TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Field Collection Could Work Cases With Better Collection Potential

September 12, 2014

Reference Number: 2014-30-068

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.

Phone Number | 202-622-6500
E-mail Address | TIGTACommunications@tigta.treas.gov
Website | http://www.treasury.gov/tigta

FIELD COLLECTION COULD WORK CASES WITH BETTER COLLECTION POTENTIAL

Highlights

Final Report issued on September 12, 2014

Highlights of Reference Number: 2014-30-068 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The IRS has a large inventory of taxpayer delinquent accounts but limited resources to collect the unpaid taxes. If sufficient steps are not taken to make the most effective use of collection resources, it can have a substantial impact on the amount of Federal taxes that remain uncollected.

WHY TIGTA DID THE AUDIT

While the Collection Field function (field) collects billions of dollars from delinquent taxpayers, resources have declined and many balance due modules have been closed as currently not collectible. TIGTA performed this audit to determine whether the IRS's workload identification, selection, and assignment practices ensure that the cases with the greatest collection potential are worked in the field.

WHAT TIGTA FOUND

The field workload selection process is not designed to ensure that cases with the highest collection potential are identified, selected, and assigned to be worked. In Fiscal Year 2013, 40 percent of the taxpayer delinquent accounts closed by the field were written off as currently not collectible. The amount of delinquencies written off that year totaled $16.1 billion, which was over five times as much as the amount collected by the field ($3.1 billion). There are several contributing factors limiting the effectiveness of the IRS's collection efforts:

- The IRS does not measure productivity or establish specific goals to evaluate case selection criteria.
- Information systems do not track case source data, so management cannot fully assess the effectiveness of field case selection criteria.
- Case selection criteria do not consider the age of associated delinquencies, so many assigned cases include older delinquencies that will not likely be collected.
- Case selection criteria do not consider the financial condition (such as income) of the delinquent taxpayers, so many of the assigned cases involve taxpayers with no ability to make payments.
- Case selection criteria do not consider unsuccessful prior attempts to contact or locate the taxpayers.

Furthermore, many of the cases are older with less collection potential because they were first routed to the Automated Collection System but were not resolved before assignment to the field.

Management has begun some initiatives intended to improve the workload selection process. While these initiatives could provide benefits, TIGTA believes that further action is warranted.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS:
1) reexamine the field case selection criteria and strategy, 2) ensure that field personnel are aware of the new strategy, 3) establish a method to measure the effectiveness of the field case selection criteria, and 4) conduct a study of the cases routed to the Automated Collection System to determine whether there are certain types of cases that should instead be routed directly to the queue or the field.

In their response to the report, IRS officials generally agreed with our recommendations. The IRS plans to incorporate their corrective actions as part of a new concept of operations in the creation of a single Collection organization as part of a realignment of IRS compliance programs. Improving case selection criteria will need to be a key component of its new concept of operations to address the intent of TIGTA's recommendation.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 12, 2014

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Field Collection Could Work Cases With Better Collection Potential (Audit # 201230019)

This report presents the results of our review to determine whether the Internal Revenue Service's (IRS) workload identification, selection, and assignment practices are ensuring that the cases with the greatest collection potential are worked in the Collection Field function. The audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

IRS management expressed concerns regarding our sample methodology because the sample did not include cases resolved in the Automated Collection System (ACS). However, the scope of this audit focused on cases assigned and closed by Field Collection, not the ACS. ACS inventory management is the focus of a separate audit. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations.

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

Table of Contents

Abbreviations

ACS	Automated Collection System
CNC	Currently Not Collectible
FY	Fiscal Year
ICS	Integrated Collection System
IDS	Inventory Delivery System
IRS	Internal Revenue Service
RO	Revenue Officer
ROTER	Record of Tax Enforcement Results
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIGTA	Treasury Inspector General for Tax Administration

Background

The Internal Revenue Service's (IRS) Collection function has the primary responsibility for collecting delinquent taxes and tax returns while ensuring that taxpayer rights are protected. Specifically, the mission[1] of the IRS Collection function is:

> *To collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, provide education to customers to enable future compliance, and thereby protect and promote public confidence in the American tax system.*

This is a significant operation within the IRS because of the extent of noncompliance in both delinquent tax liabilities and delinquent tax returns. The IRS estimates that the annual Tax Gap[2] ($450 billion) includes $46 billion in delinquent tax liabilities and $28 billion in unfiled tax returns.[3]

The IRS uses a three-phased approach for collecting unpaid tax liabilities until they are either fully paid, determined to be uncollectible, or otherwise resolved:

- **Notice Stream:** The IRS sends a series of balance due notices to the taxpayer to prompt a payment by the taxpayer or a reply if the taxpayer disagrees with the balance due or is not able to pay the delinquency.
- **Telephone Contact (Automated Collection System (ACS)):** IRS employees attempt to make telephone contact with the taxpayer to prompt a payment or take enforcement action that may include levying financial assets or filing a lien against the taxpayer's property.
- **In-Person Contact (Collection Field function (hereafter referred to as the field)):** Revenue officers (RO) contact the taxpayer to prompt a payment or take enforcement action, including levies, liens, and seizures of taxpayer property.

[1] As of November 2013.
[2] See Appendix V for a glossary of terms.
[3] The Tax Gap is the difference between what taxpayers should have paid and what they timely paid. The largest portion ($376 billion) of the Tax Gap is based on taxpayers underreporting taxes. A smaller portion ($46 billion) is based on taxpayers not fully paying their tax liabilities. The final portion ($28 billion) is based on those taxpayers not filing tax returns. These updated Tax Gap figures were reported by the IRS in January 2012 and represent Tax Year 2006 tax return data.

The three-phased approach starts with a number of automatically generated balance due notices (notice stream). If the taxpayer is not able to pay the delinquency or does not respond to the notices, the IRS issues a Taxpayer Delinquent Account (TDA) to the Collection Queue (hereafter referred to as the queue), the ACS, or directly to the field to collect the balances due. If there are insufficient resources to work the TDAs, the cases are either shelved[4] or transferred to the queue[5] and not worked.

The IRS uses the Inventory Delivery System (IDS) to systemically evaluate a collection case and determine where it should be worked. The IDS uses consolidated decision analytics, risked-based collection criteria, and established business rules to route cases to the ACS, the queue, or directly to the field. Because the IDS operates systemically, it saves resources by conducting the following actions:

- Perfects casework by using research services to obtain missing taxpayer information needed for case resolution.
- Analyzes, classifies, and directs perfected cases to the collection operation that is best suited to work that particular type of inventory.
- Closes cases and removes them from the active inventory if the cases do not meet the criteria to be assigned to a collection operation.

In addition to these actions, the IDS computes a predictive score for each case. The predictive scores are then used to assign a predictive code to the case. Currently, data associated with the predictive score are generally used only in prioritizing ACS cases.[6] The IDS also identifies accelerated high-risk cases for direct assignment to the field (thereby bypassing both the ACS and the queue). Most cases that are assigned to the field initially go to the queue (to await assignment to the field).

IRS guidelines and a rules-based systemic process are used to determine the best place to send TDAs for collection.

For those cases routed to the queue and the field, IRS management uses the ENTITY Case Management System (hereafter referred to as the ENTITY system) to control the cases. The ENTITY system receives data from the:

- Integrated Collection System (ICS) for open, closed, and "return to queue" cases.
- Delinquent Inventory Account List for queue cases.
- Automated Lien System for lien information.

[4] Cases that have been taken out of the collection inventory because they are of lower priority than other available inventory.
[5] Appendix IV provides more details related to the Collection Queue inventory.
[6] The IDS predictive score for cases with delinquent liabilities of $1 million or more is used to prioritize field cases.

While cases are in the queue, the ENTITY system applies risk rules to each case (on a weekly basis) to determine its risk level. The system prioritizes the cases assigned to the queue and the field based on the risk level established by the ENTITY risk rules.

In addition, the ENTITY system displays data from the ICS and the queue for case management, reports compilation, and management information. The ENTITY system has the capability to allow area and territory managers to monitor key business indicators for collection cases and generate reports at the individual, group, territory, area, and headquarters levels.

This review was performed at the IRS National Headquarters in Washington, D.C., in the Small Business/Self-Employed Division's Enterprise Collection Strategy office during the period August 2012 through March 2014. 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.

Results of Review

With a significant growth in delinquent accounts and a reduction in the number of employees, it is essential that the field inventory selection process identifies the cases that have the highest risk and potential for collection. This requires IRS officials to make decisions about how to ensure that the cases in the queue with the best collection potential are identified, selected, and assigned to be worked. However, the field inventory processes are not designed to do this.

In addition, management information systems do not provide complete information that would allow Collection function management to adequately assess the effectiveness of field case selection criteria. For example, although the ENTITY system allows group managers some flexibility when selecting and assigning cases to ROs, it does not track a source code that could be used to identify when this flexibility is used. Similarly, the system does not identify cases that managers assigned based on the ENTITY risk level. Such information would be helpful in determining correlations between risk levels and revenue and could be used to help improve selection criteria.

