examined returns off the control system properly. Management directed that cases with reports of proposed tax changes be placed into a different status on the control system to reduce the risk of missed assessments.

Management's complete response to the draft report is included as Appendix IV.

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### Objective and Scope

The overall objective of this review was to determine the effectiveness of the Internal Revenue Service's (IRS) Duplicate Social Security Number (SSN) Earned Income Tax Credit (EITC) Repeater Project in reducing the abusive use of dependent SSNs by multiple taxpayers claiming the EITC.

This review was conducted at the Brookhaven and Ogden Service Centers with on-line reporting to the National Director, Customer Service, Compliance, Accounts and Quality Division, and the National Office Project Coordinator. This audit was conducted in accordance with *Government Auditing Standards* from October 1997 to September 1998.

As of the discontinuance of the audit fieldwork, there were over 255,000 cases still open in various stages of the examination process. Therefore, it was not possible to calculate final Project accomplishments for the purposes of this report.

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

### Background

The Duplicate SSN EITC Repeater Project was used as part of the Fiscal Year (FY) 1998 Revenue Protection Strategy to address the abusive use of dependent SSNs to claim the EITC. The Brookhaven and Ogden Service Centers were chosen to conduct correspondence examinations of 140,000 taxpayers involving 350,000 tax periods. These taxpayers all filed an income tax return (Tax Years (TY) 1995 and/or 1996) reporting a valid SSN of an EITC qualifying child claimed on another taxpayer's return. All the current year (1997) refunds of the selected taxpayers were systemically frozen from refunding.

*The Duplicate SSN EITC Repeater Project was used as part of the FY 1998 Revenue Protection Strategy to address the abusive use of dependent SSNs to claim the EITC.*



## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### Results

The IRS made significant strides in preventing erroneous refunds and claims for the EITC from going to non-qualified taxpayers. By September 1998, approximately 89,000 Duplicate SSN EITC Repeater cases were examined, resulting in an estimated \$71 million in potential assessments. Over 35,900 taxpayers that were not entitled to use the abused SSN for EITC purposes did not claim the SSN again on their 1997 returns.

However, the service centers experienced difficulty managing the huge amount of taxpayer correspondence generated by this Project. During the early stages of our review, we advised Customer Service management to release the current year (1997) refunds of taxpayers who responded to Initial Contact Letters and/or filed 1997 returns without claiming the abused SSNs again. The IRS released current year refunds to both groups of taxpayers. Thus, taxpayers that tried to resolve their situation were not penalized.

The IRS needed to address the following areas to improve the operation of this Project, reduce taxpayer burden, and improve customer service:

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### Adequate Resources Were Not Allocated to Work Inventory Timely

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*Tax examiners assigned to work the cases simply could not keep up with the volume of taxpayer correspondence. Inventories at both service centers soon became unmanageable.*

For the Duplicate SSN EITC Repeater Project, Initial Contact Letters had been mailed to taxpayers from October through December 1997. Taxpayers began responding to the letters and the number of tax examiners assigned to work the cases simply could not keep up with the volume of taxpayer correspondence. Inventories at both service centers soon became unmanageable.

By March 1998, over 86,000 letters from taxpayers who responded to their Initial Contact Letters were awaiting

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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technical review of their documentation. As of September 1998, there were still over 24,000 taxpayers waiting for their correspondence to be reviewed by tax examiners and approximately 17,000 cases in Initial Contact Letter Status (unworked and unassigned) at one service center.

### Recommendation

1. Customer Service management needed to ensure that adequate resources were allocated to timely work the Duplicate SSN EITC Repeater Project inventory.

Management's Response: Customer Service management reduced the size of the selected inventory for the FY 1999 initiative, improved their case monitoring process, and developed contingency plans for shifting inventories based on correspondence receipts.

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### Adequate Resources Were Not Allocated to Handle the Volume of Problem Resolution Program Cases Generated

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*Since the general inventory of Duplicate SSN EITC Repeater cases was not being worked timely, the number of cases meeting PRP criteria grew rapidly.*

Since the general inventory of Duplicate SSN EITC Repeater cases was not being worked timely, the number of cases meeting Problem Resolution Program (PRP) criteria grew rapidly.

The IRS expects about one half of one percent of taxpayers affected by a project to require PRP intervention. Considering that the Duplicate SSN EITC Repeater Project impacted 140,000 taxpayers, an estimated 700 PRP cases would be the expected normal result for such an undertaking. As of March 24, 1998, 1,354 taxpayers required PRP assistance, which was 93 percent above the norm.

