

**Implementation of the Collection Field
Function Consultation Initiative Was Carefully
Coordinated, but Some Aspects Could Be
Enhanced**

November 2004

Reference Number: 2005-30-011

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

November 18, 2004

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Gordon C. Milbourn III

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

SUBJECT: Final Audit Report - Implementation of the Collection Field
Function Consultation Initiative Was Carefully Coordinated, but
Some Aspects Could Be Enhanced (Audit # 200330040)

This report presents the results of our review of implementation of the Collection Field function (CFf)¹ Consultation Initiative. The CFf Consultation Initiative is a product of the Small Business/Self-Employed (SB/SE) Division's Collection Reengineering effort. The overall objective of this review was to determine whether the Internal Revenue Service (IRS) has taken effective steps to ensure the successful nationwide implementation of the CFf Consultation Initiative.

In summary, implementation of the Consultation Initiative was coordinated carefully and supported by a formalized training program. Approximately 500 IRS Collection function managers nationwide were trained in 33 classes during January and February 2004. The training classes covered the Consultation Initiative in detail through 7 instructional modules administered over a 3-day period.

Business measures used by the IRS to monitor Collection function data trends have indicated a slight decline in the percentage of overage cases residing in CFf inventory in the three Area Offices we reviewed since implementation of the Consultation Initiative. However, due to the sometimes slow nature of Collection function inventory turnover, the true effects of the Consultation Initiative cannot yet be fully evaluated. For example,

¹ The CFf is located in the Area Offices and consists of revenue officers who personally contact taxpayers to collect delinquent accounts or secure unfiled returns. The Small Business/Self-Employed (SB/SE) Division Compliance Field function is geographically organized into 15 Area Offices serving taxpayers nationwide and 1 Area Office serving international taxpayers. The 16 SB/SE Division Compliance Field function Area Offices are further divided into geographically based Territories. Each of these Territories is headed by a Territory manager.

many of the cases in our review of a sample of 115 open Collection function cases had already been in process for some time; thus, initial casework had not been through the complete consultation process. Until Collection function cases have undergone the entire consultation process, business results measuring data trends will not capture the full effects of the Consultation Initiative.

Also, the overall effectiveness of the Consultation Initiative could be improved by ensuring milestones and completion dates for required collection activities are clearly identified and case plans of action are consistently prepared. In 20 percent of the consultations reviewed, the next milestone was unclear and/or the case did not have a current plan of action at the time of the consultation.

We recommended the Director, Collection, SB/SE Division, continue to measure the impact of the Consultation Initiative on key business measures, including the percentage of overage cases in Collection function inventory, as well as continue to measure its impact on case quality using the Collection Quality Management System.² We also recommended the Director, Collection, SB/SE Division, clarify existing procedures for conducting group manager case consultations to clearly require that both the estimated completion dates of milestones and the date of the next follow-up consultation be plainly documented in all cases. In addition, the feasibility of developing a provision to facilitate documentation of expected completion dates within the ENTITY Management Information System (ENTITY)³ milestone menu should be evaluated. Finally, we recommended the Director, Collection, SB/SE Division, reemphasize existing procedures regarding the need for managers to document milestones and revenue officers to timely prepare a plan of action whenever a Collection function case cannot be closed on the first contact.

Management's Response: IRS management agreed with the recommendations presented in our report. Management will continue to measure the effectiveness of the Consultation Initiative using indicators such as the percentage of overage cases in Collection function inventory. In addition, management will update the Internal Revenue Manual (IRM) to instruct group managers to clearly document the estimated completion dates of milestones and follow-up consultations on the ENTITY calendar. Management will also update the Integrated Collection System⁴ to include an action completion date field. Finally, management will update the IRM to instruct group managers to ensure that revenue officers are determining and documenting action plans. Management's complete response to the draft report is included as Appendix IV.

² An analysis of closed Collection function cases reviewed for technical accuracy of case work, the results of which are used by IRS management to determine the strengths and weaknesses in the quality of work performed by Collection function employees.

³ An automated system used at the group, Territory, and Area Office levels for case management, report compilation, and management information. The ENTITY enables revenue officers and group managers to manage their respective inventories.

