



*Improvements Are Needed to Ensure That  
Performance Measures Are Balanced and  
Adequately Assess the Effectiveness  
of the Collection Program*

**March 28, 2013**

**Reference Number: 2013-30-028**

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

---

Phone Number | 202-622-6500

E-mail Address | [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

Website | <http://www.treasury.gov/tigta>





TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

March 28, 2013

**MEMORANDUM FOR** COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

**FROM:** Michael E. McKenney  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Improvements Are Needed to Ensure That  
Performance Measures Are Balanced and Adequately Assess the  
Effectiveness of the Collection Program (Audit # 201130016)

This report presents the results of our review to determine whether the Internal Revenue Service has 1) established adequate performance measures for its Collection program and 2) implemented an adequate management information system to compile those measures reliably and timely. This audit was conducted at the request of the Internal Revenue Service Oversight Board.<sup>1</sup> The audit is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Augusta R. Cook, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).

---

<sup>1</sup> See Appendix X for a glossary of terms used in the report.



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

*Table of Contents*

**Background** .....Page 1

**Results of Review** .....Page 4

    The Collection Program Has Established Measures at the Strategic, Operational, and Individual Levels.....Page 5

    Performance Measures Are Balanced at All Levels, but Operational-Level Reports Lack Consistency .....Page 7

Recommendation 1:.....Page 10

    Collection Program Performance Measures Could Be Enhanced.....Page 10

Recommendation 2:.....Page 14

**Appendices**

    Appendix I – Detailed Objectives, Scope, and Methodology.....Page 15

    Appendix II – Major Contributors to This Report.....Page 17

    Appendix III – Report Distribution List .....Page 18

    Appendix IV – Director Collection Report Measures .....Page 19

    Appendix V – Director Collection Report Measures Included on the Enterprise Collection Report.....Page 21

    Appendix VI – Strategic Goal to Improve Service to Make Voluntary Compliance Easier Linked to Performance Measures.....Page 24

    Appendix VII – Strategic Goal to Enforce the Law to Ensure That Everyone Meets Their Obligation to Pay Taxes Linked to Performance Measures.....Page 26

    Appendix VIII – Strategic Foundation to Invest for High Performance Linked to Performance Measures.....Page 28



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

Appendix IX – Performance Measures Not Linked to an Operational Objective .....	Page 29
Appendix X – Glossary of Terms .....	Page 30
Appendix XI – Management’s Response to the Draft Report .....	Page 32



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

*Abbreviations*

CFf	Collection Field Function
DCR	Director Collection Report
ECR	Enterprise Collection Report
FY	Fiscal Year
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

## *Background*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998<sup>1</sup> required the IRS to change its performance measures to balance customer service with overall tax administration responsibilities. As a result, Treasury Regulation Part 801, *Balanced System for Measuring Organizational and Employee Performance Within the Internal Revenue Service*,<sup>2</sup> was implemented to execute the IRS Balanced Measurement System. The objectives of the IRS Balanced Measurement System are to:

***A balanced measurement system should include customer satisfaction, employee satisfaction, and business results.***

- Translate the IRS's mission and strategic goals into a tool to communicate organizational priorities, guide and motivate performance, and obtain feedback.
- Establish employee satisfaction and customer satisfaction as organizational objectives equal in importance to business results.
- Support managers in taking actions to foster employee and customer satisfaction.
- Provide a clearer picture to customers of how the IRS values improving customer and employee satisfaction.

The IRS Balanced Measurement System was developed as part of the effort to modernize the IRS and to reflect its priorities as articulated in the IRS's mission. Figure 1 illustrates the elements of the IRS Balanced Measurement System.