This figure included 432 Applications for Taxpayer Assistance Orders (ATAO). Such a case is referred to the Taxpayer Advocate to handle because a taxpayer claims that a significant hardship would result from an

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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IRS action. PRP and ATAO cases are subject to limited time frames for case resolution and resources were stretched to the maximum.

### **Recommendation**

2. Customer Service management needed to ensure that adequate resources were allocated to handle the volume of PRP/ATAO cases generated by the Duplicate SSN EITC Repeater Project.

Management's Response: Customer Service management reduced the number of cases selected for the 1999 initiative. A task force consisting of representatives from PRP, Counsel, the EITC Program Office, and the National Office Service Center Examination Branch revised all EITC letters. The National Office planned to monitor inventories weekly and reduce resources allocated to other programs as necessary.

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### **Taxpayers Were Not Always Treated Consistently**

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*The Brookhaven and Ogden Service Centers did not work the inventory selected for the Duplicate SSN EITC Repeater Project in a consistent manner.*

The Brookhaven and Ogden Service Centers did not work the inventory selected for the Duplicate SSN EITC Repeater Project in a consistent manner. This inconsistent treatment increased the burden placed on taxpayers handled at one service center, while putting Program completion goals in jeopardy at the other service center.

### **Guidelines created processing delays**

According to the Project guidelines, tax examiners were:

- Mandated to put cases into a particular status on the Audit Information Management System (AIMS) when additional information was requested from taxpayers before issuance of a Notice of Deficiency to the taxpayer.

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- Instructed to update cases to a different status if a revised report should be sent to the taxpayer.

Processing delays were created when cases remained in a holding status for extended periods of time, or were placed there several times. There was also no way to systemically identify which taxpayers had or had not been sent reports of proposed tax changes.

### **Taxpayers were not always treated consistently**

We tracked a random sample of cases from the Brookhaven and Ogden Service Center inventories. We found that one service center was processing cases as stated in the guidelines, while the other was not. As a result:

- Some taxpayers received three opportunities to produce sufficient documentation, while taxpayers handled by the other service center generally received only two opportunities.
- Some taxpayers were given more time to prepare and submit their documentation, while taxpayers handled by the other service center usually were not given the same amount of time.

When taxpayers were subjected to the shortened process, their burden was increased. The period of time when they could exercise their informal appeal rights was abbreviated.

This inconsistent treatment increased the burden placed on taxpayers handled at one service center. On the other hand, the increase in processing delays, caused when taxpayers were given more time and opportunities to produce sufficient documentation, put Program completion goals in jeopardy at the other service center.

### **Recommendation**

3. Taxpayers needed to be treated consistently by both service centers to ensure that all taxpayers received the same number of opportunities and amount of time to supply documentation to the IRS.

*Taxpayers were not always treated consistently. Some received more time and opportunities to produce sufficient documentation than others.*

## **The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently**

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Management's Response: The National Office Service Center Examination Branch (SCEB) revised the Project guidelines and the respective Internal Revenue Manual to ensure that taxpayers received consistent treatment. They also planned field reviews to ensure that guidelines were followed.

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### **Non-Examined Returns Were Not Always Closed Off the Control System Properly**

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*Non-examined 1997 returns were not always closed off the AIMS properly.*

When a taxpayer selected for the Duplicate SSN EITC Repeater Project filed his/her current year (1997) return, and the abused SSN was not present, that return was not always closed off the AIMS properly.

#### **Guidelines for non-examined 1997 returns**

When a taxpayer under examination in the Duplicate SSN EITC Repeater Project filed a 1997 return without claiming the abused SSN, Project guidelines instructed the tax examiner to:

- Not examine the taxpayer's 1997 tax return.
- Release any refund hold on the 1997 account.
- Close the 1997 return off the control system using the appropriate disposal code.

#### **Effects of improper case closure**

We found that when taxpayers had not responded to their Initial Contact Letters, but filed their 1997 returns without using the abused SSN, their refunds were issued to them. However, the cases were not always closed off the control system with the correct disposal code at one of the service centers. As a result:

- Program administration was not efficient or effective.
- AIMS reports were distorted because inventory figures were inflated, and cases that should have been closed were represented as workable inventory.

*When cases were not properly closed off the control system, program administration was not efficient, inventory reports were distorted and duplication of effort occurred.*

## **The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently**

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- Management was not able to accurately determine the resources needed to work the inventory.
- Duplication of effort occurred because tax examiners had to identify and re-screen returns with released refunds in order to input the appropriate disposal code.
- Ongoing measurement of program objectives, such as modifying taxpayer behavior, could not be readily accomplished.

