



*Prioritization of Collection Cases Is
Inconsistent and Systemic Enforcement
Actions Are Limited for Inactive Cases*

September 25, 2017

Reference Number: 2017-30-069

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HIGHLIGHTS

PRIORITIZATION OF COLLECTION CASES IS INCONSISTENT AND SYSTEMIC ENFORCEMENT ACTIONS ARE LIMITED FOR INACTIVE CASES

Highlights

**Final Report issued on
September 25, 2017**

Highlights of Reference Number: 2017-30-069 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

When the IRS does not take all available and appropriate actions to bring delinquent taxpayers into compliance, it places an unfair burden on the majority of taxpayers who file and pay their taxes on time.

WHY TIGTA DID THE AUDIT

As of September 2015, there were seven million unassigned tax modules, involving \$65.9 billion in delinquent taxes. Due to resource constraints and low priority, many of these cases will never be assigned to be worked by IRS employees. This audit was initiated to determine whether the IRS's case routing and prioritization ensures that the Collection function works high-priority area cases and whether the IRS takes effective actions on the unassigned cases in the Queue and in shelved status.

WHAT TIGTA FOUND

IRS Collection function management sets goals for closing cases in certain priority areas on an annual basis and communicates these priority areas in the Collection function's program letters each fiscal year. From year to year, the priorities change for reasons that are not always articulated or based on objective data. The priority areas are not all explicitly tied to the prioritization and risk rules that drive the routing or assignment of cases, and the cases that are prioritized account for a small percentage of assigned cases. In addition, there was limited data available to assess whether the IRS's goals for priority cases were met.

The IRS does not make use of its automated collection tools on all of the modules that are awaiting assignment. Although the IRS can perform many compliance checks systemically, unassigned modules that are in the Queue or shelved are not subject to the same level of systemic processing as modules that are in the Automated Collection System. Systemic actions, such as automated levy source searches, can help improve taxpayer compliance and help to close the Tax Gap.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Collection, ensure that the IRS establishes case priority areas that are developed using data-driven approaches designed to route cases to the best collection inventory for assignment; ensure that manual downstream procedures and processes establish appropriate preferences for the selection of higher priority inventory by group managers; and establish goals for all high-priority areas which take into consideration the universe of cases within each area and set expectations for managers and employees to meet these goals.

TIGTA also recommended that the Director, Collection, consider expanding systemic processes to implement potential enforcement actions on cases in the Collection function's inventory, such as cases in the Queue or inactive shelved inventory, and consider updating levy source details in real time and use these details in the routing and prioritization processes within the collection inventory systems and for those delinquencies in inactive shelved inventories.

In response to the report, IRS management has taken or plans to take corrective actions relating to four of our recommendations. Management disagreed with one recommendation, mainly due to limited resources. TIGTA contends that the implementation of this recommendation would be in the best interests of tax administration.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 25, 2017

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases (Audit # 201530032)

This report presents the results of our review to determine whether the Internal Revenue Service's (IRS) case routing and prioritization ensures that the Collection function works high-priority area cases and whether the IRS takes effective actions on cases in the Queue and in shelved status. This review is included in our Fiscal Year 2017 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 IV. 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 Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

Table of Contents

Background	Page 1
Results of Review	Page 6
All High-Priority Areas Are Not Fully Considered During Systemic Case Routing and Few Such Cases Are Worked	Page 7
Recommendations 1 through 3:	Page 15
Systemic Enforcement Actions Are Not Taken for Unassigned Queue and Shelved Inventories	Page 16
Recommendations 4 and 5:	Page 23
 Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 24
Appendix II – Major Contributors to This Report	Page 27
Appendix III – Report Distribution List	Page 28
Appendix IV – Management’s Response to the Draft Report	Page 29



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

Abbreviations

ACS	Automated Collection System
CSCO	Compliance Services Collection Operations
ENTITY	ENTITY Case Management System
FY	Fiscal Year
GAO	Government Accountability Office
IDS	Inventory Delivery System
IRS	Internal Revenue Service
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
TIF	Taxpayer Information File
TIGTA	Treasury Inspector General for Tax Administration



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Background

Tax delinquent cases are processed in a variety of ways and have the potential to be worked in a variety of Internal Revenue Service (IRS) collection functions in order to obtain unfiled tax returns, collect unpaid tax liabilities, or determine whether liabilities are uncollectible. The IRS first sends a series of balance due notices (commonly called the notice stream) to the taxpayer to prompt a payment by the taxpayer or a reply if the taxpayer disagrees with the balance due or is unable to pay the delinquency. While more than one-half of the tax delinquent modules initiated in a given fiscal year may be resolved in the notice phase, those cases not resolved during this initial process are routed to one of several inventories or functions within the IRS's collection program.¹

Tax delinquent cases are processed and routed to the IRS's collection operations by the Inventory Delivery System (IDS). The IRS has established the IDS as its rules-based, decision system that is intended to direct tax delinquent cases to the Collection function where the IRS feels they can be processed optimally. To accurately direct cases to the most appropriate Collection inventory or function, the IDS is designed to:

- Analyze, model, and route cases to the most appropriate Collection function.
- Close cases and remove them from the active inventory when criteria for shelving cases are met.

The IDS will generally route active cases that meet certain criteria to one of the following Collection function inventories for immediate or potential assignment:

- Automated Collection System (ACS): An inventory of delinquencies that may realize a benefit from a variety of systemic actions in an attempt to prompt payment and bring taxpayers into compliance. These include but are not limited to systemic notice issuances and systemic enforcement actions such as levies and Notice of Federal Tax Lien filings. This Collection function is also characterized by telephone contact, primarily inbound initiated through the use of the systemic notice issuances and enforcement actions.
- Field Collection (Field): An inventory of assigned delinquent cases. They are characterized by taxpayer contact through revenue officers who work one on one with

¹ We use the term "case(s)" when referring to the units of work for the IRS's collection process. The IRS generally reports its collection data in terms of number of "modules" or "taxpayers." A module is a record of tax data for a specific taxpayer covering one tax period (such as a year or quarter). For example, a module could be of an unpaid balance from one tax return or an unfiled return from one period. When a delinquent "case" is assigned, it will generally include all the taxpayer's delinquent modules, which may only be one delinquent period, or it may include several delinquent periods.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

taxpayers to bring them into compliance by filing delinquent returns, paying past due tax delinquencies, working with taxpayers to establish payment plans, or when necessary taking enforcement actions such as levies, Notice of Federal Tax Lien filings, or seizures of property. The IRS assigns its highest risk² and most complex collection cases to the Field because those employees 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.

- **Collection Queue (Queue):** An inventory of unassigned delinquent cases. The majority of active inventory assigned within the Field are selected from available inventory within the Queue. IRS management considers the Queue as potential inventory for any Collection function. Queue cases are systemically reviewed after 52 weeks without being assigned to any Collection function. If changes to the case do not warrant assignment to a different Collection inventory or function, the only action taken is an annual reminder notice sent to the taxpayer. In addition, cases in the Queue do not undergo systemic actions, such as cases might within the ACS.

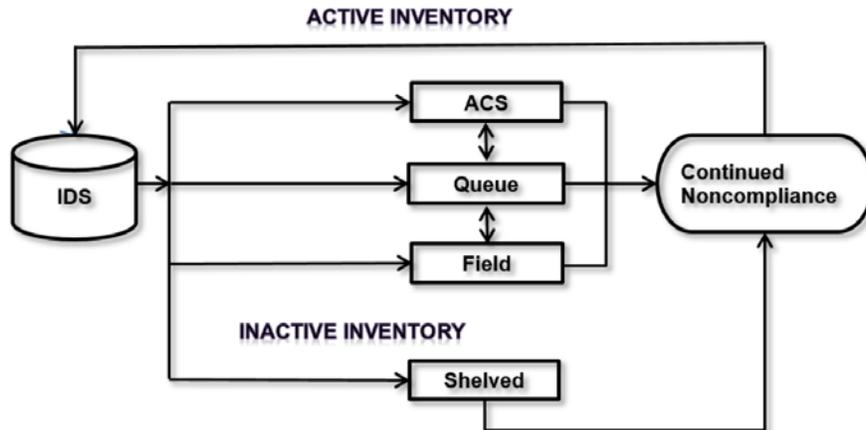
Figure 1 shows the assignment options of potentially collectible tax delinquencies exiting the IDS.