---

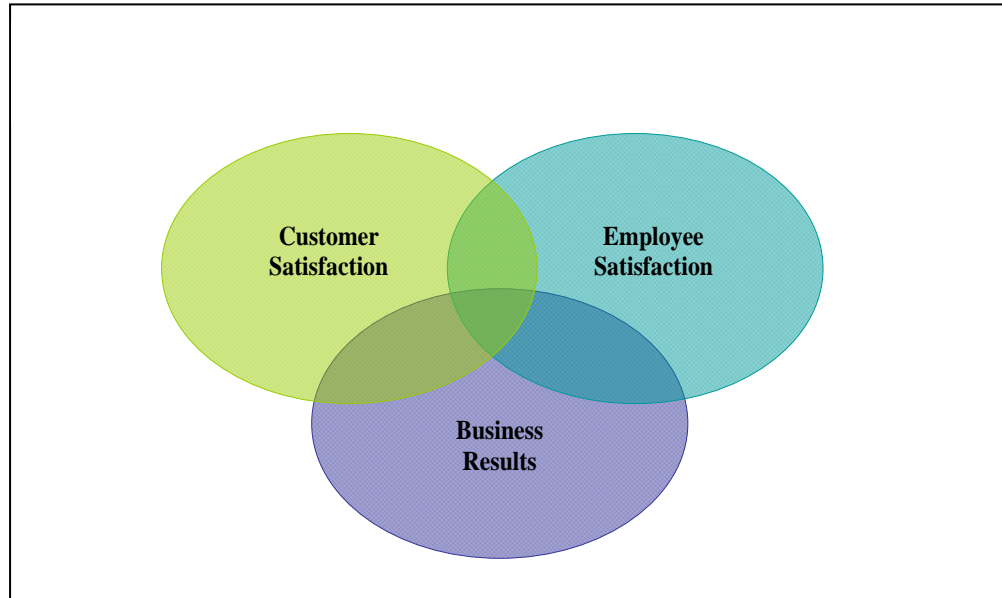
<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.). See Appendix X for a glossary of terms.

<sup>2</sup> Treas. Reg. § 801 (2005).



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Figure 1: Elements of the IRS Balanced Measurement System**



*Source: Publication 3561, Organizational Performance Management and the IRS Balanced Measurement System, dated December 1999.*

The IRS defines the goals of its balanced measures elements as follows:

- Customer Satisfaction – measures how well the IRS provides accurate and professional services to internal and external customers in a courteous, timely manner.
- Employee Satisfaction – measures how well the IRS creates an enabling work environment for employees by providing quality leadership, adequate training, and effective support services.
- Business Results – measures how much work the IRS produces in a quality manner and provides meaningful outreach to all customers.

The Office of Management and Budget<sup>3</sup> and the Government Performance and Results Act of 1993<sup>4</sup> recommend that performance measures:

- Consistently report on the same programs.
- Regularly report performance data.
- Include targets or goals.

<sup>3</sup> Office of Management and Budget, Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (Aug. 2012).

<sup>4</sup> 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.).





*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

- Hold employees and managers accountable.
- Provide information to make business decisions.

We performed this review of the IRS Collection program's performance measures at the request of the IRS Oversight Board. The review was performed at the Small Business/Self-Employed (SB/SE) Division Office of the Enterprise Collection Strategy in Washington, D.C., during the period October 2011 through October 2012. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

## *Results of Review*

Performance measurement involves the ongoing monitoring and reporting of program effectiveness and the progress made towards achieving established goals and objectives. In the Collection program, managers have developed and established a suite of 68 performance measures to measure the effectiveness of their compliance activities. We noted several favorable trends among the measures reported in their operational performance reports. For example, program managers can use the performance measures to compare the dollars collected from taxpayer delinquent accounts closed in the field with the number of revenue officers used to work the accounts. The average dollars collected per revenue officer was 14 percent higher in Fiscal Year (FY) 2011 than in FY 2009. They can also compare the dollars collected from other activities, such as installment agreements. The dollars collected through installment agreements in FY 2011 were 32 percent higher than the amount collected in FY 2009. Overall, the total dollars collected in FY 2011 were 20 percent higher than the amount collected in FY 2009 even though there were fewer revenue officers on staff.

In addition to establishing performance measures to monitor and report on program effectiveness, Collection program managers have established 11 efficiency-oriented measures. These measures include the 1) average lapsed time between starting a delinquency investigation and completing it, 2) percent of offers in compromise completed within nine months, and 3) timeliness of trust fund penalty determinations. During FY 2011, revenue officers completed their delinquency investigations within an average of 13.8 weeks. This was nearly one week less than the average number of weeks spent on an investigation in FY 2009. Revenue officers also made trust fund determinations faster in FY 2011. However, they closed offer in compromise cases slower in FY 2011 compared to FY 2009.

We reconciled the Collection program's performance measures to various Collection Activity Reports and determined that all information was accurately captured from source reports. However, while performance measures were balanced at all levels, customer and employee satisfaction were not integrated in the highest level operational report. In addition, the Collection program's performance measures were not linked to a specific operational objective or to one or more of the IRS's strategic goals. Finally, we found that management had not developed and implemented meaningful performance targets for each of the operational-level measures.