Compounding these challenges, the field selection criteria do not consider some key information that could be used to improve the probability that assigned cases will result in revenue. Although the dollar value and age of the current liability are considered, the ENTITY risk rules do not consider the age or status of older liabilities for that taxpayer. Such delinquencies could be an indication that the taxpayer does not have the ability to pay. In addition, the field selection criteria do not consider the financial condition of the taxpayer, such as whether or not the taxpayer has an income source or assets. Furthermore, the ENTITY risk rules do not consider any unsuccessful prior attempts to contact or locate the taxpayer. As a result, assigned cases often involve taxpayers who do not have the ability to make payments or taxpayers who cannot be contacted or located.

In addition, many cases that are initially assigned to the ACS are not resolved and are ultimately assigned to the field after they have aged in the ACS. This practice potentially reduces the likelihood that revenue will be collected.

The combination of these factors has a direct impact on the IRS's ability to reduce the Tax Gap and emphasizes the need for proper inventory management and the importance of identifying productive cases to work. IRS officials need to ensure that the delinquent accounts in the queue with the most collection potential are identified, selected, and assigned to the field while balancing the need to protect taxpayers' rights and minimize taxpayer burden.

The Workload Selection Process for Field Collection Cases Needs to Be Improved

The IRS faces difficult challenges when collecting the billions of dollars in unpaid taxes owed by delinquent taxpayers. Between Fiscal Years (FY) 2010 and 2013, the IRS's budget was reduced by approximately 8 percent, to $11.2 billion (after sequestration). This correlated to a 17 percent reduction in the number of ROs working inventory (671 fewer ROs). There has been a 13 percent reduction in overall enforcement revenue collected ($7.4 billion less). At the same time, delinquent liabilities have grown considerably. With declining resources, many of the cases are unlikely to be worked by IRS employees. Specifically, since the end of FY 2010:

- The number of TDAs in the queue has decreased by 10 percent, from 3.3 million to 3.0 million, although the dollar value has increased by 8 percent, from $46.2 billion in delinquencies to $49.9 billion in delinquencies. In addition, 4.1 million TDAs, involving $33.7 billion, were removed from inventory (shelved).
- Over 80 percent of the modules in the queue have aged four years or longer. Collection potential drops as the cases become older, especially if taxpayers incur additional delinquencies from different tax periods.
- The average number of cases assigned to each RO has been reduced to 85 percent of former levels, and the time permitted to take certain actions was extended from 30 days to 45 days, which potentially slows inventory turnover.[7]

The IRS assigns its highest-risk and most complex collection cases to the field. Field personnel have unique skills that enable them to work such cases; however, because they are labor-intensive, the cost associated with working these cases is higher than in other collection operations. To achieve the best use of its resources, the IRS needs to ensure that field personnel are assigned the most productive queue cases from which to collect delinquent taxes.

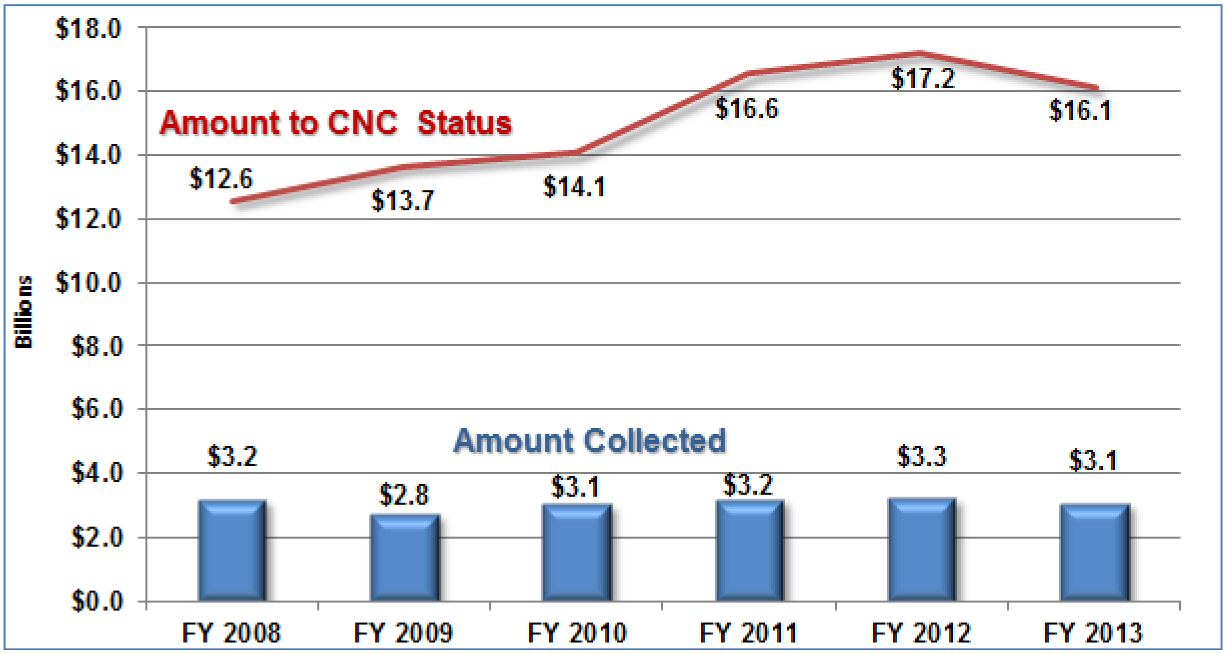
During FY 2013, 610,151 (40 percent) of the 1,507,700 TDAs closed by the field were written off as currently not collectible (CNC) and were no longer being actively worked. More specifically, 435,790 (71 percent) of the 610,151 TDA modules were closed as CNC because the taxpayer did not have the ability to pay, while 116,198 (19 percent) were closed as CNC because the RO could not contact or locate the taxpayer.[8] Since FY 2008, the percentage of TDAs closed as CNC by the field has remained at 38 percent or higher. Figure 1 shows the gap between field CNC closures and dollars collected between FYs 2008 and 2013.

---

[7] Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2013-30-043, *Oversight of Revenue Officer Case Actions Can Be Improved* (May 2013).

[8] The remaining 10 percent were closed as CNC for various other reasons, such as the death of an individual with no collection potential from the decedent/decedent estate.

Figure 1: Field Collections and CNC Closures for FYs 2008 Through 2013



Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

During FY 2013, the dollar value of the tax liabilities closed by the field as CNC ($16.1 billion) was over five times as much as what was collected ($3.1 billion). Over 60 percent of the $16.1 billion were closed as CNC because the IRS determined that the taxpayers did not have the ability to pay.

A recent IRS study[9] concluded that there could be some benefits from working cases that are closed as CNC. Specifically, the study found that cases worked by ROs and closed as CNC often resulted in more revenue and better taxpayer compliance than cases that were not worked at all. However, the study only compared working cases with not working cases. It did not compare the benefits of working different types of cases. Specifically, it did not compare revenue or future compliance of working CNC cases with other cases that were also actually worked but were closed as fully paid or with an installment agreement. Furthermore, approximately 32 percent of the CNC dollars were closed because the RO could not contact or locate the taxpayers. Overall, field personnel could be spending more time on queue cases that result in collecting revenue if the workload selection process was improved.

[9] Internal Revenue Service Study, *Uncollectible vs. Unproductive, Compliance Impact of Working Collection Cases That Are Ultimately Not Fully Collectible*, June 19, 2014, IRS Research Conference.

More Consideration of Collection Potential Should Be Given When Identifying and Selecting Field Collection Case Inventory

IRS collection program procedures require that collection inventory selection systems deliver current and potentially collectible inventory to the field. However, there is no feedback system alerting management on whether this occurs since the probability that revenue will be collected is not fully considered when selecting inventory. Without this consideration, a large percentage of cases that were assigned to the field involved taxpayers who did not have the ability to pay or could not be contacted or located.

The IRS has not established quantifiable goals for its case selection criteria

The enactment of the IRS Restructuring and Reform Act of 1998[10] ushered in dramatic changes in tax law as well as in the structure and functioning of the IRS. The changes affecting the IRS focused mainly on improving customer service and expanding taxpayer rights, and they required the IRS to incorporate many new or modified taxpayer rights provisions into its collection work processes. However, the law also required the IRS to establish new administrative review and approval requirements.

Specifically, the law codified several taxpayer rights that the IRS needed to protect while carrying out its enforcement activities. The law also provided that employees could be removed if they willfully disregarded a taxpayer's rights. These provisions resulted in a significant reduction in the Collection function's use of enforcement actions (liens, levies, and seizures) for a number of years. While a balanced focus on customer service and taxpayer rights is appropriate, it is also important for the Collection function to remain focused on its mission of collecting revenue. ROs should focus on the goal of bringing taxpayers into compliance, which includes collecting revenue, provided that they also comply with IRS policies and procedures that protect taxpayer rights. Assigning queue cases with collection potential helps ROs achieve this goal.

Collection function management advised us that they have not established criteria that use revenue due to concerns about the prohibition on the use of records of tax enforcement results (ROTER) to evaluate employee performance. According to the IRS's Internal Revenue Manual,[11] ROTERs are data, statistics, and compilations of information or other numerical or quantitative records of the tax enforcement results reached in one or more cases. Using dollars collected on closed cases to evaluate ROs is considered the use of ROTERs.