² During the course of this audit, the IRS's Collection Analytics, Automation, and Inventory Selection and Delivery function initiated guidance to replace and update the term "risk" to "priority" when referencing case evaluation criteria used to consider cases for assignment to Collection inventories. However, for purposes of this report, we will continue to refer to "risk" at times in order to differentiate between references to "priority" as it relates to "risk" for case evaluation and "priority" as it relates to "priority areas" defined by the Collection functions in their annual program letters.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

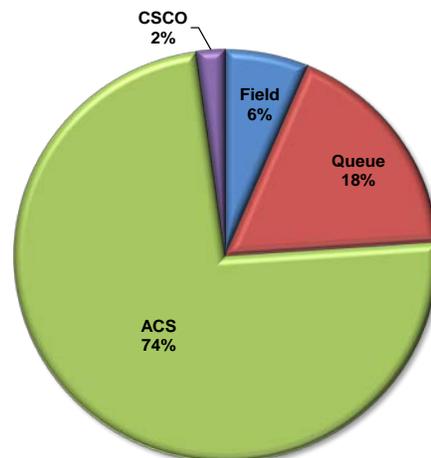
Figure 1: IRS Delivery and Overview of Delinquent Case Inventory³



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS collection inventory routing process.

Figure 2 shows that the IDS routes a majority of modules to the ACS.

Figure 2: Routing Issuances of Taxpayer Delinquent Accounts (TDA) and Taxpayer Delinquency Investigations (TDI) in Fiscal Year (FY) 2015



Source: TIGTA analysis of the IRS's Collection Activity Reports. CSCO – Compliance Services Collection Operations.

³ Due to the complex nature of the inventory routing process, this diagram does not take into consideration all possible case routing scenarios and is meant to simply provide perspective to various collection inventories to which a case may be routed or transferred if the IRS is unsuccessful in bringing a taxpayer into compliance. For example, cases may be transferred from the ACS to the Field or vice versa. In addition, cases may be reactivated out of Shelved inventory systemically or due to a manual request.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

During FY 2015, the IDS routed approximately 74 percent of new modules to the ACS, 18 percent to the Queue, 6 percent directly to the Field, and the remaining two percent to Compliance Services Collection Operations (CSCO).

In many instances, tax delinquent cases will not be assigned within either the Field or the ACS due to resource constraints (a lack of available employees to work cases) or changing characteristics of a case, which may lower its prioritization within available active inventory. Because collection cases can remain unassigned within an active or inactive inventory for up to 10 years, cases can pass through the IDS on multiple occasions as a result of the annual Queue review or when a new module becomes available. Each time a tax delinquency is routed through the IDS, it is evaluated by the same rulesets during processing and may be routed to different inventories.

In addition to systemic processes in which the IRS has established multiple criteria that determine to which active collection inventory a case will be issued, the IDS also incorporates criteria that may indicate a lower likelihood of collection, and thus may close a case to inactive inventory. These inactive unassigned cases are referred to as “shelved” and are considered temporary closures. The systemic shelving of cases may be performed due to a variety of criteria or factors, including but not limited to risk level, IDS modeling results, or the age of the delinquency. IRS management stated that one benefit of shelving medium- and low-risk work is that it reduces the amount of data the computer system needs to process each week.

While cases may be shelved from any of the Collection functions, the majority are moved to inactive inventory (referred to as being shelved) from the Queue. Generally, cases shelved from the Queue have been classified as low-priority cases (medium and low risk) by the IRS and have not been assigned after one year in the Queue. Due to their low prioritization within the Queue and the continual creation of new inventory, there is little chance of these cases being assigned.⁴ These cases are not necessarily closed permanently because they may be reactivated if circumstances warrant it. For example, a case may be reactivated if the IRS identifies another tax debt or unfiled return for the taxpayer.

The Government Accountability Office (GAO) recently reviewed the IRS’s process for categorizing and routing collection cases for potential selection, which included the IDS process. The GAO review identified that case routing procedures were not adequately documented and that objectives were not clearly defined. In addition, the IRS had no procedures for monitoring results and the effectiveness of delivering inventory to collection functions.⁵ While the GAO review included analysis of collection case categorizing and routing, which included analysis of IRS case priorities for FYs 2013 and 2014, our intention was to determine whether the IRS’s

⁴ Some of these cases may be assigned to be worked by Private Collection Agencies as part of the IRS’ ongoing Private Debt Collection initiative.

⁵ GAO, GAO-15-647, *IRS Case Selection: Collection Process Is Largely Automated, but Lacks Adequate Internal Controls* (July 29, 2015).



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

case routing and prioritization ensures that the Collection function works high-priority area cases.

This review was performed with information obtained from the IRS National Headquarters located in Washington D.C., during the period July 2015 through February 2017. 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.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Results of Review

IRS Collection function management sets goals for closing cases in certain priority areas on an annual basis and communicates these priority areas in the Collection function's program letters each fiscal year. However, we found that from year to year, the priorities change for reasons that are not always articulated or based on objective data. Additionally, the cases that are prioritized account for a small percentage of assigned cases. There was limited data available to assess whether the IRS's goals for priority cases were met.

The ability to assess risk and prioritize workload is especially important because the IRS's collection inventory has grown well beyond the number of cases that can be worked. As such, routing decisions and the selection of the most productive and highest priority cases can help mitigate the risks associated with not working a significant percentage of the inventory. Two different systems are used to deliver cases to those who are ultimately responsible for working them.

First, the IDS is used to route cases to either the Queue, the ACS, or directly to the Field based on certain case routing rules. Most cases that are to be assigned to the Field initially go to the Queue (to await assignment to the Field). Second, the ACS and the Field each have their own systems to prioritize cases using different prioritization rules. For the Field, the ENTITY Case Management System (ENTITY) is used to prioritize cases in the Queue, the system from which Field group managers assign cases. In the ACS, cases are separately risked and prioritized for assignment within the ACS after being routed by the IDS. The priority areas that IRS Collection function management establish each year and disclose to Collection function employees via the Program Letter are not all explicitly tied to the prioritization and risk rules that drive the routing or assignment of cases.

Additionally, the IRS does not make use of its automated collection tools on all of the modules that are awaiting assignment. As of September 2015, there were seven million unassigned modules, involving \$65.9 billion in delinquent taxes.⁶ Although the IRS can perform many compliance checks systemically (without employee involvement), unassigned modules that are in the Queue or shelved are not subject to the same level of systemic processing as modules that are in the ACS. Systemic actions, such as automated levies, can help improve taxpayer compliance and help to close the Tax Gap.⁷

⁶ Unassigned inventory includes both TDA and TDI modules. TDI modules do not have dollars associated with them until a return is filed or an assessment is made. Unassigned inventory includes cases in the Queue and in shelved status.

⁷ The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

All High-Priority Areas Are Not Fully Considered During Systemic Case Routing and Few Such Cases Are Worked

The Collection function's FY 2016 priority areas focus on the themes of preemption (preventive outreach and pre-filing error resolution) and maximum enforcement (restructured compliance activities and improved case work environment) results. IRS Collection function management stated that they adopted these themes due to resource challenges and the need to examine alternative methods of doing business. Preemptive priorities were established in an attempt to bring taxpayers into compliance before they entered the collection work stream. Priorities related to maximum enforcement results were established to address the work that would yield the best return on investment with limited resources.

Collection function management set goals for closing cases in certain priority areas on an annual basis. However, the rules for routing cases in the IDS, the ENTITY, and the ACS do not fully consider these high-priority areas when routing cases for assignment. IRS management stated that measuring performance in priority area workload is focused on how cases are closed, not how many are assigned nor whether the next case to be worked is a high-priority case. Although the IDS, the ENTITY, and the ACS assign some cases that meet the IRS's high-priority criteria, such assignments are made due to already established prioritization rules that are not in alignment with the priority areas. Instead, Collection function management generally react to the progress they are making towards meeting the number of priority area case closures by adjusting inventory delivery and inventory case assignments to ensure that they meet the goals. However, there was limited data available to assess whether the IRS's goals for Collection function management's priority areas were achievable, reasonable, or consistent with the higher goal of reducing noncompliance for cases meeting priority criteria.

