



*The Enterprise Collection Strategy
Organization Has Centralized Management
of the Collection Organization; However,
Performance Measures and
Key Roles Need to Be Developed*

June 7, 2013

Reference Number: 2013-30-054

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.



HIGHLIGHTS

THE ENTERPRISE COLLECTION STRATEGY ORGANIZATION HAS CENTRALIZED MANAGEMENT OF THE COLLECTION ORGANIZATION; HOWEVER, PERFORMANCE MEASURES AND KEY ROLES NEED TO BE DEVELOPED

Highlights

Final Report issued on June 7, 2013

Highlights of Reference Number: 2013-30-054 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The Enterprise Collection Strategy (ECS) organization was created in January 2011 with a goal of improving organizational performance by reorganizing Collection operations to eliminate redundancies and inconsistencies. While the ECS organization has centralized management of the Collection organization, the IRS did not develop sufficient performance measures or sufficiently define organization roles and responsibilities. It is important that the IRS measure progress towards achieving its goal because eliminating redundancies and inconsistencies within Collection organization operations will help to ensure that taxpayers are treated more equitably in collection matters.

WHY TIGTA DID THE AUDIT

In February 2010, the Deputy Commissioner for Services and Enforcement chartered the Collection Process Study to conduct a broad-based review of the IRS's collection processes. This study recommended the creation of a unified Collection organization. As a result, the ECS was created. This audit was initiated to assess the IRS's effectiveness in establishing and implementing the ECS to achieve its goal.

WHAT TIGTA FOUND

The ECS has centralized management of the Collection organization. The operating units are working together to manage resources, identify

emerging issues, and improve organizational performance.

However, the IRS did not create performance measures for the ECS to sufficiently determine the success of the transition, evaluate ongoing ECS performance, or measure the ECS's effect on overall Collection organization operations. Without measures, IRS management may not have complete information to make decisions about changes needed to improve performance.

In addition, IRS management did not document roles and responsibilities for eight of the 21 individual ECS groups in the four divisions. Without clearly defined roles and responsibilities, redundancies and inconsistencies may continue to exist among the two operating divisions and four organizations responsible for collection activities.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS consider additional performance measures to assess the benefits of the ECS organization, prepare an evaluation report to document the results of the reorganization and to analyze any need for changes, and clearly define the roles and responsibilities of the ECS organization to ensure that redundancies and inconsistencies have been eliminated.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 7, 2013

MEMORANDUM FOR DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

FROM:

Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Enterprise Collection Strategy Organization
Has Centralized Management of the Collection Organization; However,
Performance Measures and Key Roles Need to Be Developed
(Audit # 201230011)

This report presents the results of our review to determine the Internal Revenue Service's effectiveness in establishing and implementing the Enterprise Collection Strategy organization so that it could achieve its goal of improving organizational performance by reorganizing Collection organization operations to eliminate redundancies and inconsistencies. This audit is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations.

If you have any questions, please contact me or Augusta R. Cook, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed

Abbreviations

| | |
|-------|--------------------------------|
| CPS | Collection Process Study |
| ECS | Enterprise Collection Strategy |
| FY | Fiscal Year |
| IRM | Internal Revenue Manual |
| IRS | Internal Revenue Service |
| SB/SE | Small Business/Self-Employed |
| W&I | Wage and Investment |



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Background

The Internal Revenue Service (IRS) Collection organization (hereafter referred to as Collection) is responsible for bringing taxpayers into full compliance and helping them understand their tax requirements. Collection responsibilities include:

- Securing delinquent returns.
- Collecting balances due.
- Detecting potential fraud.
- Using enforcement actions when appropriate.
- Addressing and deterring trust fund¹ noncompliance.
- Resolving accounts with installment agreements and offers in compromise when appropriate.
- Reducing the Tax Gap.

The collection process begins when a taxpayer voluntarily files a return without full payment or when the IRS proposes a tax assessment through one of its compliance programs. The process ends when the account balance reaches zero or when the collection statute of limitations expires.

Collection processes involve multiple stages and routing decisions handled via paper notices, call operations, and field personnel. Until January 2011, the Small Business/Self-Employed (SB/SE) Division oversaw all Collection policy changes, which also involved multiple steps across operating divisions. As of September 30, 2010, over 16,000 employees administered IRS collection enforcement programs. These employees worked in two operating divisions and four organizations responsible for collection activities.

- SB/SE Division Collection Field function – provides SB/SE Division taxpayers with post-filing services, managed by field collection programs to ensure timely, accurate case actions on all collection cases.
- Wage and Investment (W&I) and SB/SE Division Automated Collection System – provides support and oversight to the operation of all SB/SE and W&I Division call sites and support sites. Its mission is to collect delinquent taxes and returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, and provide education to customers to ensure future compliance.

¹ See Appendix VI for a glossary of terms.

