TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands

May 6, 2011

Reference Number: 2011-30-039

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

CHALLENGES REMAIN TO BALANCE REVENUE OFFICER STAFFING WITH ATTRITION AND WORKLOAD DEMANDS

Highlights

Final Report issued on May 6, 2011

Highlights of Reference Number: 2011-30-039 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Revenue officers (RO) comprise one of the core competencies of the Internal Revenue Service (IRS) and have a direct impact on its ability to meet its mission by collecting the correct amount of tax due. The Small Business/Self-Employed (SB/SE) Division added 1,515 new ROs during a nine-month period, but still faces challenges to keep pace with attrition and workload. If the IRS does not have a sufficient number of qualified ROs to collect delinquent taxes, it could create an unfair burden on the majority of taxpayers who fully pay their taxes on time.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the SB/SE Division effectively implemented the RO hiring initiative. The audit was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Human Capital.

WHAT TIGTA FOUND

The SB/SE Division RO hiring initiative added 1,515 new ROs throughout the country between June 2009 and February 2010. The methodology to assign the new ROs effectively placed them in the Collection areas with the greatest need. In addition, the ROs were assigned adequate work, and the field offices were prepared with office space and equipment.

However, the IRS faces challenges to maintain the number of ROs due to attrition and an increasing inventory. Although 1,515 ROs were hired over a nine-month period, the net increase was only 580 ROs. Also, the IRS estimates planned hiring in Fiscal Years 2011 and 2012 will barely cover attrition losses. Meanwhile, the percentage of delinquent accounts closed has steadily decreased because of increasing inventory.

A key element of effective workforce planning is determining the size of the workforce needed to meet organizational goals and identifying gaps between current and future workforce needs. However, when estimating staffing levels of ROs, the IRS does not determine the number needed to address the available workload. Instead, the RO staffing level is estimated based primarily on a budget figure. The IRS believes there is more than enough inventory to justify staffing increases. However, the IRS does not know when hiring additional ROs will no longer be effective.

The IRS's Fiscal Year 2009 budget justification projected the RO hiring initiative would allow 88,000 additional delinquent account closures, resulting in $333.6 million additional revenue in Fiscal Year 2011. However, the IRS does not compare actual results to the original projections, as would be consistent with guidance from the Office of Management and Budget. As a result, it is unknown if the IRS realized all or part of the additional revenue, and the IRS lost an opportunity to collect information that could help improve future budgets.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Enterprise Collection Strategy, SB/SE Division, establish rules for optimizing staffing levels for ROs to address Collection's potentially collectible inventory and the Director, Collection, SB/SE Division, develop methods to track actual results with projected benefits in future budget justifications.

The IRS agreed with our recommendations and plans to review Collection workload and resource levels to improve future resource allocation and staffing decisions. IRS officials also stated they initiated efforts last year to determine actual revenue collected from specific enforcement initiatives proposed in Fiscal Year 2009. However, this information was not shared with TIGTA during the review. As a result, TIGTA did not assess whether these efforts address the recommendation.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 6, 2011

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Challenges Remain to Balance Revenue Officer Staffing With Attrition and Workload Demands (Audit # 201030015)

This report presents the results of our review to determine whether the Collection function, Small Business/Self-Employed Division, effectively implemented the Fiscal Years 2009 and 2010 revenue officer[1] hiring initiative. The review was conducted as part of our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Human Capital.

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

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

Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

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[1] See Appendix V for a glossary of terms.

Table of Contents

Abbreviations

CFf	Collection Field Function
FY	Fiscal Year
GAO	Government Accountability Office
IRS	Internal Revenue Service
OJT	On-the-Job Training
RO	Revenue Officer
SB/SE	Small Business/Self-Employed
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation

Background

The revenue officer[1] (RO) position represents a mission-critical occupation because it comprises one of the unique core competencies of the Internal Revenue Service (IRS) and has a direct impact on the IRS's ability to meet its mission by collecting the appropriate amount of tax due. The Small Business/Self-Employed (SB/SE) Division RO hiring initiative added over 1,500 new ROs in 3 waves between June 2009 and February 2010. This significant number of new employees is equivalent to 38 percent of the 4,002 ROs who were on staff before the first wave began. The addition of these new employees required the IRS to provide them with office space and equipment[2] and to assign experienced employees to assist with their training.

