



*Some Automated Collection System
Large-Dollar Cases Were Not Worked
Effectively*

February 5, 2009

Reference Number: 2009-30-023

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

Redaction Legend:

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 5, 2009

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Some Automated Collection System Large-Dollar
Cases Were Not Worked Effectively (Audit # 200730013)

This report presents the results of our review to evaluate whether large-dollar cases are worked effectively by the Automated Collection System¹ (ACS) function. This audit was conducted as part of our Fiscal Year 2008 Annual Audit Plan.

Impact on the Taxpayer

An ACS large-dollar case is one in which the taxpayer's aggregate delinquent tax owed is greater than or equal to \$100,000 and less than \$1 million. Although workload and inventory were managed effectively, 17 (27 percent) of 62 sampled cases were either systemically moved to the Queue or not worked properly by employees. We estimate that work might have been discontinued on approximately 1,001 taxpayer accounts with a potential dollar impact of up to \$209 million.

Synopsis

Although the ACS large-dollar cases represented only about 1 percent of the modules closed in Fiscal Year 2007, they are important because they represented approximately 15 percent of the ACS dollars collected. We determined that ACS function management effectively assigned the workload and managed the inventory of large-dollar cases. Management properly routed large-dollar cases to the appropriate work groups if they met the large-dollar criteria or provided

¹ See Appendix V for a glossary of terms.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

an adequate explanation when they were not routed. ACS function management prepared inventory reports that identified how long cases had been assigned to the employees and took appropriate actions to minimize the number of cases that were past their due dates. Our review of a small sample of cases showed that employees were actively working cases and addressing over-age cases. Further, ACS function employees who work the large-dollar cases received specialized training because of the more complex issues they might encounter on a case.

However, we identified some large-dollar cases that were systematically moved from the ACS workload to the Queue before ACS function employees could complete their work. When cases are moved to the Queue, taxes owed are less likely to be collected. General Internal Revenue Service (IRS) criteria state that when an individual taxpayer's case has been open in the ACS function for more than 24 weeks (13 weeks for Small Business/Self-Employed Division taxpayers) and a followup date² has expired, the case can be systemically sent to the Queue. These general criteria provide sufficient time for ACS function personnel to work cases effectively, while ensuring that cases are moved to the Queue for possible assignment for future collection action when they cannot currently be worked within the ACS function. In addition, ACS function management informed us that setting time deadlines might help ACS function personnel complete high-priority work sooner.

We reviewed a statistical sample of 62 cases closed from the ACS Large-Dollar Unit during Fiscal Year 2007 that had an approximate aggregate balance due of \$11.4 million. Nine (14.5 percent) of the 62 cases were systemically moved to the Queue prior to the expiration dates defined in the general criteria. On these cases, very few or no actions were taken. The time from establishment of the case on the ACS to the case closure date ranged from 1 week to 10 weeks, and 6 of the 9 cases were moved from the ACS to the Queue in fewer than 2 weeks.

IRS management told us that cases can be moved from the ACS in accordance with other ¹ Business Rules that differ from the general criteria. For example, management researched of the cases we identified and explained that another Business Rule created an exception to the general criteria when the taxpayer has one or more additional return delinquency investigations in the Queue. This is done to keep all delinquent taxes owed and delinquent returns related to the taxpayer in one location. The IRS does not know if this exception results in a higher likelihood that the delinquent taxes will be collected. We believe that cases assigned to the ACS have a higher likelihood of collection than those in the Queue, regardless of whether the taxpayers have additional modules in the Queue.

In 8 (15 percent) of the remaining 53 of 62 sampled cases, ACS function employees did not work the cases to their appropriate conclusion, follow all case requirements, or resolve the cases properly. On these cases, employees either did not obtain the required complete financial information, conduct a financial analysis (including verification of income and expenses), or take

² Employees set a followup date for taxpayers to respond to inquiries, such as sending information to the IRS.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

all required actions to resolve the case, such as giving appropriate warnings of enforcement or requesting full payment at the time of contact.

Although managers reviewed five of the eight cases, they did not always ensure that employees followed procedures. In addition, employees might not have been aware of the requirements. IRS management informed us that [redacted] of the eight cases were worked by non-ACS function employees, which can occur when a taxpayer contacts the IRS through other means or other employees. ACS function managers did not review the cases worked by the non-ACS function employees. Revenue can be lost when employees make decisions on cases without obtaining complete information that could have been gathered if procedural requirements had been followed and required actions taken.

