



*Appeals Has Made Considerable Progress
in Its Campus Centralization Efforts, but
Some Opportunities Exist for
Improvement*

February 19, 2010

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 19, 2010

MEMORANDUM FOR CHIEF, APPEALS

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Appeals Has Made Considerable Progress in Its Campus Centralization Efforts, but Some Opportunities Exist for Improvement (Audit # 200910017)

This report presents the results of our review to evaluate the effectiveness of actions taken by Office of Appeals (hereafter referred to as Appeals) management as a result of a prior Treasury Inspector General for Tax Administration (TIGTA) audit¹ evaluating the quality and effectiveness of Appeals centralized campus² operations and whether those actions resolved conditions previously identified. The Chief, Appeals, requested we initiate this followup review and it is part of our Fiscal Year 2009 Annual Audit Plan addressing the major management challenge of Providing Quality Taxpayer Service Operations.

Impact on the Taxpayer

The Appeals campus centralization was designed to resolve high volumes of work and focus on customer service and increase efficiency by responding to taxpayer issues earlier in the Appeals process. While Appeals has made considerable progress in achieving these goals and has taken corrective actions to address the recommendations made in our prior report, we believe additional improvement can be achieved in certain activities performed at the campuses to further enhance customer service and positively impact tax administration. We identified a few instances where actions can be taken to ensure taxpayer rights are protected, taxpayer burden is decreased, and Government revenue is protected. Continued focus in these areas will support

¹ *The Office of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality* (Reference Number 2007-10-071, dated May 10, 2007).

² The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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Appeals' goal of reducing the processing time of taxpayers' appeals, enhancing customer satisfaction, and improving the quality of work performed by Appeals personnel.

Synopsis

Since our last audit, Appeals management has made considerable progress in achieving their goals of improving customer service and increasing efficiency through campus centralization. Our case reviews showed Appeals has improved its process of notifying taxpayers before it contacted third parties, as well as offering taxpayers the option of a face-to-face hearing when applicable. We also found that excessive delays in contacting taxpayers on Penalty Appeal cases and Innocent Spouse claims have decreased significantly since our last review. In addition, Appeals management has revised their quality system to better measure the effectiveness of their campus centralization activities.

In the prior TIGTA review, we found that 1) taxpayers were not properly notified of their appeal rights during Innocent Spouse proceedings, 2) Appeals campus personnel did not always make the correct determination on Penalty Appeals and claims, and 3) taxpayers did not always receive timely acknowledgement of their appeal requests in Collection Due Process (CDP) and Offer in Compromise (OIC) cases.

In this review, we continued to find minor areas in which Appeals can continue to improve case processing at the campuses. Specifically, we selected statistical samples of cases closed by the campuses in Fiscal Year 2008 and found Appeals officers working Innocent Spouse claims did not properly notify the nonrequesting spouse when that individual is deceased.

In addition, we previously reported that Appeals did not always make correct determinations when taxpayers filed claims for refunds and requested penalty abatements. In this review, we determined that Appeals has continued to issue a small number of refunds to taxpayers in error. Although we identified significant improvement by Appeals in processing requests for penalty abatements, campus personnel should improve case documentation for penalty abatement cases to clearly document the justification for abatements during the appeal process.

In our prior review, we identified that taxpayers did not always timely receive a Uniform Acknowledgement Letter (UAL) from Appeals acknowledging receipt of CDP and OIC cases by campus personnel. Based on our review of a statistically valid sample of CDP and OIC cases closed in Fiscal Year 2008, we determined that Appeals is still not timely acknowledging receipt of CDP and OIC appeals. Specifically, while Appeals has improved in acknowledging OIC cases, for CDP cases, there were increased delays in acknowledging these cases since our last review. These actions could result in denial of taxpayer rights and entitlements, loss of revenue for the Federal Government, and increased taxpayer burden.



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Recommendations

We recommended the Chief, Appeals, take the following actions: 1) develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased; 2) issue reminders to employees to emphasize how statute of limitation dates should be determined for refund claims and the requirement to properly document in the Appeals Case Memo the reason for abating penalties; and 3) develop an internal control, possibly using programming changes made as a result of a prior TIGTA recommendation, which would identify the absence of the UAL on CDP and OIC cases and ensure one is issued within 30 calendar days of receipt as required by Appeals management.

Response

Appeals management agreed with all of our recommendations and outlined its planned corrective actions. Appeals management plans to 1) develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased; 2) remind employees how to determine the statute of limitation dates on refund claim cases; 3) update the Internal Revenue Manual to reinforce the need to document in the Appeals Case Memo the basis for the decision when abating or partially abating the penalty; 4) develop templates that identify OIC and CDP nondocketed cases received within the preceding 30 calendar days which have no UAL issued to the taxpayer or representative, and provide training for the Appeals field managers to ensure understanding of the templates; and 5) update the Internal Revenue Manual with the responsibility and use requirements of the UAL reports. Appeals field managers will monitor the timeliness of the UALs issued on nondocketed OIC and CDP receipts. Management's complete response to the draft report is included as Appendix VIII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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Abbreviations

AQMS	Appeals Quality Measurement System
CDP	Collection Due Process
FY	Fiscal Year
IRS	Internal Revenue Service
OIC	Offer in Compromise
TIGTA	Treasury Inspector General for Tax Administration
UAL	Uniform Acknowledgement Letter



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Background

The Office of Appeals (hereafter referred to as Appeals) is an independent function within the Internal Revenue Service (IRS) whose mission is to settle tax disputes on a fair and impartial basis without litigation. Before the IRS Restructuring and Reform Act of 1998,¹ the majority of Appeals cases involved hearings for audit and penalty assessments or taxpayers who appealed to the courts. The volume of Appeals cases increased significantly after the IRS Restructuring and Reform Act of 1998 was enacted because it established appeal rights for Collection Due Process (CDP),² Offer in Compromise (OIC),³ and Innocent Spouse claims.⁴

In Fiscal Year (FY) 2004, Appeals centralized certain types of cases to address increasing inventories, improve customer service, and improve processing time (case cycle time). Appeals' case receipts have steadily increased over the past 3 years from 99,918 to 115,819.⁵

Prior to the centralization, Appeals cases were generally worked in the field office closest to the taxpayer. Under centralization, Appeals assigns cases to employees at the campus⁶ location which specializes in that type of case. At the campus, the Appeals or Settlement officer works with the taxpayer or their representative through correspondence and telephone contact rather than meeting face-to-face. However, if the taxpayer requests a face-to-face hearing, it is Appeals' policy to transfer the case from the campus to a field office near the taxpayer.