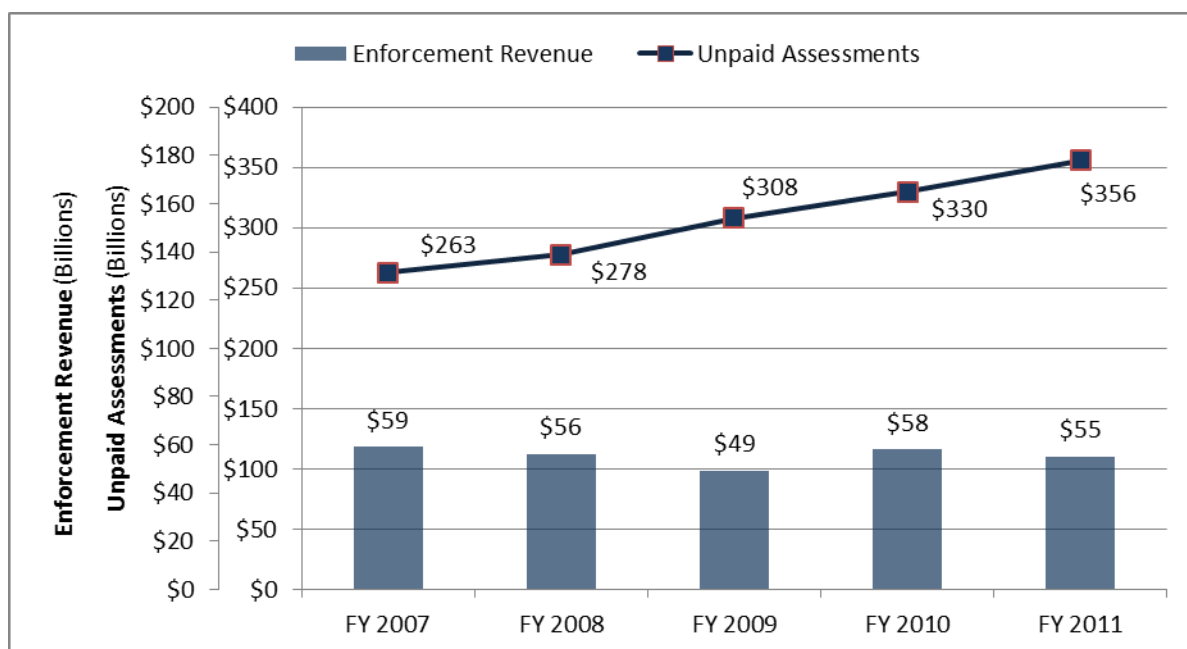


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- W&I and SB/SE Division Compliance Services Collection Operations – provides support services to taxpayers and to the Compliance organization through the administration of the various Collection programs.
- W&I Accounts Management function – provides service to taxpayers by responding to their tax law/account inquiries and adjusting tax accounts. In addition, it is responsible for providing taxpayers with information on the status of their tax returns/refunds and for resolving the majority of issues and questions to settle their accounts.

Even with over 16,000 Collection employees working enforcement programs, the amount of unpaid assessments has continued to grow. Figure 1 shows that while enforcement revenue has remained fairly constant over the past five years, unpaid assessments have risen each year to \$356 billion in Fiscal Year (FY) 2011.

**Figure 1: Enforcement Revenue and Unpaid Assessments
From Fiscal Year 2008 Through Fiscal Year 2011**



Source: IRS FY 2007 through FY 2011 financial statements.²

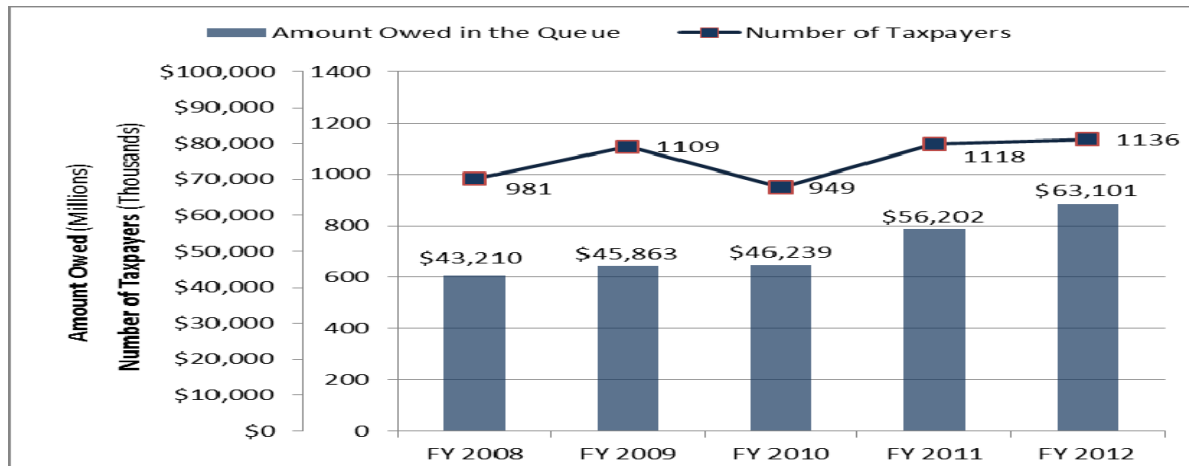
The IRS does not have the resources to work all taxpayer delinquency cases. Cases that do not meet minimum dollar thresholds are put into the Queue for future assignment if resources become available. Figure 2 shows that approximately 1.1 million cases with unpaid assessments of approximately \$63 billion were in the Queue at the end of FY 2012.

² FY 2012 financial statements were not available at the time of this report.



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Figure 2: Number of Taxpayers and Amount Owed in Queue Inventory From Fiscal Year 2008 Through Fiscal Year 2012



Source: IRS FY 2008 through FY 2012 Collection Information System reports.

In February 2010, the Deputy Commissioner for Services and Enforcement chartered the Collection Process Study (CPS) to conduct a broad-based review of the IRS's collection processes, identify opportunities for improvement, and recommend specific actions that could be implemented to achieve an enhanced Collection organization. The study examined all areas across the IRS enterprise engaged in, or supporting, collection activities. The goals established at the beginning of the CPS were to:

- Assess the current state of Collection with respect to the effectiveness of policies, measurements, tools, treatments, technology, and organizational structure.
- Develop recommendations for improvements.
- Propose and conduct tests and pilots to evaluate improvements.
- Develop a preliminary vision and strategy for a future state of IRS collection processes.
- Develop a story that more clearly communicates the collection environment overall.