Recommendations

We recommended that the Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division, 1) determine how many cases might have been sent to the Queue prior to meeting the general criteria and sample some of the cases to determine why the cases were moved, and evaluate the current Business Rules and resulting programming that automatically move cases to the Queue, 2) remind employees of the required actions on large-dollar cases through annual training or briefings and remind managers of the importance of reviewing the cases for these actions, and 3) determine whether it is practical to involve ACS function managers in a case review when a non-ACS function employee works a case assigned to the ACS inventory.

Response

IRS management plans to take corrective action on two of our three recommendations and decided not to take action on one recommendation. Management plans to review a sample of cases leaving the ACS and going to the Queue, and determine whether the system or an employee made the decision to move the cases to the Queue. Management will also work with the group that has oversight responsibility for the Inventory Delivery System to ensure that the existing Business Rules are working as intended and that the rules still make sense today. After this analysis is completed, they will determine whether changes to the Business Rules are necessary. In addition, the IRS will emphasize the required actions on large-dollar cases in training classes that ACS function Large-Dollar Unit employees receive each year. ACS function Large-Dollar Unit employees in the Small Business/Self-Employed Division received this training in October 2008, and the Wage and Investment Division employees will receive this training in Fiscal Year 2009. In addition, management is updating their Financial Analysis training which will be provided to all ACS employees.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

IRS management responded that it is not practical or necessary to involve ACS managers in cases worked by non-ACS employees because of the small volume of cases worked by non-ACS employees. Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

Although the number of cases worked by non-ACS employees was small and IRS management believes it impractical to review them, we continue to believe that management should take some action to prevent/detect errors in cases processed by non-ACS employees. In addition, although IRS management agreed with the recommendation to evaluate cases moving to the Queue, they did not agree with the up to \$209 million estimated dollar impact because dollars might continue to be collected from cases in the Queue. While we acknowledge that funds might be collected in the future, our outcome measurement estimates were based on the information available at the time of our review, and the IRS could not provide us with reliable estimates or probabilities on amounts that might be collected in future years while cases remain in the Queue.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Table of Contents

BackgroundPage 1

Results of ReviewPage 3

 Management Effectively Controlled and Monitored Workload and
 Provided Additional Training to EmployeesPage 3

 Cases Were Systemically Moved to the Queue Before Sufficient
 Actions Could Be Taken.....Page 3

Recommendation 1:.....Page 5

 Management Needs to Ensure That Employees Obtain and Verify
 Financial Information As RequiredPage 6

Recommendations 2 and 3:Page 8

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 9

 Appendix II – Major Contributors to This Report.....Page 12

 Appendix III – Report Distribution ListPage 13

 Appendix IV – Outcome Measures.....Page 14

 Appendix V – Glossary of TermsPage 16

 Appendix VI – Management’s Response to the Draft ReportPage 18



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Abbreviations

ACS	Automated Collection System
FY	Fiscal Year
IRS	Internal Revenue Service



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

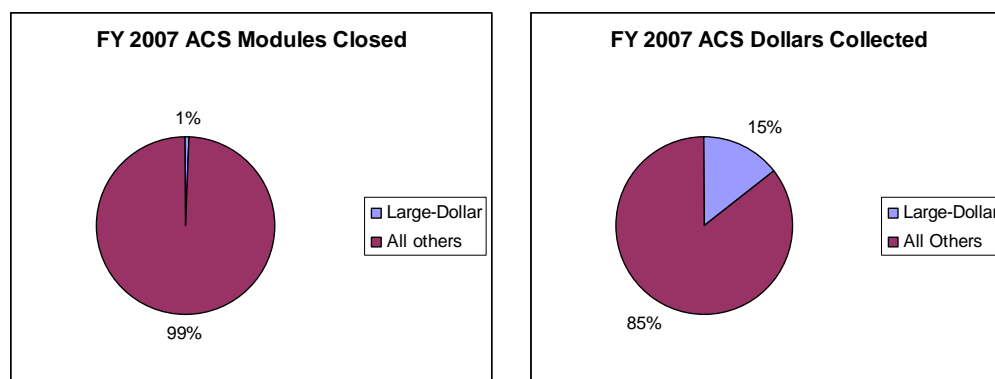
Background

The Automated Collection System¹ (ACS) is a computerized inventory system that maintains certain balance-due accounts and return delinquency investigations. The ACS plays a vital role in the Internal Revenue Service (IRS) collection program. IRS customer service representatives use this System when contacting delinquent taxpayers by telephone to collect unpaid taxes and secure tax returns. A Collection function report dated April 27, 2008, showed approximately 4 million taxpayer accounts in the ACS inventory.