Appeals has centralized seven types of cases at six campus locations.⁷ FY 2005 was the first full year of operations for four of the six centralized campuses. Appendix VI shows the types of cases that were centralized at the campuses, the original campus sites, and the current campus sites.

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

² Taxpayers may appeal the first time a Notice of Federal Tax Lien is filed on a taxpayer and when the taxpayer receives a Final Notice of Intent to Levy.

³ Taxpayers who are unable to pay their tax liability in a lump sum or through an installment agreement may file an OIC.

⁴ By filing an Innocent Spouse claim, a taxpayer may be relieved of responsibility for paying tax, interest, and penalties if their spouse (or former spouse) improperly reported items or omitted items on a joint tax return.

⁵ See Appendix V for more information on case receipts.

⁶ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

⁷ Those locations are: Fresno, California; Covington, Kentucky; Brookhaven, New York; Philadelphia, Pennsylvania; Memphis, Tennessee; and Ogden, Utah.



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Appendix VII describes the types of cases currently worked by the campuses. As shown in Figure 1, since FY 2005, Appeals has become more efficient in five of the six work streams⁸ listed.

Figure 1: Appeals Case Cycle Time - Calendar Days

TYPE OF CASE	FY 2005	FY 2006	FY 2007	FY 2008
CDP	242	242	228	198
OIC	239	231	203	177
Innocent Spouse	425	317	208	228
Penalties	117	119	111	132
Examination ⁹	374	339	289	261
Other ¹⁰	241	225	150	71

Source: Appeals Business Performance Reviews dated December 17, 2007, and November 14, 2008.

We previously performed a review to evaluate the quality and effectiveness of Appeals centralized campus operations and issued an audit report in May 2007.¹¹ We identified several issues and made six recommendations. Specifically, Appeals was not monitoring the quality of work performed within the campuses in a statistically valid manner. Further, Appeals did not always offer taxpayers face-to-face hearings and some campus employees made incorrect determinations. In addition, some taxpayers were not provided the proper notifications in some Innocent Spouse claims. We also identified delays and long periods of inactivity when the campuses processed some Penalty Appeal cases and Innocent Spouse claims.

The Chief, Appeals, requested that we initiate this followup review of the campus locations to determine if the corrective actions taken by Appeals management were effective to address the conditions identified in the prior audit. We reviewed five work streams: CDP, OIC, Innocent Spouse, Penalty Abatement Requests, and Non-Docketed claims.¹²

This review was performed at the National Headquarters of the Office of Appeals in Washington, D.C., and at the Office of Appeals in Denver, Colorado, during the period April through September 2009. We conducted this performance audit in accordance with

⁸ Work streams are specific types of cases which can be appealed including CDP, OIC, Innocent Spouse, Penalties, and Examination determinations.

⁹ Examination includes Examination Docketed, Non-Docketed, and S-Docketed cases. S-Docketed cases are those where the taxpayer has petitioned the Tax Court on audit assessments less than \$50,000.

¹⁰ Other includes Freedom of Information Act, Abatement of Interest, Collection Appeals, Office of Professional Responsibility, Other Penalties, and Miscellaneous cases.

¹¹ *The Office of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality* (Reference Number 2007-10-071, dated May 10, 2007).

¹² See Appendix VII for more information on the types of Appeals cases worked at the campuses.



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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.



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Results of Review

Appeals campus centralization was designed to resolve high volumes of work and focus on customer service and increase efficiency by responding to taxpayer issues earlier in the Appeals process. Appeals management also wanted to ensure that taxpayers understood the process and were apprised of their rights. Since our last audit, Appeals management has made considerable progress in achieving these goals through the campus centralization. Our case reviews showed Appeals has improved its process of notifying taxpayers before it contacted third parties, as well as offering taxpayers the option of a face-to-face hearing when applicable. Also, excessive delays in contacting taxpayers on Penalty Appeal cases and Innocent Spouse claims have decreased significantly since our last review. In addition, Appeals management has revised their quality system to better measure the effectiveness of their campus centralization activities.

While Appeals has made considerable progress and has taken corrective actions to address the recommendations made in our prior report, we believe additional improvement can be achieved in certain activities performed at the campuses to further enhance customer service and positively impact tax administration. We identified a few instances where actions can be taken to ensure taxpayer rights are protected, taxpayer burden is decreased, and Government revenue is protected. Specifically, decision letters were not always issued to the nonrequesting spouse on Innocent Spouse claims when the individual is deceased.¹³ In addition, Appeals can continue to improve its processing of Penalty Appeal cases to ensure campus personnel make the correct determination when abating penalties. Further, we noted that Appeals personnel are still issuing a small number of refunds in error. Finally, Appeals personnel are still not timely notifying taxpayers that their appeal has been received for CDP and OIC cases. Continued focus in these areas will support Appeals' goal of reducing the processing time of taxpayers' appeals, enhancing customer satisfaction, and improving the quality of work performed by Appeals personnel.

The Appeals Quality Measurement System's Sampling Methodology Has Been Revised to Better Measure the Quality of Campus Operations

The Appeals Quality Measurement System (AQMS) is the primary tool used to measure the quality of casework performed by Appeals and Settlement officers. To assess quality, the AQMS randomly selects a sample of all closed cases in the Appeals Centralized Database System. Appeals management uses the information from the AQMS to assess how well it is

¹³ A decision letter advises the nonrequesting spouse of Appeals' decision regarding the requesting spouse's claim for relief from joint and several liability under Internal Revenue Code Section 6015.



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performing as an organization, not as a gauge of individual performance. Some of the areas reviewed include the timeliness of case resolution, how well Appeals communicates with its customers, and adherence to legal and procedural guidelines.