The IRS hired over 1,500 new ROs between June 2009 and February 2010.

As part of the Department of the Treasury's budget request, the IRS submits a budget justification. The budget justification gives Congress and the Office of Management and Budget information about agency programs and budget activities, programs or projects within each budget activity, and the requested dollar and staffing levels for each budget activity and program. For Fiscal Year (FY) 2009, the IRS requested an approximate $45.1 million increase for collection activity, including the RO hiring initiative.

This review was performed in the Headquarters Office, SB/SE Division, in New Carrollton, Maryland, and the Collection Field function (CFf or Collection) offices in Phoenix, Arizona; Baltimore, Maryland; Las Vegas, Nevada; and Richmond, Virginia, during the period June through December 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[1] See Appendix V for a glossary of terms.
[2] Equipment includes laptop computers, wireless internet cards, camera cell phones, etc.

Results of Review

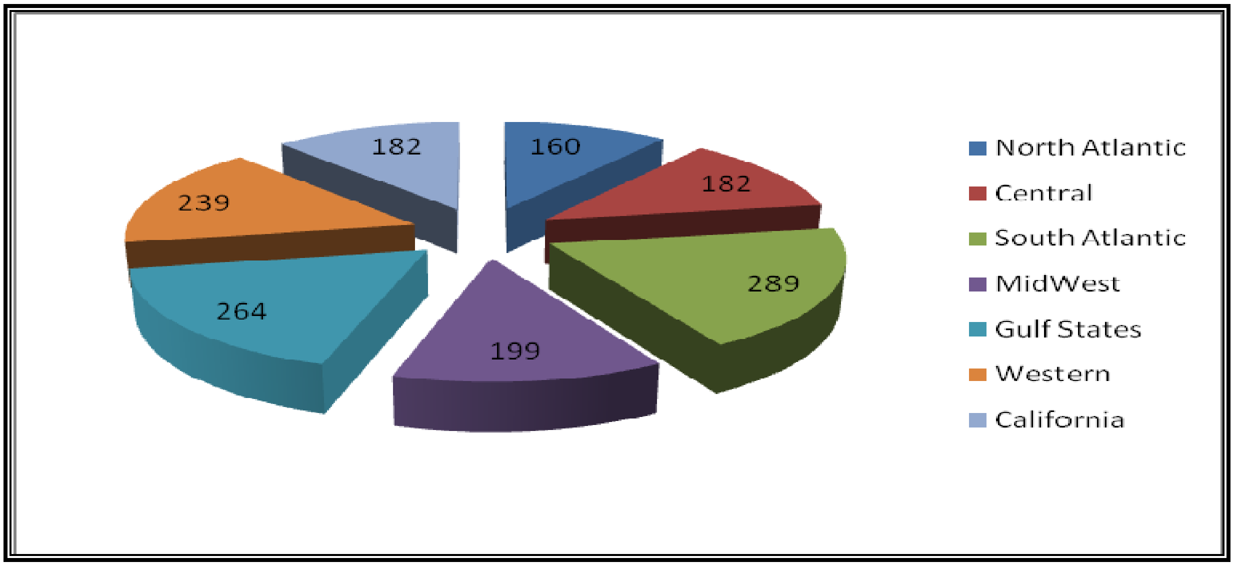
The Revenue Officer Hiring Initiative Was Effectively Implemented

The methodology to assign and place the new ROs in Collection areas with the greatest need was effective. Specifically, the assignment of the new ROs to each of the seven Collection areas was based on the following criteria:

- High- and medium-risk Queue entities.
- Potential attrition as of December 2009.
- Number of Form 1040[3] filings from Tax Years 2003–2006.
- Normalized productivity.
- National Quality Rating System quality score as of June 2009.

The hiring initiative also included a 6 percent over-hire authority to account for those individuals who were offered a position but resigned[4] before their reporting date. Figure 1 shows the total geographical distribution of the three hiring waves.