***There were approximately
4 million taxpayer
accounts in the ACS
inventory as of
April 27, 2008.***

The IRS classifies an ACS case as a large-dollar case when the taxpayer's aggregate delinquent tax owed is equal to or greater than \$100,000 and less than \$1 million. These cases are important because, while they represent only about 1 percent of the total ACS modules closed, they represent approximately 15 percent of the ACS dollars collected. Figure 1 shows this comparison.

***Figure 1: Large-Dollar Cases Closed From the ACS Inventory
During Fiscal Year (FY) 2007***



Source: FY 2007 Collection 5000-2 Report, IRS FY 2007 Large-Dollar Unit Report, and ACS Closed Delinquent Account Modules.

Resolution of cases in the ACS function often requires financial analysis to determine the taxpayers' ability to pay. Past-due accounts with aggregate balances of \$100,000 or more are high-profile accounts. The IRS has additional required procedures and tighter internal controls for working these accounts. Employees must take appropriate closing actions and, in doing so,

¹ See Appendix V for a glossary of terms.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

not violate taxpayers' rights. The large-dollar cases can prove more difficult to work in the ACS setting because they involve more complex issues and require more documentation from the taxpayers. For example, Internal Revenue Manual guidance requires additional verification of certain items on the financial statements, such as securing pay stubs from wage sources and verifying questionable expenses. Inaccurate analysis of a taxpayer's financial information might lead to improperly classifying the account as currently not collectible or accepting an installment agreement when full payment is possible, thus adversely affecting the collection of tax dollars. Figure 2 shows how the Large-Dollar Unit closed its cases during FY 2007.

Figure 2: Large-Dollar Unit Closures During FY 2007

Type of Closure	Number of Cases Closed	Percentage of Total Closures
Transfer to Queue	2,922	28.7
Currently Not Collectible	2,566	25.2
Installment Agreement	1,631	16.0
Fully Paid	994	9.8
Offer in Compromise	972	9.6
Transfer to Revenue Officer	627	6.2
Litigation	404	4.0
Other	55	.5
Total	10,171	100.0

Source: ACS Large-Dollar Report dated September 2007.

Through September 2007, the ACS function call site in Buffalo, New York, was the only site working large-dollar accounts. According to the Collection function statistical reports provided by IRS management, the Buffalo Call Site Large-Dollar Unit closed 10,171 cases with balances due of approximately \$2.1 billion in FY 2007. In October 2007, the ACS function call site in Brookhaven, New York, took responsibility for working the Small Business/Self-Employed Division large-dollar taxpayer cases. Currently, approximately 350 employees at these 2 call sites work large-dollar accounts.

This review was performed at the Small Business/Self-Employed Division National Headquarters in New Carrollton, Maryland, and at the Buffalo Call Site during the period November 2007 through June 2008. This audit addresses large-dollar delinquent accounts and delinquent returns worked in the ACS function, mostly at the Buffalo Call Site. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

Results of Review

Management Effectively Controlled and Monitored Workload and Provided Additional Training to Employees

IRS managers are responsible for managing the work of employees including assigning work to and directing their activities, as well as for planning and carrying out the training and development of their employees. ACS function management effectively assigned the workload and managed the inventory of large-dollar cases. Management properly routed large-dollar cases to the appropriate work groups if they met the large-dollar criteria or provided an adequate explanation when they were not routed. For example, a separate ACS function group works international large-dollar cases so that those cases are not routed to the large-dollar groups.

In addition, ACS function management had adequate procedures and reports in place to monitor inventory. For example, the ACS can generate management information reports at various levels such as tracking daily workload by team, function, and unit. ACS function management also conducts a monthly review of large-dollar cases during which the reviewer/manager evaluates the major case actions. These data are input to a quality review system that evaluates whether employees perform their work effectively. ACS function management prepared inventory reports that identified how long cases had been assigned to ACS function employees and took appropriate actions to minimize the number of cases that were past their due dates. The percentage of over-age cases in the large-dollar inventory was minimal. Our review of a small sample of cases showed that employees were actively working cases and addressing over-age cases.

Further, ACS function employees who work the large-dollar cases received specialized training because of the more complex issues they might encounter on a case. For example, they received extra training in verifying financial information and educating taxpayers about compliance. Management provides this additional training to help ACS function employees who work the large-dollar cases to be more effective and efficient when working the cases.