The CPS's Organizational Structure and Alignment Team conducted a high-level assessment of the IRS Collection organization's structure to determine whether it met the needs of the IRS and to develop recommendations for organizational improvements. The team concluded that even though similar functions performed similar activities within the Collection organizations and business units, resources were managed independently and not uniformly across the various Collection divisions. Specifically,

- Collection policy authority resided in one organization within one operating division, while implementation authority resided in each of the individual Collection organizations.



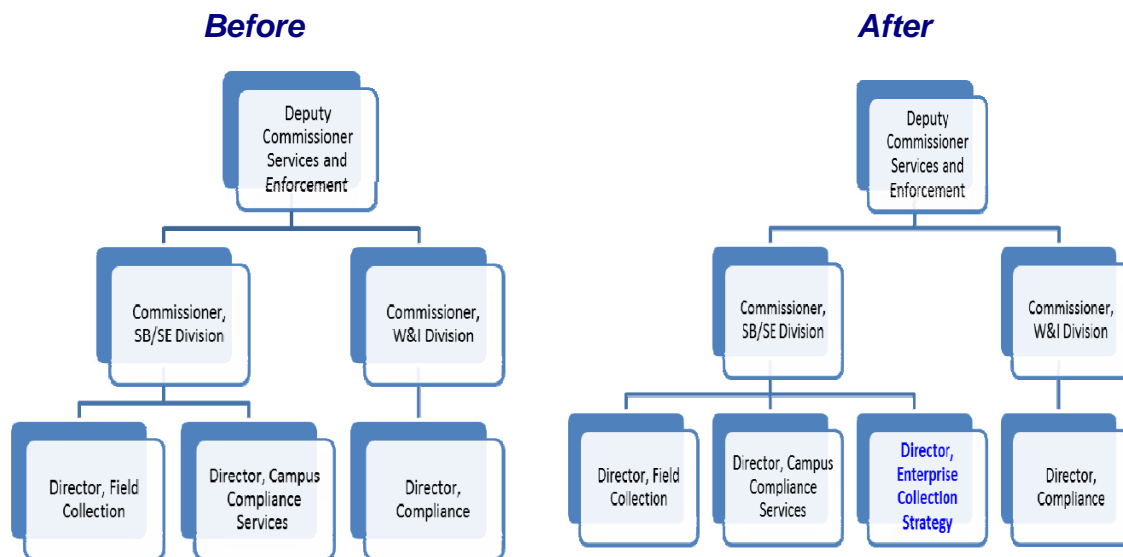
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- Collection decisions were made by the individual operating divisions based on each division's needs rather than determining the overall needs of the IRS.
- Collection strategy and plans were set independently by the individual organizations across two operating divisions. The IRS Collection organization lacked overall coordination and a standard method to prioritize activities.

In addition, because policy was “owned” by the Collection Field function but affected all of Collection, it was often difficult to coordinate and implement changes promptly, effectively, and transparently. Policy sometimes focused on a single organization or operating division's needs, rather than those of the IRS.

The CPS final report was issued in September 2010, and it included five recommendations based on the Organizational Structure and Alignment Team's assessment of the Collection organization.³ One of the five recommendations was to create a unified Collection organization. As a result, the Enterprise Collection Strategy (ECS) organization was created in January 2011 and officially established in October 2011.⁴ Figure 3 shows that the ECS organization became the fourth Collection directorate, adding to the three directorates that already existed.

Figure 3: IRS Collection Organization Before and After Establishment of the ECS Organization



Source: *The IRS Collection Process Study* and our analysis of ECS documentation.

³ See Appendix V for the CPS Organizational Structure and Alignment Team's five recommendations.

⁴ The ECS organization was designed and created in January 2011. However, it was not officially established until October 2011 when 302 staff were transferred to the new organization.



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The goal of the ECS organization is to improve organizational performance by reorganizing Collection operations to eliminate redundancies and inconsistencies. The ECS represents Collection operations from across the IRS.

The Internal Revenue Manual (IRM) contains specific requirements for the implementation of a new organization. The guidance requires that the approving official document the approval in writing and provide the initiating office any specific directions on when, how, and by whom the reorganization will be implemented and evaluated.⁵ It also requires that once an initiative is approved, a plan will be implemented that includes:

- A detailed timeline identifying major milestones.
- Defined roles and responsibilities.
- Identified risks and planned responses and contingencies.
- A communication plan addressing information needs.
- Measures and standards that can be used to compare the organization before and after the reorganization.
- A plan for evaluation of the completed initiative.⁶

Additionally, the Government Accountability Office's *Business Process Reengineering Assessment Guide*⁷ provides the need to establish a transition team to manage the implementation process and develop a detailed implementation plan for changes. Once the implementation is complete, the IRM requires that a final report be prepared assessing the completed organizational change. The report should include evaluation criteria consistent with that identified in the plan and a final employee/position reconciliation identifying the effect on the originally identified affected employees and positions.

This review was performed at the SB/SE Division Headquarters in Washington, D.C., and the W&I Division Headquarters in Atlanta, Georgia, during the period May through October 2012. 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.

⁵ IRM 1.1.4.4 (Aug. 12, 1997).

⁶ IRM 1.1.4.8 (Feb. 8, 2011).

⁷ Government Accountability Office (formerly known as the General Accounting Office), GAO/AIMD-10.1.15 (May 1997).