Figure 1: Distribution of the New ROs for Each Collection Area[5]



Source: Our analysis of hiring initiative RO area allocation documents.

[3] U.S. Individual Income Tax Return.
[4] New ROs sometimes resign their position after accepting it or during the training before their report date.
[5] See Appendix IV for a list of States within each Collection area.

The Area Directors had overall responsibility for assigning new ROs to specific Collection field offices. The Area Directors based assignments on such factors as work demands, span of control, availability of On-the-Job Training (OJT) instructors, and work space.

During Phase I of their OJT, new ROs are assigned their first collection inventories. The suggested inventory of cases for a new RO ranges from 25 to 40 individual and business taxpayers. We reviewed Collection target inventory reports (September 30, 2009; December 31, 2009; and June 30, 2010) for the periods that coincided with OJT Phase I for each hiring wave. We determined that 1,378 (over 90 percent) of the 1,515 new ROs had been assigned an inventory in the 25 to 40 taxpayer range. For the 137 ROs with an inventory below the target level, 49 (36 percent) had valid adjustments[6] that lowered their inventory.

The Collection field offices were prepared to receive new ROs

To determine whether the gaining Collection field offices were prepared and provided support for the hiring initiative, we judgmentally selected four field offices that were assigned new RO hires during the three hiring waves. We selected 2 field offices at the higher end (30 or more new RO hires) and 2 in the middle range (8-10 new RO hires):

- Phoenix, Arizona (38 new ROs).
- Las Vegas, Nevada (30 new ROs).
- Baltimore, Maryland (8 new ROs).
- Richmond, Virginia (8 new ROs).

We interviewed 4 Territory Managers in each field office and 11 Group Managers within those territories. All of the interviewed Territory and Group Managers indicated that:

- Adequate office space and equipment for the new RO hires was provided prior to their reporting date.
- Available case work was sufficient to assist in the training of the new RO hires to complement their completion of the OJT phases.

The Territory Managers also stated that all of the OJT instructors were volunteers who were subjected to an informal interview and selection process. The opportunity to apply for the OJT instructor positions was provided in advance of the RO hiring, which allowed adequate lead time for the OJT instructors to close out their inventories or return cases to the Queue.

[6] Inventory levels for ROs may be adjusted for a variety of reasons such as temporary assignments, assignment of collateral duties, etc.

Challenges Remain for Staffing to Keep Pace With Attrition and Workload

Prior to the RO hiring initiative, the number of ROs who were assigned cases[7] decreased from 3,779 in FY 2004 to 3,613 in FY 2008 (4 percent). Although the hiring initiative helped the IRS increase the number of ROs who were assigned delinquent cases to 4,068 in FY 2010 (13 percent increase), maintaining RO staffing levels to adequately address available workload remains a challenge because:

- Hiring has not kept pace with attrition.
- The number of ROs needed is not known.

Hiring has not kept pace with attrition

The Collection function expects to lose ROs as fast as it can replace them due to attrition.[8] Although the hiring initiative added 1,515 ROs, the net gain in ROs assigned delinquent tax cases as of the end of FY 2010 was only 580 ROs. Over 24 percent of the 4,002 ROs on staff[9] before the hiring initiative began were lost to attrition during this period. Also, according to Collection's most recent estimates, planned hiring in FYs 2011 and 2012 will barely cover estimated attrition losses. With expected attrition losses of 584 and 600 ROs in FYs 2011 and 2012, respectively, a net gain of 127 ROs is forecasted for the end of FY 2012.