Cases Were Systemically Moved to the Queue Before Sufficient Actions Could Be Taken

We identified cases assigned to the ACS inventory that were systemically moved to the Queue before employees could complete their work to try to collect the delinquent taxes. As a result, these cases were placed in the Queue, where the chances of collecting taxes are considerably less than if ACS function employees had the opportunity to contact the taxpayers and complete other required actions.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

IRS procedures state that when cases are assigned to the ACS function Large-Dollar Unit, required actions are needed for each case (e.g., contacting taxpayers, conducting compliance checks, answering telephone calls, evaluating financial information, reviewing correspondence, and making the closing determination). ACS function procedures state that when a Wage and Investment Division taxpayer case has been open in the ACS more than 24 weeks and a followup² date has expired, the case can be sent back to the Queue systemically via the IRS' Inventory Delivery System. For Small Business/Self-Employed Division taxpayer cases, the time period is 13 weeks. Management believes that these general criteria provide sufficient time for ACS function personnel to work cases effectively, while ensuring that cases are moved to the Queue for possible assignment for future collection action when they cannot be worked within the ACS. In addition, ACS function management informed us that setting time deadlines might help ACS function personnel to complete high-priority work sooner.

We reviewed a statistical sample of 62 cases closed from the ACS function Large-Dollar Unit during FY 2007 that had an approximate aggregate balance due of \$11.4 million. Nine (14.5 percent) of the 62 cases were systemically moved to the Queue prior to their meeting the general criteria for moving cases to the Queue. On these cases, very few or no actions were taken. The time from establishment of the case on the ACS to the case closure date ranged from 1 week to 10 weeks, and 6 of the 9 cases were moved to the Queue in fewer than 2 weeks. The remaining 53 cases were resolved or closed by other means, such as currently not collectible, installment agreement, or fully paid.

Nine of 62 cases were systemically moved to the Queue prior to meeting the general criteria for moving cases to the Queue.

We could not readily locate any information on the ACS to determine why these cases were closed to the Queue. IRS management informed us there could be other Business Rules which differ from the general criteria that can cause a case to be moved to the Queue. For example, the Integrated Data Retrieval System and the Inventory Delivery System have criteria which can cause cases to be moved from the ACS to the Queue. During our review, IRS management researched [redacted] of the cases we identified and explained that they were moved to the Queue in accordance with another Business Rule that differs from the general criteria. The other Business Rule 1) creates an exception to the general criteria when the taxpayer has one or more additional return delinquency investigations in the Queue, and 2) stipulates that the delinquent accounts be moved to the Queue. This is done to keep all delinquent taxes owed and return delinquency investigations related to a taxpayer in one location.

The IRS does not know if these exceptions result in a higher likelihood that the delinquent taxes will be collected. We believe that cases assigned to the ACS have a higher likelihood of

² Employees set a followup date for taxpayers to respond to inquiries, such as sending information to the IRS.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

collection than those in the Queue, regardless of whether the taxpayers have additional modules in the Queue.

ACS function employees attempt to contact taxpayers, obtain financial information, and resolve the accounts. In FY 2007, approximately 35 percent of large-dollar ACS cases resulted in some form of collection³ action, and another 10 percent were litigated or sent directly to a revenue officer for additional collection action. Conversely, the Queue is simply a holding file, where cases have less of a chance of having their delinquencies resolved. The IRS needs to determine whether the benefit of keeping all delinquent taxes owed by one taxpayer together in one location (i.e., the Queue) outweighs the potentially smaller probability of collecting the taxes for cases located there.

Revenue might be lost if cases are sent to the Queue rather than remaining in inventory to be worked by the ACS function. The 9 cases we identified had aggregate assessed balances due⁴ of \$1,809,825.61 when they were assigned to the ACS. Currently, 6 of these cases, which still have tax modules in the Queue, have an aggregate balance due of more than \$1 million. The remaining 3 cases have an installment agreement set up or have been fully paid. Based on a population of 10,325 cases, we estimate that work might have been discontinued on approximately 1,001 taxpayer accounts with an aggregate balance due of approximately \$209 million.⁵ Cases assigned to the Queue might result in some taxes being collected; therefore, the \$209 million is an estimate of the highest potential dollars that could be collected and the amount could be less. The IRS does not track or compare the collection rate differences between cases assigned to the Large Dollar Unit with cases in the Queue, so we could not provide a more precise estimate.

Recommendation

Recommendation 1: The Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division, should 1) perform an analysis to determine how many cases might have been sent to the Queue prior to meeting the general criteria and sample some of the cases to determine why the cases were moved, and 2) evaluate the current Business Rules and resulting programming that move a case to the Queue automatically. This analysis should compare the benefit of keeping tax modules in the ACS with the higher probability of collecting the delinquent tax on a case assigned to the ACS instead of the Queue.

