

**The Compliance Services Collection  
Operations Function Needs to Set Specific  
Quantifiable Goals to Ensure Its  
Reengineering Efforts Are Effective**

**May 2004**

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**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

May 19, 2004

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Compliance Services Collection  
Operations Function Needs to Set Specific Quantifiable  
Goals to Ensure Its Reengineering Efforts Are Effective  
(Audit # 200340060)

This report presents the results of our review of the Compliance Services Collection Operations (CSCO) function.<sup>1</sup> The overall objective of this review was to determine whether management policies and the purpose, strategies, and plans of the Wage and Investment (W&I) Division CSCO function are effectively designed to ensure it meets the Internal Revenue Service's (IRS) goal of improving voluntary compliance. We also determined whether the CSCO function is effectively designed to ensure it is meeting the requirements of the Government Performance and Results Act of 1993.<sup>2</sup>

The W&I Division Compliance function's long-term goals are designed to create an environment that encourages taxpayers to voluntarily comply with tax laws and brings non-compliant taxpayers into compliance in the most fair, accurate, and cost-effective way. The W&I Division Compliance function has a comprehensive strategic planning process to help ensure it manages resources and meets its long-term and annual performance goals. As part of the strategic planning process, W&I Division Filing and Payment Compliance function management establishes program priorities and annual performance goals for its CSCO function. Even though the CSCO function does not have comprehensive long-term goals, its activities directly support the long-term goals of the overall W&I Division Compliance function. In support of the long-term goals, the

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<sup>1</sup> The W&I Division Compliance function is made up of two program areas, Reporting Compliance and Filing and Payment Compliance. Similarly, Filing and Payment Compliance is made up of two functions. They are the CSCO function and the Automated Collection System function.

<sup>2</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

CSCO function has begun reengineering efforts to address compliance trends and maximize resource utilization.

The CSCO functions in both the W&I and Small Business/Self-Employed Divisions initiated joint reengineering efforts aimed at improving and modernizing many of the CSCO function's manual processes. Improving the efficiency of the CSCO function will allow the W&I Division Filing and Payment Compliance function to have a larger impact on compliance by moving support resources to other compliance programs. However, specific quantifiable goals have not yet been developed to enable the CSCO function to effectively measure and drive its reengineering efforts.

We recommended that the Commissioner, W&I Division, ensure that specific quantifiable goals are set as part of the efficiency improvements planned in the reengineering efforts of the CSCO function. By establishing quantifiable measures, clear time periods, and targets for its reengineering efforts that are in line with its goals of addressing compliance trends and maximizing resource utilization, the CSCO function can better manage its resources, improve its program efficiencies, and measure its overall impact on voluntary compliance.

Management's Response: IRS management was pleased that we acknowledged their efforts and has developed an action plan for many additional improvements. Management agreed with our recommendation that quantifiable goals are needed. They plan to revise the current action plan by September 2004 to include quantifiable goals with specific due dates. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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### Background

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Taxpayers are responsible for filing tax returns that report the full amount of taxes owed and for paying any taxes that are due. The Internal Revenue Service's (IRS) mission is to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."

The IRS' Wage and Investment (W&I) Division serves approximately 121 million taxpayers who file a Form 1040<sup>1</sup> with no accompanying Schedules C,<sup>2</sup> E,<sup>3</sup> or F;<sup>4</sup> no Form 2106;<sup>5</sup> and no international activity. Through its Compliance function, the W&I Division conducts examinations of individual tax returns and collects any outstanding taxes due. Similar to the IRS' overall mission statement, the W&I Division Compliance function's mission is to "fairly and effectively assist taxpayers in the determination and fulfillment of their tax obligations by providing accurate and consistent application of the tax law and by using a risk-based approach to exam and collection."

The collection of unpaid taxes is critical for ensuring taxpayers meet their tax responsibilities and ensuring fairness in the tax system. The Office of Management Controls has identified delinquent taxes as one of the IRS' Material Weaknesses. As of September 2002, there were approximately 4 million taxpayer accounts in the W&I Division's inventory with unpaid taxes, penalties, and interest totaling more than \$23 billion.

The W&I Division Compliance function is made up of two program areas, Reporting Compliance and Filing and Payment Compliance. Similarly, Filing and Payment Compliance is made up of two functions. They are the Compliance Services Collection Operations (CSCO) function and the Automated Collection System function. Estimated resource levels for the W&I Division Filing and Payment Compliance function are \$237 million for Fiscal Year (FY) 2004.