Meanwhile, available workload for Collection continues to increase. A study conducted by an outside vendor, *SB/SE Collection Workforce Plan: Focus on Revenue Officers* (June 2009), concluded that the existing workforce will face significant pressures in the coming years from increasing workload and the attrition of new hires. Collection managers agreed with the study's three main RO staffing challenges:

- **Workload.** Inventory appears to be outpacing the workforces' capacity to close cases. Despite closing delinquent tax accounts at higher rates since FY 2005, the percentage of the delinquent tax accounts closed has steadily decreased because of increases in new accounts.
- **New-Hire Attrition.** Since FY 2005, the average RO new-hire resignation rate has been 8.3 percent, which is higher than the rest of the RO workforce.
- **Retirement.** Retirements accounted for almost two-thirds of RO attritions over the last 3 years. More than half of the Collection RO workforce and 79 percent of its supervisors

[7] The number of Collection Field function ROs assigned delinquent cases at the end of each fiscal year. Some ROs are not assigned cases because they are involved in collateral duties such as training or other assignments.
[8] Retirements, resignations, etc.
[9] This includes ROs who were not assigned delinquent cases.

have 20 or more years of service with the IRS. Since FY 2006, the percentage of ROs who are retirement eligible has been steadily increasing, and more than 60 percent of ROs retired during their first year of eligibility.

Further, the volume of available workload depends, in part, on taxpayer behavior as well as economic and societal issues not within the IRS's control. Accordingly, the study states that the number of balance-due accounts may continue to rise due to the current state of the economy and historical trends.

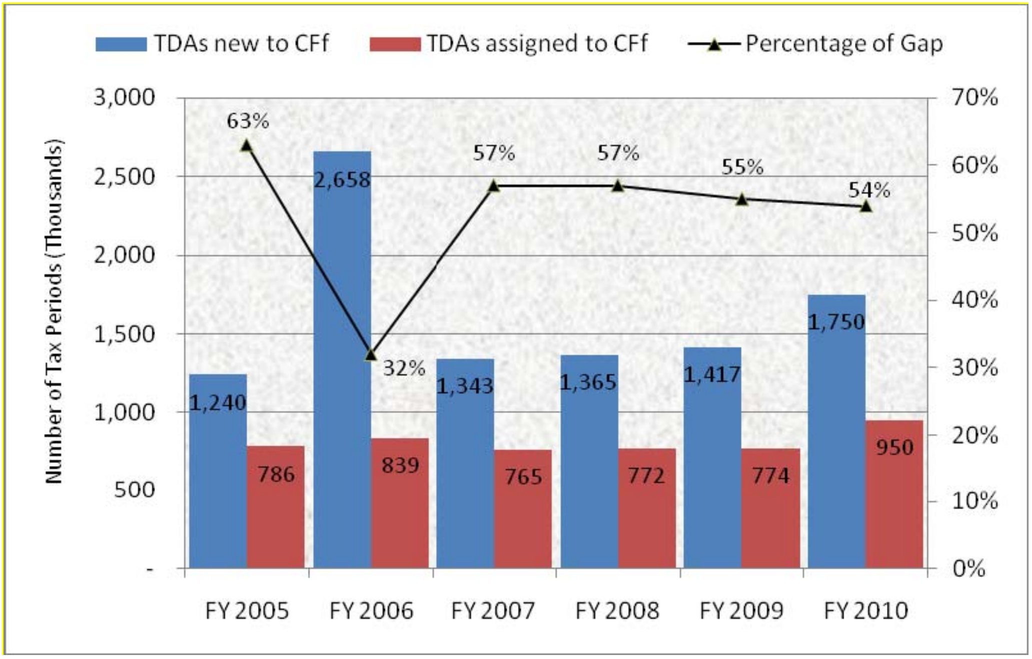
The number of ROs needed is not known

According to the Office of Personnel Management,[10] an effective workforce plan includes identifying the human capital required to meet organizational goals, conducting analysis to identify competency gaps, developing strategies to address human capital needs and close competency gaps, and ensuring the organization is appropriately structured. An agency should approach workforce planning strategically and in an explicit, documented manner. The workforce plan should link directly to the agency's strategic and annual performance plans and be used to make decisions about structuring and deploying the workforce. One key element of workforce planning requires a workload analysis to determine the size of the workforce needed to meet organizational goals and to identify gaps between current and future workforce needs.

However, when estimating staffing levels of ROs needed in future years, the IRS does not determine the number of ROs needed to address the available workload. Instead, the level is estimated based primarily on a budget figure provided by the IRS Chief Financial Officer. Collection believes that there is more than enough Taxpayer Delinquent Account (TDA) inventory in the Queue to justify any staffing increases. Figure 2 shows TDA receipts by the CFf and the number of TDAs assigned to ROs from FY 2005 to FY 2010.