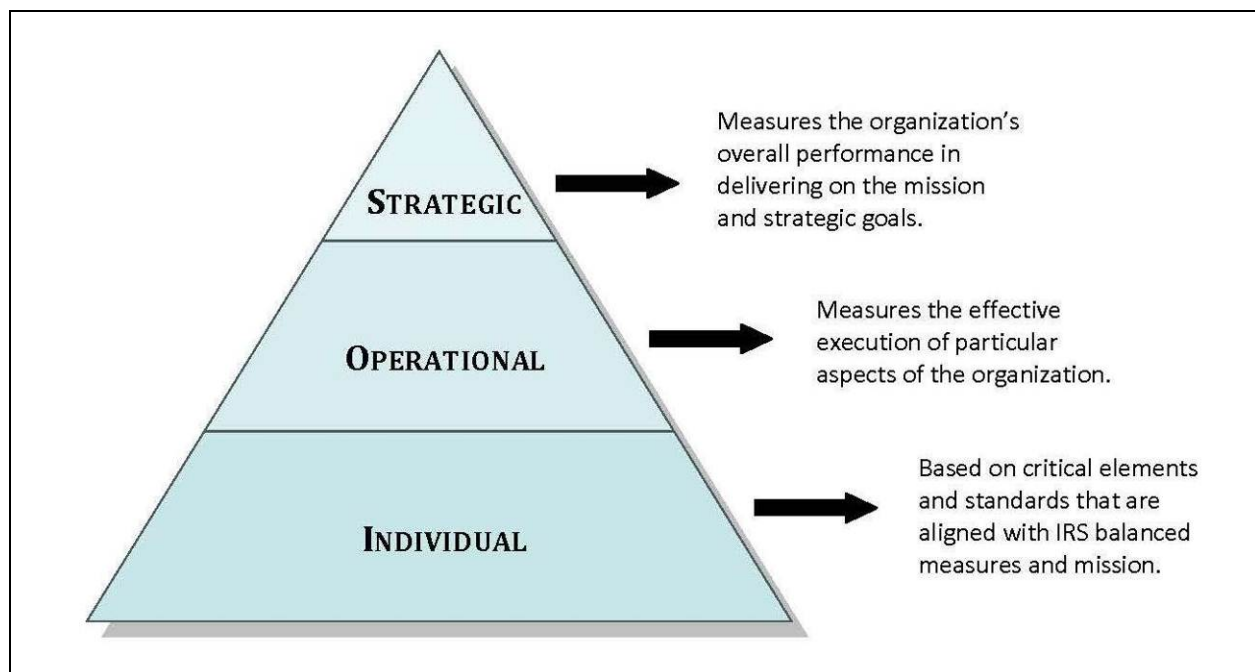


*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

## **The Collection Program Has Established Measures at the Strategic, Operational, and Individual Levels**

The IRS has translated its mission into two strategic goals and one strategic foundation: improve service to make voluntary compliance easier, enforce the law to ensure that everyone meets their obligation to pay taxes, and invest for high performance. The IRS Balanced Measurement System was created to help focus the Collection program on achieving these strategic goals. Figure 2 shows that this measurement system requires the IRS to measure performance at three levels.

**Figure 2: Measuring Performance at the IRS**



Source: Publication 3561, *Organizational Performance Management and the IRS Balanced Measurement System*, dated December 1999.

- At the strategic level, measures should assess overall performance in delivering the IRS's mission. In addition, measures should assess performance in achieving the IRS's strategic goals. Strategic measures should apply to the organization as a whole and to each of the major operating and functional divisions in the modernized IRS.
- At the operational level, measures should assess the effectiveness of specific programs, such as the Collection Field function (CFf).