Notwithstanding the prohibition on the use of ROTERs to assess the performance of individual ROs or group managers, there are specific areas in which revenue and collection statistics may

---

[10] 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.).
[11] Internal Revenue Manual 1.5.2.2(7) (May 8, 2012).

be considered in managing the program. IRS procedures do allow the use of collection statistics to measure the performance of its workload selection criteria. Specifically, the Internal Revenue Manual[12] and Treasury Regulations[13] allow that ROTERs may be used for purposes such as forecasting, financial planning, resource management, and the formulation of case selection criteria. These important records may be incorporated in the field workload selection system. This type of tracking would help the Collection function make the best use of its limited resources and ensure that queue cases with collection potential are assigned to the field.

Collection function management has established several performance measures associated with field casework. However, the Collection function had not established goals for all of the measures. TIGTA previously reported[14] that not all collection performance measures were tied to the IRS's strategic goals, and few included quantifiable targets. Specifically, just nine of 68 collection performance measures have targets, and none of them relate to revenue collected.

Goals were established for measures related to closing cases, such as the number of taxpayer closures and the number of offers in compromise closures as well as the cycle time for closing offers in compromise cases. While these measures provide some useful information, none measure efficiency or productivity associated with case selection criteria. Instead, the quantitative measures focus primarily on procedural compliance and closing cases out of active inventory.

Because the performance measures and goals do not specifically define productivity or expected outcomes for case selection criteria, employees may not have clear direction about expectations. We interviewed a judgmental sample[15] of eight group managers and eight ROs from two territories. While we did not interview a representative sample of ROs and group managers, we obtained some personal perspective on the case assignment process from those responsible for assigning and working cases in those territories. The ROs and group managers we interviewed had an inconsistent understanding of collection goals for case resolution and had different interpretations about what was considered a successful (productive) case closure.

- Seven of the 16 respondents indicated that the productivity of a case is measured by the ability to take appropriate actions for case resolution in a timely manner.
- Five of the 16 respondents indicated that the productivity of a case is measured by the amount of dollars collected.

[12] Internal Revenue Manual 1.5.2.3.2 (May 8, 2012).
[13] 26 C.F.R. § 801.6, Balanced System for Measuring Organizational and Employee Performance Within the IRS, Business Results Measures (2012).
[14] TIGTA, Ref. No. 2013-30-028, *Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program* (Mar. 2013).
[15] A judgmental sample is a nonstatistical sample, the results of which cannot be projected to the population.

- Four of the 16 respondents included both timely actions and dollars collected as productivity indicators.

Several ROs interviewed advised us that closing a case for which all case actions complied with procedures was considered a productive case, regardless of the outcome (full paid, abatement of the balance due, CNC, installment agreement, or offer in compromise). A few of the ROs advised us that transferring a case from their inventory to the queue or to another RO was considered a successful case resolution even though taxpayers may not have made any payments towards their delinquent liabilities.

Although managers interviewed were inconsistent about how they interpreted desired outcomes in working cases, six of them believed a productive case is a case for which proper steps were taken to appropriately close the case, without consideration to revenue collected. This view is important in evaluating casework; however, in selecting cases, other factors should be considered because measuring compliance with case closure procedures does not provide feedback on the case selection criteria.

The collection program can operate more effectively when management sets clear objectives and methods for improving its case selection criteria to achieve improved outcomes, such as improving taxpayer compliance and collecting delinquent taxes.

The ENTITY system does not provide management with feedback on workload selection criteria

Although workload selection procedures instruct field group managers to assign cases from the pool of available cases within the ENTITY system, group managers maintain flexibility to assign from any available case within the system. For example, a high-risk complex case would not likely be assigned to an inexperienced RO because it may be scored as a higher-graded case.

Through our interviews with the eight group managers, we learned that some managers were supplementing the workload selection system with their experience by identifying cases for which the taxpayer has the ability to pay. For example, some group managers sometimes skipped the ENTITY system's range of high-risk cases because they were often older cases with very low collection potential. Four of the eight interviewees indicated that cases with more recent tax liabilities were more productive cases. However, they advised us that a significant percentage of the cases assigned to the field were not new, at times indicating this was because the cases were first assigned to the ACS. In addition, managers avoided assigning cases with impending Collection Statute Expiration Dates because if they expire when assigned to an RO, it creates an administrative burden for both the group manager and the RO.

Although the ENTITY system determines the risk level for cases and prioritizes cases for inventory assignment, it does not allow management to determine whether the high-priority cases were ever assigned to be worked or the results of the case closures. Collection function management told us that the ENTITY system is not a historical database, so any historical record of cases, closures, and time charges would not be a complete and accurate record. Neither the ICS nor the ENTITY system is able to determine or accurately recreate inventory for a point in the past because each record is a snapshot of that case in real time. While the ENTITY system accurately captures time charges and other current information in the *End of Month Reports for Field Collection*, it does not maintain any historical records. Also, the dollars collected amounts only account for dollars collected by the ROs and processed through the ICS and does not include payments sent directly to an IRS campus.

Although the ENTITY system has the capability to provide information on case closures, such as dollars collected at the group levels, management does not use it to evaluate the case selection criteria. Such information could be beneficial when determining the types of cases that result in the most effective use of resources. For example, group managers who routinely skip cases identified in the range of next-best cases in the ENTITY system may be identifying and assigning more productive cases, and these factors, if identified, could be built into the system.

We obtained an extract of closed case data[16] from the ENTITY system for the Dallas and Manhattan Territories. Our analysis showed that field revenue collected was attributed to a small percentage of cases. Of the 3,596 cases in these two territories, just 858 (24 percent) involved collecting revenue. More specifically, 57 percent of the dollars collected were attributable to only 1 percent of the total cases. For this 1 percent of cases, ROs spent approximately 1,000 hours in total and collected over $15,000 per hour. In contrast, for the remaining 99 percent of the cases, ROs spent over 33,000 hours in total and collected $349 per hour.

Further analysis showed that cases that took more time to close did not necessarily result in more revenue collected. In contrast, the cases that took less time to close resulted in significantly more revenue.[17] Specifically, ROs spent on average 12.6 hours working a CNC case, compared with 8.8 hours for all other closures. These results are consistent with group managers' perception that high-risk cases identified by the ENTITY system do not always account for collection potential. By using the ENTITY system to perform these types of analyses, the Collection Policy function could identify characteristics of productive cases that could be included in case selection criteria to improve the overall productivity and revenue collection across all of the Collection Field function groups.

The ENTITY system does not consider all indicators of a taxpayer's ability to pay

The Collection Policy function establishes the criteria for the ENTITY risk rules that assign risk levels to unassigned inventory in the queue. Based on the risk levels, Collection function management uses the ENTITY system to assign the inventory to the field. Because the field is

---

[16] For the period September 1 to November 23, 2012. Subject to the ENTITY system data limitations described in this report. Dollars collected data were taken from the ENTITY field "Dollars Collected and Processed via ICS by RO assigned case."
[17] Refers to revenue based on dollars collected divided by hours expended.

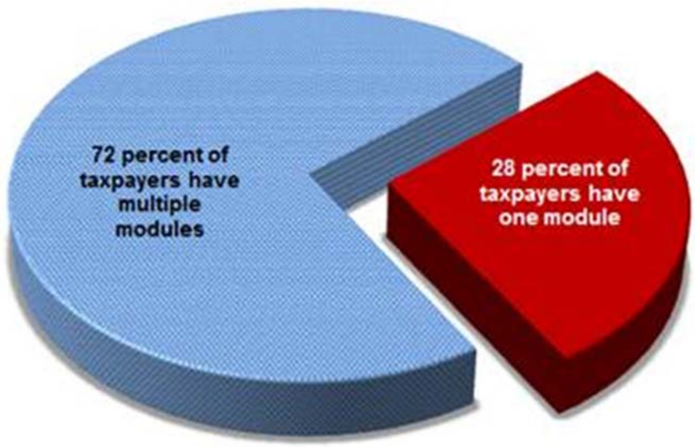
the most expensive collection operation, it is important that queue cases assigned to the field are productive. Cases that involve taxpayers who do not have an ability to make payments are unlikely to result in collecting any revenue and have a greater chance of being closed as CNC. During FY 2013, 71 percent of the TDA modules closed as CNC (involving over 60 percent of the $16.1 billion closed as CNC) were closed because the taxpayer did not have the ability to pay. Even though there may be a future benefit for working such cases, any benefit may not be quantifiable. Alternatively, ROs who work cases that involve taxpayers with an ability to pay have a greater chance of collecting revenue. Collecting revenue is a quantifiable benefit and is consistent with the Collection function's responsibility to collect taxes and delinquent returns.

Group managers interviewed indicated that the Master File provides valuable information about a taxpayer's ability to pay. One indication that a taxpayer may not have the ability to make payments is the existence of older tax modules on the Master File that have been closed as CNC. Collection cases are not module-based but instead include all unpaid modules associated with the taxpayer. For example, a collection case may include a current module (under two years old) for a taxpayer but also two or three more modules for older periods. These older modules may have been worked previously and closed as CNC.

Collection function management advised us that the ENTITY risk rules consider multiple modules as a factor when assigning risk to the cases. Although the risk criteria include the age of the most current delinquent tax module, risk criteria do not consider the age or status of prior period delinquencies that may exist for the taxpayer. Modules closed as CNC are automatically reactivated if the taxpayer's income exceeds a certain level on a subsequently filed return. This practice ensures that the IRS reassesses the taxpayer's ability to pay if the taxpayer's financial condition changes. Therefore, if the prior period modules are still CNC, it is likely the financial condition has not changed and the taxpayer still lacks the ability to pay. However, inventory assignment criteria do not consider this probability.