[10] *The Office of Personnel Management Human Capital Assessment and Accountability Framework Resource Center – Workforce Planning (Strategic Alignment System)*, September 2005.

Figure 2: Gap Between TDA Receipts and TDAs Assigned, Including TDAs Assigned as a Percentage of Receipts



Source: Our analysis of Collection Report 5000-2.

Although more TDAs are being closed each year, the number of unassigned TDAs at the end of each fiscal year has also increased. With the exception of FY 2006, only 54 to 63 percent TDA receipts were assigned to ROs each year. This shows that there are cases that could be worked if there were more ROs available. However, the priority and potential collectability of the inventory is not known.

RO inventory is systemically prioritized using risk-based criteria prior to assignment by the Group Manager. In general, because the IRS is investing resources to resolve cases assigned to ROs, the highest priority cases are assigned first, and lower priority cases are assigned if resources are available. At some point, the productivity of these cases could be less than the additional resources needed to resolve them because a greater number of lower priority cases will be assigned. However, the IRS does not know when it would no longer be productive to hire additional ROs to work the additional inventory that would be assigned.

An effective workforce plan is an essential tool to identify appropriate workload staffing levels and justify budget allocations so that organizations can meet their objectives. However, the Federal budget process does not require an agency to request staffing based on workload. Instead, the IRS provides budget requests to Congress in initiatives that show how they will use their resources and the estimated potential return on investment. Consequently, the

SB/SE Division's staffing requirements are based on budgetary considerations, not workload such as RO inventory.

Determining the optimal level of RO staffing to work the potentially collectible inventory can provide valuable information to the IRS. For example, the IRS's FY 2009 budget submission states that additional staffing would increase coverage of potentially collectible inventory, which is an obvious assumption. It would be more meaningful to compare the total number of ROs needed with the actual number of ROs on staff when requesting additional resources. This information could also be useful for projecting future inventory levels that may not be worked due to insufficient resources. Without effective workforce planning, IRS decisions regarding the size and allocation of ROs could result in arbitrary and subjective resource actions, which may have negative effects on IRS programs and services.

Recommendation

***Recommendation 1*:** The Director, Enterprise Collection Strategy, SB/SE Division, should establish rules for optimizing staffing levels for ROs to address Collection's potentially collectible inventory.

> ***Management's Response*:** IRS management agreed with this recommendation. The Director, Enterprise Collection Strategy, SB/SE Division will engage key subject matter and technical experts from across the IRS to review Collection workload and resource levels to improve future resource allocation and staffing decisions across multiple Collection programs and mission-critical occupations.

Budget Justification Performance Goals Are Not Tracked to Actual Performance Results

The IRS's FY 2009 Budget represented an increase of $469.1 million (4.3 percent) over the FY 2008 enacted level. To justify the funding increase, the IRS estimated the SB/SE Division would generate $2 billion in additional annual enforcement revenue once the new hires reached full potential in FY 2011. In his budget testimony before the House Ways and Means Committee, the IRS Commissioner stated, "These new employees would give the IRS the flexibility to make assignments based on the areas of greatest need." The budget included approximately $45.1 million for the IRS to increase collection efforts, including the RO hiring initiative. Figure 3 shows the expected impact of the additional ROs on the TDA and Taxpayer Delinquency Investigation (TDI) closures, as well as revenue.

Figure 3: Predicted Impact That New ROs Would Have on Collection Inventory

	Taxpayer Delinquent Accounts	Taxpayer Delinquent Investigations
FY 2009	• 42,000 increase in closed cases	• 1,900 increase in closed cases
FY 2011	• 88,000 increase in closed cases • $333.6 million increase in revenue	• 3,000 increase in closed cases

Source: IRS's FY 2009 Budget Justification

However, the IRS does not track or provide Congress and other stakeholders with a comparison of actual results to the original projections in the years following the budget's implementation. Specifically, the IRS's FY 2010 budget justification did not provide Congress with information comparing the FY 2009 projected TDA or TDI closures and revenue with actual closures and revenue (performance results). Instead, the IRS's FY 2010 budget justification again emphasizes areas where the IRS needed funding for new initiatives.

