COMMISSIONER

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

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MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: Draft Letter Report - "Collection was Suspended Indefinitely for Some Accounts Because of Control Weaknesses in Processing Taxpayer Claims" (Audit # 200030003)

We appreciate the opportunity to respond to your draft letter report entitled "Collection was Suspended Indefinitely for Some Accounts Because of Control Weaknesses in Processing Taxpayer Claims." The review identified a gap in our processing of taxpayer claims, a gap that could place revenue collection at risk or negatively affect customer service.

All of the accounts identified in this report have been researched and appropriate actions taken. During our review of the report, we found approximately fifty percent of these accounts had already been researched and actions taken through the transcript process.

The report estimates the Internal Revenue Service could increase revenue by $6.5 million over the next 5 years by improving controls in processing of taxpayer claims. We do not concur with the estimate for two reasons:

1) The report does not provide sufficient detail to explain how the estimate was computed. For example, we do not know where these cases were in the collection process at the time the suspension occurred. Many of them may already have completed the cycle of issued notices.

2) The estimate appears to be based on an assumption that the suspended accounts represent true balances due that are as collectible as other notice accounts. We believe this assumption needs to be examined, because the audit does not address the validity of the taxpayer claims. For example, the report does not indicate whether the underlying problem is a delay in commencing collection of valid liabilities, or whether the problem is a delay in processing taxpayer claims to abate or adjust the liabilities.

Our comments on the specific recommendations in your report are as follows:

IDENTITY OF RECOMMENDATION 1
The Assistant Commissioner (Customer Service) should systemically limit the suspension of billing to a maximum of 26 weeks for taxpayer claim processing and clarify corresponding written instructions.

ASSESSMENT OF CAUSE
Currently the computer is programmed to release the master file offset and W- alpha freeze code in 26 cycles, but the account remains in status 53, currently not collectible, on the Integrated Data Retrieval System (IDRS). No balances due notices/taxpayer delinquent accounts are issued. Transcripts should generate on these accounts.

CORRECTIVE ACTION
A Request for Information Services (RIS) will be submitted requesting the IDRS status revert to its previous status in 26 cycles when the master file is updated. The collection process will restart on this type of account, which will eliminate the problems cited in this report.

IMPLEMENTATION DATE
The RIS will be submitted by October 31, 2000. An implementation date cannot be determined until Information Systems can evaluate the RIS and determine the programming requirements.

RESPONSIBLE OFFICIAL
Assistant Commissioner (Customer Service)

CORRECTIVE ACTION MONITORING PLAN
This corrective action will be monitored using our current RIS monitoring system.

IDENTITY OF RECOMMENDATION 2
The Assistant Commissioner (Customer Service) should have the computer generate an inventory control whenever an employee suspends collection for a taxpayer claim on an account in billing status.

ASSESSMENT OF CAUSE
The transcripts were not generating, causing these accounts to be in a currently not collectible status for an indefinite period of time and there was no follow-up being made

on these accounts. Also, during a conference call with affected functions, we found that some employees misunderstood the computer release of the TC 470 with closing codes 90, 93, and 95. Since the system released the freeze at the master file in 26 cycles, they did not think it was necessary to go back and reverse the TC 470 on IDRS. The transcripts are now generating, and we found that the transcript process had already worked many of these accounts. The procedure is already in the IRM to place a control on the account when the account requires input of a TC 470 with a closing code.

CORRECTIVE ACTION
Also, the computer systemically places a control on the module when the transcript generates. We do not agree that an additional control needs to be generated. The request to have the IDRS status update when the master file updates should also eliminate the chance of this happening again in the future.

A meeting was held with all Internal Revenue Manual (IRM) authors who have a requirement to input a TC 470 with a closing code. Authors reviewed their procedures to ensure instructions were clear regarding the necessity to place a control on claim cases and to reverse the TC 470 when the claim processing is completed. The authors also put emphasis in their IRM procedures where no closing code is required with the input of TC 470. Employees may have been confused about when to input a closing code, which could have contributed to this problem.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
Assistant Commissioner (Customer Service)

CORRECTIVE ACTION MONITORING PLAN
N/A

IDENTITY OF RECOMMENDATION 3
The Assistant Commissioner (Customer Service) should determine the reasons why transcripts were not produced for all of the suspended accounts we identified to ensure the future effectiveness of these controls.

ASSESSMENT OF CAUSE
Management was not monitoring transcript control reports to ensure all transcripts were being generated. We have researched this problem with the programmer and cannot determine why these transcripts did not generate. The programmer is continuing to research some of the individual accounts to look for any problems.

CORRECTIVE ACTION
Transcripts are now being generated for these types of cases. Additional time spent on researching this problem will be unproductive, since the generation of these transcripts was interrupted years ago. We will issue a memorandum to alert service center managers to monitor their transcript control reports to ensure this type of transcript is being generated and worked.

IMPLEMENTATION DATE
Memorandum will be issued by September 30, 2000.

RESPONSIBLE OFFICIALS
Assistant Commissioner (Customer Service)

CORRECTIVE ACTION MONITORING PLAN
Compliance and Accounts Division, Collection Branch, will follow up in September 2000, to ensure guidance has been issued.

If you have any questions about our response, please contact Robert C. Wilkerson, Assistant Commissioner (Customer Service) at (202) 622-5044.