⁴ An automated system used to control and monitor delinquent cases assigned to revenue officers in the IRS field offices.

Copies of this report are also being sent to IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Richard Dagiolo, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (631) 654-6028.

Implementation of the Collection Field Function Consultation Initiative Was Carefully Coordinated, but Some Aspects Could Be Enhanced

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Implementation of the Collection Field Function Consultation Initiative Was Carefully Coordinated, but Some Aspects Could Be Enhanced

Background

In early 1998, the Internal Revenue Service (IRS) Commissioner outlined a program to modernize the IRS. As part of this effort, a new organizational structure was established to replace the previous function-based structure. The new IRS organizational structure is based on four groupings of taxpayers with similar customer needs. The Small Business/Self-Employed (SB/SE) Division began operations in October 2000 to service one of these groups. To improve the overall effectiveness and efficiency of its operations, the SB/SE Division initiated the Collection Reengineering effort.

The Collection Field function (Cff)¹ Consultation Initiative is a product of the SB/SE Division's Collection Reengineering effort. The Consultation Initiative was designed to improve Cff business results by preventing long lapses in case activity, resulting in quicker turnover of Collection function case inventory. The Consultation Initiative incorporates a process of regular meetings (consultations) between group managers and revenue officers, focusing on workload management and case resolution.

The Cff Consultation Initiative was piloted in the Boston Area Office during the period September 2002 through March 2003. One-half of the Territories² in the Boston Area Office were selected to test consultation procedures, with the remaining Territories acting as control groups and continuing to process their workloads as normal. During this 6-month evaluation period, the pilot test groups only slightly outperformed control groups in reducing the amount of overage cases (cases assigned to the Cff for more than 15 months) in their inventory, and this difference was not considered statistically significant. However, management did note an improvement in the timeliness of initial taxpayer

¹ The Cff is located in the Area Offices and consists of revenue officers who personally contact taxpayers to collect delinquent accounts or secure unfiled returns. The SB/SE Division Compliance Field function is geographically organized into 15 Area Offices serving taxpayers nationwide and 1 Area Office serving international taxpayers.

² The 16 SB/SE Division Compliance Field function Area Offices are further divided into geographically based Territories. Each of these Territories is headed by a Territory manager.

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contacts and a reduction in extended periods of case inactivity. Based on these results, the Cff Consultation Initiative was scheduled for nationwide deployment. Implementation of the Consultation Initiative began in January 2004 and was completed in April 2004.

The Cff Consultation Initiative emphasizes routine managerial involvement in cases and efficient case resolution. The primary element of the Consultation Initiative consists of monthly group manager and revenue officer meetings to consult on a portion of each revenue officer's case inventory. Cases undergo consultations within 60 days of assignment to a revenue officer, at prescheduled dates following significant case milestones (such as seizures³ or levies⁴), and as the case is expected to be near completion. Consultations are scheduled, and established milestones documented, using the calendar function within the ENTITY Management Information System (ENTITY).⁵

This review was performed at the Cff Consultation Initiative project office in Worcester, Massachusetts, and in the Detroit, Michigan; Nashville, Tennessee; and Los Angeles, California, SB/SE Division Compliance Area Offices during the period September 2003 through July 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ When a taxpayer refuses to pay delinquent taxes, the IRS has authority to take the taxpayer's funds or property for the payment of tax. This action is commonly referred to as a "seizure."

⁴ When a taxpayer refuses to pay delinquent taxes, the IRS has authority to work directly with financial institutions and other third parties to seize the taxpayer's assets. This action is commonly referred to as a "levy."

⁵ An automated system used at the group, Territory, and Area Office levels for case management, report compilation, and management information. The ENTITY enables revenue officers and group managers to manage their respective inventories.

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Implementation of the Consultation Initiative Was Coordinated Carefully and Supported by a Formalized Training Program

Following the completion of the CFf Consultation Initiative pilot in March 2003, the Area 1 Pilot Management Team maintained responsibility for the Initiative and began to act as the lead project coordinators in the nationwide rollout. The CFf Consultation Initiative Team, consisting of the Area 1 Director, a Territory manager, and four group managers, was responsible for directing and monitoring the implementation of the Consultation Initiative nationwide. To accomplish this, the group provided ongoing guidance to Coordinating Territory managers, established a Deployment Schedule monitoring the completion of key aspects of the rollout, and trained the instructors who later provided Consultation Initiative training to the group and Territory managers in their respective Area Offices.