Figure 2 shows that 72 percent of taxpayers in the queue at the end of FY 2013 had multiple delinquencies.

Figure 2: Taxpayers With One or More Modules in the Queue as of the End of FY 2013



Source: TIGTA analysis of IRS Collection Activity Report for FY 2013.

Many of the assigned cases that include older delinquencies may not be collected. If these types of cases represent a historically low probability of collection, there could be an opportunity to adjust the field workload selection criteria. Although multiple older tax modules can be an important factor, we believe it should be considered together with the taxpayer's ability to pay when determining which cases to assign to ROs, especially given the limited resources within the field and the growing inventory of delinquent accounts.

In addition, risk criteria includes the dollar value of all the taxpayer's delinquent modules, the type of tax, special project or selection codes, and the taxpayer's last return amount.[18] However, unlike CNC reactivation criteria, the ENTITY risk rules do not consider taxpayer income. Such information could be useful in determining a taxpayer's ability to pay, especially when there are prior period liabilities that have been closed as CNC. When cases are assessed for risk without consideration of a taxpayer's financial condition, many cases involving taxpayers with little or no ability to pay could ultimately be assigned and worked by field personnel.

The ENTITY system does not consider unsuccessful prior attempts to contact or locate taxpayers

ROs may also close cases as CNC if they are unable to contact or unable to locate the taxpayer. Group managers interviewed indicated that they sometimes do not assign ENTITY cases with high risk levels if the case histories show prior unsuccessful attempts by either the ACS or ROs to collect revenue. However, the ENTITY risk rules do not consider unsuccessful attempts at

[18] The taxpayer's last return amount reflects the total tax liability amount reflected on the taxpayer's last tax return, not the taxpayer's income.

contacting or locating the taxpayer when assigning a risk level. Instead, group managers must review the taxpayer's Master File data, which is sometimes voluminous, to decide whether or not to assign the case. Because this can be a time-consuming process, many cases involving taxpayers who cannot be contacted or located may be assigned and worked by ROs. During FY 2013, 19 percent of the TDA modules closed as CNC (involving approximately 32 percent of the $16.1 billion closed as CNC) were closed because the RO could not contact or locate the taxpayer. A systemic identification and consideration by the ENTITY risk rules of prior unsuccessful RO contact attempts could help improve the selection criteria for queue cases. Previously unsuccessful contact attempts could be weighted with other risk rules, and consideration should also be given to RO skill level and additional tools that could result in contacting or locating taxpayers even when prior attempts have been unsuccessful.

Management is studying and revising some of its inventory practices

The Director, Enterprise Collection Strategy, advised us that some efforts are underway to help improve the Collection function's workload selection process. For example, Collection function management is currently reviewing IDS modeling and risk assessments to identify areas of improvement. Management cautioned that their ability to implement improvements is limited by the lack of availability of IRS Information Technology organization resources. However, Collection function management was able to use existing program resources to adjust the full paid and CNC models in IDS and planned to implement the changes in July 2014. Management anticipates that the changes to these models will accelerate more high-risk cases with collection potential to the field.

In addition, a separate effort is under way that focuses on the Collection function's CNC models. This effort is intended to determine the benefit of working certain CNC cases. Preliminary results indicate that cases closed as CNC by either the ACS and/or the field resulted in increased revenue collected and improved future compliance compared with cases not worked. The study identified characteristics of CNC cases that may be incorporated into the CNC models to better predict which cases will become CNC cases and which of those should be worked or shelved.

Collection function management also plans a new initiative, referred to as the Collection Path 2015 project, for which they are requesting funding. The project's objective is to increase the effectiveness and efficiency of Collection function employees by enabling them to better define, measure, and work the most productive cases. The Collection Path 2015 project intends to include revenue collected as one of the factors in identifying the most productive cases.

While these initiatives could provide benefits, we believe further action is warranted. Case selection practices need to be reevaluated and adjustments made to identify more productive cases, including better identification of taxpayers with the ability to pay and taxpayers who can be contacted and located. Field personnel time could be better spent on productive cases that result in collecting revenue, which would help to reduce the Tax Gap and ensure a better use of collection resources.

Recommendations

The Director, Enterprise Collection Strategy, SB/SE Division, should:

Recommendation 1: Reexamine the field workload selection criteria and strategy to determine whether it ensures that the field prioritizes collecting revenue as well as makes the best use of its limited resources. The strategy should include:

- A broader definition of the attributes of productive collection cases, beyond high-risk attributes, such as the taxpayer's ability to pay, the age of the case, and the likelihood of locating and contacting the taxpayer.
- Tracking, monitoring, and measuring the productivity of the cases selected for assignment.

Management's Response: IRS management agreed with this recommendation. Specifically, management will review their strategy for employing Collection field resources as part of the work on a new concept of operations for the IRS Collection program and the implementation of the key operational theories and techniques supporting their Collection vision.

Office of Audit Comment: The IRS's corrective action is not specific on the point of improving its case selection criteria. This will need to be a key component of its new concept of operations to address the intent of our recommendation.

Recommendation 2: Coordinate with the Director, Field Collection, SB/SE Division, to provide training to ensure that all field personnel are fully aware of this strategy.

Management's Response: IRS management agreed with this recommendation. Specifically, management will provide training on their new concept of operations, including a discussion of the strategy for employing field resources, in future continuing professional education for all Collection employees.

Recommendation 3: Establish a method to measure the effectiveness of the field case selection criteria.

Management's Response: IRS management agreed with this recommendation. Specifically, management will review the methods for measuring the effectiveness of the manner in which Collection resources are utilized as part of the work on a new concept of operations for the IRS Collection program.

Many Cases Closed by Field Collection Were First Routed and Aged in the Automated Collection System or the Queue

The IDS is designed to direct delinquent cases to the point in the collection process from which they can be processed optimally by routing cases to the ACS, the queue, or directly to the field. Many cases that are closed without being resolved by the ACS are then routed to the queue or the field. Even though the IDS routed some cases from the notice stream directly to the field, the majority of the cases were first issued to the ACS. From FYs 2008 through 2013, IRS collection reports show that 66 to 75 percent of all TDAs were initially issued to the ACS.

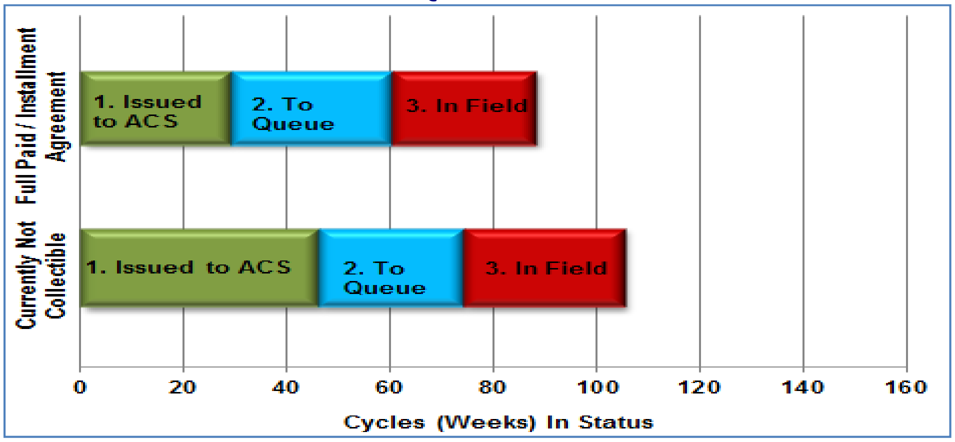
We selected a random statistical sample of 73 field cases closed as CNC and a random statistical sample[19] of 73 field cases closed as full paid or with an installment agreement.[20] Each sample was selected from the population of field cases ranked as high-risk by the queue prioritization criteria and closed during the 12-month period ending June 18, 2011.

Although all 146 cases were eventually closed by the field, the IDS determined that nearly half (70) of them could be processed optimally in the ACS. However, the taxpayer was not brought into full compliance within the ACS, and the cases either entered the queue prior to assignment in the field or were transferred directly to the field.

Specifically, the IDS initially routed 34 (47 percent) of the 73 CNC cases and 36 (49 percent) of the 73 revenue generating cases to the ACS. Eventually, 97 percent (68 of 70 originally assigned to ACS) of these cases were either routed from the ACS to the field or from the ACS to the queue and then to the field. Figures 3 and 4 show the average amount of time the sampled cases spent in each inventory before they were eventually closed by the field.