In addition, each year Collection function management reassess their priorities and will make changes to the high-priority areas when they believe they are appropriate. In FY 2016, most priority areas and goals were not related to the types of cases that are assigned, but were instead focused on how assigned cases are closed, regardless of their inventory priority. Further, even when high-priority cases were assigned, they represented a small percentage of cases that were worked by Collection function employees.

Priority workload is not always related to case assignment criteria

IRS Collection function management defines and communicates work plan priorities in the Collection function's program letters each fiscal year. Although work plan priorities have changed in recent years, they are always expected to promote the Collection function's mission 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."



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

FY 2016 priority areas emphasized the ideas of preemption and maximum enforcement results. The FY 2016 priority areas differ from priority areas in prior years because they focus primarily on *how* cases that have already been assigned *should* be worked rather than *which* cases should be worked based on which case types present a higher compliance risk. Collection function management priority areas in previous years addressed specific types of cases to assign, such as large business taxpayers, high-income nonfilers, and Federal employees and retirees. Figure 3 compares priority areas for FYs 2015 and 2016.

Figure 3: IRS Priority Areas for FYs 2015 and 2016⁸

FY 2015 Priority Areas	FY 2016 Priority Areas
Delinquent employer payroll taxes	ACS and Field Collection Forms 941/944 TDA module closure coverage
Federal employees and retirees	ACS and Field Collection ****2****TDA module closure coverage
Global high wealth	FTD alert timely contact
High-income nonfiler taxpayers	Notice of Federal Tax Lien timeliness
Large business taxpayers with delinquent accounts	Offers in compromise closed in 0 to 9 months
Large dollar accounts	Percent Federal Tax Deposit alert contact in field
Return preparer penalties	Trust Fund Recovery Penalty timeliness
Withholding compliance	Timely proof of claim filing
	Withholding compliance

Source: TIGTA analysis of IRS Collection function priority areas as communicated through the annual Program Letter (FY 2015) or provided in response to information requests (FY 2016).

The majority of the priority areas from FY 2015 were not carried through as priorities in FY 2016, with the exception of “withholding compliance,” “delinquent employer payroll taxes” which carried over as “...941/944 TDA module closure coverage,” and “large dollar accounts” which carried over as “...****2***** TDA module closure coverage.” While these priorities focused on some of the same types of inventory, some cases that were a Collection function management priority in FY 2015 were no longer a priority in FY 2016, such as preparer penalties and high-income taxpayers who fail to file their tax returns.

IRS Collection function management stated that they did not carry certain priority areas forward because priority areas for FY 2016 were developed to align with the IRS’s Small Business/Self-Employed Division’s new concept of operations themes. Specifically, management stated that the FY 2016 priority areas were developed to focus on early intervention, prevention, and timeliness. Management could not answer why they were unable to emphasize both how cases are worked and which case types present the highest priority. For example, in FY 2016, IRS Collection function management appeared to no longer emphasize the collection of delinquent accounts of global high wealth taxpayers, *i.e.* taxpayers owing balances due but who have wealth in the tens of millions of dollars. Further, while management’s FY 2017 priority areas include

⁸ For purposes of defining the Global High Wealth priority area, the IRS developed a list of global high wealth individuals who had histories of balance dues and wealth in the tens of millions of dollars. The list was developed by the IRS’s Large Business and International Division.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

plans to pilot processes to assign collection inventory more quickly and to alleviate geographic inventory and resource imbalances, they do not emphasize any specific case selection priorities.

While it is important that the IRS establish organizational priorities which align with strategic changes and also focus on quality casework, it is also necessary that Collection function management consistently prioritize case selection and emphasize the assignment of cases that have the highest tax compliance risk. When Collection function management change their priorities related to case selection, the decisions should be data driven and should be reflected in the prioritization rules of the IDS, the ENTITY, and the ACS. The two priority areas which were carried forward (“delinquent employer payroll taxes” and “large dollar accounts”) from FY 2015 to FY 2016 encompass criteria related to case selection criteria. However, the majority of FY 2016 priority areas involve case quality, preemptive actions, or enforcement actions.

Although important, these measures are unrelated to case selection criteria. For example, five of the priority areas involve timely actions taken by IRS employees after they are assigned the case. Priority areas such as timely proof of claim and withholding compliance do not involve the ACS or Field employees.

Managerial emphasis on performance metrics may change from year to year, *e.g.*, when performance data reflect that timeliness on cases is a problem, setting enhanced goals around timeliness is appropriate, and establishing annual performance goals provides management with the tools to improve organizational performance. However, when high-priority areas directly relate to specific types of cases, the programming rules of the IDS, the ENTITY, and the ACS do not always fully consider them when routing cases for assignment. Further, as described subsequently in this report, priority cases, as defined by program priority areas, represented a small portion of case closures, and data were not readily available to identify these cases in inventory. Priorities and goals should be established in a way that will help the IRS assess whether the high-priority cases that were worked helped it make progress towards the higher goal of improving tax compliance in these key areas.

Systemic case routing and prioritization criteria do not consider high-priority workload, and few priority cases were worked

The IDS uses hundreds of criteria and analytics to systemically route cases to active inventories in the ACS, the Queue, or the Field. The IDS uses similar criteria and analytics when assigning lower priority cases to inactive inventories (shelved). This routing process is intended to route cases to the most appropriate collection inventory based on collection case characteristics, which should produce the best results and increase the likelihood of bringing taxpayers into compliance. Some common factors considered in IDS routing rules include the dollar amount owed, type of tax owed, type of taxpayer, and age of the accounts. However, the case selection priorities established annually by IRS Collection function management are not fully considered in the systemic routing of inventory.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

For example, systemic criteria used by risk rules within the ENTITY or the ACS to score and prioritize collection inventory do not consider global high wealth delinquencies and cannot discern large business taxpayers from other taxpayers. In addition, while some aspects of high-priority areas are taken into consideration, such as large dollar accounts (*****2*****
*****2*****) or Forms 941/944 (Trust Fund) delinquencies, there are other case characteristics which may affect the prioritization and likelihood of being selected. Other characteristics such as specific amounts owed, age of the delinquency, or number of delinquencies a taxpayer has may cause a case's risk score to rise or fall, which affects when it will be assigned to be worked.

Once active inventory is routed to either the Queue or the ACS, it is prioritized for assignment by systemic risk-based decision making.⁹ For those cases routed to the Queue and the Field, IRS management uses the ENTITY to control and prioritize the cases. While cases are in the Queue, the ENTITY applies risk rules to each case (on a weekly basis) to determine its risk level. Risk is established on a case-by-case basis and is rated at high-, medium-, or low-risk level. During the Field case assignment process, group managers assign revenue officers cases from a list of risked cases.

Similar to the risk prioritization which is performed on cases within the Queue, the ACS uses risk rules to prioritize workload from high risk (highest priority) to low risk (lowest priority). In addition to risking of inventory, the ACS systemically routes inventory to one of several internal work streams depending on the type of activity that a case may require.¹⁰

The purpose of prioritizing cases should be to ensure that more of those high-priority cases are actually worked. While these risk-based prioritization criteria within the Queue and the ACS may consider certain characteristics associated with the IRS's priority areas, such as balance due amounts *****2***** or delinquent payroll tax cases, there are a variety of other criteria which factor into the prioritization of inventory and the probability of assignment. As a result, management does not have assurance that the IDS, the ACS, and the ENTITY will actually identify for assignment more high-priority cases than other types of cases.

The IRS Collection Program's FY 2015 Monthly Monitoring Report summarizes and compiles historical and current business results. Business results are reported on either a module or taxpayer basis, and in FY 2015, the Monthly Monitoring Report showed that the Collection

⁹ Inventory routed directly to the Field is received in group manager hold files and generally assigned. However, Field group managers do have the ability to transfer cases back to the Queue.