### **Recommendation**

4. Non-examined 1997 returns needed to be closed off the AIMS properly.

Management's Response: The National Office SCEB management advised the service centers to close non-examined cases with the proper disposal code when a case determination was made.

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### **Project Guidelines Did Not Provide for Adequate Case Control and Increased the Risk of Missed Assessments**

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The AIMS controls Examination Branch cases, provides management reports, and monitors the progression of cases through the examination process. Each status on the AIMS has a specific definition as cases move through the system and alerts management as to whether or not a report of proposed tax changes has been issued to the taxpayer.

The Duplicate SSN EITC Repeater Project guidelines did not provide for a distinction between cases with or without reports. In some instances, it was difficult to determine if a taxpayer had ever been issued a report of proposed tax changes.

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*The Project guidelines made no provision to distinguish between a case in which the taxpayer had already been issued a report of proposed tax changes and a case with merely a request for additional information.*

### **Guidelines did not provide for adequate case control**

According to the Project guidelines, tax examiners were mandated to put cases into a specific status when additional information was requested from taxpayers before issuance of a Notice of Deficiency. The guidelines made no provision to distinguish between a case in which the taxpayer had already been issued a report of proposed tax changes and a case with merely a request for additional information.

This lack of distinction between cases with and without reports created a loss of case control and increased the risk of missed assessments at one service center. By following the Project guidelines:

- On-line AIMS data at that service center no longer accurately disclosed where a particular case was in the examination process and the action taken.
- Management could not readily determine whether a taxpayer whose case was in the required status had ever been issued a report.
- Management could not predict the volume of cases going into Notice of Deficiency status.
- Without physically examining cases, there was no way to identify which cases still needed reports.
- Statute protection was impaired because TY 1995 cases without reports could not be systemically identified. This increased the potential risk of missed assessments.

### **Recommendation**

5. Project guidelines needed to be revised to provide for adequate case control and reduce the risk of missed assessments.

Management's Response: The guidelines were revised to clarify which AIMS status should be used and when to issue a report of proposed tax changes to the taxpayer.

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### Conclusion

*The IRS must continually re-evaluate its approach to how work is processed, and ensure that customers' needs are met at every step of the process.*

The IRS must continually re-evaluate its approach to how work is processed and ensure that customers' needs are met at every step of the process. Due to the emphasis now placed on customer service within the IRS, taxpayers need to be serviced quickly so that they do not reach the level of last resort for assistance (i.e., PRP).

Moreover, the IRS' commitment to superior customer service dictates that programs be implemented uniformly so that all taxpayers are treated equitably. This must be accomplished within the confines of achievable program completion goals.



**Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine the effectiveness of the Internal Revenue Service's (IRS) Duplicate Social Security Number (SSN) Earned Income Tax Credit (EITC) Repeater Project in reducing the abusive use of valid dependent SSNs by multiple taxpayers claiming the EITC.

To accomplish this objective, we:

- I. Reviewed the inventory selection process used by the District Office Research and Analysis (DORA) site to determine if the most productive inventory was selected to be worked by the Examination Division in the Duplicate SSN EITC Repeater Project.
- II. Obtained information on how tax returns were to be linked with related returns during the Duplicate SSN EITC Repeater Project.
- III. Held interviews with National Office and service center management to obtain information regarding the planning efforts and procedures developed for the correspondence examination of returns selected for the Duplicate SSN EITC Repeater Project.
- IV. Obtained and evaluated the procedures and guidelines identified by management to determine if the examinations were worked in the most efficient manner with the least burden possible placed upon selected taxpayers.
- V. Held meetings and obtained information about how the IRS planned to measure and track the accomplishments of the Duplicate SSN EITC Repeater Project to assess impact on revenue protection and taxpayer behavior.
- VI. Selected and tracked a random sample of cases from the Duplicate SSN EITC Repeater Project inventory at the two service centers chosen to work the Project to determine if cases were handled according to established policies and procedures.

To arrive at the selected sample size of approximately 404 returns per site, we used the Attribute Sampling Methodology with a Finite Population Correction Factor, a desired precision of + or – 3 percent, a desired confidence level of 95 percent, and an estimated error rate not to exceed 5 percent. We then used a database random query to select the actual cases at each site.

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- VII. Determined if the appropriate transaction and freeze codes were input to taxpayer accounts, and if refunds/EITC were accurately and timely frozen and/or released upon case resolution for the sample of cases selected above.