In the prior review, we found that Appeals did not have sufficient detailed information to determine if areas of improvement were needed specifically in the campuses or in the field offices. This occurred because the AQMS selected samples from geographic areas, which included both campuses and field offices. At the conclusion of our review in FY 2007, we recommended that management revise the methodology used to select the samples of cases. During this review, we found that Appeals made changes to its sampling methodology and can now determine the overall quality of individual campuses. As a result, Appeals management has improved information to determine if centralizing operations at the campuses is reducing cycle time while maintaining the quality of its work.

However, Appeals management is not able to assess the quality of individual work streams at the campuses. Appeals management stated that a sampling approach for individual work streams would be optimal, but is cost prohibitive since it would require additional staffing to review the larger sample sizes for each work stream. Also, an estimated \$75,000 is needed to modify the programming on the Appeals Centralized Database System.

Although sampling by work stream is not currently feasible, Appeals management stated they are planning to further refine the AQMS sampling methodology to select two separate samples: a collection¹⁴ and a noncollection¹⁵ sample for each Area location.¹⁶ This differentiation will provide better information to Appeals management and help them identify where improvements are needed within these case types. In August 2009, Appeals submitted a work request to revise its programming and anticipates the revised sampling methodology will be installed on its centralized database by FY 2011.

Excessive Delays in Contacting Taxpayers for Penalty Appeal Cases and Innocent Spouse Claims Have Decreased, but Contacts Could Be Timelier

Timely service continues to be important to taxpayers. A FY 2005 Appeals Customer Satisfaction Survey found that taxpayers believed it took too long to hear from Appeals and the length of the Appeals process was too long. This trend continues as these areas were also rated the lowest in a FY 2008 Appeals Customer Satisfaction Survey. Currently, Appeals is required

¹⁴ Collection cases include OIC and CDP.

¹⁵ Noncollection cases include appeals of Innocent Spouse and Examination determinations.

¹⁶ The Appeals organization is divided into two geographic field operations (East and West). Both East and West operations are divided into Area Offices. An Area Office is a geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.



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to contact taxpayers within 30 calendar days; however, there are no additional requirements for subsequent contacts.

The prior Treasury Inspector General for Tax Administration (TIGTA) review found that there were excessive delays (exceeding 6 months) in contacting taxpayers on Penalty Appeal cases and Innocent Spouse claims. As a result of the prior TIGTA report, Appeals analyzed systemic data to identify and address Penalty Appeal cases and Innocent Spouse claims before they became over-age. In addition, Appeals flowcharted the processes to identify areas where the case cycle time could be reduced.

We determined that Appeals has improved its case processing to ensure taxpayers are subsequently contacted in a timelier manner after Appeals initially acknowledges their Penalty Appeals and Innocent Spouse claims. Specifically, our sample of 58 Penalty Appeal cases closed by the campuses in FY 2008 identified only 1 case where Appeals took more than 6 months from the date the Uniform Acknowledgement Letter (UAL, or initial contact letter) was issued to subsequently contact the taxpayer. In addition, our sample of 57 Innocent Spouse claims closed by the campuses in FY 2008 found the Appeals Officers subsequently contacted the taxpayers less than 7 months after the initial contact letter was sent. Although this is an improvement since our last audit, we continue to believe that taxpayers should be contacted in a timelier manner. Appeals management indicated that high inventories have contributed to delays in contacting taxpayers.

No Inappropriate Contacts With Third Parties Were Identified and Taxpayers Were Provided With the Option of a Face-to-Face Hearing

In the prior TIGTA review, we identified that Appeals was not notifying taxpayers when third-party contacts were made or adequately informing taxpayers of their option of a face-to-face hearing. In this review, we selected statistical samples of cases closed by the campuses in FY 2008 and found no instances of inappropriate third party contacts. In addition, Appeals personnel appropriately informed taxpayers of their option of a face-to-face hearing in the cases we reviewed.

Taxpayers were notified before the IRS contacted third parties

The IRS is required to provide reasonable notice to taxpayers prior to contacting third parties when it is necessary to resolve a taxpayer's case.¹⁷ For example, the IRS may need to contact third parties such as financial institutions, mortgage companies, or the taxpayer's neighbors to

¹⁷ Section 3417 of the IRS Restructuring and Reform Act of 1998 revised Internal Revenue Code Section 7602(c) (2007) to require that IRS employees provide taxpayers with notice of contact of third parties. Under this section, the IRS must provide taxpayers with prior notification that third parties may be contacted during the determination or collection of that specific taxpayer's Federal tax liability.



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resolve a collection case. When third-party contact is necessary, the case file must be documented accordingly.

The prior TIGTA report identified instances where Appeals employees did not follow policies and procedures for third-party contacts. In one case, Appeals personnel communicated with a third party, but the taxpayer was not properly notified prior to the contact. In another case, Appeals personnel made repeated contacts with an individual who was not authorized to represent the taxpayer in an Appeals hearing.¹⁸ As a result, Appeals revised the Internal Revenue Manual¹⁹ to clarify requirements in this area. In this review, we found that Appeals employees followed the proper procedures when contacting third parties. Specifically, we sampled 58 CDP cases closed by the campuses and found no inappropriate contacts with third parties.

Taxpayers were offered face-to-face hearings

All of the Appeals work streams require that a UAL be sent to taxpayers. The prior TIGTA review found the UAL issued on OIC, Innocent Spouse, and Non-Docketed hearing requests did not provide the taxpayers with an explicit statement explaining they have the option to request a face-to-face hearing.

As a result of the prior TIGTA report, Appeals revised the UAL to explicitly inform taxpayers of their option of a face-to-face hearing. This revised letter was available electronically on November 29, 2007. We sampled OIC, Innocent Spouse, and Non-Docketed cases closed by the campuses in FY 2008 and determined that those cases with a UAL issued after November 29, 2007, provided the taxpayer with the option of a face-to-face hearing. In addition, we analyzed Appeals Centralized Database System information and found 12,837 taxpayers were issued a UAL on OIC, Innocent Spouse, and Non-Docketed cases between November 29, 2007, and September 30, 2009. Due to our prior recommendation and Appeals management's corrective actions, these taxpayers' right of requesting a face-to-face hearing was protected.