Using *Collection Reports 5000-02*, we compared TDAs closed by ROs during FY 2008 with those closed during FY 2009. The FY 2009 budget justification projected an additional 42,000 TDAs would be closed in FY 2009; however an additional 47,382 TDAs[11] were actually closed, representing 5,382 more TDAs closed than were projected. However, the information in this report is not detailed enough to determine the specific impact of the new ROs on the FY 2009 TDA closures.

Comparing projected revenue, benefits, or savings to actual revenue, benefits, or savings is consistent with the concept of internal control standards as well as guidance from the Office of Management and Budget, the Government Accountability Office (GAO), and the Government Performance and Results Act of 1993.[12] Specifically, *Office of Management and Budget Circular A-94*[13] *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs* says:

> *Retrospective studies to determine whether anticipated benefits and costs have been realized are potentially valuable. Such studies can be used to determine necessary corrections in existing programs, and to improve future estimates of benefits and costs in these programs or related ones. Agencies should have a plan for periodic, results-oriented evaluation of program effectiveness. They should also discuss the results of relevant evaluation studies when proposing reauthorizations or increased program funding.*

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[11] The ROs closed 1,201,473 TDAs during FY 2008 compared with 1,248,855 TDAs during FY 2009.
[12] Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).
[13] *Office of Management and Budget Circular A-94*, Revised October 29, 1992.

Also, the *Standards for Internal Controls in the Federal Government* provides for reviews by management at the functional or activity level. Specifically, managers need to compare actual performance to planned or expected results throughout the organization and analyze significant differences. Without understanding the discrepancies between projected and actual revenue, the IRS has less information to improve the accuracy of future projections.

In addition, the SB/SE Division *Strategy and Finance FY 2011 Program Letter* reemphasizes increased transparency related to budget formulation and initiative development. Budget transparency would include providing Congress with information comparing projected revenue to actual revenue in the year following the budget's implementation.

A comparison of actual results with projected results is not a condition for approval of the annual budget. Accordingly, Collection does not collect the information used to compare the actual performance of the newly hired ROs with the projected performance in the budget justification. Although it may not be needed in the budget process, information about achieving expected goals is a valuable business tool. Without data on actual increased revenue collected, Congress and other stakeholders do not know whether the IRS realized all or part of the $333.6 million in additional revenue projected in its FY 2009 budget justification. Further, Collection is not in a position to provide the data necessary to ensure transparency in budget formulation and initiative development or to collect and analyze information that could help improve future budget justifications.

Recommendation

***Recommendation 2*:** The Director, Collection, SB/SE Division, should develop methods to compile the data necessary to track actual performance results with projected performance results to improve future budget justifications.

> ***Management's Response*:** IRS management stated that they are already working with the GAO to develop a methodology to determine actual revenue collected from specific enforcement initiatives recommended in FY 2009 as a result of their review of the FY 2010 Budget Request. The IRS will share its methodology with us as it progresses.
>
> ***Office of Audit Comment*:** In their response, IRS management stated that they initiated efforts last year to determine actual revenue collected from specific enforcement initiatives proposed in FY 2009. However, IRS officials did not share these plans with us during our review. As a result, we did not assess whether these efforts address the recommendation. However, we are concerned because the IRS's corrective action did not include either an implementation date or a corrective action plan.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the Collection function, SB/SE Division, effectively implemented the FYs 2009 and 2010 RO[1] hiring initiative. Specifically, we:

I. Assessed the planning and preparation by the Collection function for the hiring initiative.

A. Reviewed documentation supporting the hiring initiative funding request.

B. Assessed the method used to determine the hiring level of ROs as part of the hiring initiative.

C. Assessed the method used to allocate the ROs hired and determined whether they were strategically assigned (i.e., to offices with the greatest needs).

II. Analyzed selected *Collection Target Inventory Reports* from May 31, 2009, through September 30, 2010, and determined whether the target inventory levels were met for the new ROs.