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Results of Review

The Enterprise Collection Strategy Organization Has Centralized Management of Collection Organizations

The ECS organization was officially established in October 2011 with 302 staff moving from the three existing IRS Collection organizations (Field Collection, SB/SE Division Filing and Payment Compliance, and W&I Division Filing and Payment Compliance). The ECS organization includes four divisions.

- Collection Analytics, Automation, Inventory Selection and Delivery – uses technology and strategies to select and route collection cases for efficient and effective resolution; oversees programs, policy, and systems for various aspects of Collection; and provides end-user tools to help manage and process cases, all in an effort to improve productivity, increase revenue, and improve taxpayer voluntary compliance.
- Collection Policy – provides corporate-wide guidance on all aspects of collection processes that are common to large groups of taxpayers with similar characteristics and the development, design, and delivery of Collection program objectives, strategies, and policies.
- Collection Strategy and Organizational Performance – coordinates the formation of enterprise strategy and resource requests and monitors and reports on enterprise performance indicators.
- Enterprise Collection Planning and Governance – provides coordination and oversight of governing executive councils across Collection, establishes corporate guidance for new workstream initiatives, administers programs for potentially dangerous taxpayers and caution indicators, and serves as the liaison for the Communications and Stakeholder Outreach function to ensure that clear guidance and effective strategy are communicated.

When the ECS organization was established, the four divisions had a total of 21 groups, of which 13 were moved over intact from the three other Collection organizations with no changes to their positions. The remaining eight groups included six with a mixture of staff from the other three Collection organizations and two new groups with vacant positions to be filled.⁸ See Appendix IV for the current detailed ECS organization chart.

⁸ Since implementation, management reduced the number of groups from 21 to 18, including the elimination of one of the new groups.



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The ECS organization created a mission to be the “one voice” for the Collection enterprise, supporting employees and leaders by establishing and communicating the policies, strategies, and governance for all Collection operations. The ECS staff is responsible for Collection programs and coordinates with staff in the operating divisions to improve operations.

The ECS organization has made progress in coordinating Collection efforts to address Collection staffing at a corporate level. The four directors responsible for Collection activities are now working together to determine staffing needs for Collection. The directors discuss staffing and make decisions based on corporate priorities for Collection rather than on the needs of their individual directorates.

The ECS organization represents all Collection operations across the IRS.

Additionally, in FY 2012, the ECS organization developed an enterprise-wide Program Letter for Collection. Before the ECS organization was implemented, separate program letters were prepared by each organization within Collection. The Enterprise Program Letter included information about how Collection as a whole would address the IRS’s goals of improving service to make voluntary compliance easier and enforcing the law to ensure that everyone meets their obligation to pay taxes. Specifically, the FY 2012 Collection Program Letter stated:

...with the official stand-up of the new ECS organization and the full partnership with the Collection leadership from SB/SE Field Collection, SB/SE Campus Compliance Services, and W&I Compliance to develop solutions from an enterprise wide perspective. The ECS organization will serve as “one voice” on all Collection matters including strategy, budget, work plan development, policy, reporting, and innovation. It will also support Collection as a whole in meeting internal measurements, goals, and targets to improve our levels of service to the taxpaying public. This centralization of support will allow the operating units to primarily focus on their business priorities and operational issues that affect program execution important to our overall success.

Creating an Enterprise Program Letter helps unite the Collection organization by having common goals and showing employees that the Collection directors are working together to achieve these goals. Centralized Collection management enhances the administration of Collection-wide resources and the potential for improvement of overall Collection organizational performance.

Performance Measures Needed to Determine the Success of the Enterprise Collection Strategy Organization Were Not Established

Performance measurement involves the ongoing monitoring and reporting of program effectiveness and the progress made towards achieving established goals and objectives. In Collection, program managers have developed and established a broad range of indicators to measure the effectiveness of their compliance activities. For example, management tracks



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performance measures related to the cycle time for casework, the age of case inventory, and the volume of enforcement activity such as liens, levies, and seizures. Performance measures are a valuable tool to assess progress towards achieving goals and identifying areas for improvement.

When a function reorganizes, both Government Accountability Office and IRS guidance require the establishment of measures and standards that can be used to compare the organization before and after reorganization. In addition, IRS guidance requires that a final report be prepared to evaluate the completed organization change. Performance measures should be determined early in the process and used with numeric targets to assess how well the organization is meeting improvement goals and achieving promised benefits.

The ECS's goal is to improve Collection's organizational performance. In order to determine if the ECS organization met this goal, a means to measure ECS performance and tie that performance into overall Collection results should be established. Performance measures for the ECS organization could be a combination of existing Collection measures tied to ECS influence and new ECS-specific measures tied to their progress in improving Collection's organizational performance.

However, performance measures were not established prior to the creation of the ECS organization as required by the IRM. IRS management did not link the goals for existing Collection organization performance measures to the impact of the ECS organization or create ECS-specific performance measures. In June 2012, ECS management began tracking increases in enforcement and case resolution efforts related to an initiative introduced and managed by the ECS organization. While these increases were a positive result of ECS involvement, they are limited to the initiative and do not reflect the ongoing influence of ECS on Collection-wide operations. Current measures are not sufficient to determine if the ECS organization is meeting its goal or achieving promised benefits.

IRS management stated that they did not develop ECS-specific performance measures because they did not believe that they needed to measure performance of Headquarters operations. However, existing IRM procedures for establishing and implementing new organizations provide the framework for such measures. For example, management did not prepare a plan for the ECS organization prior to approval. This plan would have included performance measures to evaluate the transition to the new organization as well as a baseline to gauge ongoing performance of the ECS organization. Additionally, management did not prepare a final report of the ECS transition, which would have included an evaluation based on these performance measures.