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<sup>1</sup> United States Individual Income Tax Return (Form 1040).

<sup>2</sup> Profit or Loss From Business (Sole Proprietorship) (Schedule C).

<sup>3</sup> Supplemental Income and Loss (Schedule E).

<sup>4</sup> Profit or Loss From Farming (Schedule F).

<sup>5</sup> Employee Business Expenses (Form 2106).

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The primary tasks of the CSCO function involve securing delinquent returns that individuals have a legal responsibility to file and securing payment for taxes, penalties, and any interest owed. This review focused on the W&I Division CSCO function's activities of securing payment from taxpayers for taxes, penalties, and interest.

The CSCO function assists taxpayers in deciding what payment option to use and processes and monitors these requests. CSCO function employees answer taxpayer questions concerning their accounts, as well as:

- Process taxpayer installment agreement requests.
- Handle correspondence from taxpayers in regards to balance due notices.
- Monitor Offer-in-Compromise agreements and installment agreements.
- Resolve certain other balance due conditions on taxpayers' accounts.

This review of the W&I Division CSCO function followed the Office of Management and Budget's Program Assessment Rating Tool (PART).<sup>6</sup> We focused on PART sections 1 and 2, which provide the information necessary to determine if a program has laid a solid foundation to be successful in its goals and mission.

In addition, the Government Performance and Results Act of 1993 (GPRA)<sup>7</sup> requires executive agencies to prepare multiyear strategic plans, annual performance plans, and annual performance reports on prior year accomplishments. Strategic plans have six basic requirements and are the starting point for setting goals and measuring progress toward achieving them. This review concentrated on two requirements as they related to the W&I Division CSCO function. Specifically, the strategic plan must contain:

- A comprehensive mission statement covering the major functions and operations of the agency.

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<sup>6</sup> The PART is a series of questions designed to provide a consistent approach to rating programs across the Federal Government.

<sup>7</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

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- General goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency.

The GPRA also has six basic requirements for annual performance plans. For this review, we concentrated on two requirements as they relate to the W&I Division CSCO function. Specifically, the performance plan must:

- Establish performance goals to define the level of performance to be achieved by a program activity.
- Express such goals in an objective, quantifiable, and measurable form.

This review was performed at the W&I Division Headquarters in Atlanta, Georgia, and the CSCO function offices in Chamblee, Georgia, and Overland Park, Kansas, during the period October 2003 through March 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### The Compliance Services Collection Operations Function's Annual Strategic Planning Process Has Established Annual Performance Goals

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The W&I Division Compliance function has a comprehensive strategic planning process to help ensure it manages resources and meets its annual performance goals. As part of the strategic planning process, W&I Division Filing and Payment Compliance function management establishes program priorities and annual performance goals for its CSCO function. The CSCO function's activities support the W&I Division Compliance function's strategic goals and the mission of effectively assisting taxpayers in completing their tax obligations. They also support the IRS' goal of increasing voluntary compliance.

The annual planning process begins 6 months prior to the start of the new FY. W&I Division Filing and Payment Compliance function management includes CSCO function site staffs in their planning efforts. For example, W&I Division Filing and Payment Compliance function analysts held meetings with CSCO function site management to obtain input to the planning process and assist in setting the annual performance goals. This involved reviewing historical trends and any other factors that may influence the

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workloads at the CSCO function sites. W&I Division Filing and Payment Compliance function management then sets the performance goals and measures for the upcoming FY. An additional meeting is held with each CSCO function site's staff to share and discuss the performance goals and how they will be measured.

The annual performance goals and measures are intended to help the CSCO function achieve its purpose and ensure consistency across the W&I Division. W&I Division Filing and Payment Compliance function management sets annual performance goals for customer satisfaction, employee satisfaction, work quality, and overage cases. For example, 1 of the current work quality performance goals is to complete 80 percent of all case actions in the CSCO function timely. In addition, specific performance goals are set for each CSCO function site based on these strategic planning efforts. For example, the Kansas City CSCO function site has a case action timeliness goal of 99 percent, the Atlanta CSCO function site has a case action timeliness goal of 89 percent, the Austin, Texas, CSCO function site has a case action timeliness goal of 60 percent, etc. The different goals are attributable to factors such as the number of employees and employee experience. These measures are in line with the overall W&I Division Compliance function's long-term strategic performance goals and are specific, quantifiable, and measurable.