¹⁰ Generally, cases routed to the ACS fall into one of three work streams: Contact (communication is needed with the taxpayer), Investigation (information needs to be verified), and Research (the taxpayer's location or other information needs to be determined).



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

function closed 23.6 million tax modules from more than 51.1 million available modules.¹¹ The Monthly Monitoring Report also showed that the Collection function closed 2.9 million taxpayer cases. More detailed results show that the IRS closed few modules or taxpayer cases that met management’s high-priority criterion. Specifically, during FY 2015, the Collection function closed approximately 898,000 modules from priority areas, which accounted for approximately 1.8 percent of the collection modules available and 3.8 percent of the modules closed. The closure of taxpayer cases meeting high-priority criteria amounted to 16.4 percent of the total taxpayer cases that were closed in FY 2015.

IRS management did not know the population of all high-priority area cases in the Collection function’s inventory because of difficulties in obtaining relevant data. Management stated that while it was possible to obtain relevant data, there were significant obstacles to obtaining it, and much of the data would need to be qualified.

At least four of the FY 2015 priority areas and two of the FY 2016 priority areas involve high dollar thresholds. We were able to determine the inventory of such cases through analysis of Collection Activity Reports. Figure 4 shows that at the end of FY 2015, taxpayers with TDAs of *****2***** represented less than 5 percent of all taxpayers with TDAs.

Figure 4: Taxpayers With High Dollar TDAs Compared With All Taxpayers With TDAs¹²

	Individual Master File	Business Master File	Total
Taxpayers with TDAs of *****2*****	211,987	41,683	253,670
Total Taxpayers with TDAs	4,911,255	822,352	5,733,607
Percentage of total Inventory	4.3%	5.1%	4.4%

Source: TIGTA analysis of Collection Activity Reports.

Data about other categories of high-priority areas were not as readily available. For example, none of the inventory routing or prioritization systems, e.g., the IDS, the ACS, the ENTITY, or

¹¹ TIGTA previously reported concerns with how the IRS reports Collection function case closures (TIGTA, Ref. No. 2010-30-019, *Processing and Monitoring of Balance Due Notice Cases Needs Improvement* (Mar. 2010)). A single case may be closed multiple times before a delinquency is fully resolved. For example, the actions taken to close a case vary from relatively simple actions to complex and time-consuming processes. Regardless of the complexity or time spent on an action, the inventory reports capture and report it generically as a case closure. For a sample of 60 balance due notice cases, the IRS reported 525 separate case closures.

¹² The Individual Master File is the IRS database that maintains transactions or records of individual tax accounts. The Business Master File is the database that consists of Federal tax-related transactions and accounts for businesses, this includes employment taxes, income taxes on businesses, and excise taxes.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

management information reports identify global high wealth inventory. To assess the progress of meeting closure goals in this priority area, Collection function personnel had to obtain an inventory list of global high wealth cases from the Large Business and International Division. Similarly, data on high-income, nonfiler taxpayer cases were limited or not captured. Figure 5 shows examples of the different ways in which the IRS identified the available inventory related to the different priority areas.

Figure 5: Examples of Priority Metric Inventory Data Availability

Priority Metric	Description
Large Business and International Division TDA Taxpayers 941/944 TDA Modules TDA Modules ****2**** ACS Federal Employee/Retiree Delinquency Initiative TDA Taxpayers	<ul style="list-style-type: none"> - End of month snapshots of Queue, Field, CSCO, and ACS inventories. - Identified and tracked through Collection Activity Reports. - Data are easily accessible, although the data can be time consuming to gather.
High Income Non-Filer TDI Taxpayers	<ul style="list-style-type: none"> - Periodic snapshots of ACS inventory. - Identified and tracked through the ACS 5001 reports. - Data availability is limited.
Field Collection Return Preparer Penalty TDA Modules	<ul style="list-style-type: none"> - Periodic snapshots of Field Collection inventory. - Identified and tracked through Collection Entity system queries. - Data availability is limited.
Withholding Compliance Taxpayers Treated	<ul style="list-style-type: none"> - Information Technology organization programmers create inventory through periodic evaluation of existing data. - Identified by selecting taxpayers who are likely to have insufficient Federal tax withholding. - Data availability is limited.
Global High Wealth Balance Due Notices and TDA Modules	<ul style="list-style-type: none"> - Large Business and International Division is no longer providing support to identify inventory for collection. - Data were difficult to obtain and available data were limited. - Global High Wealth priority metric is no longer being tracked.

Source: TIGTA analysis of priority metric inventory availability as provided by IRS personnel.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Incomplete or insufficient data related to the available high-priority inventory make it difficult to determine the IRS’s success in addressing high-priority cases. For example, the IRS is unable to determine what percentage of the Collection function’s global high dollar wealth inventory was assigned and worked. While management set goals, such as case closures, for some of their high-priority areas, without data on the universe of the high-priority cases, the goals and whether those goals are achieved does not reflect whether progress is being made to address the high-priority workload, nor do the goals help the IRS assess progress towards the higher goal of improving compliance for these types of taxpayers.

Goals or measures were not always established to assess priority area inventory

The IRS did not establish goals for the majority of Collection function management’s FY 2016 priority areas. Although comparisons to prior year results are tracked, the lack of goals makes it difficult to assess the performance and progress within these areas. Figure 6 shows the FY 2016 priority areas and goals as of January 2016.

Figure 6: FY 2016 Priority Areas and Goals As of January 2016

FY 2016 Priority Areas	Type of Goal	FY 16 Goal
ACS and Field Collection Forms 941. 944 TDAs	Closure coverage	No goal noted
ACS and Field Collection ***2***** TDAs	Closure coverage	No goal noted
Federal Tax Deposit alert	Timely contact	No goal noted
Notice of Federal Tax Lien	Timeliness	No goal noted
Offers in compromise	Closed in 0 to 9 months	78.6%
Federal Tax Deposit alert	Contacts in the field	No goals noted
Trust Fund Recovery Penalty	Timeliness	No goal noted
Proof of claim filing	Timeliness	No goal noted
Federal Tax Withholding Compliance	Taxpayers treated	No goal noted

Source: TIGTA analysis of January 2016 IRS Monthly Monitoring Report.

Just one priority area had a goal. Neither priority area related to case assignments included a goal. In addition, when goals were established in prior years, there was incomplete documentation that management considered available resources; organizational priorities; or an assessment of emerging trends, issues, and problems when establishing them. Some of the targets appear to have been based entirely on the prior year’s actual results. If objectively established, targets and measures help management evaluate changes to priorities and assess



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

progress in bringing these taxpayers into compliance. This is consistent with the findings of a September 2016 report from the GAO.¹³

During FY 2015, the monitoring of Collection function work plan goals for both priority and nonpriority metrics was a collaborative process between the Collection Work Plan Office and the functional offices responsible for delivery of the plan. When it appeared that there was a metric at risk of not meeting the goals, the stakeholders discussed whether it made sense to take any actions in order to boost dispositions in an effort to meet the goals. Typically, changes to inventory delivery rules were not considered. However, other actions were taken. For example, the ACS increased the length of time that high-income, nonfiler cases in ACS inventory were held, from 26 weeks to 52 weeks in order to increase dispositions, because the likelihood of assigning and closing the cases increases when the cases are held in inventory longer. Moreover, the ACS manually transferred high-income, nonfiler cases from the Queue in order to increase dispositions.

Because of the difficulties in determining the total inventory of cases within each priority area, management has limited data available to assess whether the IRS's goals for management's priority case assignments are achievable, reasonable, or consistent with the higher goal of reducing noncompliance for cases meeting priority criteria. Such information would help management make decisions about how to fund and allocate resources to collect portions of the estimated \$406 billion Tax Gap, which represents the amount of taxes from taxpayers who owe but have not paid.

In addition to the difficulties in determining total inventories and the limitations of available data to assess the success of existing priority areas, a further concern arises when the IRS designates new priority areas for future fiscal years. Current conditions and systemic limitations make it difficult for the IRS to measure future success against past years. Current systems are not designed to provide historical information, but are designed to provide only "snapshots" in time. Therefore, there is little the IRS can do to create a benchmark from prior year data in an effort to determine whether any new priority areas can be considered a success as measured against past performance.