Moving forward, the ECS organization's goal of improving Collection's organizational performance will help to ensure that the Collection program is using its limited resources to address the \$356 billion delinquent tax and nonfiler inventories, so it is important that the IRS measure progress towards achieving this goal. Establishing performance measures that evaluate the effectiveness of the ECS would help managers and stakeholders make decisions about where



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to allocate resources, which programs are operating efficiently, and which programs need improvements.

Recommendations

The Deputy Commissioner for Services and Enforcement should:

Recommendation 1: Consider additional performance measures to assess the benefits of the ECS organization, measure ongoing ECS operations, and determine the ECS's effect on overall Collection operations.

Management's Response: IRS management agreed with this recommendation. They will review the existing ECS performance measurement system to determine if key attributes of performance effectiveness and efficiency are addressed. The review will consider five key elements: clear metrics, relevant targets, effective performance tracking, regular performance discussions, and ownership. If gaps are identified in the performance measurement system, implementation dates will be established for each measure recommended based on data availability. Additionally, if new measures are identified, they will be implemented and reported effective in April 2014.

Recommendation 2: Prepare an evaluation report to document the results of the reorganization and to analyze any need for changes. This report should include documentation of ECS performance measures and results.

Management's Response: IRS management agreed with this recommendation. The final report of the ECS transition will involve a comparative analysis of the Collection organization prior to centralizing activities in the newly created ECS organization. A key component of the report is an assessment of the ECS organization's progress in influencing improved Collection organizational performance.



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The Roles and Responsibilities of the Enterprise Collection Strategy Organization Were Not Adequately Documented

The IRM, the Government Accountability Office's *Standards for Internal Controls in the Federal Government*,⁹ and the Office of Management and Budget's *Circular A-123 – Management's Responsibility for Internal Control* all require that an agency clearly define key areas of authority and responsibility and establish appropriate lines of reporting. To meet the goal of improving performance, the ECS organization was designed to eliminate redundancy and inconsistency by reorganizing Collection operations. In order to eliminate redundancies and inconsistencies through reorganization, the roles and responsibilities of the prior organization should be analyzed, and new, detailed roles and responsibilities should be developed for the new organization.

The IRS developed a vision for the overall ECS organization, including a description of the role of each of the four ECS divisions. However, IRS management did not document roles and responsibilities for all of the groups under these divisions. Figure 4 shows that eight (38 percent) of the 21 individual groups in the ECS organization were established without documented responsibilities.

Figure 4: ECS Groups Established Without Documented Responsibilities

| ECS Division | Groups | Groups Without Documented Responsibilities |
|---|-----------|--|
| Collection Strategy and Organizational Performance | 5 | 1 |
| Collection Analytics, Automation, Inventory Selection, and Delivery | 5 | 0 |
| Enterprise Collection Planning and Governance | 3 | 1 |
| Collection Policy | 8 | 6 |
| Total | 21 | 8 |

Source: The IRS Intranet and ECS organization mission statements.

⁹ Government Accountability Office (formerly known as the General Accounting Office), GAO/AIMD-00-21.3.1 (Nov. 1999).



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Additionally, only two of the 10 ECS employees we interviewed had guidance to perform their specific jobs (both had the same manager). Both employees had developed the guidance for their positions so that someone else could perform their duties if necessary. This type of guidance can help define the roles and responsibilities, alleviate confusion about what staff was responsible for, and provide a valuable resource to new staff.

Roles and responsibilities were overlooked because the IRS did not follow existing IRM procedures in establishing and implementing the ECS organization. The IRS did not formally approve the new organization or provide detailed guidance for its establishment. Written approval and direction would have provided IRS management with guidance on roles and responsibilities. In addition, the IRS did not have a stable transition team or follow a detailed implementation plan during the transition to ensure that the required activities, including defining roles and responsibilities, were completed.

ECS management stated that they did not redefine roles and responsibilities during the transition to the ECS organization because many of the groups (13 of the 21) moved over intact from their previous Collection organization. ECS management attempted to minimize potential confusion about roles and responsibilities during the transition process by communicating to employees that they would bring their work with them so there were no changes. Because these groups and individuals would be performing work similar to what they did in their previous positions, management did not believe they needed to determine if roles and responsibilities were already defined or if there was any guidance for the specific jobs. However, we believe this position is not contributing to the ECS organization's goal of consolidating operations to eliminate redundancies and inconsistencies. On the contrary, we believe that defining roles and responsibilities is a fundamental first step to identify any redundancies and inconsistencies.

Since the ECS organization was officially established in October 2011, there have been continuing questions in Collection about who was responsible for work between the ECS and the other Collection organizations. With the addition of the new ECS organization, there are now four directors responsible for Collection activities. Three of the directors (ECS, Collection Field function, and Campus Compliance Services function) are under the SB/SE Division and the other, Director, Compliance, is in the W&I Division. The ECS organization does not have line authority over the other Collection organizations/functions but is responsible for coordinating Collection policy, staffing, and programs.