To assist in achieving these long-term goals, W&I Division Filing and Payment Compliance function management provides specific operating guidelines for each program. These guidelines cover various topics and are issued periodically to remind managers and employees of their mission, identify priority work, and emphasize existing and new procedures for each program. These guidelines are also designed to assist the CSCO function in meeting its annual performance goals. For example, there are guidelines for most of the programs that emphasize the importance of timeliness of case actions. Even though these guidelines should help the CSCO function meet its 80 percent work quality timeliness goal, they also impact other annual performance goals, such as improving customer satisfaction and reducing the number of overage cases.



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### The Compliance Services Collection Operations Function's Reengineering Efforts Need Specific Quantifiable Goals

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Although the CSCO function does not have comprehensive long-term goals, its activities directly support the long-term goals of the W&I Division Compliance function. These long-term goals are designed to create an environment that encourages taxpayers to voluntarily comply with tax laws and brings non-compliant taxpayers into compliance in the most fair, accurate, and cost-effective way. The W&I Division's Concept of Operations includes outcome-focused long-term goals, such as resolving compliance issues with the first human contact and ensuring employees have access to 100 percent of the information they need. In addition to supporting these long-term goals through the annual performance goals and measures, the CSCO function has begun reengineering efforts to address compliance trends and maximize resource utilization.

While the IRS as a whole has been modernizing many of its critical processes, the CSCO function has continued to rely on paper-driven and labor-intensive processes. With the increased availability of computers, many of the actions taken by IRS employees on CSCO function cases can now be done electronically. For example, IRS computer systems generate weekly listings of installment agreement cases that require the attention of CSCO function employees (e.g., a payroll deduction, a direct deposit installment agreement has been full paid, a taxpayer has not made a payment, etc.). These listings require employees to do research; prepare letters to taxpayers, employers, and banks; or take other actions on the taxpayers' accounts. Many of these actions could be done systemically.

The CSCO functions in both the W&I and Small Business/Self-Employed Divisions initiated joint reengineering efforts aimed at improving and modernizing many of the CSCO function's manual processes. Improving the efficiency of the CSCO function will allow the W&I Division Filing and Payment Compliance function to have a larger impact on compliance by moving support resources to other compliance programs. However, specific quantifiable goals have not yet been developed to enable the CSCO function to effectively measure and drive its reengineering efforts to improve work quality and increase customer satisfaction.

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The goals for the reengineering efforts should be quantifiable and have clear time periods and targets. Federal Government agencies are expected to identify high-quality outcome measures and have clear time periods and targets. In addition, the improvements being considered in the reengineering efforts for the CSCO function need to be measured. These measures should be able to determine the amount of resources saved by implementing an improvement. For example, these goals should be able to measure the amount of resources that could be saved by reducing the amount of manual work needed for employees to research and take a specific action on a taxpayer's account.

The W&I Division CSCO function is an integral part of the W&I Division Compliance program. Its purpose is clear and addresses specific needs aligned with the goals stated in the IRS and W&I Division Compliance function mission statements. By establishing quantifiable measures, clear time periods, and targets for its reengineering efforts that are in line with its goals of addressing compliance trends and maximizing resource utilization, the CSCO function can better manage its resources, improve its program efficiencies, and determine its overall impact on voluntary compliance.

### **Recommendation**

1. The Commissioner, W&I Division, should ensure that specific quantifiable goals are set as part of the efficiency improvements planned in the reengineering efforts of the CSCO function.

Management's Response: Management agreed with our recommendation. They plan to revise the current action plan by September 2004 to include quantifiable goals with specific due dates.

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## Appendix I

### Detailed Objectives, Scope, and Methodology

The overall objective of our review was to determine whether management policies and the purpose, strategies, and plans of the Wage and Investment (W&I) Division Compliance Services Collection Operations (CSCO) function<sup>1</sup> are effectively designed to ensure it meets the Internal Revenue Service's (IRS) goal of improving voluntary compliance. We also determined whether the CSCO function is effectively designed to ensure it is meeting the requirements of the Government Performance and Results Act of 1993.<sup>2</sup> To accomplish our objectives, we:

- I. Determined whether the design and purpose of the CSCO function is clear and properly aligned with the mission of the W&I Division and the IRS.
  - A. Discussed research activities concerning the CSCO function with personnel in the IRS Office of Program Evaluation and Risk Analysis and the W&I Division Research function.
  - B. Determined whether the CSCO function's purpose is clear and addresses a specific interest, problem, or need by:
    1. Researching the W&I Division Filing and Payment Compliance function website to identify the CSCO function's mission.
    2. Interviewing the Director, Filing and Payment Compliance, and appropriate CSCO function managers to determine their interpretations of the CSCO function's goals.
  - C. Evaluated whether the CSCO function's mission is logical and likely to yield the intended outcomes.
- II. Determined whether the CSCO function has set valid annual and long-term goals that focus on outcomes and reflect its purpose.
  - A. Reviewed annual and long-term strategic plans (W&I Division Strategic Assessments for Fiscal Years 2004 and 2005) for the CSCO function and interviewed CSCO function personnel to identify its goals.