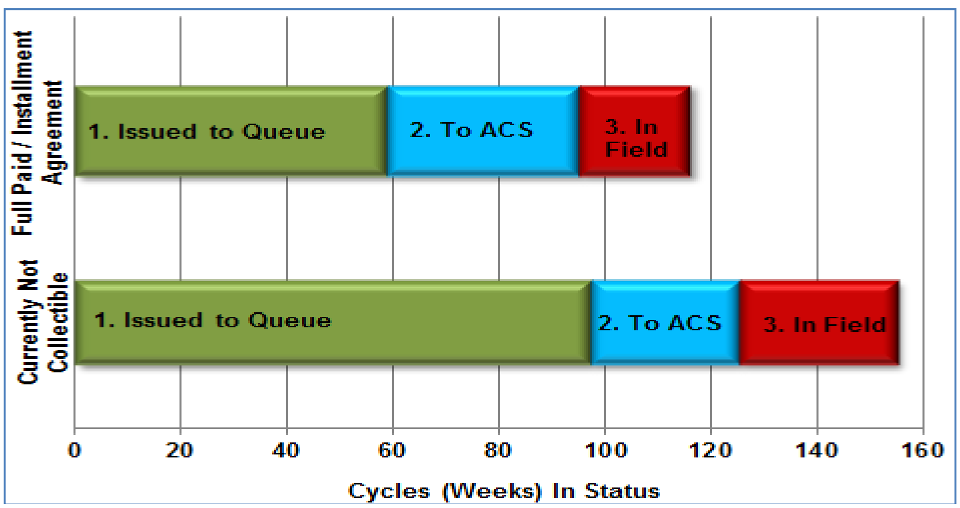
[19] Both samples used a confidence level of 95 percent with an expected error rate of 5 percent and a precision of ± 5 percent.
[20] The sample of cases closed as CNC was taken from a population of 55,450 cases. The sample of full paid or installment agreement cases was taken from a population of 37,281 cases.

Figure 3: Analysis of Cases Assigned to the ACS and Then to the Queue Prior to the Field



Source: TIGTA analysis of sampled cases closed by the field.

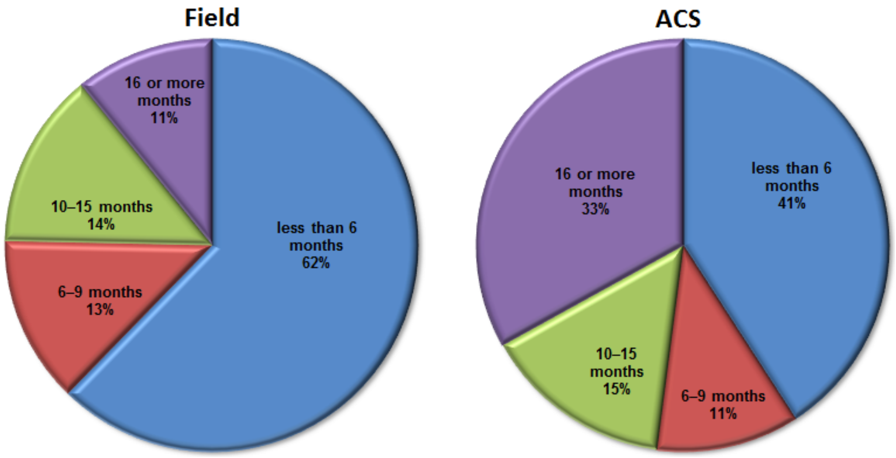
Figure 4: Analysis of Cases Assigned to the Queue and Then to the ACS Prior to the Field



Source: TIGTA analysis of sampled cases closed by the field.

CNC cases closed by the field spent more time within the ACS and the queue prior to assignment in the field compared to the cases closed as full paid or with an installment agreement. Overall, cases routed to the field from the ACS are older cases based on the average time cases remain in the ACS. Figure 5 shows that, on average, cases spend more time in the ACS than in the field.

Figure 5: Comparison of the Time TDAs Spent in the Field and the ACS



Source: TIGTA analysis of IRS Collection Activity Reports.

As of the end of FY 2013, 2.6 million (33 percent) of the TDA modules in the ACS inventory had been there more than 16 months.[21] An additional 1.2 million TDA modules (15 percent) had been in the ACS inventory between 10 and 15 months. Based on our case reviews, many of these cases will eventually be worked by the field regardless of the amount of time spent in the ACS. The longer a case remains in the ACS, the more a taxpayer's financial situation could change and collectability could decrease. This figure does not account for the age of the cases prior to being routed to the ACS.

In addition, cases routed to the queue before or after the ACS increase the age of the cases. Over half of the cases in the queue waiting to be assigned to the field have been idle in the queue for over 10 consecutive months, not including the time spent prior to being routed to the queue.

The length of time that modules are in the ACS and the queue contrasts with the time that they spent in the field. Of the 886,000 TDA modules in the field at the end of FY 2013, only 219,000 (25 percent) had been there for 10 months or more. Sixty-two percent have been in the field for less than six months. This figure does not account for the age of the cases prior to being routed to the field.

IRS data and case review results indicate that many TDA cases are assigned to the ACS initially, but ACS employees are not resolving the cases. Per ACS business rules, cases can remain inactive in the ACS for up to two years and 90 days before being routed to the queue. These unresolved cases may then be in the queue for a significant period of time prior to assignment to the field. For example, cases closed as CNC may have spent more than a year in the ACS and/or the queue prior to field assignment; this is in addition to the time spent in the notice stream prior

[21] Sixteen months is the criterion the IRS uses to track the age of cases in the ACS inventory.

to ACS assignment. IRS studies have shown that the likelihood of collection diminishes considerably as cases become older. For example, the IRS Office of Research conducted a study[22] and concluded that as more time elapses before a taxpayer makes at least one payment, it becomes less likely that the taxpayer will do so at any subsequent time. Thus, the collection potential for these cases diminishes as they age in the ACS and the queue.

Management Action: Collection function management advised us that they have a Unified Work Request pending that may allow them to identify potentially unproductive field cases that are currently in the queue and were first routed through the ACS. Once identified, management will work to limit the assignment of such cases to the field in the future.

Recommendation

Recommendation 4: The Director, Enterprise Collection Strategy, SB/SE Division, should conduct a study of the cases routed to the ACS to determine whether there are certain types of cases that the IRS should discontinue routing to the ACS and instead route directly to the queue or the field.

> ***Management's Response:*** IRS management agreed with this recommendation. Specifically, in connection with the work on a concept of operations for the new Collection organization, management will review the ACS processes to determine if expanding the authority of ACS employees will yield better results and optimize the use of these resources.

[22] U.S. Department of the Treasury, IRS – The IRS Research Bulletin, Publication 1500 (Rev. 11-99).

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS's workload identification, selection, and assignment practices are ensuring that the cases with the greatest collection potential are worked in the Collection Field function.[1]

I. Evaluated IRS policies, procedures, and goals pertaining to IRS collection case assignment criteria.

   A. Reviewed relevant policies, procedures, and criteria related to the movement of collection inventory through IRS collection systems and in assignment to collection operations employees.

      1. Through the IDS.

      2. From IDS to collection operations.

      3. Within the queue.

      4. During assignment by group managers to ROs.

      5. In the course of shelving low-priority cases from the queue.

   B. Reviewed methods, criteria, and goals used to monitor and evaluate collection case selection and inventory delivery processes, including the queue and the process of shelving low-priority cases. We also identified and reviewed any internal or external reviews performed on collection case selection and inventory delivery processes, including the queue and the process of shelving low-priority cases.

   C. We interviewed a judgmental sample[2] of eight group managers and eight ROs from two Collection territories (Dallas and Manhattan Territories) with regards to inventory workflow policies, procedures, and initial case impressions upon assignment. A judgmental sample was used due to time and travel cost considerations.

      1. Interviewed group managers and identified any assignment prioritization (such as focusing on industries specific to their area), views on case prioritization policies and procedures, and trends or high-risk areas noted with regards to inventory workflow.

---

[1] See Appendix V for a glossary of terms.
[2] A judgmental sample is a nonstatistical sample, the results of which cannot be projected to the population.

2. Interviewed ROs for views on case prioritization, impressions of cases upon assignment, and any trends or high-risk areas noted with regards to inventory workflow.

II. Evaluated field inventory in conjunction with collection inventory workflow criteria and determined whether field resources are being utilized in the most efficient and effective manner possible.

A. Identified a population of field cases closed between June 2010 and June 2011, profiling case characteristics for items such as predicted case dispositions, actual dispositions, risk-level prioritization, area assignment, or case grade. We also stratified the population of closed cases based upon distinguishing characteristics such as whether or not they produced revenue.

B. Selected a statistically valid random sample of 73 taxpayers from a universe of 55,450 taxpayers who had a module closed as CNC between June 26, 2010 (cycle 201025), and June 18, 2011 (cycle 201124).[3] We took a second statistically valid random sample of 73 taxpayers from a universe[4] of 37,281 taxpayers who had a module closed as full paid or an installment agreement between June 26, 2010 (cycle 201025), and June 18, 2011 (cycle 201124). We analyzed the following characteristics: predictive codes, grade levels (of cases), disposition, collection status codes (full paid, installment agreement, *etc.*), and risk levels.

C. Analyzed differences in collection rates between the field and the ACS.

III. Profiled the current collection cases in the queue.

A. Used IRS Collection Activity Reports and IRS analysts with access to the ENTITY system to identify the population of cases in the queue.

B. Used IRS Collection Activity Reports to identify details of and performed profiling of the queue. Profiling included analysis of issuances, dispositions, and transfers in and out as well as dollar value. We received queue and field ENTITY information, for cases in inventory between October 2010 and December 2012, with which to analyze case risk. Monthly text files were provided and had to be entered and analyzed to assess the number of cases by risk level in the queue and any related trends.