¹³ GAO, GAO-16-787, *Tax Debt Collection: IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection* (Sept. 13, 2016). The GAO found that although annual collection program letters to staff stated the program mission and listed distinct activities and case types to focus on in the fiscal year grouped under IRS strategic goals, they did not present clearly defined program or case selection objectives sufficient for purposes of internal control. The objectives are unclear in part because the terms are so general that they do not enable management to assess risks, establish control procedures, or link to related performance measures.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Recommendations

The Director, Collection, should:

Recommendation 1: Ensure that the IRS establishes case priority areas that are developed using data-driven approaches designed to identify the highest risk cases, and that they are appropriately and thoroughly considered in business rules and systems designed to route and prioritize collection inventory, *e.g.*, the IDS, the ENTITY and the ACS.

Management's Response: IRS management agreed with our recommendation and implemented a process to evaluate their inventory delivery systems to ensure that case routing and selection criteria are data driven and clearly linked to their business priorities. The process includes the establishment of a periodic evaluation and review process to monitor and assess the automated and manual control procedures for collection case routing and selection. The process will be performed on a multiyear rotating schedule and includes evaluating and potentially updating dollar thresholds used in three main inventory routing and prioritization systems, the IDS, the ENTITY, and the ACS.

Recommendation 2: Ensure that manual downstream procedures and processes that result in the assignment of inventory by group managers within the Field establish appropriate preferences for the selection of higher priority inventory.

Management's Response: IRS management agreed with this recommendation. The Collection Policy function revised and published *Internal Revenue Manual 1.4.50 Collection Group Manager, Territory Manager, and Area Director Operational Aid*, which provides prioritization criteria for Field group managers to use when making case assignment decisions.

Recommendation 3: Establish goals for all high-priority areas which take into consideration the universe of cases within each area. In addition, set expectations for managers and employees to meet these goals.

Management's Response: IRS management agreed with this recommendation. The Collection function develops and implements a work plan annually. This plan is adjusted based on several factors, including but not limited to operational goals, objectives, available resources, and legislative mandates. Beginning in Fiscal Year 2018, the Collection function will include in its work plan activities and measures to support strategic goals and objectives.

Office of Audit Comment: IRS management expressed in their response, and we agree, that productivity goals should not be set for individual frontline employees and that cases should be worked to an appropriate resolution based on the facts of each case. However, the recommendation was intended to address goals for high-priority areas at the program level and to provide for the ability to periodically evaluate the success of efforts in order to identify opportunities for improvement.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Systemic Enforcement Actions Are Not Taken for Unassigned Queue and Shelved Inventories

Systemic computer actions on taxpayer accounts, which include automated searches for new levy sources, do not require IRS employee involvement and help improve taxpayer compliance while increasing the collection of delinquent taxes. However, unlike cases that are routed to the ACS or the Field, delinquent cases that are awaiting assignment in the Queue or have been shelved are not subject to the same number of routine IRS systemic enforcement actions and checks.

The IRS's inventory of delinquent cases has grown well beyond the number of cases that can be worked with current resources. As of September 2015, the Queue contained nearly 3.3 million unassigned TDA modules valued at \$57.5 billion, and there were an additional 1.4 million unassigned modules valued at \$8.4 billion in shelved status. The Queue also contains 2.3 million TDI modules. Combined, unassigned modules within these two Collection function inventories equaled seven million unassigned modules valued at approximately \$65.9 billion.¹⁴

From FY 2010 to FY 2015, more than 18.7 million TDA modules were routed to the Queue. Figure 7 shows that nearly one-half (9.2 million) of these modules came from the ACS while another 27 percent (five million) came from the notice stream.¹⁵

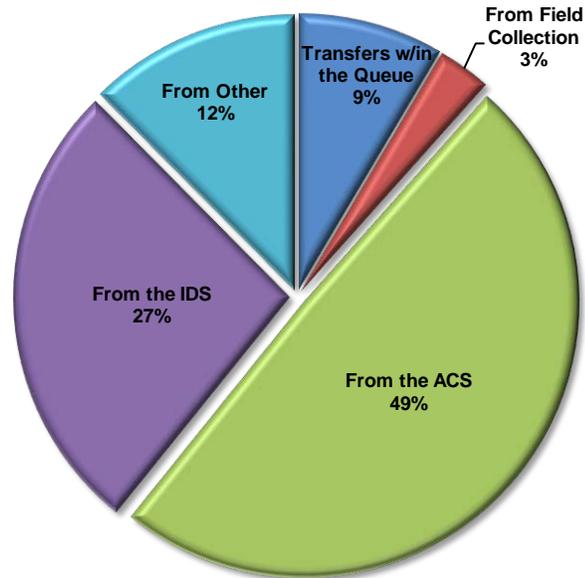
¹⁴ There are no dollars associated with TDI modules because the return has not been filed nor has an assessment been made.

¹⁵ The calculations shown throughout this section were performed using the actual numbers rather than the rounded numbers that appear in the narrative.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

**Figure 7: Source of TDA Modules Entering the Queue
From FY 2010 Through FY 2015¹⁶**



Source: TIGTA analysis of the IRS's Collection Activity Reports.

Between FY 2012 and FY 2015, the number of TDA modules the ACS sent to the Queue increased from 1.3 million to 1.7 million (by 37 percent). During the same time period, the number of modules the IDS sent directly to the Queue (from the notice stream) decreased 17 percent from approximately 986,000 in FY 2012 to 823,000 in FY 2015.

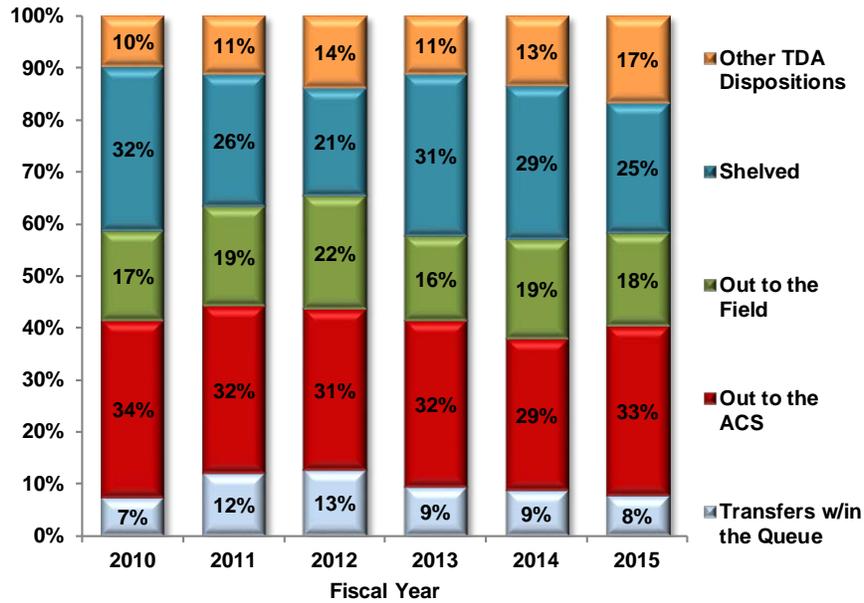
Although IRS procedures describe the Queue as a database of unassigned Field inventory, much of this unassigned inventory is moved to other active or inactive inventories. IRS management stated that the Queue is actually a potential inventory for all collection operations. As shown in Figure 8, our review of Collection Activity Reports supports management's position that a smaller percentage of modules in the Queue are assigned to revenue officers in the Field than are shelved or transferred to the ACS. Since FY 2010, less than 20 percent of Queue inventory, on average, was assigned to the Field. Meanwhile, 29 to 34 percent of the inventory was transferred to the ACS.

¹⁶ "Other" includes transfers from the CSCSO, as well as the number of modules from the notice stream and exiting installment agreement status.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Figure 8: Destination of Modules Exiting the Field Queue¹⁷



Source: Collection Activity Report 5000-2.