A Coordinating Territory manager was appointed in each Area Office to oversee implementation of the Consultation Initiative within that Area Office

A Territory manager was selected to represent each Area Office within the Consultation Initiative. Coordinating Territory managers were responsible for identifying managers to act as instructors for the Consultation Initiative training delivered within their Area Offices, conducting conference calls as necessary with participants in their Area Offices, and monitoring the completion of mandatory Initiative introductory meetings at the group level. Coordinating Territory managers also received information from members of the CFf Consultation Initiative Team and distributed the information to the responsible managers.

Training was provided to responsible Collection function managers nationwide

Members of the CFf Consultation Initiative Team trained managers in the Boston, Los Angeles, and Detroit Area Offices during the fourth quarter of Fiscal Year (FY) 2003. Selected managers from those Area Offices then acted as instructors and subject matter experts for the remaining 13 Area Offices. Approximately 500 managers nationwide were trained in 33 classes during January and February 2004. The training classes covered the Consultation Initiative through 7 instructional modules administered over a 3-day period. The topics of instruction included the goals of the Consultation Initiative, scheduling

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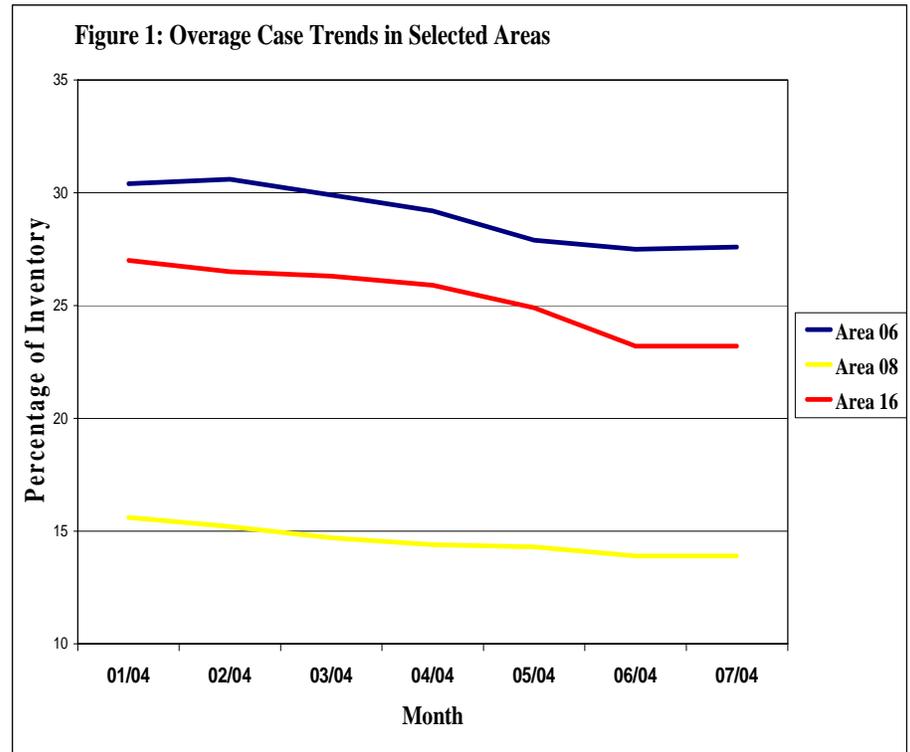
Overage Inventory Has Declined Slightly Since the Introduction of the Consultation Initiative

consultations using the ENTITY, and consultation documentation requirements. Generally, managers we interviewed evaluated the training they received positively. We attended two of the training sessions and determined that the training was appropriate and beneficial.

The Consultation Initiative was designed to prevent long lapses in case activity and increase turnover of cases in revenue officer inventory, with the goal of ultimately reducing the occurrence of overage Collection function cases. The design of the Initiative emphasized conducting consultations on older cases at the outset of the Initiative. While it was expected that managers consult on all eligible cases in Collection function inventory within the first 60 days of the Initiative, all eligible cases over 180 days old were scheduled for consultation within the first 30 days of the Initiative.