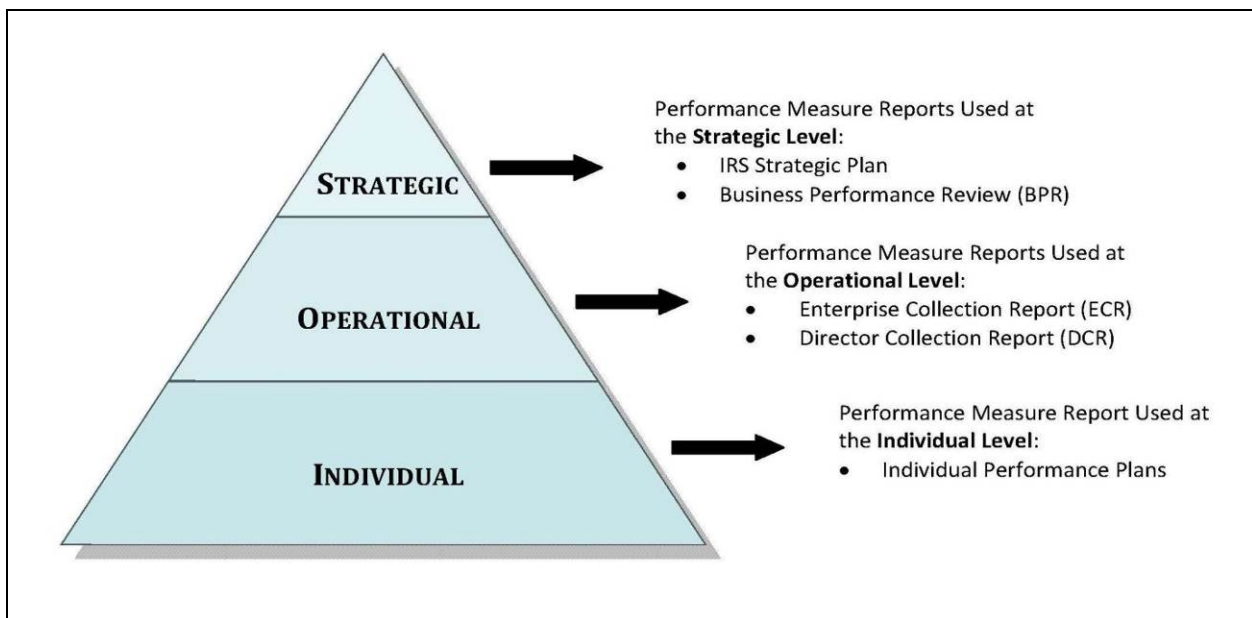


*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

- At the individual level, measures should assess employee performance by using critical elements and critical performance expectations that support and align with the IRS's mission and balanced measures approach.

The Collection program has established performance measures at the strategic, operational, and individual levels. Figure 3 shows the reports the Collection program uses to measure performance at each of these three levels.

**Figure 3: Measuring Performance at Different Levels in the Collection Program**



Source: Our analysis of the levels of IRS Performance Measurement reports.

At the individual level, the Collection program assesses performance through individual performance plans. Managers evaluate individual performance on three to five performance aspects for critical job elements. The rating for each critical job element is based upon review and consideration of all performance aspects.

At the operational level, the Collection program distributes the monthly Director Collection Report (DCR) and the Enterprise Collection Report (ECR). The DCR is used by the Director of Collection to assess the CFF's performance. The DCR focuses primarily on program results and is used to make business decisions. The ECR is a higher level report intended for Collection program executives. Accordingly, it consolidates several of the measures from the DCR and other reports. Specifically, the ECR includes measures for the SB/SE and Wage and Investment Divisions' Collection programs (CFF, Automated Collection System, and Compliance Services Collection Operations).



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

At the strategic level, the IRS's SB/SE Division issues a quarterly Business Performance Review to measure performance. The data included in this report focus on business results and capture performance measure data from various lower level reports (e.g., the DCR and ECR).

The Collection program can only rely on performance measures if the data provided on each report are accurate. We reconciled all of the performance measures on the FY 2011 DCRs and ECRs to their respective source reports and determined that all of the performance measures reflected were captured accurately. We did not attempt to evaluate the accuracy of the narrative feedback in employee appraisals because the related case file documentation was not readily available at the time of our review.

***Performance Measures Are Balanced at All Levels, but Operational-Level Reports Lack Consistency***

The IRS Balanced Measurement System was created to ensure that the components of customer satisfaction, employee satisfaction, and business results are each given due consideration. Accordingly, the Internal Revenue Manual<sup>5</sup> requires the IRS to consider each of the three components when setting organizational objectives, establishing goals, assessing progress and results, and evaluating individual performance. Each component represents an important aspect of the Collection program's goals and each is of equal importance in carrying out the Collection program's mission. The Collection program's mission is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, and provide education to customers to enable future compliance, thereby protecting and promoting public confidence in the American tax system.

Figure 4 shows the relationship between the individual, operational, and strategic levels. Specifically, an employee's individual performance plan should be linked to operational performance measures, and operational performance measures should be linked to the strategic, enterprisewide performance measures.