Management's Response: IRS management agreed with this recommendation. They plan to review a sample of cases leaving the ACS and going to the Queue. During

³ Including full payments, offers in compromise, and installment agreements.

⁴ This is the ACS assessed total which includes assessed tax, interest, and penalties.

⁵ See Appendix IV for details.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

this review, they will identify whether the system or an employee made the decision to move the cases to the Queue. They will work with the group that has oversight responsibility for the Inventory Delivery System to ensure that the existing Business Rules are working as intended and that the rules still make sense today. After this analysis is completed, they will determine if changes to the Business Rules are necessary.

Office of Audit Comment: Although IRS management agreed with the recommendation and is taking corrective action, IRS management did not agree with the up to \$209 million estimated dollar impact because dollars might continue to be collected from cases in the Queue. While we agree that some funds might be collected in the future, our outcome measurement estimates were based on the information available at the time of our review, and the IRS could not provide us with reliable estimates or probabilities on amounts that might be collected in future years while cases remain in the Queue.

Management Needs to Ensure That Employees Obtain and Verify Financial Information As Required

Certain required actions must be completed when employees work ACS large-dollar cases. For example, ACS function employees should conduct a full compliance check, request full payment, give appropriate warnings of enforcement action, obtain financial information and a financial statement, verify all income and expenses on the financial statement, and identify equity in assets. These actions are especially important when working large-dollar cases because of the complexity of the cases. We identified cases for which some procedures or actions were not completed prior to case closure. Decisions based on missing or incomplete information could result in reduced collection potential.

Our review of a statistical sample of 62 cases evaluated whether ACS function Large-Dollar Unit cases were worked and resolved effectively. We reviewed each case to determine whether all required procedures and actions were completed and whether the final resolution of the case was effective. In some cases, one or more of the actions or procedures generally required might not have been necessary to properly bring the case to an effective resolution. For example, if a case was closed as fully paid or with an installment agreement, it would not be applicable to warn the taxpayer about possible enforcement actions.

We could not evaluate the effectiveness of the actions taken on 9 of the 62 cases because they were closed to the Queue before the actions could be completed, as discussed previously. Our review of the remaining 53 cases showed that 45 were effectively worked by the ACS function Large-Dollar Unit. For these cases, employees generally performed proper compliance checks, gave appropriate warnings of enforcement action, filed liens and levies as appropriate, explained alternative options to taxpayers, and obtained taxpayers' current addresses and telephone numbers.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

However, in 8 (15 percent) of the 53 cases, ACS function employees did not work the cases to their appropriate conclusion, follow all case action requirements, or resolve the cases properly. The following are examples of actions not taken. Because one case could have had one or more actions not taken, the total number of cases is greater than eight.

- Six cases lacked one or more of the following required actions for a complete financial analysis: obtaining financial information (e.g., pay stubs, bank records, or financial statements) and conducting a financial analysis of information obtained, including verification of income and expenses.
- Five cases did not have warnings of enforcement actions given to taxpayers. In four of these five cases, liens and levies were not issued.
- Five cases did not have locator and asset verification performed.
- Five cases did not have requests for full payment of the liability. In four of these five cases, alternative payment options were not discussed with the taxpayers.

The IRS' own quality review results also identified a similar issue with securing financial information. Although managers reviewed five of the eight cases, they did not always ensure that employees followed procedures. In addition, employees might not have been aware of the requirements. IRS management informed us that [redacted] cases were worked by non-ACS function employees, which might be why those cases were not worked properly. This can occur when a taxpayer contacts the IRS through other means or other employees, and those employees try to resolve the cases without delaying actions. The non-ACS employees might not know all the requirements necessary to effectively work a large-dollar case. ACS function managers did not review the cases worked by the non-ACS function employees.

Revenue can be lost when employees make decisions on cases without obtaining complete information that could have been gathered if procedural requirements had been followed and required actions taken. The 8 cases had an aggregate assessed balance due of \$2,511,787.48 when assigned to the ACS. Currently, 7 of the cases still have an aggregate balance due of \$1,561,863.10. Based on a population of 10,325, we estimate that approximately 1,332 closed taxpayer accounts were not worked or resolved effectively.

ACS function employees did not work 8 of the 53 cases to their proper conclusion, follow all case requirements, or resolve the cases properly.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Recommendations

The Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division, should:

Recommendation 2: Remind employees of the required actions on large-dollar cases through annual training or briefings and remind managers of the importance of reviewing cases for these actions.