More Queue modules were transferred to the ACS than any other destination. Further, since FY 2013, more Queue modules were shelved than assigned to the Field. Combined, approximately one-half of Queue inventory is ultimately assigned to either the ACS or the Field, while the rest is shelved, transferred, or closed in some other manner.

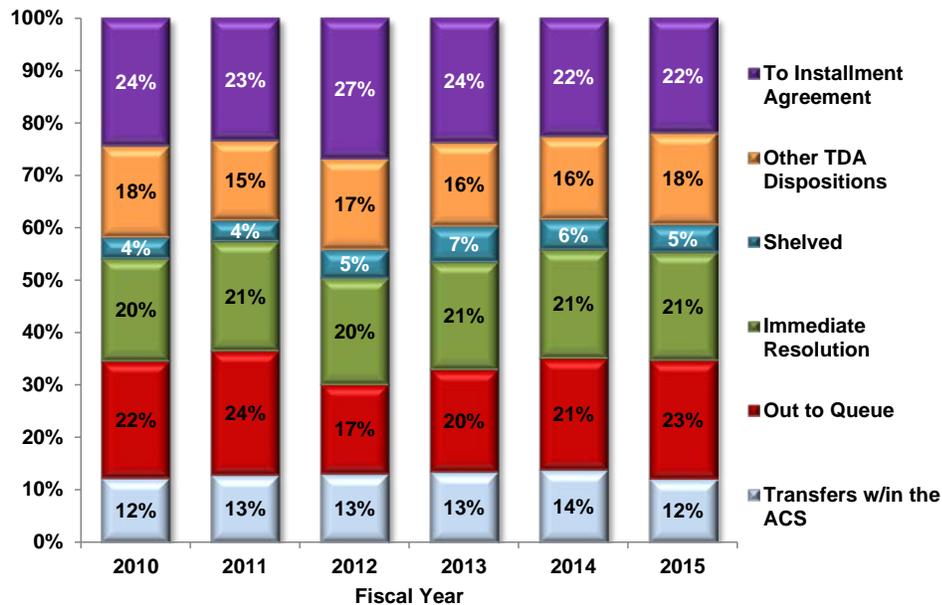
Figure 9 shows that although the ACS closes 42 to 47 percent of modules with an installment agreement or immediate resolution, 17 to 24 percent of ACS modules are transferred to the Queue.

¹⁷ “Other” includes transfers to the CSCO, immediate dispositions, as well as the number of modules to installment agreements and currently not collectible closures (excluding shelved). The percentages may not total to 100 percent due to rounding.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Figure 9: Destination of Modules Exiting the ACS¹⁸



Source: Collection Activity Report 5000-2.

IRS reports do not track whether ACS modules are being sent to the Queue for the first time or if they had previously been in the Queue. Some modules move back and forth between the ACS and the Queue multiple times. This information is important to know because the ACS and the Queue treat unassigned inventory differently. Specifically, some unassigned ACS inventory is subject to systemic levies and Notice of Federal Tax Lien determinations in an attempt to collect or protect the Government’s interest. However, unassigned inventory in the Queue, as well as shelved inventory, is not subjected to these systemic treatments.

ACS systemic processes

When a case is routed to the ACS, the system automatically analyzes the taxpayer’s account for various characteristics, including undeliverable mail codes, telephone numbers, and levy sources. For example, when the IRS’s Taxpayer Information File (TIF) receives an update to a delinquent taxpayer’s levy sources, the information is systemically provided to the ACS.¹⁹ The TIF

¹⁸ “Other” includes transfers to the CSCO or the Field, modules to offer in compromise, litigation, other currently not collectible dispositions, deferred, related officer payments, and Collection Statute Expiration Date expiration, among others. The percentages may not total to 100 percent due to rounding.

¹⁹ Levy sources are generally identified during the yearly Information Returns Master File download which occurs in February, followed by weekly downloads on all open modules in the ACS and other collection statuses for new levy sources. If a new source is found, it is systemically loaded to the levy source database within the TIF.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

provides the ACS with levy sources when a case is established on the ACS and at least every three weeks thereafter, if a new levy source is available.²⁰

Levy source data come from a variety of sources, including:

- Form W-2, *Wage and Tax Statement*, and Forms 1099 (series of information returns) information.
- States, credit bureaus, and other third parties.
- The taxpayer, when requesting an installment agreement or during other contacts.
- Partial payment checks submitted by the taxpayer.
- Closed accounts from ACS Archives.

Levy source data are kept only as long as a case remains on the TIF. If all modules have been resolved, closed as currently not collectible, or removed from inventory, they are removed from the TIF, and the levy source information is no longer available.

The ACS utilizes levy source data to process levies systemically. The systemic process also allows cases to move through various inventories systemically without the need for an employee to touch the case. Similarly, the ACS systemically performs Notice of Federal Tax Lien determinations without employee involvement. These systemic actions take place without employee involvement but can result in taxpayer calls that require employee involvement.

Systemic case actions are not taken for cases once they have been shelved or placed in the Queue

The IDS routes most high-risk cases which do not contain levy sources to the Queue. The IDS definition of high risk for case routing purposes is different from management's annual designation of high-priority areas in the Program Letter and is also different from the risk prioritization in the ENTITY and the ACS. The cases in the Queue will then generally wait for assignment depending on their ENTITY risk, which is defined by weekly risk scoring and revenue officer availability.²¹ For cases within the Queue, IRS systems use information returns to populate levy sources.²² Completely new levy sources for taxpayers in collection inventories are updated systemically within the taxpayers' account. Although levy sources may be identified for delinquent taxpayers in the Queue, the IRS will not take systemic levy actions while the case remains in the Queue. In other words, if a case is sitting unassigned in the Queue and information comes into the IRS by way of a Form W-2 reflecting that the noncompliant taxpayer

²⁰ If systems receive an update to a levy source, the information is provided to the ACS again. At which point, the ACS will update the levy source.

²¹ We previously reported on the subjective nature of case assignments from the Queue to Field revenue officers in TIGTA, Ref. No. 2014-30-068, *Field Collection Could Work Cases With Better Collection Potential* (Sept. 2014)

²² Exceptions to this process include cases that are subject to the Federal Payment Levy Program.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

now has significant resources from which the delinquency can be resolved, the IRS may not take any enforcement action to put the information to use in the collection process.

Unless the cases are assigned to a revenue officer in the Field or transferred to the ACS for systemic processing, cases that remain in the Queue for 52 weeks are subsequently processed through the IDS again and, if they are of medium or low priority, have the potential to be shelved. This transfer can occur even with the existence of possible new levy sources. IRS management stated that they shelve cases in order to remove low-priority and low-collectability cases from active inventory, but also indicated that one benefit is reducing the number of cases for which the ENTITY must process and prioritize on a weekly basis.

In general, no systemic or collection activity is performed on cases in the Queue or shelved inventory. Although the IRS has the ability to process actions systemically within the ACS and activity reports indicate increased levels of positive outcomes for these cases, these processes have not been expanded.

IRS management expressed concern about systemically identifying productive cases, such as those with new levy sources, from the Queue or from shelved inventory because they do not believe they have the resources to work such cases. However, management currently assigns a significant number of cases for which a limited amount of revenue may be collected. Specifically, in FY 2015, 34 percent of TDA modules in the Field were closed as uncollectible, and the ACS closed 10 percent of TDA modules as uncollectible and routed another 23 percent to the Queue because they could not resolve them. We believe cases with readily identifiable levy sources may have a better potential for collection revenue than many of the cases that are currently assigned. At a minimum, the IRS should determine whether cases with levy sources are a productive means of improving taxpayer compliance. If this is the case, then risk and prioritization criteria should take this into account in delivering the most productive inventory to employees.

Levy source data are not always updated and levy sources for shelved inventories are not always maintained

IRS employees assigned to collection cases have the ability to manually identify, update, and take levy action on delinquent taxpayers. To supplement this process, the IRS also performs an Information Returns Master File matching process to update levy sources.