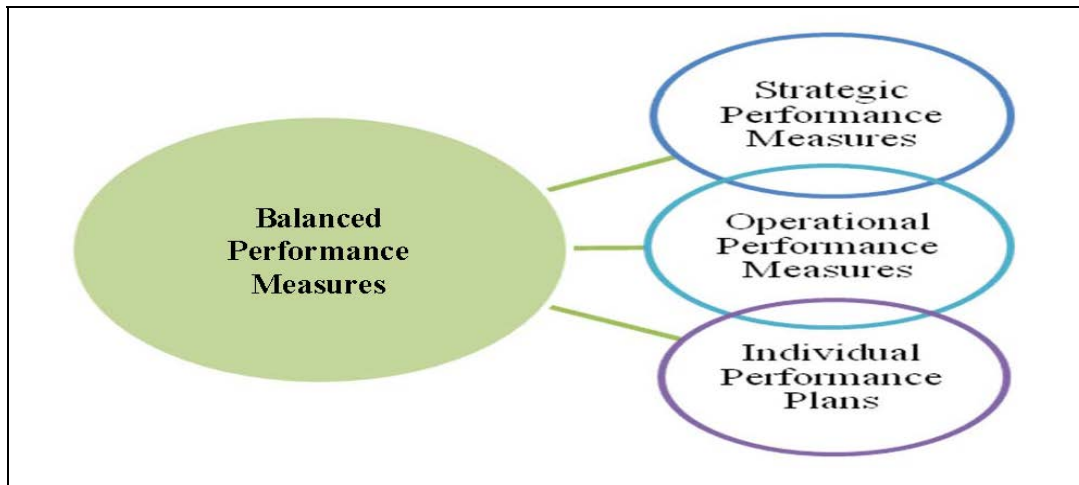
---

<sup>5</sup> Internal Revenue Manual 1.5.1.2 (Nov. 1, 2011).



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Figure 4: The Relationship of Performance Measurement Levels in the Collection Program**



*Source: Our analysis of the levels of IRS performance measurement reports.*

### Individual Level

Collection program employees' performance plans align with the Collection program's balanced measures. Specifically, employees are evaluated based on five critical job elements.

- One element relates to employee satisfaction, which includes workplace interaction, workgroup involvement, and workplace environment.
- Two elements relate to customer satisfaction, which include knowledge and application of IRS policies, taxes, collection, *etc.*
- Two elements relate to business results, which include quality and efficiency.

In addition to the critical job elements, managers are required to record whether each employee provided fair and equitable treatment to taxpayers. Specifically, managers assess whether each employee administered the tax laws fairly and equitably, protected taxpayer rights, and treated taxpayers ethically with honesty, integrity, and respect during the rating period. This standard is mandatory for all employees, and a narrative is required if the rating is not met.

Managers are also evaluated using five performance expectations: leadership, employee satisfaction, customer satisfaction, business results, and equal employment opportunity. Managers and their supervisors are required to develop a limited number of commitments based on these expectations.





---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

### Operational Level

As shown in Appendix IV, the DCR includes measurements for business results, customer satisfaction, and employee satisfaction. The majority of the measures for business results quantify business productivity, such as total inventory and case closures. These data are captured from various lower level reports. Additionally, the DCR includes a measure for quality, which is calculated by evaluating the scores of certain attributes from the National Quality Review System. Customer satisfaction and employee satisfaction are measured through survey questions; specifically, the annual IRS Employee Satisfaction Survey and the quarterly IRS Customer Satisfaction Survey, respectively. The data taken from these two surveys are specific to results pertaining to Cff employees and taxpayers working with Cff employees, respectively. Because the components of employee satisfaction and customer satisfaction do not change rapidly and require more time to collect the data, the results reported on the DCR are updated annually instead of monthly.

In contrast to the DCR, the ECR consolidates several of the operational-level measures from the DCR's for Cff, Automated Collection System, and Campus Compliance. However, because it is a higher level report intended for Collection program executives, the ECR does not include the complete set of measures reported on those DCRs. Instead, the performance measures captured on the ECR contain mostly high-level business results measures, including measures for inventory and case closures. Customer satisfaction and employee satisfaction are not reported on the ECR, even though these two measures represent more than 66 percent of the IRS Balanced Measurement System. Appendix V compares and contrasts the measures reported in the two reports.

Although the Collection program has established balanced measures at the operational level on the DCR, they have not integrated the IRS's balanced measures of customer satisfaction, employee satisfaction, and business results into the ECR, which is the higher level Collection report. Refining the ECR to include employee and customer satisfaction measures would help hold Collection program managers and staff accountable for and focused on balancing service to taxpayers with enforcing the tax laws as articulated in the IRS's mission, strategic goals, and strategic foundation. This would also give managers a more complete picture of the impact their process improvement efforts are having on issues affecting employees and taxpayers.

### Strategic Level

The Business Performance Review contains balanced measures and supports the IRS's overall strategic plan. The Business Performance Review focuses primarily on business results data for various programs throughout the SB/SE Division, such as SB/SE Division's Examination and Collection functions. It also contains measures for customer satisfaction and employee satisfaction, although these measures are not broken down by business program. Instead, customer satisfaction and employee satisfaction measures are aggregate and depict the collective results of the entire SB/SE Division.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

In addition to the Business Performance Review, the IRS publishes other documents that include information about Collection program performance, such as the IRS's *Management Discussion and Analysis* and the *IRS Congressional Justification*. However, these reports only include three measures related to the Collection program.