Additional Actions Can Be Taken to Improve Case Quality and Customer Service

In the prior TIGTA review, we found that 1) taxpayers were not properly notified of their appeal rights during Innocent Spouse proceedings, 2) Appeals campus personnel did not always make the correct determination on penalty appeals and claims, and 3) taxpayers did not always receive timely acknowledgement of their appeal requests in CDP and OIC cases.

¹⁸ Taxpayers who want someone to represent them before the IRS on a Federal tax matter must file Power of Attorney and Declaration of Representative (Form 2848). The taxpayer's representative must be a person authorized to practice before the IRS.

¹⁹ The Internal Revenue Manual is the single official source for IRS policies, directives, guidelines, procedures, and delegations of authority in the IRS.



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In this review, we continued to find minor areas in which Appeals can continue to improve case processing at the campuses. Specifically, we selected statistical samples of cases closed by the campuses in FY 2008 and found Appeals officers working Innocent Spouse claims did not properly notify the nonrequesting spouse when that individual is deceased. In addition, Appeals case files did not always adequately support penalty abatements and taxpayers are still not being timely notified that their appeal has been received on CDP and OIC cases. These actions could result in denial of taxpayer rights and entitlements, loss of revenue for the Federal Government, and increased taxpayer burden.

Improvement is needed to ensure proper notification is sent during Innocent Spouse proceedings when the nonrequesting spouse is deceased

By law, both persons who file a joint tax return are legally responsible for the entire tax liability; however, taxpayers may request relief through Innocent Spouse provisions.²⁰ If the IRS grants full or partial relief to the requesting spouse, the nonrequesting spouse can file a protest and receive an administrative conference with Appeals.²¹ In addition, if either the requesting or nonrequesting spouse disagrees with the IRS determination, either spouse may file an appeal.

Appeals established procedures to notify both the requesting and nonrequesting spouses about the status and final disposition of the Innocent Spouse claim. For example, Appeals is required to acknowledge the requesting spouse's request within 30 calendar days of receipt and will also issue a Notice of Final Determination at the conclusion of the hearing. In addition, Appeals is required to send certain notifications to the nonrequesting spouse, including a conference letter and a final Decision Letter, if Appeals proposes to grant additional relief to the requesting spouse. In the prior TIGTA review, we identified Innocent Spouse claims for which Appeals did not provide proper notification to either the spouse who appealed or to the nonrequesting spouse. More specifically, Appeals did not always send initial contact letters to the taxpayer who filed the claim, final determination letters to both the requesting and nonrequesting spouse, or an initial contact letter to the nonrequesting spouse to allow him or her the opportunity to participate in the proceedings.

In this review, we selected a statistically valid sample of 57 Innocent Spouse claims closed by the campuses in FY 2008 and found that Appeals properly issued the initial contact letter or made telephone contact with the taxpayer who filed the claim. In addition, Appeals properly provided the requesting spouse with a final determination letter.

However, some taxpayers were not sent a final determination or conference letter²² due to the lack of guidance for deceased taxpayers. In 6 of the 57 sample cases reviewed, Appeals did not

²⁰ Internal Revenue Code Section 6015 (2007).

²¹ Revenue Procedure 2003-19.

²² Conference letters sent to a nonrequesting spouse notify the taxpayer of his or her right to participate in the appeal requested by the requesting spouse.



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send the nonrequesting (deceased) spouse a final determination letter. Also, one of the six was not sent a conference letter. Appeals management agreed they need to establish guidance on handling Innocent Spouse claims when the nonrequesting spouse is deceased. During this review, Appeals stated it still has not established specific guidance on sending the nonrequesting spouse a conference or final determination letter if he or she is deceased. By not informing the individual resolving the deceased taxpayer's affairs of the Innocent Spouse proceedings, the IRS is not providing that individual the opportunity to participate in the appeal, if applicable. If we project the results to the population, there would be 336 taxpayers who did not receive a conference or final determination letter as required.²³

Recommendation

Recommendation 1: The Chief, Appeals, should develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased.

Management's Response: Appeals management agreed with our recommendation and plans to develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased.

Appeals campus personnel are still issuing some refunds in error and not always documenting the reason why penalties were abated

We previously reported that Appeals did not always make correct determinations when taxpayers filed claims for refunds and requested penalty abatements. In this review, Appeals has continued to issue a small number of refunds to taxpayers in error. In addition, we identified significant improvement by Appeals in processing requests for penalty abatements; however, campus personnel should improve case documentation for penalty abatement cases to clearly justify the reasons for abatements during the appeal process.

Taxpayers often file original or amended tax returns to claim a refund. However, taxpayers must file their claim for refund within set time periods (statute of limitations). Generally, a taxpayer may file a claim for refund within 3 years from the original due date of the return, including extensions, or within 2 years of payment, whichever is later. If the IRS rejects the taxpayer's claim for refund, the taxpayer may file an appeal. In the prior review, we identified three cases where the taxpayer's refund claims were allowed by Appeals in error. In this review, we identified 2 (3.5 percent) of 57 cases in which taxpayers were issued refunds because of a misinterpretation of the statute of limitations. The actual loss of revenue due to inappropriate refunds for the 2 cases was \$6,897. We estimate Appeals officers made 87 incorrect statute of limitations determinations in the campus operations for FY 2008.

²³ Based on 57 randomly selected Innocent Spouse claims closed by the campuses in FY 2008 with a 10 percent error rate, a precision rate of ± 6.5 percent, and a 90 percent confidence level.



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Penalties may be abated if a taxpayer establishes reasonable cause.²⁴ Appeals employees are generally required to prepare an Appeals Case Memo when they abate penalties. The Appeals Case Memo should outline the facts and circumstances of the case and the reason why the penalties should be abated. Because Appeals management has delegated the authority to abate certain penalties to Appeals officers, management often does not review the case file to determine if the decision to abate penalties is appropriate.

In the prior review, we identified 17 (31 percent) of 54 sampled cases for which the penalties were fully or partially abated in error. In these cases, the taxpayer had not exercised proper business care or had a previous history of penalties. As a result, Appeals revised the Internal Revenue Manual to provide clearer guidance in this area.