IRS employees use the Integrated Data Retrieval System to research taxpayer account information, enter transactions, and enter collection information, and it is also used to automatically generate notices or other documents.²³ It is a system consisting of databases and

²³ Actions taken via the Integrated Data Retrieval System include notice issuance, installment agreement processing, offers in compromise, adjustment processing, penalty and interest computations and explanations, credit and debit transfers within an account, or other related accounts and research of taxpayer accounts for problem resolution of taxpayer inquiries.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

operating systems that support IRS employees working active tax cases within each business function across the entire IRS. The TIF is the primary database within the Integrated Data Retrieval System, and it provides tax account information for certain taxpayers (generally involving only active accounts). When levy sources are identified by employees or through the annual matching process, they are posted to the TIF.

However, once posted on the TIF, specific levy source information is not updated during subsequent matches to the Information Returns Master File. For example, if a taxpayer's levy source is identified as Account Number 1234 at First Federal Bank, the account information from the Information Returns Master File document is uploaded to the TIF as a levy source. However, if at a later time the IRS receives updated documents for the same taxpayer, none of the detailed information about Account Number 1234, such as the dollar value of the account, is updated to the TIF.²⁴ Levy source information can be updated manually; however, this necessitates case assignment so the IRS employee can manually identify and update the source information.

Levy source information is generally removed from the TIF if a taxpayer delinquency has been satisfied or closed as uncollectible, including shelved, and there are no other open active modules being monitored by the various other IRS systems.

Once cases are moved to an inactive shelved status by the IDS, they are generally not available for assignment in the Field or the ACS. Although levy source information is removed from the TIF, once each year, an extract of shelved modules is matched against the Information Returns Processing file to determine if new levy sources are present. Because historical levy sources are not maintained for taxpayers in these inventories, the reconciliation will treat any levy source as potentially new, which could cause a taxpayer's case to be reactivated to an active inventory. The modules selected for reactivation are then processed through IDS business rules and analytics. Those cases for which IRS analytics determined to have an increased potential for collection may be assigned to an active collection inventory, which begins the collection process all over again.

Establishing a process to timely update levy source details (such as amount) and to consider these details in the prioritization and collection of potential of cases in active inventory may allow the IRS to identify better cases to work.

²⁴ Only end-of-year interest is transmitted for checking account balances; however, documentation received for other types of accounts may include details such as account balance and must be manually entered.



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Recommendations

The Director, Collection, should:

Recommendation 4: Consider expanding systemic processes to implement potential enforcement actions on cases in the Collection function's inventory, such as cases in the Queue or inactive shelved inventory.

Management's Response: IRS management partially agreed with this recommendation. IRS management stated that expanding systemic processes to implement additional potential enforcement actions to cases that are not currently assigned to a Collection employee would require resources they do not currently have. However, while they do not currently have those resources, they agree to review their resource allocation and will consider expanding systemic enforcement, if feasible with projected resources.

Office of Audit Comment: TIGTA believes that the expansion of systemic processes gives the IRS additional flexibility to assign resources to other priority areas.

Recommendation 5: Consider updating levy source details (such as amount) in real time and use these details in the routing and prioritization processes within the collection inventory systems and for those delinquencies in inactive shelved inventories.

Management's Response: IRS management disagreed with this recommendation. IRS management stated that the existence of a levy source is not a factor in determining the appropriate routing of a case, as the presence of a levy source does not always equate to collectability. In addition, they do not believe that their routing processes will be improved if levy source information is updated in real time, nor do they have the resources to do so.

Office of Audit Comment: Although the presence of a levy source does not always result in the collection of delinquencies, we believe the inclusion and consideration of the most current information available provides the best opportunity for collection.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the IRS's case routing and prioritization ensures that the Collection function works high-priority area cases and whether the IRS takes effective actions on cases in the Queue and in shelved status. To accomplish our objective, we:

- I. Evaluated IRS policies, procedures, and goals pertaining to IRS collection case assignment criteria to the ACS, direct assignment to the Field, the Queue, or to shelved cases.
 - A. Reviewed relevant policies, procedures, and criteria related to the movement of collection inventory through IRS collection systems and in assignment to the Queue or to be shelved.
 1. Through the IDS.
 2. Within the Queue.
 3. 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, particularly related to the Queue and the process of shelving low-priority cases.
 1. Identified and reviewed any internal or external reviews performed on inventory delivery processes particularly related to the cases within the Queue and shelving of low-priority cases.
 - C. Interviewed IRS personnel involved with the movement of collection inventory through IRS collection systems and in assignment to the Queue or to be shelved.
- II. Profiled the collection cases in the various Collection function inventories, including the Queue, the ACS, and Field Collection.
 - A. Used Collection Activity Reports to identify the population of cases in the various Collection function inventories.
 - B. Used the data obtained in Step II.A. to profile the various Collection function inventories.
 1. Profiled the modules in the various Collection function inventories by a number of characteristics, including but not limited to the number of delinquent taxpayers, the number of delinquent tax modules, the amount of delinquent dollars within



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

each inventory, the dollars per taxpayer or module, the number of delinquent modules issued, the source of modules received by each inventory, and the type and number of dispositions within each inventory.

- III. Profiled low-priority cases which have been shelved and are not actively being worked.
 - A. Used Collection Activity Reports to profile shelved cases.
 - 1. Profiled the shelved modules by prior status, type of taxpayer, number of modules and taxpayers, and dollars shelved.
- IV. Determined whether the FY 2015 and FY 2016 Collection function priority areas ensure that the IRS is working its priority cases.¹
 - A. Determined how the priority areas are established.
 - B. Determined how the IRS identifies and assigns priority area cases in its inventory.
 - C. Determined how goals for the number of priority area case closures are established, monitored, and adjusted (when needed).
 - D. Assessed how the IRS identifies how many priority area cases are available for assignment and what percentage they make up of all Collection function cases available for assignment.
 - E. Assessed how the IRS identifies how many priority area cases are closed and what percentage they make up of all Collection function cases closed.
 - F. Assessed how the IRS evaluates its performance, *e.g.*, full pays, partial pays, placed in shelved status, remained in/returned to the Queue, of priority area cases.
- V. Analyzed internal management reports to identify changes, trends, and details associated with the programs under review. We worked to reconcile and validate priority area case closures to management information reports; however, we were unable to do so. Although we were unable to reconcile internal reports to source data, we believe the data provide a reasonable basis to accomplish the previous steps.

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 that the

¹ FY 2015 priority areas are referenced in GAO-15-647, *IRS Case Selection: Collection Process Is Largely Automated, but Lacks Adequate Internal Controls* (July 29, 2015, and are highlighted in the IRS's annual Collection Program Letter.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

following internal controls were relevant to our audit objective: inventory selection and assignment controls for collection, queue and shelved cases; and priority area cases identified for selection and assignment. We evaluated these controls through interviews, analysis of inventories, and assessments of priority areas.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

Appendix II

Major Contributors to This Report

Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)

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*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Director, Collection, Small Business/Self-Employed Division
Director, Headquarters Collection, Small Business/Self-Employed Division
Director, Collection Planning and Performance Analysis, Small Business/Self-Employed
Division
Director, Office of Audit Coordination



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Appendix IV

Management's Response to the Draft Report

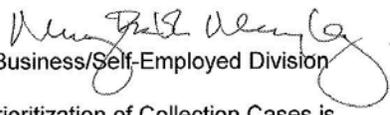


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

AUG 24 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Mary Beth Murphy 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Prioritization of Collection Cases is
Inconsistent and Systemic Enforcement Actions Are Limited for
Inactive Cases (Audit # 201530032)

Thank you for the opportunity to review this draft report. We agree that we should maximize our case selection processes in Collection, and that this is particularly important given the resource constraints the agency has experienced in recent years.

The Collection case routing process is designed to be automated. Collection cases are identified through the Inventory Delivery System (IDS), and are systemically routed to the appropriate function (*i.e.*, to the Automated Collection System (ACS), Field Collection, or the queue) to be worked.

In Fiscal Year 2014 we updated our analytical models to identify and work the most productive inventory sooner. In Fiscal Year 2015 we realigned the Collection program entirely within the Small Business/Self-Employed Division. This provides streamlined leadership accountability, improves efficiency and helps us to quickly identify emerging issues. All Collection organizations are now aligned to eliminate barriers and ensure that strategic decisions support collection-wide operational goals. Additionally, we established a periodic evaluation and review process to monitor and assess the automated and manual control procedures for collection case routing and selection.