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<sup>2</sup> Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

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- B. Evaluated long-term goals by reviewing the W&I Division Compliance function's Concept of Operations and the CSCO function's reengineering efforts documentation and discussed these goals with CSCO function personnel and W&I Division Filing and Payment Compliance management.
- C. Evaluated short-term goals (CSCO function Operating Guidelines and balanced measures) and discussed these goals with CSCO function personnel and W&I Division Filing and Payment Compliance function management.
- D. Conducted walkthroughs of the CSCO function operations at Chamblee, Georgia, and Overland Park, Kansas, to identify how balance due accounts are processed and how these processes relate to the overall CSCO function mission.

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**Appendix II**

**Major Contributors to This Report**

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Mary Baker, Director

Bryce Kisler, Audit Manager

Alan Lund, Senior Auditor

Ronnie Summers, Senior Auditor

Nelva Blassingame, Auditor

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**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, Wage and Investment Division SE:W  
Director, Compliance SE:W:CP  
Director, Filing and Payment Compliance SE:W:CP:FPC  
Director, Strategy and Finance SE:W:S  
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 Management Controls OS:CFO:AR:M  
Audit Liaison: GAO/TIGTA Liaison, Wage and Investment Division SE:W:S:PA

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Appendix IV

Management's Response to the Draft Report



WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

MAY - 3 2004

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL AUDIT

FROM:

Henry O. Lamar, Jr.

Commissioner, Wage and Investment Division

A handwritten signature in black ink that reads "Henry O. Lamar, Jr." with a stylized flourish at the end.

SUBJECT:

Draft Audit Report: The Compliance Services Collection Operations (CSCO) Function Needs to Set Specific Quantifiable Goals to Ensure Its Reengineering Efforts Are Effective (Audit # 200340060)

I am pleased you acknowledged that our Compliance function's long-term goals are designed to create an environment that encourages taxpayers to voluntarily comply with tax laws. It also brings taxpayers into compliance in the most fair, accurate, and cost-effective way. The purpose of the CSCO function is to resolve compliance issues with the first human contact. This process is initiated by taxpayer inquiries or responses to our systemically generated notices on delinquent returns and/or balance due accounts. We make certain these issues can be addressed by ensuring employees have access to all the information they need to resolve the taxpayer's issue.

Through our joint reengineering efforts with the Small Business/Self-Employed Division, we are analyzing current work processes to identify opportunities where we can standardize, consolidate, or automate. We are currently testing standardized first read procedures to streamline and expedite the processing of correspondence. For example, the new procedures will require employees to scan all first read correspondence upfront and close cases where additional research is not needed. We have also requested a number of systemic changes that should improve efficiencies in the Installment Agreement Program, such as systemically re-instating the installment agreement when the taxpayer files an additional balance due return that meets the criteria for re-instatement. We have developed action plans for many additional improvements. We agree that quantifiable goals need to be established to monitor the progress of the effort, to measure the results, to improve work processes, and to increase customer satisfaction. We will revise our action plan to include quantifiable goals and due dates. This will ensure timely actions are being completed with notable improvements.

Attached is a detailed response outlining corrective actions we will take to address your recommendation.

If you have any questions, please contact Pamela G. Watson, Director, Filing and Payment Compliance, at (404) 338-8686.

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Attachment

### **RECOMMENDATION #1**

The Commissioner, W&I Division should ensure that specific quantifiable goals are set as part of the efficiency improvements planned in the reengineering efforts of the CSCO function.

### **CORRECTIVE ACTION**

We will revise our current action plan to include quantifiable goals with specific due dates. We anticipate approval of this action plan by September 2004.

### **IMPLEMENTATION DATE**

September 15, 2004

### **RESPONSIBLE OFFICIAL**

Director, Filing and Payment Compliance, Wage and Investment Division

### **CORRECTIVE ACTION MONITORING PLAN**

Implementation of this corrective action will be monitored through our internal control system and managerial oversight.