Figure 1 shows that business measures used by the IRS to monitor Collection function data trends reflect a slight decline in the percentage of overage CFf cases in inventory involving delinquent taxpayer accounts or investigations since the beginning of Calendar Year 2004 in the three Area Offices we reviewed. However, due to the sometimes slow nature of Collection function inventory turnover, the true effects of the Consultation Initiative cannot yet be fully evaluated. Many cases we reviewed, for example, had been in process for some time; thus, initial casework had not been through the complete consultation process. Until Collection function cases have undergone the entire consultation process, business results measuring data trends will not capture the full effects of the Consultation Initiative.

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Source: SB/SE Division Compliance Area Offices 06, 08, and 16 FY 2004 Enterprise Field Collection Fiscal Year Reports.

Similarly, an ongoing review by management of the impact of the Consultation Initiative on case quality using the Collection Quality Management System⁶ (CQMS) has yet to yield any definitive trends. This review began in January 2004 and was scheduled to provide results through September 2004. Long-term key business measures and case quality trend information are critical to the effective monitoring and reliable assessment of the Consultation Initiative.

Recommendation

1. The Director, Collection, SB/SE Division, should continue to measure the impact of the Consultation Initiative on both key business measures, including the

⁶ An analysis of closed Collection function cases reviewed for technical accuracy of case work, the results of which are used by IRS management to determine the strengths and weaknesses in the quality of work performed by Collection function employees.

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percentage of overage cases in Collection function inventory, and case quality using the CQMS.

Management's Response: Indicators are currently being identified to gather data generated from the CQMS and other sources. IRS management will continue to use indicators such as overage, management direct time, lack of case activity, and time involved from case receipt to closure to determine the effectiveness of the Consultation Initiative.

Consultation Effectiveness Could Be Improved by Ensuring Milestones Are Clearly Identified and Case Plans of Action Are Consistently Prepared

A primary component of the CFf Consultation Initiative is a determination by Collection function group managers and revenue officers of the next milestone that needs to be accomplished to resolve a particular case and an estimate of the completion date for this milestone. The next consultation should then be scheduled based on this date. Milestones include, for example, a levy, an account adjustment, or a determination that the account is not currently collectible. However, the procedures also allow the manager the flexibility of scheduling the follow-up consultation at any time up to 120 days after the first consultation.

Another key element of case resolution is a plan of action, prepared by the revenue officer, outlining the manner in which the case will be resolved. IRS procedures require the revenue officer to prepare a plan of action whenever a case is not resolved on the first contact with the taxpayer.

We selected 115 consultation cases from the 3 Area Offices we visited. In 23 (20 percent) of the 115 consultations reviewed, the next milestone was unclear and/or the case did not have a current plan of action at the time of the consultation. In addition, although all the cases reviewed had a documented date for the next scheduled consultation, the estimated completion date of the next key milestone was generally not separately documented. The next consultation was scheduled within an average of 71 days in the cases we reviewed; however, 20 (17 percent) of the 115 cases had follow-up consultations scheduled 100 or more days later.

The documentation of milestones is supported by a menu within the ENTITY; however, managers did not always use the menu or clearly document the next milestones within the ENTITY in some other way. In addition, the milestone

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menu does not contain a provision or prompt to facilitate the documentation of expected completion dates for milestones selected.

The effectiveness of the Consultation Initiative could be weakened when a case milestone is not documented or the estimated completion date of the milestone is unclear. Not separately documenting the milestone completion date is especially problematic in cases for which the manager elects to establish a more lengthy follow-up consultation date.

Similarly, the Collection function case plan of action prepared by the revenue officer is a key element of effective management. Not having a current plan of action could create the risk that, instead of consulting with the group manager on planned actions, a revenue officer will simply rely on the group manager to direct case resolution.

Recommendations

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

2. Clarify existing procedures for conducting group manager case consultations to clearly indicate a requirement that both the estimated completion dates of milestones and the date of the next follow-up consultation be plainly documented in all cases. In addition, the feasibility of developing a provision to facilitate documentation of expected completion dates within the ENTITY milestone menu should be evaluated.