In March 2012, Collection focus groups consisting of 39 Collection senior leadership staff (including executives) participated in discussions about the issues facing Collection. One of the major issues discussed throughout the focus groups was the lack of role clarity. In August 2012, the Collection executives and managers met to discuss the issues identified from the focus groups and the continuing issues with the Collection organization. These issues, which all stem from a lack of clear roles and responsibilities, included:



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- Continuing Redundancies – There are continuing redundancies in the Collection organization. For example, the ECS organization has responsibility for all Collection reports. However, other offices and functions are still developing and implementing reports for directors and new managers. None of the prior reports are being deleted and are still being generated. Management found many redundancies within the reports and is now considering reducing the number of available reports to those that are being used. This will help save the IRS's limited resources.
- Lack of Communication and Collaboration – Management is working on establishing protocol for communication between the Collection organizations. This protocol includes the need for analysts to acquire a greater awareness of the different Collection organizations and procedures for improved collaboration. Also, management needs to ensure that employees are aligned properly with their work and in the correct group.
- Insufficient Definition of Policy and Procedures – There have been questions about what is considered policy and what is considered procedure. This affects who is responsible for which IRM sections since the ECS is responsible for the policy and the other Collection organizations are responsible for the procedures. Some IRM sections provide both policy and procedure, so management needs to define and clarify IRM responsibilities for each section so that all sections can be kept accurate and current.

Without clearly defined roles and responsibilities, it is more difficult to identify any redundancies and inconsistencies that may be present. As a result, redundancies and inconsistencies may continue to exist among the two operating divisions and four directors responsible for Collection activities. These conditions could impede Collection activities in the field and campuses, and they are inefficient. Given the growing inventory of delinquent taxes and unfiled returns, the importance of operating efficiency within Collection is clear. The ECS organization was established with a goal of improving Collection operations by eliminating redundancies and inconsistencies. If these conditions cannot be identified, it is difficult for management to determine if the ECS organization is making progress towards its goal and to identify potential areas for improvement.

Recommendation

Recommendation 3: The Deputy Commissioner for Services and Enforcement should clearly define the roles and responsibilities of all groups within the ECS organization and review individual positions to determine if further documentation is needed to provide detail for specific job responsibilities. These new roles and responsibilities should be reviewed to ensure that redundancies and inconsistencies have been eliminated.

Management's Response: IRS management agreed with this recommendation. A team has been convened, with representation from all Collection operating units, to clearly define the roles and responsibilities on key interaction areas applicable to



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Collection operations. A document will be finalized and shared throughout all Collection operating units. Once the roles and responsibilities document is completed, a gap analysis will be developed to assess any further redundancies or inconsistencies. Additionally, to further define roles and responsibilities for each group, IRMs 1.1.13 (W&I Division) and 1.1.16 (SB/SE Division) will be updated.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to determine the IRS's effectiveness in establishing and implementing the ECS organization to achieve its goal of improving organizational performance by reorganizing Collection operations to eliminate redundancies and inconsistencies. To accomplish this objective, we:

- I. Determined if the IRS properly planned for and implemented the ECS organization.
 - A. Assessed compliance with applicable laws, regulations, and directives.
 - B. Determined how the design team planned for and conducted the design phase in establishing the ECS organization.
 - C. Determined how the implementation team conducted the transition and implementation activities, including any need for delegation orders, for the ECS organization.
- II. Determined if the ECS organization established sufficient performance measures and if it was progressing towards its goal of improving organizational performance.
 - A. Determined the impact of the new ECS organization on Collection staffing levels.
 - B. Identified performance measures being used to evaluate the success of the ECS organization in achieving its goal to improve Collection processes.
 - C. Determined the status of the CPS recommendations to improve Collection operations.
- III. Determined the effectiveness of the ECS organization in reorganizing Collection operations to eliminate redundancies and inconsistencies.
 - A. Interviewed Collection executives to determine if the new ECS organization has addressed their concerns about the Collection organization, including if resources are being corporately managed across Collection instead of independently and if policies and processes are being more uniformly managed. We also determined if the executives have any concerns with the implementation of the new organization or how it is currently operating.
 - B. Assessed the ECS organization's roles and responsibilities to determine if it is effectively achieving its mission and goals.



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Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: IRM procedures for reorganizations and performance measures. We evaluated these controls by reviewing transition documentation and interviewing executives, managers, and employees.



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Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Carl Aley, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Frank J. Dunleavy, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Timothy F. Greiner, Acting Director

Glen J. Rhoades, Audit Manager

Beverly K. Tamanaha, Senior Auditor

Charles Nall, Auditor



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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Wage and Investment Division SE:W
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Services and Operations, Wage and Investment Division SE:W
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Enterprise Collection Strategy, Small Business/Self-Employed Division SE:S:CS
Director, Field Collection, Small Business/Self-Employed Division SE:S:FC
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 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W