In this review, we sampled 58 Penalty Appeal cases and determined that documentation for 7 cases (12 percent) was either incomplete or did not support the decision to abate the penalties. For example, Appeals reduced a Federal Tax Deposit Penalty²⁵ from 10 percent to 5 percent but did not document the case file justifying the reduction of the penalty. Consequently, we question Appeals' decision to abate the penalty in this circumstance. The loss of revenue due to the inappropriate abatements for the 7 cases was \$28,918.

Without adequate documentation, Appeals cannot fully support its decision to abate penalties. This justification is important to ensure Appeals acted appropriately in these cases. If we project the results to the population, there would be 818 taxpayers who had penalties improperly abated during FY 2008.²⁶

Recommendation

Recommendation 2: The Chief, Appeals, should issue reminders to employees to emphasize:

- How statute of limitation dates should be determined for refund claims.
- The requirement to properly document in the Appeals Case Memo the reason for abating penalties. Specifically, the Appeals Case Memo should outline the facts and circumstances of the taxpayer's case along with justification for the penalty abatement.

Management's Response: Appeals management agreed with our recommendation and plans to remind employees how to determine the statute of limitation dates on refund claim cases. Appeals management also plans to update the Appeals Penalty Internal

²⁴ Reasonable cause relief is generally granted when the taxpayer exercises ordinary business care and prudence in determining their tax obligations but nevertheless is unable to comply with those obligations.

²⁵ The Failure to Deposit Penalty is charged for any failure to deposit correctly. The three components of a correct deposit are that it is made timely, in the correct amount, and in the correct manner.

²⁶ The sample was based on 58 randomly selected Penalty Appeal cases closed by the campuses in FY 2008 with a 12 percent error rate, a precision rate of ± 7 percent, and a 90 percent confidence level.



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Revenue Manual Section 8.11.1 to reinforce the need to document in the Appeals Case Memo the basis for the decision when abating or partially abating the penalty.

Appeals campus operations is still not always timely acknowledging receipt of CDP and OIC cases

In our prior review, we identified that taxpayers did not always timely receive a UAL from Appeals acknowledging receipt of CDP and OIC cases by campus personnel. Based on our review of a statistically valid sample of CDP and OIC cases closed in FY 2008, Appeals is still not timely acknowledging receipt of CDP and OIC appeals. Specifically, while Appeals has improved in acknowledging OIC cases, for CDP cases, there were increased delays in acknowledging these. Figure 2 summarizes the results found in this review.

Figure 2: Delays in Acknowledging Taxpayers' Appeals in FY 2008

Type of Error	Type of Case	Number of Closures	Sample Size	Length of Delay	Untimely Initial Response in Sample	Percentage Untimely	Total Estimated Untimely Initial Response
Untimely Initial Response	CDP	14,659	58	33-85 calendar days	18	31%	4,549
	OIC	4,041	57	33-50 calendar days	8	14%	567

Source: TIGTA review of a statistically valid sample of cases closed by Appeals' campuses in FY 2008.

The prior TIGTA review identified that Appeals was not always responsive to taxpayers when acknowledging receipt of their appeal or claim. That review found that 11 percent of the sampled CDP cases closed by the campuses had delays in issuing the UALs ranging from 30 to 90 calendar days after case assignment. This review identified 31 percent of the sampled CDP cases had delays in issuing the UALs ranging from 33 to 85 calendar days after case receipt in Appeals. If we project the results to the population, 4,549 taxpayers were potentially burdened because the UALs were not timely issued.²⁷

Previous Appeals procedures did not specify a time period in which the UAL must be sent to taxpayers for OIC cases. The prior TIGTA review identified that 42 percent of the sampled OIC cases had delays in issuing the UALs to taxpayers ranging from 30 to 300 calendar days after case assignment. This review identified 14 percent of the sampled OIC cases had delays in issuing the UALs ranging from 33 to 50 calendar days after case receipt in Appeals, which is a

²⁷ Based on 58 randomly selected CDP cases closed by the campuses in FY 2008 with a 31.03 percent error rate, a precision rate of ± 9.97 percent, and a 90 percent confidence level.



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marked improvement in the extent of the delays. If we project the results to the population, 567 taxpayers were potentially burdened because the UALs were not timely issued for OIC cases.²⁸

As a result of the prior TIGTA report, Appeals revised its procedures to require the issuance of the UAL within 30 calendar days of the case being received in Appeals. Appeals also revised programming and developed a monthly report to assess its compliance with the established requirement. Appeals management informed us they have decided to generate the report quarterly because they are satisfied with their compliance with the 30 calendar day time period. This report, whether generated monthly or quarterly, was not intended to be used as a control to identify cases in jeopardy of not meeting the 30 calendar day time period. Consequently, Appeals did not develop an internal control to identify cases at risk of not meeting their 30 calendar day requirement.

Recommendation

Recommendation 3: The Chief, Appeals, should develop an internal control, possibly using programming changes made as a result of a prior TIGTA recommendation, which would identify the absence of the UALs on CDP and OIC cases and ensure one is issued within 30 calendar days of receipt as required by Appeals management.

Management's Response: Appeals management agreed with our recommendation and plans to develop Appeals Centralized Database System AdHoc templates that identify OIC and CDP nondocketed cases received within the preceding 30 calendar days which have no UAL issued to the taxpayer or representative, and provide AdHoc training for the Appeals field managers to ensure understanding of the templates. The Appeals field managers will monitor the timeliness of UALs issued on nondocketed OIC and CDP receipts by generating the AdHoc templates within appropriate timeframes, and will take followup actions to ensure UALs are issued timely. Appeals will continue to monitor the UAL timeliness through the Quarterly UAL Tracking Report. Appeals management also plans to update Internal Revenue Manual Section 1.4.28 with the responsibility and use requirements of the UAL AdHoc reports.