C. Used IRS Collection Activity Reports and ENTITY reports to profile the queue. We profiled the cases in the queue by type of taxpayer, dollars per module, dollars per

---

[3] Both samples used a confidence level of 95 percent with an expected error rate of 5 percent and a precision of ± 5 percent.
[4] These two universes of taxpayers are not necessarily mutually exclusive as a taxpayer could fully pay one module, but not have sufficient resources to fully pay a subsequent debt.

taxpayer, modules per taxpayer, age of delinquency, and risk and prioritization of queue cases.

IV. Profiled low-priority cases that have been shelved and are not actively being worked.

A. Used IRS Collection Activity Reports to profile the shelved cases by type of taxpayer, dollars per module, dollars per taxpayer, modules per taxpayer, age of noncompliance, and length of time being shelved.

B. Used the IRS Collection Activity Reports to analyze the current trends in shelved cases. We reviewed by type of taxpayer and dollar value of shelved modules, summarized to relate increasing number of modules in this status, and compared to data identified in our queue analysis.

V. Established the validity of the electronic data obtained to accomplish the previous subobjectives. We reconciled specific case information from our sample of closed cases with Master File data via the Integrated Data Retrieval System. We determined that the data used in our review was sufficiently reliable to perform our audit analyses.

VI. Obtained and analyzed ENTITY data of cases closed between September 1 and November 23, 2012, for the Dallas and Manhattan Territories.

A. Requested from Collection Analytics, Automation, Inventory Selection, and Delivery personnel, an extract from the ENTITY system. We received an ENTITY system extract involving closed cases for the period September 1, 2012, to November 23, 2012. The extract included a total of 3,596 closed cases from two territories. The extract included 2,260 cases from Territory 2501 and 1,336 cases from Territory 2103. The closed cases from Territory 2501 included those cases selected and worked by group managers and ROs from the Dallas, Texas, area, whom we interviewed as part of our audit. The closed cases from Territory 2103 included those cases selected and worked by group managers and ROs from the New York, New York, area, whom we interviewed as part of our audit.

B. Analyzed the closed cases by focusing on risk levels, dispositions, hours worked, and dollars collected.[5]

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

[5] Dollars collected data taken from the ENTITY field "Dollars Collected and Processed via ICS by RO assigned case."

internal controls were relevant to our audit objective: the SB/SE Division policies, procedures, and practices for identifying, selecting, assigning, monitoring, and measuring the productivity of collection cases to be worked by group managers and ROs in the field. We evaluated these controls by interviewing IRS management and field employees as well as evaluating closed case databases for actions and results to determine the productivity of the Collection Field function's workload selection criteria.

Appendix II

Major Contributors to This Report

Nancy Nakamura, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Augusta R. Cook, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl L. Aley, Director
Timothy F. Greiner, Audit Manager
Richard Viscusi, Lead Auditor
Curtis J. Kirschner, Senior Auditor
Doris Cervantes, Senior Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Director, Office of Research, Analysis, and Statistics RAS
Commissioner, Wage and Investment Division SE:W
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
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

Appendix IV

Analysis of the Collection Queue Inventory

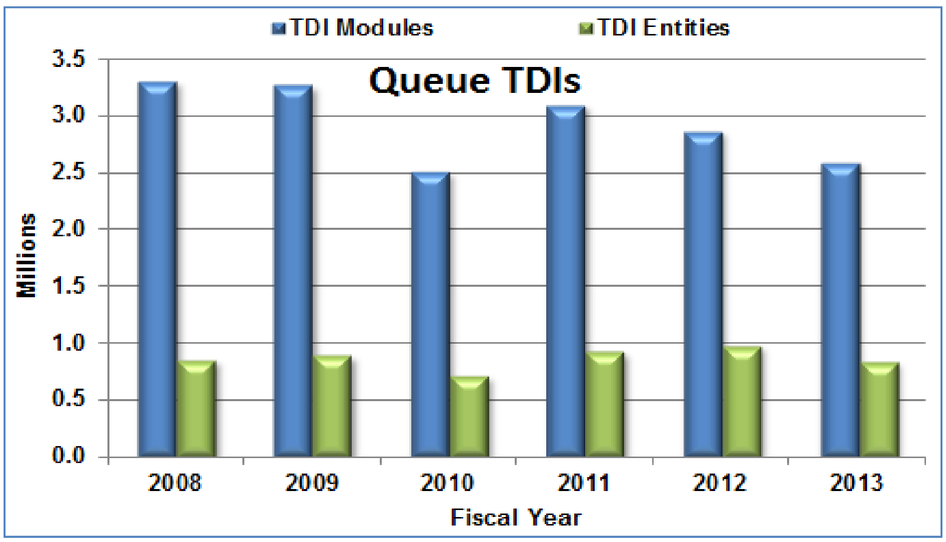
The Collection function maintains an inventory of unassigned Taxpayer Delinquency Investigations (TDI)[1] and TDAs in the queue. The queue inventory comes from several sources. Most of the queue inventory is comprised of cases that had been assigned to ACS personnel and were not fully resolved or cases that bypass the ACS and go directly to the queue when the delinquency was not resolved by the routine set of notices mailed to the taxpayer. As of the end of FY 2013, the queue inventory included:

- 2.6 million TDI tax modules (tax periods) involving 837,207 entities[2] (taxpayers).
- 3.0 million TDA tax modules involving 848,241 entities with balance due amounts totaling $49.9 billion.

Delinquent tax returns

The number of queue TDIs (both modules and entities) at the end of FY 2013 decreased compared to the end of FY 2012. Figure 1 shows the trend of this data over the past six years.

Figure 1: TDIs in the Queue at the End of FYs 2008 Through 2013



Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

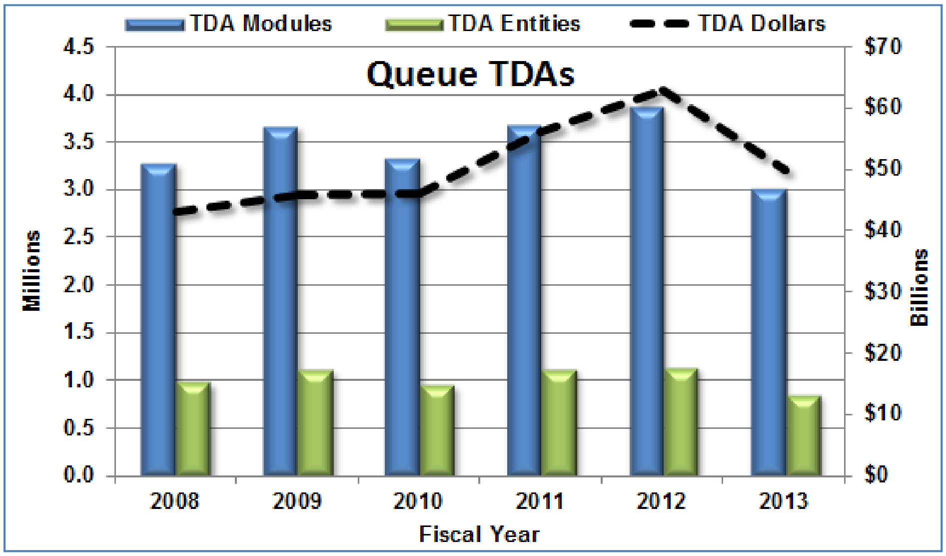
---

[1] See Appendix V for a glossary of terms.
[2] Because the returns were not filed, there are no dollar values associated with TDIs.

Delinquent accounts

The number of TDA modules, entities, and dollars also decreased during the same time period. Figure 2 shows the trend of this data over the past six years.

Figure 2: TDA Entities, Modules (in millions), and Dollars (in billions) in the Queue at the End of FYs 2008 Through 2013

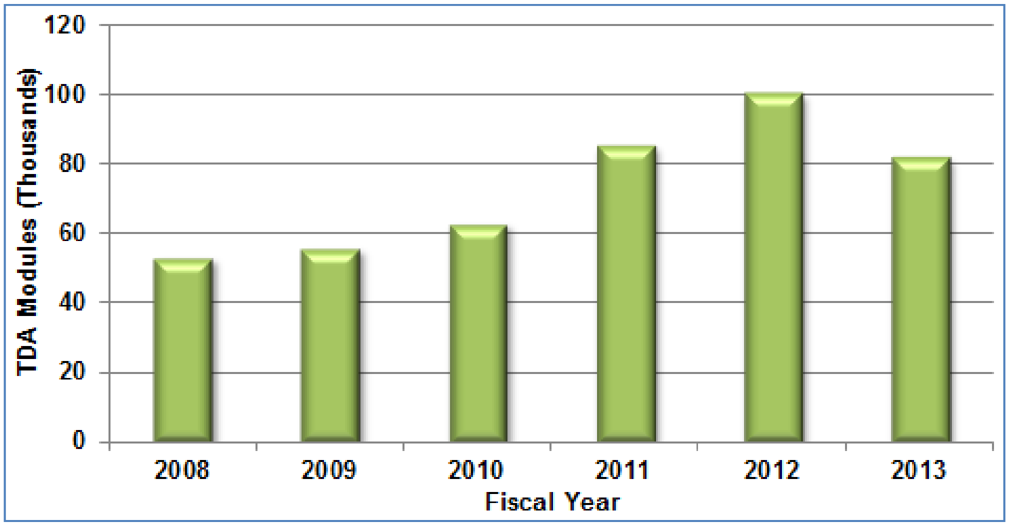


Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

Since FY 2008, the dollar value of the TDA modules in the queue increased by 13 percent, to $49.9 billion. During the same period, the number of TDA modules in the queue decreased by 9 percent due to a decrease of 22 percent from FY 2012 to FY 2013. The decrease from FY 2012 to FY 2013 coincides with an increase of TDA modules in the ACS of 19 percent during the same period and the shelving of nearly 1.2 million TDA modules (with a dollar value of $10.8 billion) from the queue in FY 2013. The number of TDA modules and associated dollar value shelved from the queue during FY 2013 are increases of 78 percent and 82 percent, respectively, from the 667,000 modules worth more than $5.9 billion shelved in FY 2012.

