



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 5, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

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

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Response to Draft Audit Report - The Internal Revenue Service
Needs to Improve Its Coordinated Oversight of the Substitute for
Return Process

Thank you for responding to the subject draft report that we issued on February 10, 2000. Since we did not receive your comments within 30 calendar days of the draft report issuance, we released the final report on March 28, 2000. However, we would like to take this opportunity to provide feedback on your April 12, 2000, response to the report's three recommendations.

Recommendation #1

We recommended the Chief Operations Officer (COO) establish uniform policies and procedures to ensure coordination of Internal Revenue Service (IRS) efforts among the functions processing Substitute for Return (SFR) accounts.

Management's Response

The proposed corrective action cited the adoption of a nonfiler strategy, which is now being implemented. This strategy will incorporate actions to ensure that coordination is maintained among the business operating units and that the SFR process is administered in a consistent and equitable manner in the Collection, Customer Service, and Examination functions. The proposed implementation date is October 1, 2001.

Office of Audit Comment

The stated corrective action is vague, as it does not define any specific *actions* to ensure that coordination is maintained. After completion of our fieldwork, the COO

issued a memorandum to all heads of office on December 2, 1999, which officially announced the National Nonfiler Strategy and requested "strong cross-functional support" for its implementation. The National Nonfiler Strategy became effective October 1, 1999, and both the Executive Steering Committee and the Implementation Team have been meeting on a regular basis. The corrective action would be stronger if it cited accomplishments or decisions made by these two groups.

Recommendation #2

We recommended the COO coordinate the development of a process to monitor the future filing compliance of taxpayers with SFR tax assessments regardless of which function processed the account. In addition, the costs of processing and resolving SFR tax assessments should be tracked and measured by IRS management.

Management's Response

The IRS will request programming changes to develop a report that tracks future compliance. The IRS will conduct a post-profiling analysis of subject taxpayers. In addition, the IRS will track the SFR costs in the Customer Service and Examination functions only. However, it will not include any costs related to the Automated Collection System (ACS) or the Collection Field (CFf) functions. The proposed implementation date is October 1, 2002.

Office of Audit Comment

The proposed implementation date of October 1, 2002, does not appear timely. In addition, we disagree with the elimination of the ACS and CFf functions from any cost analyses. Both the ACS and CFf functions incur significant SFR processing costs and these costs should not be excluded from any valid cost benefit analysis related to business decisions.

The IRS can track the SFR costs incurred by the Automated Substitute for Return function. However, as stated in our draft report, Examination function reports do not isolate SFR case closures. The response stated the Enforcement Revenue Information System (ERIS) will generate an annual analysis of the SFR cost benefits for the Examination function. It further stated the direct hours will be derived from ERIS and Examination reports, but it does not say which reports or whether such reports already exist. Unless the corrective actions include development of new reporting methods, the IRS will not be able to track SFR costs in the Examination function.

Recommendation #3

We recommended the COO coordinate the design of a process to profile SFR tax assessments and their resolution regardless of processing function. The IRS should know:

- The amount of total SFR tax assessments.
- The amount of revenue collected on SFR tax assessments.
- The amount of SFR tax assessments eventually abated.
- The amount of SFR tax assessments determined to be uncollectible.

Management's Response

The response states the IRS will secure ERIS data on an annual basis that reflect these reporting elements. It will analyze this information for significant trends and identify follow-up issues. The proposed implementation date is January 1, 2001.

Office of Audit Comment

It is not clear as to whether the IRS will rely on existing reports or formulate new ones. As noted in the draft report, the Masterfile extract used by the ERIS does not isolate the SFR cases closed by the Examination function. If a new Masterfile extract procedure has been devised to correct this problem, it was not noted and explained in management's response. If the IRS has not devised a new way of extracting this information, it will not be able to generate the reports as noted.

Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter E. Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 455-2475.