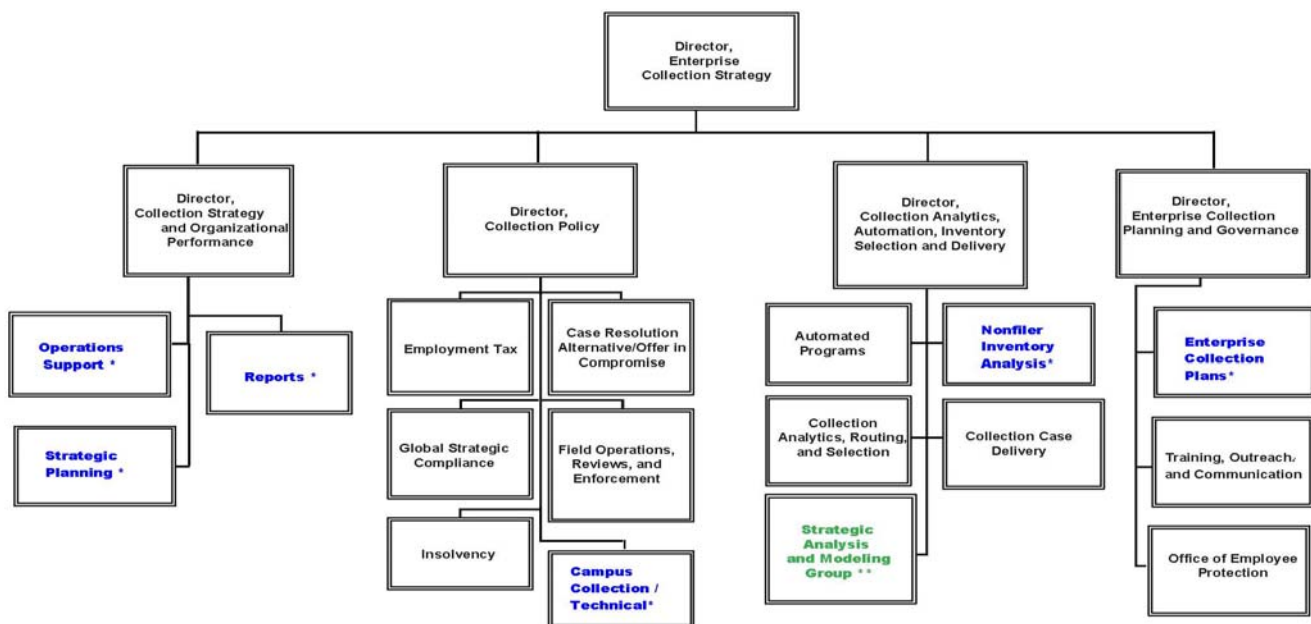


The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed

Appendix IV

Enterprise Collection Strategy Organization Chart

The ECS organization was officially established in October 2011 with 302 staff moving from the three existing IRS Collection organizations (Field Collection, SB/SE Division Filing and Payment Compliance, and W&I Division Filing and Payment Compliance). The ECS organization is functionally located within the SB/SE Division and represents Collection operations across the IRS. This organizational chart shows the ECS organization as of July 23, 2012.



*Groups that moved to the ECS organization with a mixture of staff from the other three Collection groups.

**New group created with the formation of the ECS organization.



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Appendix V

Collection Process Study's Organizational Structure and Alignment Recommendations

The following table provides the five recommendations from the CPS Organizational Structure and Alignment Team's assessment of the Collection organization.

| # | Recommendation | Brief Description | Status |
|-------|---|---|--|
| 8.4.1 | Establish a Unified Collection Organization | Provide a unified Collection organization with strategy, policy, and governance functions centralized under a single operating unit that reports directly to a new Deputy Commissioner within the SB/SE Division. | The ECS organization was created with a director who works with the other three Collection directors. The four directors report to the Deputy Commissioner for Services and Enforcement. |
| 8.4.2 | Right-Size the Collection Field function, ¹ Optimize Collection Resources, and Perform an Enterprise-Wide Workload Study | Reduce the Collection Field function to 3,661–4,045 full-time equivalents through attrition while conducting a more comprehensive study to identify optimal staffing levels across the collection process. Redirect resources saved by the attrition to other areas and focus on those that would have the largest impact on increasing dollars collected and coverage, the Automated Collection System, or upstream initiatives. | This is being addressed in response to a recommendation from a prior Treasury Inspector General for Tax Administration report. ² The corrective action due date is March 15, 2013. |
| 8.4.3 | Expand the Use of Tax Examiners in Collection Field function Offices | Pilot the addition of tax examiners to Collection Field function staffing to work lower priority cases and perform certain administrative duties in order to give revenue officers more time to focus on complex cases. This pilot would test the effectiveness of the tax examiner position to reduce the productive but currently unworked cases, thereby reducing the Tax Gap. | On August 8, 2012, we were informed that this was not pursued in the manner as outlined in the CPS report. Instead of establishing a new position, the types of work were reviewed and assigned based on the skill set, grade, and authority level that could process the work between the Automated Collection System and Field Collection staff. |

¹ See Appendix VI for a glossary of terms.

² Treasury Inspector General for Tax Administration, Ref. No. 2011-30-039, *Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands*, p. 7 (May 2011).



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| # | Recommendation | Brief Description | Status |
|-------|---|--|--|
| 8.4.4 | Pilot Phase II of Hybrid Positions in the Automated Collection System | Implement the IRS Corporate Approach to Collection Inventory ³ recommendation for a Phase II pilot of the Hybrid position in the Automated Collection System at the campus. Hybrid sites apply field techniques to Collection from a campus environment, benefiting the organization by using lower salary dollars to increase Collection coverage and dollars collected. | Same as Recommendation # 8.4.3. |
| 8.4.5 | Centralize Processing of Certain Lien Certificates | Centralize the processing of certain lien-related certificates to leverage the efficiencies of a single campus processing operation and improve service to taxpayers and internal stakeholders. | We were informed that this issue was being worked on before this recommendation was made. It was included in the CPS recommendations to elicit a push to get it done. However, we were unable to obtain an official response on the status of this recommendation. |

³ IRS, *Hybrid Project Observations and Recommendations Final Report* (Mar. 2009).



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Appendix VI

Glossary of Terms

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.

Campus – The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Collection Field function – The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Collection Statute Expiration Date – A time period established by law to collect taxes. The Collection Statute Expiration Date is normally 10 years from the date of an assessment.

Cycle Time – Elapsed calendar days on completed investigations.

Enterprise Program Letter – Prepared annually and provides the mission, goals, and strategic focus of the organization.

Fiscal Year – A 12-consecutive-month period ending on the last day of any month. The Federal Government's fiscal year begins on October 1 and ends on September 30.

Full-Time Equivalent – A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2011, one FTE was equal to 2,088 staff hours. For FY 2012, one FTE was equal to 2,080 staff hours.

Installment Agreement – An arrangement by which the IRS allows taxpayers to pay liabilities over time.