Figure 3 shows the number of modules with balances of $100,000 or more increased by 55 percent during this period. Modules with delinquent balances of $100,000 or more are considered high risk.

**Figure 3: Queue Inventory TDA Dollar Amounts
Greater Than $100,000 at the End of FYs 2008 Through 2013**



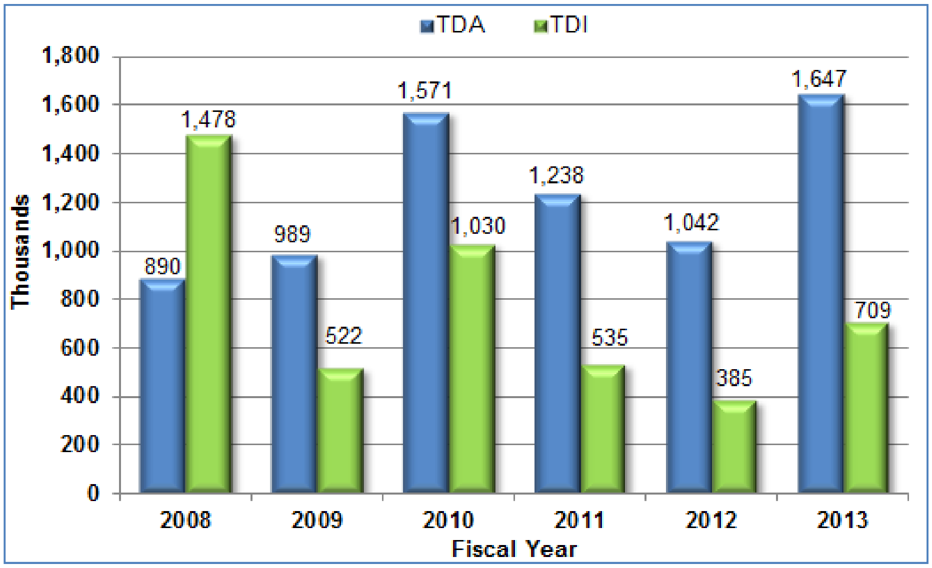
Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

Millions of queue cases are shelved

Although the queue inventory includes a substantial number of TDA modules, its inventory at the end of each fiscal year does not include millions of TDA modules shelved (removed from inventory and placed in uncollectible status) during the last five years. Queue cases are reassessed for risk and priority on a weekly basis. TDIs and TDAs that are not likely to be assigned because of low risk levels and resource constraints are shelved. Specifically, after 52 consecutive weeks in the queue without assignment, a case is shelved. Once a case is shelved, it is no longer reassessed for risk or priority.[3] Figures 4 and 5 show the number and dollar value, respectively, of TDAs and TDIs shelved from the Collection function's inventory[4] over the past six years.

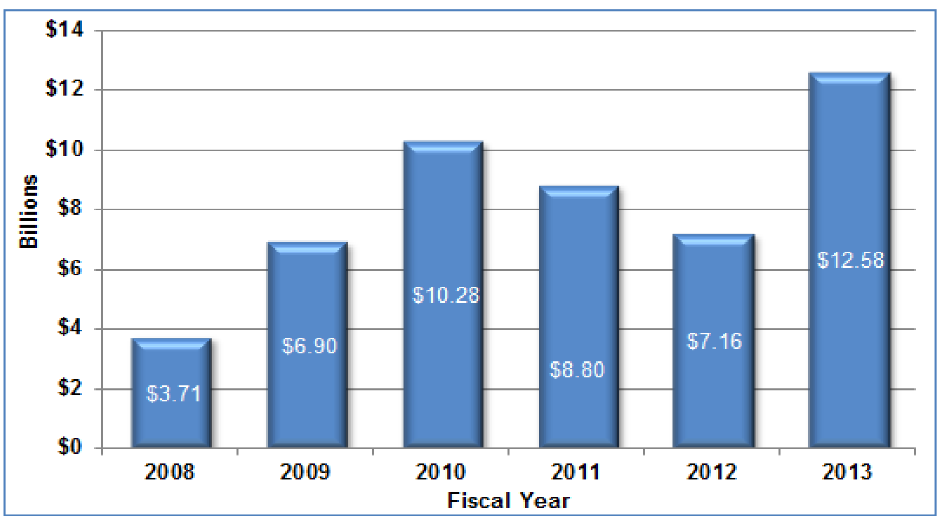
[3] Shelved cases may be reactivated in certain circumstances, such as when additional liabilities are incurred by the taxpayer that increase the risk level.
[4] TDAs and TDIs in the Compliance Services Campus Operations, the ACS, the field, and the queue inventories.

Figure 4: Number of TDAs and TDIs Shelved During FYs 2008 Through 2013



Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

Figure 5: Dollar Value of Shelved TDAs During FYs 2008 Through 2013



Source: TIGTA analysis of IRS Collection Activity Reports for FYs 2008 through 2013.

From FYs 2008 through 2013, the IRS shelved 5.7 million TDA tax modules with balance due amounts totaling $36.8 billion. Analysis of TDA modules in the collection inventory showed that the number of modules in delinquent status increased from 9.2 million modules in FY 2008 to 11.7 million modules in FY 2013, an increase of 27 percent. In addition, the IRS shelved 12.0 million TDI modules during the same time. Most of the delinquent liabilities shelved will never be collected.

The queue inventory is getting older

As the number of TDA modules has increased, so has their age.[5] This is important because as inventory ages, the likelihood of collection decreases.[6]

- TDA modules for tax periods four years old and older increased from 68 percent of the queue inventory in FY 2003 to more than 80 percent in FY 2013.
- TDA modules for tax periods two years old or less decreased from 21 percent of inventory in FY 2003 to only 10 percent in FY 2013.

TDA modules in the queue for 10 consecutive months or more increased from 47 percent of TDA queue inventory in FY 2003 (926,000 modules) to nearly 66 percent of inventory in FY 2009 (2.4 million modules). Due to the large number of shelved modules, the percentage decreased to 49 percent (1.6 million modules) in FY 2010. However, it has since increased to 59 percent of inventory (1.8 million modules) in FY 2013. Given these trends, more of the queue inventory will increasingly be at risk of becoming uncollectible.

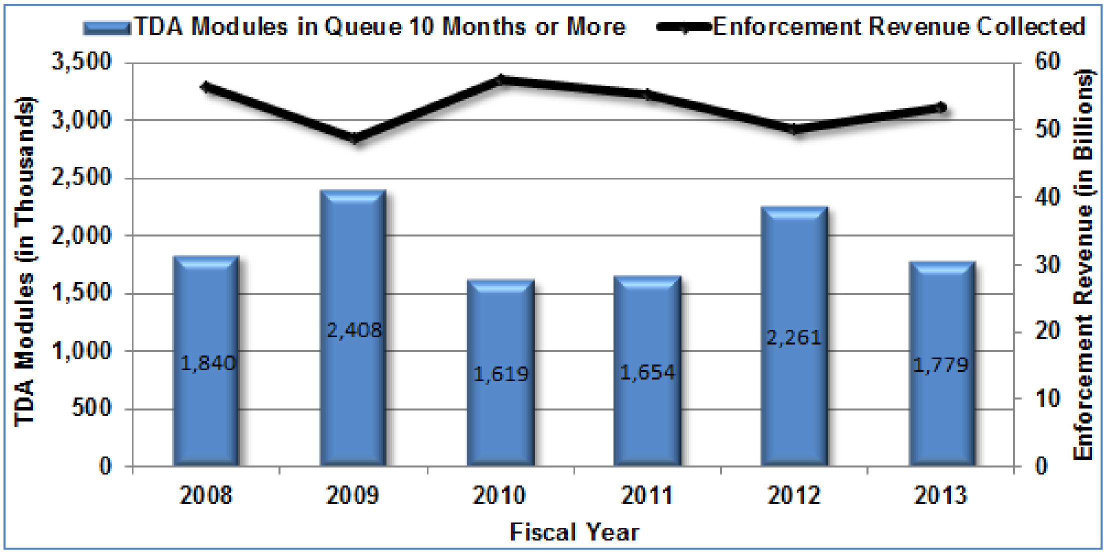
Time spent in the queue does not include the time modules may have spent in the ACS or in the notice stream. Specifically, the aging begins over at zero each time a TDA moves between the ACS, the field, and the queue. As a result, the IRS management information reports used to identify this data do not track the total length of time a taxpayer has an outstanding delinquency.