Management's Response: The Internal Revenue Manual (IRM) is being updated to instruct group managers to ensure initial consultations, follow-up consultations, and estimated completion dates of milestones are clearly documented on the ENTITY calendar.

The system for recording the reminder information for the Consultation Initiative on the Integrated Collection System (ICS)⁷ is scheduled for implementation in May 2005. The ICS will include an "Action Completion Date" field.

⁷ An automated system used to control and monitor delinquent cases assigned to revenue officers in the IRS field offices.

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3. Reemphasize existing procedures regarding the need for managers to document milestones and for revenue officers to timely prepare a plan of action whenever a Collection function case cannot be closed on the first contact.

Management's Response: Revenue officers were provided an update of the IRM which reemphasizes the need to maintain and update plans of action in their case histories. The IRM is also being updated to instruct group managers to ensure that revenue officers are determining and documenting action plans, setting deadline dates for taxpayers, as well as establishing specific target dates for actions. The group managers are instructed to clearly document the dates in their ENTITY calendar for referral during subsequent consultations.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service has taken effective steps to ensure the successful nationwide implementation of the Collection Field function (CFf)¹ Consultation Initiative.

To accomplish this objective we:

- I. Determined whether the CFf Consultation Initiative project office provided effective oversight to ensure the successful implementation of the CFf Consultation Initiative.
 - A. Reviewed the methodology used by the project office to monitor the progress of the implementation and ensure any ongoing problems were timely identified and surfaced for action.
 - B. Ascertained whether timely and comprehensive training regarding the CFf Consultation Initiative was provided to the CFf group managers nationwide.
- II. Ascertained whether the CFf Consultation Initiative was implemented as intended.
 - A. Interviewed four randomly selected group managers and two Territory² managers in each of three judgmentally selected Area Offices and determined whether they experienced any difficulties in implementing the CFf Consultation Initiative. Territories were selected randomly in order to infuse a more unbiased approach into case selection methodology. Selected Territories were chosen from among 13 Territories in the Detroit Area Office, 12 Territories in the Nashville Area Office, and 9 Territories in the Los Angeles Area Office.
 - B. Reviewed a judgmental sample of 115 cases with consultations, selected from the Detroit, Los Angeles, and Nashville Area Offices, and determined whether case milestones were developed and estimated completion dates were established during the consultations. We used judgmental sampling for both Steps II.A. and II.B. to allow for the early, onsite review of recently completed consultations within the constraints of the staggered implementation of the Consultation Initiative and our available staffing. There were 36,633 taxpayers with delinquent accounts and 16,267 taxpayers with delinquent return investigations assigned to the 3 selected Area Offices at the time we began our onsite reviews.

¹ The CFf is located in the Area Offices and consists of revenue officers who personally contact taxpayers to collect delinquent accounts or secure unfiled returns. The Small Business/Self-Employed (SB/SE) Division Compliance Field function is geographically organized into 15 Area Offices serving taxpayers nationwide and 1 Area Office serving international taxpayers.

² The 16 SB/SE Division Compliance Field function Area Offices are further divided into geographically based Territories. Each of these Territories is headed by a Territory manager.

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- III. Determined whether a reliable measurement process was developed to evaluate the effectiveness of the CFf Consultation Initiative process.
 - A. Analyzed the completeness and reliability of the measurement system developed to assess the impact of the CFf Consultation Initiative process on Collection function case quality and timeliness.
 - B. Determined whether the CFf Consultation Initiative project team established any short-term or long-term measures to help guide its evaluation of the impact of the CFf Consultation Initiative process.

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Appendix II

Major Contributors to This Report

Richard Dagliolo, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)

Parker F. Pearson, Director

Philip Shropshire, Director

Anthony J. Choma, Audit Manager

James S. Mills, Jr., Lead Auditor

James D. Dorrell, Senior Auditor

Seth Siegel, Auditor

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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Communications and Liaison, Small Business/Self-Employed Division
SE:S:CL
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S

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Appendix IV

Management's Response to the Draft Report



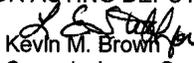
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

RECEIVED
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November 5, 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: 
Kevin M. Brown
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Implementation of the Collection Field Function Consultation Initiative Was Carefully Coordinated, but Some Aspects Could Be Enhanced (Audit # 200330040)

I have carefully reviewed the report and concur with the three recommendations. As stated in your report, the Collection Field function (CFf) Consultation Initiative is a product of the Small Business/Self-Employed (SB/SE) Division's Collection Reengineering effort. The Consultation Initiative was designed to improve CFf business results by preventing long lapses in case activity, resulting in quicker turnover of case inventory. We appreciate your acknowledgement of the positive trends resulting from this initiative.