Management's Response: IRS management agreed with this recommendation. They will emphasize these issues in the training ACS function Large-Dollar Unit employees receive each year. ACS function Large-Dollar Unit employees in the Small Business/Self-Employed Division received this training in October 2008, and the Wage and Investment Division employees will receive this training in FY 2009. In addition, management is updating their Financial Analysis training which will be provided to all ACS employees.

Recommendation 3: Determine whether it is practical to involve ACS function managers in a case review when a non-ACS function employee works a case assigned to the ACS inventory.

Management's Response: Wage and Investment Division and Small Business/Self-Employed Division managements discussed this issue and decided that due to the small volume of cases worked by non-ACS employees, it is not practical or necessary to involve ACS managers in those cases.

Office of Audit Comment: Although the number of cases worked by non-ACS employees was small and IRS management believes it impractical to review them, we continue to believe that some action should be taken to prevent/detect errors in cases processed by non-ACS employees.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Appendix I

Detailed Objective, Scope, and Methodology

Our overall audit objective was to evaluate whether large-dollar cases are worked effectively by the ACS¹ function. To accomplish the objective, we:

- I. Evaluated ACS large-dollar case assignment practices.
 - A. Identified the goals of the ACS function Large-Dollar program and the procedures for case assignment.
 - B. Determined whether employees assigned to the ACS function Large-Dollar program had the skills to achieve program objectives.
 - C. Identified the management information systems used for measuring, reporting, and monitoring the effectiveness of the ACS function Large-Dollar program. We analyzed the ACS Large-Dollar Report for all taxpayers for October 2006 through September 2007 and the March FY 2008 report for Wage and Investment Division taxpayer cases. The October 2006 through September 2007 report showed 10,171 taxpayer cases. We compared the results to Collection function Report 5000-2 for October 2006 through September FY 2007, which showed results for closed cases that were not large-dollar cases.
 - D. Determined whether there was sufficient management information available for measuring, reporting, and monitoring the effectiveness of the ACS function Large-Dollar program.
 - E. Determined whether Small Business/Self-Employed Division taxpayer cases were being effectively transferred and/or routed to the ACS function call sites in Buffalo, New York, and Brookhaven, New York. We analyzed the open inventory from the Treasury Inspector General for Tax Administration Data Center Warehouse database and identified 15,061 taxpayers with individual tax period balances due equal to or greater than \$100,000 and less than \$1 million.
- II. Determined whether ACS function large-dollar group employees and managers followed proper procedures.
 - A. Identified the population of 10,325 ACS large-dollar cases closed between October 1, 2006, and September 30, 2007, using data provided by IRS Wage and Investment Division management. These were taxpayer cases whose aggregate tax

¹ See Appendix V for a glossary of terms.



Some Automated Collection System Large-Dollar Cases Were Not Worked Effectively

- liability balances when assigned to the ACS were greater than or equal to \$100,000 and less than \$1 million. (The populations in Steps II.A. and Step I.C. are not the same because there was a timing difference, and the data in this step represented raw taxpayer data, not data in a formal management information report.)
- B. Tested the reliability of the data by comparing IRS-provided data to data on the ACS contained in the Treasury Inspector General for Tax Administration Data Center Warehouse. To determine the number of ACS large-dollar cases, we queried the ACS closed files on August 28, 2007, to obtain the number of modules closed from July 2006 through August 2007 (most current data available at that time), for which the module amount was \$100,000 or greater and less than \$1 million. We determined that the data provided by the IRS seemed reasonable. In addition, we verified through Integrated Data Retrieval System research that the 62 cases (selected in Step II.C.) from IRS-provided data were worked and closed by the ACS function during our audit period.
 - C. Randomly selected a statistical sample of 62 ACS large-dollar closed cases from the population of cases obtained in Step II.A. We determined the sampling plan after obtaining IRS quality review results from the ACS function to set a 20 percent expected error rate, a 95 percent confidence level, and a ± 10 percent precision level.
 - D. Reviewed case histories and related case action files to determine whether the ACS large-dollar cases were assigned properly and worked effectively. We reviewed each case for various criteria, including whether:
 - 1. Appropriate employees worked the cases.
 - 2. Financial analysis was complete and accurate.
 - 3. Required information was documented.
 - 4. Followups were done in a timely manner.
 - 5. Managerial approval was obtained, if required.
 - 6. Type of closing was appropriate.
 - E. Determined whether open cases were being worked and followed up on in a timely manner.
 - 1. Identified the population of open cases from the ACS Inventory Impact I Reports for the Buffalo Call Site as of April 29, 2008, and for the Brookhaven Call Site as May 19, 2008.
 - 2. Determined the over-age criteria based on discussions with management. For the Buffalo Call Site, the criteria were “the ACS-established date is more than 24 weeks and the followup date had expired.” For the Brookhaven Call Site, the



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

criteria were “the ACS-established date is more than 13 weeks and the followup date had expired.”