### ***Recommendation***

**Recommendation 1:** The Director, Enterprise Collection Strategy, SB/SE Division, should report performance measurement data for customer satisfaction and employee satisfaction on the ECR to promote consistency and transparency throughout the Collection program.

**Management's Response:** IRS management agreed with this recommendation and will include program-level customer satisfaction and employee satisfaction performance measurement data in the Enterprise Collection Report.

### ***Collection Program Performance Measures Could Be Enhanced***

While Collection program managers are using indicators such as dollars collected and the timeliness of trust fund penalty determinations to measure the effectiveness and efficiency of their collection activities, those indicators are not all linked with IRS strategic goals or the Collection program's operational objectives. In addition, relatively few indicators include a measurable performance standard (target) to monitor progress made towards achieving the intended outcome.

#### **Not all Collection program performance measures can be linked with the IRS's strategic goals or strategic foundation**

The mission of the IRS is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforcing the law with integrity and fairness to all. To fulfill its mission, the IRS focuses on achieving two strategic goals and a strategic foundation:

- Strategic Goal 1: Improve Service to Make Voluntary Compliance Easier.
- Strategic Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes.
- Strategic Foundation: Invest for High Performance.

Each strategic goal and strategic foundation is supported by operational objectives and annual performance measures. The operational objectives reflect the IRS's business priorities, and the performance measures should evaluate its efforts in meeting its stated objectives.

Appendices VI, VII, and VIII show the FY 2011 Collection program operational objectives for Strategic Goals 1 and 2 and the strategic foundation, respectively.





---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

IRS management has not linked Cff operational objectives with performance measures. Therefore, we attempted to identify a correlation between these objectives and performance measures. Because there was no direct correlation, we used very broad criteria in our analysis. For example, we associated the operational objective “use feedback from stakeholders to improve the collection process” with the performance measure “customer satisfaction,” even though the performance measure is not specific about what, if any, improvements were made to the collection process or how taxpayer feedback may have contributed to any improvements.

Our analysis linked 46 of 68 performance measures to a Collection program operational objective supporting one of the two IRS goals and the strategic foundation reflected in its strategic plan. Appendix IX shows the 22 performance measures for which we could not associate any operational objective. For example, we could not associate the performance measure “taxpayer closures” to any Cff operational objective. Since these measures do not appear to be associated with an operational objective or an IRS strategic goal or foundation, their usefulness as a performance measure is unclear. Management should assess the value of these measures and make changes to the measures or operational objectives as appropriate.

Strategic Goal 1: Improve Service to Make Voluntary Compliance Easier

We were able to link all 11 operational objectives associated with the IRS’s goal to “improve service to make voluntary compliance easier” with at least one performance measure (see Appendix VI). However, not all of the objectives can be measured objectively. For example, one of the objectives is to “listen to taxpayers and work together to resolve their issues,” which we linked to the performance measure “taxpayer percent satisfied.” However, neither the objective nor the measure quantifies how listening and working together will be measured.

Strategic Goal 2: Enforce the Law to Ensure Everyone Meets Their Obligation to Pay Taxes

We could not link all Cff operational objectives associated with the IRS’s goal to “enforce the law to ensure everyone pays their taxes” to a performance measure (see Appendix VII). Specifically, we were unable to link three of 10 Cff operational objectives to at least one performance measure. In addition, while the operational objectives are consistent with efforts to enforce the tax laws, they are not always specific, quantifiable, or measurable. For example, one objective is to “enhance our international collection efforts,” but the objective lacks specifics about the level of effort or actions to be taken. Another objective is to “continue...emphasis on timely and accurate lien filing determinations...” Although we linked this objective to the liens performance measure on the DCR, it only includes the volume of liens filed, with no information about timeliness or accuracy.

Strategic Foundation: Invest for High Performance

We could not link all the Cff operational objectives associated with the IRS’s strategic foundation to “invest for high performance” to a performance measure (see Appendix VIII). Specifically, we were unable to associate three of seven Cff operational objectives to at least one



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

performance measure. For example, we were unable to link a performance measure with the CFF's operational objective to "seek new and innovative ways to accomplish the Collection mission." Similar to the operational objectives associated with the IRS goals, there are also no quantifiable methods to measure all of these objectives. For example, the objective to "capitalize on opportunities for knowledge transfer throughout Collection" lacks specifics, and there are no performance measures associated with this goal.

Because Collection program performance measures are not always linked with the operational objectives, they are also not linked with the IRS's strategic goals and strategic foundation. As a result, Collection program managers and staff do not have complete information on how their day-to-day activities contribute to attaining the Collection program's operational objectives and the broader IRS strategic goals and strategic foundation. In addition, Collection program managers may be missing opportunities to measure and communicate their efforts and progress in meeting these goals and objectives.