Given the current resource limitations in Collection, we are unable to increase the volume of accounts worked or expand systemic actions on inactive accounts. In addition to Collection resources, these types of changes require significant programming changes in many of our IT systems. Also, with the implementation of Private Debt Collection, the IRS has been assigning inactive accounts to the Private Collection Agencies since April 2017, so collection actions are being taken on previously inactive accounts.

In Fiscal Years 2015 and 2016 the U.S. Government Accountability Office (GAO) completed three audits which, like this one, examined IRS Collection case prioritization and case selection (GAO-15-647, GAO-15-744 and GAO-16-787). We have implemented and continue to implement several changes to address GAO's



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

2

recommendations which called for IRS to review our Collection inventory delivery systems to ensure the routing and selection criteria are clearly linked to our business priorities. These actions are responsive to your first two recommendations that case prioritization be developed using data driven approaches designed to identify the highest risk cases, and that manual downstream procedures and processes that result in the assignment of inventory by group managers within the Field establish appropriate preferences for the selection of higher priority inventory.

Collection's case prioritization systems are designed to present high priority cases to managers for assignment. Our annual work plans are adjusted based on several factors, including Collection priorities, legislative mandates, and available resources. We establish operational goals for Collection's senior executives based on the annual work plans and they communicate expectations regarding high priority areas to managers based on these goals. In Fiscal Year 2017, we aligned Collection priorities to Future State themes and strategic objectives, with some activities measured separately from the work plan. In accordance with your third recommendation, we will begin in Fiscal Year 2018 including and measuring these activities in the work plan. We do not and will not, however, set expectations for frontline Collection employees based on the closure of high priority cases or the dollars collected in these cases because doing so jeopardizes our mission of fair and equitable application of the tax laws. Rather, we expect IRS Collection employees to work each assigned case to an appropriate conclusion based on its unique circumstances.

Collection case selections must reflect current IRS resources. TIGTA has suggested that IRS expand its active inventory by expanding the use of systemic enforcement actions. Expanding systemic enforcement actions on cases that are not currently assigned to a Collection employee would activate lower priority cases, and resources would need to be shifted to address the needs arising out of these lower priority cases (i.e., employees would need to answer taxpayer inquiries related to those cases and actively work those cases). Further, such systemic changes require Information Technology resources, which have also been restricted. The IDS does review cases in the queue on a yearly basis to consider new information, and will reprioritize and route a case to ACS or the field if it meets the prioritization criteria. However, the expansion of any enforcement action is dependent on available Collection resources.

TIGTA also recommended that we update levy source details in real time and use those details in the routing and prioritization process within Collection inventory delivery systems. Over 100 case attributes are used in IRS Collection's statistical modeling process. We do not believe that our routing processes will be improved if levy source information is updated in real time, nor do we currently have the discretionary resources to do so. Levy source information is updated in the Integrated Data Retrieval System (IDRS) when it is received, and that information is available to our employees who are assigned specific Collection cases.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

3

We appreciate TIGTA's continued support and guidance as we work to improve our collection systems and processes, and we continue to seek opportunities to improve case selection within our Collection organization.

If you have any questions, please contact me, or a member of your staff may contact Scott Prentky, Director Collection at (954) 991-4326.

Attachment



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

Attachment

RECOMMENDATION 1:

Director, Collection, should ensure that the IRS establishes case priority areas that are developed using data-driven approaches designed to identify the highest risk cases, and that they are appropriately and thoroughly considered in business rules and systems designed to route and prioritize collection inventory, e.g., the IDS, the ENTITY and the ACS.

CORRECTIVE ACTION:

We have implemented a process to evaluate our inventory delivery systems to ensure the case routing and selection criteria are data driven and clearly linked to our business priorities. This includes the establishment of a periodic evaluation and review process to monitor and assess the automated and manual control procedures for collection case routing and selection. The process will be performed on a multi-year rotating schedule and includes evaluating and potentially updating dollar thresholds used in three main inventory routing and prioritization systems, the IDS, ENTITY Case Management System (ENTITY) and the ACS.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Director, Collection Inventory Delivery and Selection, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 2:

Director, Collection, should ensure that manual downstream procedures and processes that result in the assignment of inventory by group managers within the Field establish appropriate preferences for the selection of higher priority inventory.

CORRECTIVE ACTION:

Collection Policy revised and published Internal Revenue Manual 1.4.50 *Collection-Group Manager, Territory Manager and Area Director Operational Aid*, which provides prioritization criteria for Field Collection Group Managers to use when making case assignment decisions.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Director, Collection Policy, SB/SE



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

2

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 3:

Director, Collection, should establish goals for all high-priority areas which take into consideration the universe of cases within each area. In addition, set expectations for managers and employees to meet these goals.

CORRECTIVE ACTION:

Collection develops and implements a work plan annually. We adjust our work plan based on several factors, including but not limited to our operational goals, our objectives (which we discuss in the annual Collection program letter), available resources and legislative mandates. Beginning in Fiscal Year 2018, Collection activities and measures to support Strategic goals and objectives will be included in the work plan. We establish goals for senior executives with respect to the delivery of the work plan. Senior executives set expectations (including expectations on case selection and assignment) for their managers based on their goals. We do not set productivity goals for our frontline employees based on these expectations because their attempts to deliver on such goals might jeopardize our mission of fair and equitable application of the tax laws. Frontline Collection employees are expected to work each case assigned to them to an appropriate resolution based on the facts of that case.

IMPLEMENTATION DATE:

Implemented in part with respect to including goals in the annual work plan.

RESPONSIBLE OFFICIAL:

N/A

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 4:

Director, Collection, should consider expanding systemic processes to implement potential enforcement actions on cases in the Collection function's inventory, such as cases in the Queue or inactive shelved inventory.

CORRECTIVE ACTION:

We partially agree. Currently, queue or inactive shelved inventories are included in systemic Federal Payment Levy Program (FPLP) levies, unless barred by other FPLP



Prioritization of Collection Cases Is Inconsistent and Systemic Enforcement Actions Are Limited for Inactive Cases

3

exclusion on the account. Additionally, beginning in April 2017, cases in shelved status are being assigned to Private Collection Agencies to be worked.

Expanding systemic processes to implement additional potential enforcement actions to cases that are not currently assigned to a Collection employee or a Private Collection Agency would activate lower priority cases, and resources would need to be shifted to address the needs arising out of these lower priority cases (i.e., employees would need to answer taxpayer inquiries related to those cases and actively work those cases). While we currently do not have those resources, we do review cases in the queue on a yearly basis to consider new information and we will review our resource allocation and consider expanding systemic enforcement, if feasible with projected resources. Additionally, it should be noted that each year we adjust our work plan, based on resources and priorities, and route cases per the work plan to ACS or to Field Collection for treatment.

IMPLEMENTATION DATE:

N/A

RESPONSIBLE OFFICIAL:

N/A

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 5:

Director, Collection, should consider updating levy source details (such as amount) in real time and use these details in the routing and prioritization processes within the collection inventory systems and for those delinquencies in inactive shelved inventories.

CORRECTIVE ACTION:

We disagree. We use statistical modeling to predict productivity and it is this modeling that is used in the prioritization process. The existence of a levy source is not a factor in determining the appropriate routing or prioritization of a case, as the presence of a levy source does not always equate to collectability. We do not believe that our routing processes will be improved if levy source information is updated in real time, nor do we have the resources to do so. Levy source information is updated in IDRS when it is received (typically on a yearly basis when required third party documents are filed), and that information is available to our employees who are assigned specific Collection cases. Additionally, cases are periodically reviewed and reactivated if new criteria are located (such as levy sources) which warrant routing the case to the Field or ACS.



*Prioritization of Collection Cases Is Inconsistent and Systemic
Enforcement Actions Are Limited for Inactive Cases*

4

IMPLEMENTATION DATE:

N/A

RESPONSIBLE OFFICIAL:

N/A

CORRECTIVE ACTION MONITORING PLAN:

N/A