²⁸ Based on 57 randomly selected OIC cases closed by the campuses in FY 2008 with a 14.04 percent error rate, a precision rate of ± 7.51 percent, and a 90 percent confidence level.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the effectiveness of actions taken by Office of Appeals (hereafter referred to as Appeals) management as a result of a prior TIGTA audit¹ evaluating the quality and effectiveness of Appeals centralized campus² operations and whether those actions resolved conditions previously identified. To accomplish our objective, we:

- I. Determined what actions have been taken by Appeals management in response to recommendations made in the prior review of Appeals' campus centralization.
 - A. Reviewed the actions taken by Appeals management to analyze and revise their methodology used to select statistically valid samples of cases closed by the campuses to measure and report on the quality of their casework.
 - B. Determined whether Appeals has provided updated guidance and training for Innocent Spouse claims, penalty abatement cases, and third-party contacts.
 - C. Determined whether Appeals updated the Internal Revenue Manual³ and sampled and reviewed refund claims to clarify procedures to assess whether proper decisions were being made on refund claims based on the statute of limitations.
 - D. Determined whether Appeals adopted consistent specific language in the UAL for Innocent Spouse, Non-Docketed, and OIC cases to ensure the taxpayer has a clear understanding of his or her options regarding a face-to-face appeals hearing.
 - E. Determined whether Appeals has revised its method of monitoring the aging of Penalty Appeal cases and Innocent Spouse claims so long periods of inactivity are promptly addressed.
 - F. Determined whether Appeals established a timeliness standard for issuance of UALs.
- II. Assessed the applicable Appeals campus work streams (CDP, Innocent Spouse, Non-Docketed, OIC, and Penalty Appeal) to determine whether the conditions identified in the prior audit continue to exist and whether the corrective actions were effective.

¹ *The Office Of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality* (Reference Number 2007-10-071, dated May 10, 2007).

² The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

³ The Internal Revenue Manual is the single official source for IRS policies, directives, guidelines, procedures, and delegations of authority in the IRS.



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- A. Obtained a computer extract of all closed campus cases for FY 2008 from the Centralized Database file maintained at the TIGTA Data Center Warehouse.
- B. Validated the reliability of the computer extract using the table descriptions from the Data Center Warehouse, reviewed the appropriateness of data within fields, and compared population totals to information obtained from Appeals officials.
- C. Selected statistically valid random samples from the five applicable work streams to evaluate the effectiveness of Appeals' corrective actions. The total sample of 287 cases was selected based on a confidence level of 90 percent, a precision rate of ± 6.5 percent, and an expected error rate of 10 percent. The samples were obtained from the total population of 31,136 cases closed by the campuses in FY 2008. Specifically, the 287 cases sampled for the work streams are as follows: 58 of the 14,659 CDP cases, 57 of the 4,041 OIC cases, 57 of the 3,195 Innocent Spouse claims, 58 of the 6,775 Penalty Appeal cases, and 57 of the 2,466 Non-Docketed cases closed in FY 2008.
- D. Discussed and obtained confirmation to the potential exceptions identified with Appeals officials.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Office of Appeals' policies, procedures, and practices for processing selected work streams in campus operations. We evaluated these controls by interviewing management and reviewing case files.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Jeffrey M. Jones, Director
Diana M. Tengesdal, Acting Director
Janice M. Pryor, Audit Manager
Joseph P. Smith, Lead Auditor
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Mary F. Herberger, Senior Auditor
Mildred Rita Woody, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Chief, Appeals AP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Appeals AP



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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 336 taxpayers may have had their rights violated because they did not receive proper notification from Appeals on Innocent Spouse claims (see page 7).

Methodology Used to Measure the Reported Benefit:

In 6 (10.53 percent) of the 57 sampled Innocent Spouse claims reviewed, Appeals did not send the final determination or conference letter to the nonrequesting spouse because he or she was deceased. Appeals campuses¹ closed a total of 3,195 Innocent Spouse appeals in FY 2008. We estimate that, potentially, 336 (3,195 x 10.53 percent error rate) of those cases may not have had the final determination or conference letter issued. Our review of 57 randomly selected Innocent Spouse claims for this attribute resulted in a 10.53 percent actual error rate and a ± 6.5 percent precision rate based on a 90 percent confidence level.

Type and Value of Outcome Measure:

- Protection of Revenue – Actual; \$6,897 was erroneously refunded due to inappropriate allowances of claims that were barred by the statute of limitations (see page 7).
- Protection of Revenue – Potential; 87 accounts with erroneous refunds that were barred by the statute of limitations (see page 7).

Methodology Used to Measure the Reported Benefit:

In 2 (3.51 percent) of the 57 sampled closed Non-Docketed campus cases, there were erroneous refunds on claims that were barred from refund because the statute of limitations had expired. These 2 cases resulted in the issuance of \$6,897 in erroneous refunds. Appeals campus groups closed a total of 2,466 Non-Docketed cases in FY 2008. We estimate that 87 (2,466 population x 3.51 percent error rate) accounts contained erroneous refunds. Our review of 57 randomly

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



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selected Non-Docketed cases for this attribute resulted in an actual error rate of 3.51 percent and a ± 3.96 percent precision rate based on a 90 percent confidence level.

Since our sample was based on a review of quality attributes, we did not project the potential dollars of revenue protected for the population of closed campus Non-Docketed cases.

Type and Value of Outcome Measure:

- Protection of Revenue – Actual; \$28,918 was not collected due to inappropriate abatements of post-assessment penalties for 7 taxpayers (see page 7).
- Protection of Revenue – Potential; 811 Penalty Appeal cases may have inappropriate abatements of post-assessment penalties resulting in potential lost revenue during FY 2008 (see page 7).

Methodology Used to Measure the Reported Benefit:

Penalties were erroneously abated in 7 (12.07 percent) of 58 post-assessment penalty cases closed by campus Appeals. The IRS could have protected assessments totaling \$28,918 for these 7 cases if agency criteria were followed, adequate research was conducted, and the case files contained documentation to support their determination. Appeals campuses closed a total of 6,775 post-assessment Penalty Appeal cases during FY 2008. We estimate that 818 (6,775 population x 12.07 percent error rate) of those cases could have erroneous penalty abatements (7 actual + 811 potential = 818). Our review of 58 randomly sampled cases for this attribute resulted in a 12.07 percent actual error rate and a ± 7.01 percent precision rate based on a 90 percent confidence level.