Internal Revenue Manual – The manual that contains the policies, procedures, instructions, guidelines, and delegations of authority that direct the operation and administration of the IRS.

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.

Offer in Compromise – A proposal for settlement of tax liability for an amount less than that previously assessed (or unassessed) or a liability for specific penalties assessed (or unassessed).



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Operating Division – The IRS Restructuring and Reform Act of 1998¹ prompted the IRS to reorganize itself into operating divisions to closely resemble the private sector model of organizing around customers with similar needs. That reorganization resulted in the current four primary operating divisions at the IRS: Wage and Investment, Large Business and International, Small Business/Self-Employed, and Tax Exempt and Government Entities.

Queue – A holding file for cases pending assignment.

Seizures – The taking of a taxpayer's property to satisfy his or her outstanding tax liability.

Tax Gap – The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

Taxpayer Delinquency Investigation – An unfiled tax return for a taxpayer. One taxpayer delinquency investigation exists for all tax periods.

Taxpayer Delinquent Account – A balance due account of a taxpayer. A separate taxpayer delinquent account exists for each tax period.

Trust Fund – Money withheld from an employee's wages (income, Social Security, and Medicare taxes) by an employer and held in trust until paid to the Department of the Treasury.

Unpaid Assessments – Legally enforceable claims against taxpayers. Unpaid assessments consist of taxes, penalties, and interest that have not been collected or abated. Unpaid assessments result from taxpayers filing returns without sufficient payments as well as from IRS enforcement programs.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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Appendix VII

Management's Response to the Draft Report

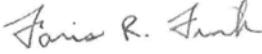


COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

APR 22 2013

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed (Audit # 201230011)

Thank you for the opportunity to review your draft report titled, "The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed." We appreciate your acknowledgement of our progress in coordinating Collection efforts to address staffing at a corporate level. As you noted, the four Collection directors are working together in making decisions based on corporate priorities for Collection rather than on the needs of their individual units. We also appreciate the positive comments related to the Enterprise Collection Strategy (ECS) organization's development of an enterprise-wide Collection Program Letter.

We agree with your recommendations; however, we do not agree with some of your findings. Due to its role and function, the IRS has not implemented any output measures specific to ECS. Instead, ECS should be evaluated and judged based on a compilation of measures and results from all of the Collection areas. The Business Performance Review (BPR) details our measures, metrics, and other accomplishments, demonstrating ECS' influence in contributing to the overall success of the Collection organization.

The ECS organization is a headquarters function that supports frontline organizations that have well-established balanced measurement systems in place. We do not believe there is any requirement to develop organizational-specific performance measures for headquarters support organizations; therefore, the IRS does not establish unique performance measures for all of the hundreds of separate organizational units within our agency. The IRS complies with performance requirements through the publication of a strategic plan which includes agency performance metrics, and through the submission



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of a performance-based budget which includes additional measures for major IRS programs.

Attached is a detailed response outlining our corrective actions addressing your recommendations.

If you have any questions, please contact me, or a member of your staff may contact Michael Julianelle, Director, Enterprise Collection Strategy, at 202-283-2548.

Attachment



The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed

Attachment

RECOMMENDATION 1:

Consider additional performance measures to assess the benefits of the ECS organization, measure ongoing ECS operations, and determine ECS's effect on overall Collection operations.

CORRECTIVE ACTIONS:

1. We will review the existing Enterprise Collection Strategy performance measurement system to determine if key attributes of performance effectiveness and efficiency are addressed. The review will consider five key elements: clear metrics, relevant targets, effective performance tracking, regular performance discussions, and ownership. If gaps are identified in the performance measurement system, implementation dates will be established for each measure recommended based on data availability.
2. If new measures are identified, they will be implemented and reported effective April 2014.

IMPLEMENTATION DATES:

1. February 15, 2014
2. May 15, 2014

RESPONSIBLE OFFICIAL(S):

Director, Collection Strategy and Organizational Performance, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

Prepare an evaluation report to document the results of the reorganization and to analyze any need for changes. This report should include documentation of ECS performance measures and results.

CORRECTIVE ACTION:

The final report of the Enterprise Collection Strategy transition will involve a comparative analysis of the Collection Organization prior to centralizing activities in the newly created Enterprise Collection Strategy (ECS) organization. A key component of the report is an assessment of the ECS organization's progress in influencing improved Collection organizational performance.

IMPLEMENTATION DATE:

August 15, 2014



The Enterprise Collection Strategy Organization Has Centralized Management of the Collection Organization; However, Performance Measures and Key Roles Need to Be Developed

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RESPONSIBLE OFFICIAL(S):

Director, Collection Policy, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:

The Deputy Commissioner for Services and Enforcement should clearly define the roles and responsibilities of all groups within the ECS organization and review individual positions to determine if further documentation is needed to provide detail for specific job responsibilities. These new roles and responsibilities should be reviewed to ensure redundancies and inconsistencies have been eliminated.

CORRECTIVE ACTIONS:

1. A team has been convened, with representation from all Collection Operating Units, to clearly define the roles and responsibilities on key interaction areas applicable to Collection Operations. A document will be finalized and shared throughout all Collection Operating Units.
2. Once the Roles and Responsibilities document is completed, a gap analysis will be developed to assess any further redundancies or inconsistencies.
3. To further define roles and responsibilities for each group, IRMs 1.1.13 (W&I) and 1.1.16 (SBSE) will be updated.

IMPLEMENTATION DATES:

1. June 15, 2013
2. September 15, 2013
3. December 15, 2013

RESPONSIBLE OFFICIAL(S):

Director, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.