3. Selected judgmental samples of 10 over-age cases from the 3,862 population in the ACS Inventory Impact I Report dated April 29, 2008, for the Buffalo Call Site and 10 cases from the 6,462 population in the Treasury Inspector General for Tax Administration Data Center Warehouse database dated June 18, 2008, for the Brookhaven Call Site. We used judgmental sampling because the over-age reports did not indicate a problem with cases being over-age, and we conducted this test to validate the data provided in the Report.
- III. Determined the closing trends for large-dollar cases (e.g., number of cases closed as fully paid, by installment agreement, as currently not collectible, or transferred to the Queue).



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Appendix II

Major Contributors to This Report

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*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Acting Director, Campus Compliance Services, Small Business/Self-Employed Division
SE:S:CCS
Acting Director, Filing and Payment Compliance, Wage and Investment Division
SE:W:CP:FPC
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons: Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$209 million associated with 1,001 taxpayer accounts (see page 3).

Methodology Used to Measure the Reported Benefit:

For the period October 1, 2006, through September 30, 2007 (FY 2007), we identified a population of 10,325 taxpayer cases closed by the ACS¹ function Large-Dollar Unit. From this population, we selected a statistically valid sample of 62 taxpayer cases based on a confidence level of 95 percent, a precision level of ± 10 percent, and an expected error rate of 20 percent (based on IRS quality review results from the ACS function).

We reviewed the 62 cases to determine whether they were worked effectively and resolved properly by the ACS function. The ACS systemically moved 9 (14.5 percent) of the 62 taxpayer cases to the Queue before ACS function employees could complete their work to try to collect the delinquent taxes. Three have been resolved as of the date of this report. Based on the remaining 6 taxpayer cases, we estimate that 1,001 cases in our population might have been moved to the Queue before work on the cases was completed. This is computed by the ratio of 6 to 62 (.097) multiplied by the total population of 10,325 cases, which results in a potential 1,001 taxpayer accounts systemically moved to the Queue.

Revenue might be lost if cases are sent to the Queue and do not remain in inventory to be worked by the ACS function. We estimate that ACS cases with a potential aggregate assessed balance due of \$209 million were affected during the period October 1, 2006, through September 30, 2007. This is based on the dollar value ratio of the 6 sample cases that had been closed to the Queue (\$1,135,651.71 at the time of our review) and the aggregate assessed balance due of all 62 cases from our sample (\$11,399,888.48), multiplied by the \$2.1 billion in the total population of ACS cases, as follows: $\$1,135,651.71$ divided by $\$11,399,888.48 = .09961954$ multiplied by $\$2.1$ billion = $\$209,201,034$.

¹ See Appendix V for a glossary of terms.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

We recognize that this is an estimate of the potential increase in revenue and does not ensure that the taxes will be fully collected. Cases in the Queue have the potential for taxes to be collected and the \$209 million could be less if taxes were collected on these accounts.

The IRS does not track or compare the collection rate differences between those cases that remain in the ACS and are worked by the ACS function Large-Dollar Unit with those cases sent to the Queue. We assumed that the collection rate for ACS function cases is considerably higher, given the IRS' continued investment in resources dedicated to the ACS function Large-Dollar Unit.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Appendix V

Glossary of Terms

Term	Definition
Automated Collection System	A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Currently Not Collectible	Accounts that are removed from active inventory after the necessary steps in the collection process have been taken.
Data Center Warehouse	A centralized storage and administration of files that provides data and data access services of IRS data.
Enforcement Actions	Possible enforcement actions include putting a levy on the taxpayer's assets (e.g., bank accounts), filing a Federal Tax Lien(s), and serving a summons for financial records or testimony.
Installment Agreement	Arrangement whereby the IRS allows a taxpayer to pay a liability(ies) over time.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	A manual containing the procedures and controls for IRS employees to follow.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
Lien	An encumbrance on property or rights to property as security for outstanding taxes.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Term	Definition
Offer In Compromise	An agreement between a taxpayer and the IRS that resolves the taxpayer's tax debt. The IRS has the authority to settle, or "compromise," Federal tax liabilities by accepting less than full payment under certain circumstances.
Queue	An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign a case for contact.
Return Delinquency Investigation	An unfiled tax return(s) for a taxpayer. One investigation exists for all delinquent tax periods for a taxpayer.
Revenue Officer	Employees who make personal contacts with taxpayers to collect unpaid taxes.
Small Business/Self-Employed Division Taxpayer	Taxpayers filing business tax returns or individual tax returns containing business income and expenses. These taxpayers have business assets of less than \$10 million.
Wage and Investment Division Taxpayer	Taxpayers filing individual tax returns.