Since our sample was based on a review of quality attributes, we did not project the potential dollars of revenue protected for the population of campus Penalty Appeal cases.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 4,549 taxpayers may have experienced delays in the issuance of the UAL for CDP cases (see page 7).

Methodology Used to Measure the Reported Benefit:

As a result of the prior TIGTA audit,² Appeals added the requirement to issue the UAL within 30 calendar days of the date the case is received by Appeals. In 18 (31.03 percent) of the 58 sampled CDP cases, taxpayers experienced delays receiving the UAL. These taxpayers may have been unnecessarily burdened by not timely knowing the status of their Appeals request.

² *The Office Of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality* (Reference Number 2007-10-071, dated May 10, 2007).



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Appeals campuses closed a total of 14,659 CDP cases in FY 2008. We estimate that 4,549 taxpayers (14,659 population x 31.03 percent error rate) were potentially burdened when the UALs were not issued timely. Our review of 58 randomly selected CDP campus closures for this attribute resulted in an actual error rate of 31.03 percent and a ± 9.97 percent precision rate based on a 90 percent confidence level.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 567 taxpayers who requested an appeal of their rejected OIC may have experienced delays in the issuance of the UAL (see page 7).

Methodology Used to Measure the Reported Benefit:

As a result of the prior TIGTA audit, Appeals added the requirement to issue the UAL within 30 calendar days of the date the case is received by Appeals. In 8 (14.04 percent) of the 57 sampled OIC cases, taxpayers experienced delays receiving the UAL. Appeals campuses closed a total of 4,041 OIC cases in FY 2008. We estimate that 567 taxpayers (4,041 population x 14.04 percent error rate) were potentially burdened when the UALs were not issued timely. Our review of 57 randomly selected OIC campus closures for this attribute resulted in an actual error rate of 14.04 percent and a ± 7.51 percent precision rate based on a 90 percent confidence level.



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Appendix V

Appeals Case Receipts¹

Type of Case	FY 2005	FY 2006	FY 2007	FY 2008
CDP	29,810	32,517	30,938	35,760
OIC	14,934	10,462	10,797	10,558
Innocent Spouse	3,341	3,203	3,870	4,041
Penalties	13,703	11,930	9,864	10,365
Coordinated Industry Cases	552	453	371	398
Industry Cases	750	1,056	1,031	1,398
Examination ²	31,536	32,649	37,499	42,990
Other ³	5,292	4,868	7,899	10,309
TOTAL	99,918	97,138	102,269	115,819

Source: Appeals Business Performance Reviews dated December 17, 2007, and November 14, 2008.

¹ Includes both campus and field cases. Campus cases are worked in a centralized environment that specializes in certain case types. Field cases are worked in local offices closest to the taxpayer.

² Examination cases also include those involving the Tax Exempt and Government Entities Division and those can be broken down further to Non-Docketed, Docketed, and S-Docketed. S-Docketed cases are those where the taxpayer has petitioned the Tax Court on audit assessments less than \$50,000.

³ Other includes Freedom of Information Act, Abatement of Interest, Collection Appeals, Office of Professional Responsibility, Other Penalties, and Miscellaneous cases.



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Appendix VI

Appeals Centralized Campuses¹

Type of Case	Original Campus	Date of Initial Centralization	Current Campus As of September 18, 2008
CDP	Fresno Memphis	October 2004 September 2005	Fresno Memphis
OIC	Brookhaven Memphis	December 2003 April 2005	Brookhaven Memphis
Innocent Spouse	Covington Memphis	October 2003 April 2005	Covington Memphis
Penalties	Ogden	September 2004	Ogden Brookhaven Memphis
Non-Docketed Examination	Fresno Ogden Philadelphia ²	February 2004 November 2005 1988	Fresno Ogden Philadelphia Brookhaven Memphis
S-Docketed Examination	Brookhaven Fresno Philadelphia ³	June 2005 February 2004 1988	Brookhaven Fresno Philadelphia Memphis Ogden
Freedom of Information	Fresno	February 2004	Fresno

Source: The Office of Appeals Needs to Improve the Monitoring of Its Campus Operations Quality (Reference Number 2007-10-071, dated May 10, 2007) and Director of Technical Services, Appeals.

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² Philadelphia only processes Non-Docketed Examination cases that originated in the Philadelphia Campus.

³ Philadelphia only processes S-Docketed cases that originated in the Philadelphia Campus.



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Appendix VII

Types of Cases Worked at the Campuses¹

Case Type	Description
CDP	The IRS is required to notify taxpayers in writing that a lien ² has been filed or that it intends to levy. ³ A taxpayer is allowed to appeal a lien or levy action through the CDP by filing a hearing request.
OIC	An OIC is an agreement between a taxpayer and the IRS that resolves the taxpayer's tax debt. The IRS has the authority to settle, or "compromise," Federal tax liabilities by accepting less than full payment under certain circumstances. When the IRS rejects a taxpayer's OIC, the taxpayer may appeal.
Innocent Spouse	A husband and wife are generally liable jointly and individually for the entire tax on a joint return. The IRS may collect the entire amount of tax, penalties, and interest due on a joint return from either spouse. However, the IRS Restructuring and Reform Act of 1998 made substantial changes to the tax law by including provisions to allow expanded relief for married taxpayers from the burden of tax liability. Taxpayers who have requested relief and disagree with the IRS' decision may file a Statement of Disagreement (Form 12509) ⁴ and elect to forward the claim to Appeals or file a petition with the Tax Court.
S-Docketed Examination	These are examination audit assessments less than \$50,000 and the taxpayer petitioned the Tax Court.

¹ The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim, commonly referred to as a lien, to the taxpayer's assets.

³ The IRS has the authority to work directly with financial institutions and other parties to obtain funds owed by a taxpayer. This process is commonly referred to as a levy.

⁴ This form is used to explain why taxpayers disagree with the IRS determination concerning relief from joint and several liability for a joint return under Internal Revenue Code Sections 6015(b), 6015(c), or 6015(f) (2007).