**The Collection program has developed few meaningful targets to assess performance**

The Internal Revenue Manual<sup>6</sup> describes how to establish targets or performance goals in a balanced measurement system. Specifically, an organization should communicate priorities and guide performance through qualitative and quantitative targets. For example:

- Qualitative targets are general in nature and suggest a desired direction, *e.g.*, improve customer satisfaction.
- Quantitative or numeric targets are specific in nature, *e.g.*, improve customer satisfaction from 70 percent to 80 percent.

The IRS should compare actual results with qualitative and quantitative (numeric) targets to report agency progress in delivering tax administration responsibilities. Qualitative targets can be established at all levels of the organization to support organizational strategies and plans. Numeric targets for any measure should be established based on a review of prior year results, historical patterns, anticipated mix of resources available, the link to organizational priorities and initiatives, and an assessment of existing and emerging trends, issues, and problems.

Targets are essential to performance measures because they:

- Provide direction to Collection program management and employees about where and how the IRS desires to improve in an area.
- Allow meaningful evaluation of progress because it is immediately clear whether the targets have been met or little progress has been made.

---

<sup>6</sup> Internal Revenue Manual 1.5.1.9 (Nov. 1, 2011).



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

- Facilitate accountability for the level of results achieved.

Collection program management establishes targets for performance measures that they consider critical. However, the majority of performance measures on the DCR do not contain any targets. Appendix V shows that only nine (13 percent) of the 68 performance measures reflected on the FY 2011 DCR included a specific target.<sup>7</sup> Furthermore, management has made several changes to the measures that include targets on the DCR. For example, after one target was missed by more than 15 percent in FY 2008, no target was established for that performance measure for the next three fiscal years.

Establishing more targets is particularly important to both the IRS and its stakeholders. Without these targets, the measures do not provide perspective about progress and improvements in the Collection program. Figure 5 shows selected performance measures that do not have targets and their respective results for a three-year period.

**Figure 5: Selected DCR Measures With No Targets for Fiscal Years 2009 Through 2011**

Measure Category	Specific Measure	FY 2009	FY 2010	FY 2011
<b>Staffing</b>	Revenue Officers – Assigned Taxpayer Delinquent Accounts/Taxpayer Delinquency Investigations	3,752	4,068	3,733
<b>Age of Inventory</b>	Percent Potential Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation	8.99	7.9	10.9
	Potential Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation	17,991	19,200	23,795
<b>Efficiency of Staffing</b>	Percent Direct Collection Time	61.2	61.6	66.9
	Percent Field Time	16.6	17.3	16.2

*Source: Our analysis of the performance measures on the DCR for FYs 2009, 2010, and 2011.*

For the three-year period ending in FY 2011, the number of revenue officers assigned cases fluctuated from 3,752, up to 4,068, and down to 3,733. The lack of targets prevents stakeholders (e.g., the IRS Oversight Board) from knowing the variance from the number that the IRS originally intended. In addition, the percent direct collection time increased from 61.2 in

<sup>7</sup> See Appendix V for a complete list of FY 2011 DCR measures with targets.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

FY 2009 to 66.9 in FY 2011. However, stakeholders do not know whether management expected the percentage to be even higher in FY 2011.

In addition, when targets were established, evidence that management considered available resources, organizational priorities, or an assessment of emerging trends, issues, and problems when adjusting the targets was not always available. Some of the targets appear to have been based entirely on the prior year's actual results. For example, the targets for customer satisfaction were identical to the prior fiscal year's actual performance in FY 2009, FY 2010, and FY 2011, even though management expected to see improvement in taxpayer satisfaction scores. If objectively established, the targets would help Collection program managers avoid any perception of bias or manipulation in the monitoring and reporting of their progress in meeting their preestablished objectives. In addition, such information assists IRS management and Congress in making decisions about how to fund and allocate resources to collect the estimated \$360 billion of taxes from taxpayers who owe but have not paid. This, in turn, helps reduce the risk of creating unfair burden on the vast majority of taxpayers who pay their taxes in full and on time.

### ***Recommendation***

***Recommendation 2:*** To improve Collection program performance measures, the Director, Enterprise Collection Strategy, SB/SE Division, should establish a Collection program performance measure and target for each operational objective.