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

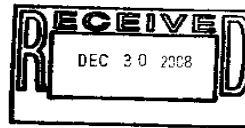
Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

DEC 30 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Some Automated Collection System Large
Dollar Cases Were Not Worked Effectively (Audit #200730013)

I have reviewed your draft report and agree with your overall conclusions. The Service began sending Large Dollar cases to the Automated Collection System (ACS) several years ago instead of allowing these cases to go directly to the Queue. By having ACS work these cases, the Service can initiate contact with the taxpayer when Revenue Officer resources may not be available for face-to-face contact. I am pleased you found ACS management effectively assigned workload and managed the inventory of these important cases.

We agree improvements can be made to ensure the Large Dollar cases are moving as intended through our computer systems. Additionally, we agree we can remind ACS employees of the required actions when working Large Dollar cases. We have already determined it is not practical to involve ACS managers in reviewing cases worked by non-ACS employees.

While we agree with your overall conclusions, we disagree with the outcome measures you outlined in Appendix IV of your report. Statistical experts from the Wage and Investment Division (W&I), Research office reviewed your sampling methodology. You appear to imply there was a missed opportunity to collect potentially up to \$209 million. We believe this number is significantly overstated. As we noted in our closing conference, dollars continue to be collected on accounts in the queue during the 10-year statute of limitations.

Attached are our comments to your recommendations. If you have any questions, please call me at (404) 338-7060 or Brady Bennett, Director, Compliance, W&I, at (202) 283-7144.

Attachment



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

Attachment

RECOMMENDATION 1

The Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division should

- 1) perform an analysis to determine how many cases might have been sent to the Queue prior to meeting the general criteria and sample some of the cases to determine why the cases were moved and
- 2) evaluate the current Business Rules and resulting programming that move a case to the Queue automatically. This analysis should compare the benefit of keeping tax modules in ACS with the higher probability of collecting the delinquent tax on a case assigned to the ACS instead of the Queue.

CORRECTIVE ACTION

We agree with this recommendation. We plan to review a sample of cases leaving Automated Collection System (ACS) and going to the Queue. During this review, we will identify whether the system or an employee made the decision to move the cases to the Queue. We will work with the group that has oversight responsibility for the Inventory Delivery System to ensure the existing Business Rules are working as intended and that the rules still make sense today. After this analysis is completed, we will determine if changes to the Business Rules are necessary.

IMPLEMENTATION DATE

January 15, 2010

RESPONSIBLE OFFICIALS

Director, Filing and Payment Compliance, Wage and Investment Division (W&I)
Director, Filing and Payment Compliance, Small Business/Self-Employed Division (SB/SE)

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 2

The Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division, should remind employees of the required actions on Large-Dollar cases through annual training or briefings and remind managers of the importance of reviewing cases for these actions.

CORRECTIVE ACTION

We agree with this recommendation. We will emphasize these issues in the training the ACS Large Dollar employees receive each year. The ACS Large-Dollar employees in



*Some Automated Collection System Large-Dollar Cases
Were Not Worked Effectively*

2

SB/SE received this training in October 2008, and W&I employees will receive this training in late FY 2009. Additionally, we are updating our Financial Analysis training which will be provided to all ACS employees.

IMPLEMENTATION DATE

October 15, 2009

RESPONSIBLE OFFICIALS

Director, Filing and Payment Compliance, W&I
Director, Filing and Payment Compliance, SB/SE

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 3

The Director, Compliance, Wage and Investment Division, and the Acting Director, Campus Compliance Services, Small Business/Self-Employed Division, should determine whether it is practical to involve ACS function managers in a case review when a non-ACS function employee works a case assigned to the ACS inventory.

CORRECTIVE ACTION

Members of W&I and SB/SE management discussed this issue and decided that due to the small volume of cases worked by non-ACS employees, it is not practical or necessary to involve ACS managers in those cases.

IMPLEMENTATION DATE

Completed November 21, 2008

RESPONSIBLE OFFICIALS

Director, Filing and Payment Compliance, W&I
Director, Filing and Payment Compliance, SB/SE

CORRECTIVE ACTION MONITORING PLAN

Not Applicable