III. Interviewed the Territory Managers and Group Managers for the four Collection field offices selected for review.

A. Evaluated the adequacy of office space and equipment (computers, wireless cards, phone lines, cell phones, etc.) needs for new RO hires in the selected field offices.

B. Evaluated the adequacy and availability of training and live case work provided to new RO hires.

IV. Determined the impact of the hiring initiative on future staffing levels and resource costs by identifying the planned level of RO staffing for FY2010 to FY2012 and assessing Collection's plan to maintain these levels.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objectives: SB/SE Division Collection function policies, procedures, and practices for maintaining appropriate inventory levels for ROs,

[1] See Appendix V for a glossary of terms.

assigning ROs to field offices, establishing training classes for new ROs, and assigning experienced ROs as OJT instructors. We evaluated these controls by reviewing Collection target inventory reports, the methodology used to assign new ROs, RO training class schedules, and the methodology used to assign OJT instructors.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl L. Aley, Director
Timothy F. Greiner, Audit Manager
Michael J. Della Ripa, Lead Auditor
Doris Cervantes, Senior Auditor
Frank Maletta, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
IRS Human Capital Officer OS:HC
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Enterprise Collection Strategy, Small Business/Self-Employed Division SE:S:ECS
Director, Talent, Hiring, and Recruitment OS:HC:THR
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
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Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
    Commissioner, Small Business/Self-Employed Division SE:S
    IRS Human Capital Officer OS:HC

Appendix IV

States Within Each Collection Area

Collection Area	States Covered
North Atlantic	Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont, and International
Central	Kentucky, Michigan, New Jersey, Ohio, Pennsylvania, and West Virginia
South Atlantic	Delaware, Florida, Maryland, North Carolina, South Carolina, and Virginia
Midwest	Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin
Gulf States	Alabama, Arkansas, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas
Western	Alaska, Arizona, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming
California	California

Appendix V

Glossary of Terms

Area Director – The senior-level manager in the CFf chain of command (i.e., the Group Manager reports to Territory Manager, who reports to the Area Director).

Area Office – A geographic organizational level used by IRS business units and offices to help its specific types of taxpayers understand and comply with tax laws and issues.

Balance-Due Account – A balance-due account occurs when the taxpayer has an outstanding liability for taxes, penalties, and/or interest.

Budget Justification – For any given fiscal year, the budget request is submitted to the IRS Oversight Board, the Department of the Treasury, the Office of Management and Budget, and Congress, which is referred to as the Congressional Justification. Revisions are made to the budget request throughout this process based on approved funding levels from these external entities prior to the final Congressional Justification.

Case – A Collection case refers to one taxpayer, but can include multiple tax modules (specific tax return filed by the taxpayer for one specific tax period, year, or quarter and type of tax) for that taxpayer.

Chief Financial Officer – Serves as the principal advisor to the IRS Commissioner and Deputy Commissioners on financial and performance management, financial systems, strategic planning, and internal controls.

Collection Area – Seven geographic regions across the country (California, Central, Gulf States, Midwest, North Atlantic, South Atlantic, and Western). Each is headed by an Area Director who is the responsible official for all collection operations within the designated areas.

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

Collection Field Offices – Local offices where ROs are assigned.

Collection Report 5000-2 – *Collection Activity Report, NO-5000 – Taxpayer Delinquent Account Cumulative Report*. This report provides Collection activity information from the beginning of the fiscal year through the end of the current reporting month.

Collection Target Inventory Reports – Target inventory levels were implemented to establish consistent inventory levels for ROs nationwide. Group managers are responsible for monitoring inventory levels to ensure each RO has an appropriate number of cases within the established ranges. These levels are reflected on target inventory reports (by group).

Core Competencies – The fundamental knowledge, ability, or expertise in a specific area or skill set that allows that an organization or individual to compete with its competitors.

Enforcement Revenue – Any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

Group Manager – A first-level manager in Collection, responsible for supervision of an RO group.

Hiring Wave – The IRS hired 568 ROs in June 2009, 568 ROs in August 2009, and 379 ROs in February 2010.

Initiative Hires – Those positions that are associated with the IRS initiative targeted to improve reporting, filing, or payment compliance.