ROs that we interviewed indicated that the advanced age of modules coming from the queue had a direct effect on whether a case would lead to the successful collection of balance due amounts. Figure 6 shows the inverse relationship between the trend in enforcement revenue[7] and the number of TDA modules in the queue for 10 consecutive months or longer.

---

[5] Refers to the tax period of the module, not how long it has been in the queue.
[6] TIGTA, Ref. No. 2011-30-112, *Reducing the Processing Time Between Balance Due Notices Could Increase Collections* (Sept. 2011).
[7] Enforcement revenue includes any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

Figure 6: Age of Modules in the Queue Compared With Enforcement Revenue for FYs 2008 Through 2013

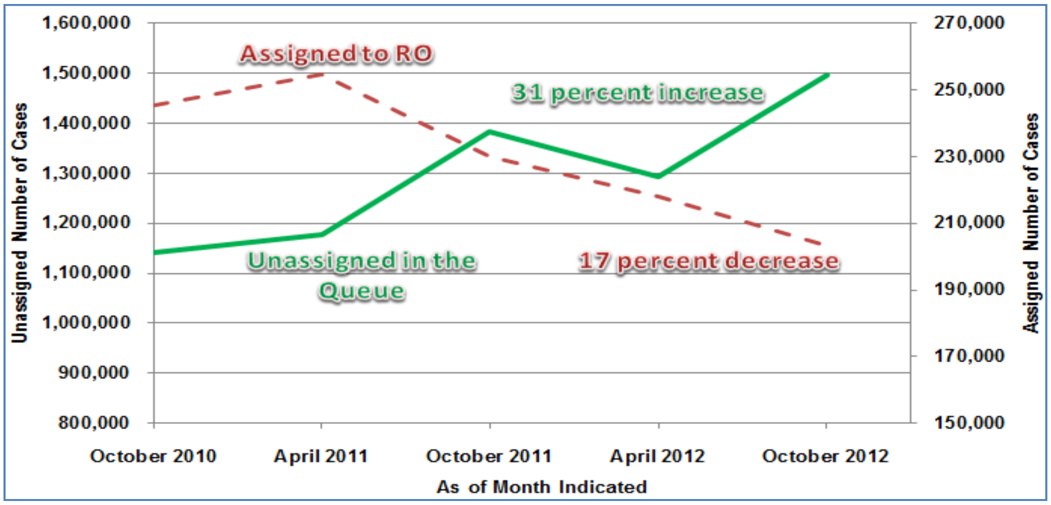


Source: TIGTA analysis of IRS Collection Activity Reports and IRS Compliance Data Warehouse information for FYs 2008 through 2013.

Unassigned cases in the queue continue to increase, while assigned cases in the field continue to decrease

The field does not have the resources to stop the increase of unassigned cases in the queue. Figure 7 shows that from the beginning of FY 2011 to the end of FY 2012, the number of cases in the queue rose by over 30 percent, while the number of cases assigned to the field decreased by 17 percent.

Figure 7: Number of Cases in the Queue and Field and Their Percentage Change for FYs 2011 and 2012



Source: TIGTA analysis of IRS ENTITY data for FYs 2011 and 2012.

The increase in unassigned queue cases is due to the combination of increasing new inventory and decreasing resources. These factors have a direct impact on the IRS's ability to reduce the Tax Gap and emphasize the need for proper inventory management and the importance of identifying productive cases to work.

Appendix V

Glossary of Terms

Term	Definition
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Automated Lien System	A comprehensive database that prints lien notices, stores taxpayer information, and documents all lien activity.
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 Activity Reports	A group of reports providing management information to field and National Office Collection officials. The reports reflect activity associated with TDA and TDI issuances and installment agreements including issuances, dispositions, and inventories as well as collection-related payments.
Collection Area Office	A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.
Collection Field function	The unit in the Area Offices consisting of ROs who handle face-to-face contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Collection Statute Expiration Date	The date, established by statute, when the Government's right to pursue collection of a liability expires.
Currently Not Collectible	One reason for removing accounts from active inventory after taking the necessary steps in the collection process. Accounts may be reported currently not collectible for a variety of reasons using the appropriate closing code.
Delinquent Inventory Account List	An Integrated Data Retrieval System extract of all account information for collection inventory.

Term	Definition
ENTITY Case Management System	A current database displaying field and advisory inventory. The ENTITY system receives data from the ICS, the Delinquent Inventory Account List, and the Automated Lien System.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his/her tax liability over time.
Integrated Collection System	An information management system designed to improve revenue collections by providing ROs access to the most current taxpayer information, while in the field, using laptop computers for quicker case resolution and improved customer service.
Integrated Data Retrieval System	The IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	The operations manual for employees of the IRS.
Inventory Delivery System	The delivery system for collection case inventory. The IDS uses analytical scoring models and a business rules engine to route cases to the ACS, the queue, or direct field assignment.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
Offer in Compromise	An agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.
Queue	An automated holding file for unassigned inventory of delinquent cases for which ROs in the field are unable to be immediately assigned for contact due to limited resources.

Term	Definition
Revenue Officer	Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.
Sequestration	Fiscal policy procedure encompassing an automatic form of spending cut equal to the difference between the cap set in the budget resolution and the amount actually appropriated.
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Tax Period	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Delinquency Investigation	An unfiled tax return(s) for a taxpayer. Only one TDI is issued for each delinquent tax period for a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer. One TDA exists for all delinquent tax periods for a taxpayer.
Territory	Collection function geographic locations across the country, with direct supervision by one of seven Area Office directors. A territory is headed by a second-level manager in the Collection function (territory manager) responsible for supervision of all group managers within the territory.

Appendix VI

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

AUG 22 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Karen Schiller
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Field Collection Could Work Cases With Better Collection Potential (Audit # 201230019)

Thank you for the opportunity to review your draft report titled "Field Collection Could Work Cases With Better Collection Potential". We agree that a review of our collection strategy is needed and we generally agree with your recommendations.

Recently, the Wage & Investment and Small Business/Self-Employed Divisions committed to realigning our compliance programs. A key component of this realignment is the creation of a single Collection organization within the Small Business/Self-Employed Division. The executive lead of this new Collection organization will have end-to-end accountability for the Collection program and will be responsible for reducing redundancies in our Collection processes and improving taxpayer services while identifying emerging Collection issues.

We continue to work on developing the structure and the concept of operations for this new Collection organization. We are reviewing our Collection vision to determine whether changes are needed as we move forward with this new organization. We also are looking to make our Collection notice process more effective and efficient. And, we will be studying our Automated Collection System (ACS) to determine whether the Collection responsibilities and authorities currently assigned to our ACS employees need to be enhanced. Some decisions have been made. For example, we have concluded that we must devote more field resources to preventing the pyramiding of Trust Fund taxes.

We have concerns with the methodology you used in your report. While you describe your sample as a "random statistical sample," it is not representative of the general population of Collection cases. For example, your sample did not include cases resolved by ACS. You therefore did not consider the significant revenue collected by ACS and the substantial savings in resources we realized because these cases were resolved in ACS.

Attached is a detailed response with our corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Darren John Guillot, Director, Enterprise Collection Strategy at (202) 317-3583.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Enterprise Collection Strategy, SB/SE Division, should reexamine the field workload selection criteria and strategy to determine whether it ensures that the field prioritizes collecting revenue, as well as makes the best use of its limited resources. The strategy should include:

- A broader definition of the attributes of productive collection cases, beyond high-risk attributes, such as the taxpayer's ability to pay, the age of the case, and the likelihood of locating and contacting the taxpayer.
- Tracking, monitoring, and measuring the productivity of the cases selected for assignment.

CORRECTIVE ACTION:
We will review our strategy for employing Collection field resources as part of our work on a new concept of operations for the IRS Collection program and the implementation of the key operational theories and techniques supporting our Collection vision.

IMPLEMENTATION DATE:
September 15, 2015

RESPONSIBLE OFFICIAL:
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.

RECOMMENDATION 2:
The Director, Enterprise Collection Strategy, SB/SE Division, should coordinate with the Director, Field Collection, SB/SE Division, to provide training to ensure that all field personnel are fully aware of this strategy.

CORRECTIVE ACTION:
We will provide training on our new concept of operations, including a discussion of our strategy for employing field resources in future continuing professional education for all Collection employees.

IMPLEMENTATION DATE:
June 15, 2016

RESPONSIBLE OFFICIAL:
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.

RECOMMENDATION 3:
The Director, Enterprise Collection Strategy, SB/SE Division, should establish a method to measure the effectiveness of the field case selection criteria.

CORRECTIVE ACTION:
We will review our methods for measuring the effectiveness of the manner in which our Collection resources are utilized as part of our work on a new concept of operations for the IRS Collection program.

IMPLEMENTATION DATE:
September 15, 2015

RESPONSIBLE OFFICIAL:
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.

RECOMMENDATION 4:
The Director, Enterprise Collection Strategy, SB/SE Division, should conduct a study of the cases routed to the ACS to determine whether there are certain types of cases that the IRS should discontinue routing to the ACS and instead route directly to the queue or the field.

3

CORRECTIVE ACTION:
In connection with our work on the concept of operations for the new Collection organization, we will review our automated collection system processes to determine if expanding the authority of our ACS employees will yield better results and optimize our use of these resources.

IMPLEMENTATION DATE:
September 15, 2015

RESPONSIBLE OFFICIAL:
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.