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Case Type	Description
Penalty Appeal	Penalties are effective tools used by the IRS to encourage voluntary tax compliance. The IRS may request payment from a taxpayer for some types of penalties before the taxpayer has an opportunity to dispute the penalties. These are considered post-assessment penalties. ⁵ Taxpayers who disagree with these post-assessment penalties can choose to protest the penalty through an appeal.
Non-Docketed Examination	Non-Docketed examination cases are those in which the taxpayer has not filed a petition in the United States Tax Court. If the IRS identifies a deficiency on a taxpayer's return, the IRS will send the taxpayer a letter, accompanied by the Revenue Agent's Report, which gives the taxpayer 30 calendar days to request an Appeals conference. If the taxpayer does not request an Appeals conference, then the IRS will send the taxpayer a Notice of Deficiency. If the taxpayer files a petition with the Tax Court and has not had an Appeals conference, the IRS will send the case to Appeals to investigate a possible settlement.
Freedom of Information	Whenever a Freedom of Information Act request is denied, the requester has the right to appeal the denial. A requester may appeal the withholding of a document, the denial of a fee waiver request, the type or amount of fees that were charged, or any other type of adverse determination under the Freedom of Information Act. A requester can also appeal because the IRS failed to conduct an adequate search for the documents that were requested. However, a requester may not file an administrative appeal for the lack of a timely response.

⁵ Post-assessment penalties include the failure to pay tax penalty and the failure to file penalty under Internal Revenue Code Section 6651 (2007).



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Appendix VIII

Management's Response to the Draft Report



CHIEF, APPEALS

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

January 25, 2010

RECEIVED
JAN 28 2010
BY: DAS

MEMORANDUM FOR MICHAEL R. PHILLIPS
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Diane S. Ryan 
Chief, Appeals

SUBJECT: Response to Draft Report – Audit # 2009-10-017
Appeals Has Made Considerable Progress in Its
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Opportunities Exist for Improvement

I have reviewed the subject draft audit report and appreciate your efforts in evaluating the quality of the Appeals centralized campus operations. Appeals requested this follow-up review as TIGTA conducted the initial audit during the start up phase of our campus centralization. Our campus operations have matured and we have gained experience and continued to improve over time. We asked you to determine if the corrective actions we took effectively addressed the conditions you identified. We value your input into how we can further improve the effectiveness of our campus operations and concur with your current findings and recommendations.

You recognized that we improved our AQMS sampling method and that we are now able to assess results at individual campuses. We are further refining our sampling method to select two separate samples, collection and non-collection. This change will result in more meaningful data and will help management to focus on individual improvement opportunities.

We appreciate that you recognized the considerable progress we have made in notifying taxpayers before we contacted third parties, as well as offering taxpayers the option of a face-to-face hearing when applicable. We are also pleased that you acknowledged the significant decrease in delay in contacting taxpayers on Penalty Appeals cases and Innocent Spouse claims.

Attached is a detailed response outlining our planned corrective actions to address your recommendations. If you have any questions, please contact me at (202) 435-5600.

Attachment



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Attachment

RECOMMENDATION 1:

The Chief, Appeals should develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased.

PROPOSED CORRECTIVE ACTION:

Appeals will develop procedural guidance for the proper notification of Innocent Spouse proceedings when the nonrequesting spouse is deceased.

IMPLEMENTATION DATE: September 15, 2010

RESPONSIBLE OFFICIAL: Director, Policy & Valuation

CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy and Procedure (Exam), will inform the Director, Policy & Valuation of any delays in implementing this corrective action

RECOMMENDATION 2:

The Chief, Appeals should issue reminders to employees to emphasize:

- How statute of limitation dates should be determined for refund claims.
- The requirement to properly document in the Appeals Case Memo the reason for abating penalties. Specifically, the Appeals Case Memo should outline the facts and circumstances of the taxpayer's case along with justification for the penalty abatement.

PROPOSED CORRECTIVE ACTION 2a:

Appeals will remind employees how to determine the statute of limitation dates on refund claim cases.

IMPLEMENTATION DATE: September 15, 2010

RESPONSIBLE OFFICIAL: Director, Policy & Valuation

CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy and Procedure (Exam), will inform the Director, Policy & Valuation of any delays in implementing this action.



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PROPOSED CORRECTIVE ACTION 2b:

Appeals will update the Appeals Penalty IRM 8.11.1 to reinforce the need to document in the Appeals Case Memorandum the basis for the decision when abating or partially abating the penalty.

IMPLEMENTATION DATE: June 15, 2010

RESPONSIBLE OFFICIAL: The Director, Tax Policy and Procedure (Exam), will inform the Director, Policy & Valuation of any delays in implementing this action.

RECOMMENDATION 3:

The Chief, Appeals should develop an internal control, possibly using programming changes made as a result of a prior TIGTA recommendation, which would identify the absence of the UALs on CDP and OIC cases and ensure one is issued within 30 calendar days of receipt as required by Appeals management.

PROPOSED CORRECTIVE ACTION 3a:

Appeals will develop Appeals Centralized Database System AdHoc templates that identify OIC and CDP nondocketed cases received within the preceding 30 calendar days, which have no Uniform Acknowledgement Letter (UAL) issued to the taxpayer or representative and provide AdHoc training for the Appeals field managers to ensure understanding of the templates. The Appeals field managers will monitor the timeliness of UALs issued on nondocketed OIC and CDP receipts by generating the AdHoc templates within appropriate timeframes and will take follow-up actions to ensure timely UALs are issued.

Appeals will continue to monitor the UAL timeliness through the Quarterly UAL Tracking Report.

IMPLEMENTATION DATE: June 15, 2010

RESPONSIBLE OFFICIALS: Directors, Field Operations East and West

CORRECTIVE ACTION MONITORING PLAN: The Senior Operations Advisors East and West will inform the Directors, Field Operations East and West of any delays in implementing this action

PROPOSED CORRECTIVE ACTION 3b:

Appeals will update IRM 1.4.28 with the responsibility and use requirements of the UAL AdHoc reports.



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IMPLEMENTATION DATE: September 15, 2010

RESPONSIBLE OFFICIAL: Director, Appeals Policy & Valuation

CORRECTIVE ACTION MONITORING PLAN: The Director Tax Policy and Procedure (Collection and Processing) will inform the Director, Appeals Policy and Valuation of any delays in implementing this action.