In your summary statement you indicate the number of overage cases in three Area Offices reviewed by your staff has decreased. We expect this result from all Areas, once the program has been in effect for a longer period of time. We also expect case cycle time will be reduced significantly. We are continuing to investigate additional metrics to determine the impact of the Consultation Program.

The Consultation Initiative was developed to establish an informal venue to discuss case actions and techniques to foster the achievement of our Balanced Measures. As you noted in your report, the Consultation Initiative has now been in practice since March of 2004; therefore, we will continue to monitor the progress of the program and consider modifications as warranted.

Our comments on your specific recommendations follow:

RECOMMENDATION 1

Continue to measure the impact of the Consultation Initiative on both key business measures, including the percentage of overage cases in Collection function inventory, and case quality using the Collection Quality Measurement System (CQMS).

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2

CORRECTIVE ACTION

Indicators are currently being identified to gather data generated from Collection Activity Reports (CAR), CQMS, and Area data bases. We will continue to use indicators such as overage, management direct time, lack of case activity, and time involved from case receipt to closure to determine the effectiveness of the Consultation Process.

IMPLEMENTATION DATE

Completed

RESPONSIBLE OFFICIAL(S)

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

Clarify existing procedures for conducting group manager case consultations to clearly indicate a requirement that both the estimated completion dates of milestones and the date of the next follow-up consultation be clearly documented in all cases. In addition, the feasibility of developing a provision to facilitate documentation of expected completion dates within the Entity Case Management System (ENTITY) milestone menu should be evaluated.

CORRECTIVE ACTION

Internal Revenue Manual (IRM) 1.4.50.2.2.5, Consultative Process is being updated to instruct group managers to ensure initial consultations, follow-up consultations, and estimated completion dates of milestones are clearly documented on the ENTITY Calendar.

The system for recording the reminder information for the Consultative Initiative on the Integrated Collection System (ICS) is scheduled for implementation in May 2005. The ICS will include an 'Action Completion Date' field to be completed when the manager selects an 'Actual Case Resolution Plan' (CRP) and inputs a subcategory action to be taken.

IMPLEMENTATION DATE

December 15, 2004 (Issuance of Interim Guidance for IRM 1.4.50)
May 15, 2005 (Systemic updates for ENTITY)

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3

RESPONSIBLE OFFICIAL(S)

Director, Collection Policy and the Director, Collection Planning, Measures & Monitoring, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

Program Manager, General Payment & Process and Analysis and the Program Director, Collection Case Selection, will advise the Director, Collection Policy and Director, Collection Planning, Measures & Monitoring, of any delays.

RECOMMENDATION 3

Reemphasize existing procedures regarding the need for managers to document milestones and for revenue officers to timely prepare a plan of action whenever a Collection function case cannot be closed on the first contact.

CORRECTIVE ACTION

Revenue officers were provided an update of IRM 5.1.10 dated July 30, 2004 which re-emphasizes the need to maintain and update Plans of Action in their case histories. The IRM 1.4.50.2.2.5, Consultative Process, is being updated to instruct group managers to ensure that revenue officers are determining and documenting action plans, setting deadline dates for taxpayers as well as establishing specific target dates for actions. The group managers are instructed to clearly document the dates in their ENTITY Calendar for referral during subsequent consultations.

IMPLEMENTATION DATE

December 15, 2004

RESPONSIBLE OFFICIAL(S)

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

Program Manager, General Payment & Process and Analysis, will advise the Director, Collection Policy of any delays.

If you have any questions, please call me at (202) 622-0600, or Brady R. Bennett, Director, Collection, Small Business/Self-Employed Division at (202) 283-2610.