IRS Data Book – Provides information on activities conducted by the IRS, such as taxes collected, enforcement, taxpayer assistance, budget, workforce, and other selected activities.

On-the-Job Training Instructor – A senior RO, selected to provide instruction and training to an assigned new-hire RO within a specific group.

On-the-Job Training – The initial 40-week training period for a new RO, divided into phases one and two. During this OJT, an RO reports to, and works under, the guidance of an assigned OJT instructor.

Potentially Collectible Inventory – The total inventory having the most potential for applying intervention techniques and collection resources, including reactivating those modules that collection closed due to lack of resources.

Queue – An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.

Return on Investment – The net profit or loss in an accounting period divided by the capital investment used during the period, usually expressed as an annual percentage return.

Revenue Officer – Employees in the CFf who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the Automated Collection System.

Tax Period – Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.

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

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

Territory Manager – A second-level manager in the Collection function, responsible for supervision of Group Managers within a specific geographic territory.

Appendix VI

Management's Response to the Draft Report

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

RECEIVED
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MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Christopher Wagner
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Challenges Remain to Balance Revenue Officer Staffing with Attrition and Workload Demands (Audit #201030015)

Thank you for the opportunity to review the draft report titled, "Challenges Remain to Balance Revenue Officer Staffing with Attrition and Workload Demands." The IRS appreciates TIGTA's acknowledgement that Collection effectively implemented the Revenue Officer (RO) hiring initiative. As detailed in the report, the Small Business/Self-Employed Division (SB/SE) added over 1,500 new Revenue Officers in a nine month period. The success of this hiring initiative is attributable to the significant planning and preparation that took place across the Field Collection organization and with key IRS support functions.

We agree that balancing future RO staffing with workforce attrition and workload will remain an important challenge. The IRS has already initiated efforts to enhance workforce planning across all Collection programs and mission critical occupations. Therefore, we concur with your first recommendation that the SB/SE Division establish rules for optimizing staffing levels for Revenue Officers.

Regarding the second recommendation that the SB/SE Division track actual performance results with projected performance results to improve future budget justifications, the IRS initiated efforts last year to determine actual revenue collected from specific enforcement initiatives proposed in FY2009. It should be noted, however, that performance measures reflect multiple contributing factors, including a range of interrelated enforcement programs. The IRS will continue to collect cost and revenue data associated with high-level enforcement programs, and will continue to analyze actual enforcement revenue results to refine future projections for budget initiatives as needed. The IRS maintains a historical record of enforcement revenue produced by enforcement programs at an aggregate level. The IRS uses this historical revenue information to estimate future revenue produced from proposed enforcement initiatives in budget requests and to compare its estimated revenue projections with actual revenue.

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The attachment addresses each recommendation separately and outlines our corrective actions.

If you have any questions, please contact me, or a member of your staff may contact Michael Julianelle, Director, Enterprise Collection Strategy, at (202) 283-9663.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Enterprise Collection Strategy, SB/SE Division, should establish rules for optimizing staffing levels for ROs to address Collection's potentially collectible inventory.

CORRECTIVE ACTION:
The IRS agrees with this recommendation. The Director, Enterprise Collection Strategy, SB/SE Division will engage key subject matter and technical experts from across the IRS to review Collection workload and resource levels to improve future resource allocation and staffing decisions across multiple Collection programs and mission critical occupations.

IMPLEMENTATION DATE:
April 15, 2012

RESPONSIBLE OFFICIAL(S):
The Director, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
The IRS will monitor this corrective action as part of its internal management system of controls.

RECOMMENDATION 2:
The Director, Collection, SB/SE Division, should develop methods to compile the data necessary to track actual performance results with projected performance results to improve future budget justifications.

CORRECTIVE ACTION:
IRS is already working with GAO to develop a methodology to determine actual revenue collected from specific enforcement initiatives recommended in FY2009 as a result of their review of the Fiscal Year 2010 Budget Request. We can share our methodology with you as it progresses.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL(S):
Chief Financial Officer

CORRECTIVE ACTION MONITORING PLAN:
N/A