**Major Contributors to This Report**

Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs)

Kerry Kilpatrick, Director

Philip Shropshire, Deputy Director

Robert K. Irish, Audit Manager

Kathleen A. McFadden, Senior Auditor

Douglas Barneck, Auditor

Margaret Filippelli, Auditor

Francis Kearney, Auditor

Francis Maletta, Auditor

Anne Piersa, Auditor

Gail Schuljan, Auditor

**The Internal Revenue Service Needs to Allocate Adequate Resources to Work  
Correspondence Cases Timely and Consistently**

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**Appendix III**

**Report Distribution List**

Deputy Commissioner Operations C:DO

Chief Operations Officer OP

Assistant Commissioner (Customer Service) OP:C

Assistant Commissioner (Examination) OP:EX

Assistant Commissioner (Office of Program Evaluation and Risk Analysis) M:OP

National Director, Customer Service, Compliance, Accounts and Quality OP:C:A

National Director for Legislative Affairs CL:LA

Office of the Chief Counsel CC

Office of Management Controls M:CFO:A:M

Audit Liaisons:

(Customer Service) OP:C

(EITC Project Office) OP

The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

Appendix IV

Management's Response to the Draft Report



COMMISSIONER

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

August 11, 1999

OFFICE OF TREASURY  
INSPECTOR GENERAL  
RECEIVED

1999 AUG 12 A 7 07

FOR TAX ADMINISTRATION

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION

FROM:

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

SUBJECT:

Draft Internal Audit Report -- Review of Correspondence Examination's Fiscal Year (FY) 1998 Earned Income Credit (EIC) Initiative (Audit 980024)

We have completed our review of the subject Draft Internal Audit Report and acknowledge that improvements to the program and guidelines for EIC Initiative with Duplicate Social Security Number cases were required. The Service Center Examination Branch (SCEB) protected 447 million dollars in revenue from going out of the Treasury as a result of this initiative in FY 1998.

To improve future operations of this project, several enhancements have been made to reduce taxpayer burden and improve customer service in FY 1999. All 10 centers will have the equipment to operate the new Report Generation System, which will improve the speed and quality of our examination processes. Additionally, contact letters have been standardized and simplified to reduce taxpayer burden. Lastly, toll-free phones will roll out in five centers. The balance of the centers will be converting to the toll-free phones during the first quarter of FY 2000.

Below we have outlined our response to the recommendations contained in the above referenced report. However, after careful review, we find several items which we feel are exempt from disclosure under the Freedom of Information Act, 5 U.S.C 552, exemption (b)(7)E. The report details the process used to identify and select cases for examination, under what condition frozen refunds were released, and the general working guidelines of the program. If disclosed, this information could pose a risk of circumvention of the law.

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### IDENTITY OF RECOMMENDATION #1

The Service should ensure that adequate resources are allocated to work inventory timely.

### ASSESSMENT OF CAUSES

FY 1998 was the first year that the Duplicate Taxpayer Identification Number initiative was rolled out as a pre-refund project. The research study conducted on the Correspondence Examination FY 1998 EIC Initiative was performed as a post-refund study. The resources for this project were based on the response rate identified in the study. The actual project, as a pre-refund program, had a much higher response rate, resulting in a much larger inventory. This contributed to the delay in timely responding to our customers. Additionally, this program ran concurrently with the normal filing season and funding was received in the second quarter of the fiscal year. This resulted in the center's inability to hire sufficient staff to work the increase in inventory.

### CORRECTIVE ACTIONS

Based on the experiences in FY 1998, we took several actions to ensure there were adequate resources available to timely work inventories in FY 1999. First, the new start inventory was decreased at all centers. This will enable the centers to properly address taxpayers still under examination from FY 1998. Secondly, steps have been taken to monitor inventory receipts and "in process" inventory on a weekly basis. National Office SCEB worked with the Detroit Computing Center to produce a weekly listing of all taxpayers with frozen refunds. The centers will be able to determine if the taxpayer repeated his or her behavior and release the refund immediately if appropriate. Additionally, National Office SCEB is conducting biweekly conference calls with the sites to be able to address any impediments to the process immediately. Contingency plans have been made to shift inventories or reduce new starts if the centers become over receipted from planned goals.

### IMPLEMENTATION DATE

Completed - October 1998

### RESPONSIBLE OFFICIAL

Assistant Commissioner (Customer Service)

### IDENTITY OF RECOMMENDATION #2

The Service should ensure that adequate resources are allocated to handle the volume of Problem Resolution Program and Applications for Taxpayer Assistance Order (PRP/ATAO) cases generated.

## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### ASSESSMENT OF CAUSES

The Correspondence Examination FY 1998 EIC Initiative called for current year (1997) refunds to be delayed pending the completion of the prior year (1995/1996) examination. This resulted in a large number of PRP/ATAO cases. In addition, the large inventory of cases resulted in delays in responses to taxpayers and increase in PRP/ATAO referrals.

### CORRECTIVE ACTIONS

We believe adequate resources have been allocated to handle the volume of PRP/ATAO cases that will generate, because we have taken steps to reduce the number of cases and because we have improved our communication with taxpayers regarding their refunds.

First, we have taken steps outlined above to work the EIC inventory timely. Secondly, the Correspondence Examination FY 1999 Initiative will be worked in both a pre- and post-refund environment. Since post-refund cases give rise to fewer PRP/ATAO cases, this will reduce the PRP/ATAO inventory. Thirdly, those taxpayers whose 1997 examination was not completed by December 31, 1998, will be notified that their 1998 tax refund may be delayed pending the completion of the 1997 examination. Having this information will mean taxpayers are prepared for the delay and not expecting a refund until the examination is complete.

A task force consisting of a representative from PRP, Counsel, EIC Program Office, Northeast Region, and National Office SCEB was formed to review and revise all EIC letters. These letters were approved by all parties and are now in use. The initial letter sent to the taxpayer advising them of the refund delay has been revised. Since this letter is not considered an initial contact letter, it will give the center the flexibility to release the inventory from the program if receipts exceed resources available for pre-refund cases. National Office SCEB will monitor the inventories weekly and reduce new starts in other programs as needed.

### IMPLEMENTATION DATE

Completed - January 1999

### RESPONSIBLE OFFICIAL

Assistant Commissioner (Customer Service)

### IDENTITY OF RECOMMENDATION #3

The Service should ensure that taxpayers are treated consistently.



## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### ASSESSMENT OF CAUSES

The centers did not work the cases in a consistent manner since the program guidelines were not clear as to which status to use and when to issue a report to the taxpayer.

### CORRECTIVE ACTIONS

3a. National Office SCEB has reviewed the guidelines issued to both centers and made all necessary changes to the guidelines. The new guidelines clearly state what status to put the case into and when to issue a report.

3b. We intend to do field reviews on both centers to ensure the guidelines are being followed and both centers are treating the taxpayers consistently. The Internal Revenue Manual 21 for SCEB was revised to include all EIC procedures and updated as needed.

### IMPLEMENTATION DATE

3a. Completed - November 1998

3b. Completed - July 1999

### RESPONSIBLE OFFICIAL

Assistant Commissioner (Customer Service)

### IDENTITY OF RECOMMENDATION #4

Non-examined 1997 returns should be closed off the Audit Information Management System (AIMS) properly.

### ASSESSMENT OF CAUSES

Due to the large volume of correspondence, PRP/ATAO centers were advised to use all available resources to respond to taxpayers replies and release refunds when applicable.

### CORRECTIVE ACTIONS

National Office SCEB advised centers by E-mail to close the AIMS control for all non-examined cases when case determination is made.

### IMPLEMENTATION DATE

Completed - November 1998

### RESPONSIBLE OFFICIAL

Assistant Commissioner (Customer Service)



## The Internal Revenue Service Needs to Allocate Adequate Resources to Work Correspondence Cases Timely and Consistently

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### IDENTITY OF RECOMMENDATION #5

Program Guidelines need to be revised to provide adequate case control and reduce the risk of missed assessments.

### ASSESSMENT OF CAUSES

Program guidelines were not clear on the proper AIMS status code to be used for cases where reports had been issued or there was a request for additional information from the taxpayer. This increased the risk of missed assessments and a loss of case control in one center.

### CORRECTIVE ACTIONS

Program guidelines were revised in November 1998 to clearly state which AIMS status should be used and when to issue a report. The revised guidelines instruct the tax examiner to issue a report after the initial contact letter and update the case to AIMS Status 22. If the taxpayer replies and additional information is needed, the tax examiner will update the case on AIMS to status 25. This will allow National Office SCEB to monitor cases in each status. Centers will be consistent in their processing approach and taxpayers will be provided the same amount of time to complete their audits.

### IMPLEMENTATION DATE

Completed - November 1998

### RESPONSIBLE OFFICIAL

Assistant Commissioner (Customer Service)

If you have any questions, you may contact John M. Dalrymple, Chief Operations Officer, at (202) 622-6860.