***Management's Response:*** IRS management agreed with this recommendation and will improve work plan documentation by including clear evidence of all assumptions used to support the development of meaningful operational targets. They will also assess the need for new measures or changes to existing measures to ensure proper alignment with operational goals.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

## Appendix I

### *Detailed Objectives, Scope, and Methodology*

The overall objectives of this audit were to determine whether the IRS 1) established adequate performance measures for its Collection program and 2) implemented an adequate management information system to compile those measures reliably and timely. To accomplish these objectives, we:

- I. Ensured that the Collection program's performance measures were aligned with the IRS's mission.
  - A. Determined whether the Collection program's performance measures from high-level performance reports, such as the ECR, encompassed all three components of the balanced measures concept and were linked to the IRS's mission.
  - B. Determined whether the DCR performance measures were aligned with the ECR performance measures in addition to being linked to strategic goals.
  - C. Determined whether the individual performance plans for SB/SE Division Cff<sup>1</sup> executives, managers, and personnel were aligned with the DCR performance measures.
- II. Determined whether the IRS established performance measures that measure the success of the Collection program's activities.
  - A. Reviewed the FY 2011 ECRs to ensure that the performance measures adequately measured the success of the Collection program's activities by assessing the effectiveness of the procedures the IRS established to review and monitor the ECR in addition to procedures established to address issues (*e.g.*, negative trends, missed targets). We considered whether the ECR is focused on outcome-based data and provided information that:
    1. Can be used to make business decisions.
    2. Identified what Collection programs are most effective.
  - B. Reviewed the FY 2011 DCRs to ensure that the performance measures measured the success of CCf activities.
    1. Assessed the effectiveness of the procedures the IRS established to review and monitor the DCR in addition to procedures established to address issues

---

<sup>1</sup> See Appendix X for a glossary of terms.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

(e.g., negative trends, missed targets). We considered whether the DCR is focused on outcome-based data and provided information that:

- a. Can be used to make business decisions.
  - b. Identified what collection programs are most effective.
2. Identified the DCR performance measures with established targets.
3. Identified the performance measures with targets on the FY 2011 DCRs and identified the incentives for achieving each target and the consequences for not meeting each target by interviewing IRS officials. We ensured that any incentives or consequences promoted the balanced measures concept.
- a. Assessed the effectiveness of the process used to establish the targets.
  - b. Compared the actual results with the targets for each performance measure from FYs 2008 to 2011 and determined how effective the CCf has been at meeting its established goals and improving performance. We assessed any corrective actions taken when targets were not met or negative trends emerged.
- III. Determined whether the IRS implemented an adequate management information system to compile their performance measures reliably and timely.
- A. Reviewed the FY 2011 ECRs and reconciled the measure results to the data source.
  - B. Assessed the frequency at which the ECR is produced and provided to the IRS for review and analysis.
  - C. Reviewed the FY 2011 DCRs and reconciled the measure results to the data source.
  - D. Assessed the frequency at which the DCR is produced and provided to the IRS for review and analysis.

**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 objectives: SB/SE Division Collection program policies, procedures, and practices for ensuring all performance measure results are accurately reflected on the monthly DCRs and ECRs and linked with SB/SE Division Collection program operational objectives. We evaluated these controls by interviewing management and reconciling FY 2011 DCRs and ECRs to the source reports per their respective data dictionaries and identifying the correlation between operational objectives and performance measures.



*Improvements Are Needed to Ensure That Performance  
Measures Are Balanced and Adequately Assess  
the Effectiveness of the Collection Program*

---

## **Appendix II**

### *Major Contributors to This Report*

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Carl Aley, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Frank Dunleavy, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Timothy Greiner, Acting Director

Beverly Tamanaha, Acting Audit Manager

Richard Viscusi, Lead Auditor

Joel Weaver, Senior Auditor

Rebecca Arendosh, Auditor

Bridgid Shannon, Auditor





---

*Improvements Are Needed to Ensure That Performance  
Measures Are Balanced and Adequately Assess  
the Effectiveness of the Collection Program*

---

**Appendix III**

*Report Distribution List*

Commissioner  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Commissioner, Wage and Investment Division SE:W  
Deputy Commissioner, Small Business/Self-Employed Division SE:S  
Deputy Commissioner, Services and Operations, Wage and Investment Division SE:W  
Director, Compliance, Wage and Investment Division SE:W:CP  
Director, Enterprise Collection Strategy, Small Business/Self-Employed Division SE:S:CS  
Chief Counsel CC  
National Taxpayer Advocate  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Commissioner, Small Business/Self-Employed Division SE:S  
    Commissioner, Wage and Investment Division SE:W





*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

## Appendix IV

### *Director Collection Report Measures*

The CFf uses the DCR to report measures for customer satisfaction, employee satisfaction, and business results. As the table shows, the Collection program has steadily increased total dollars collected and taxpayer closures during the three-year period. However, the age of its inventory has increased.

Measure Category	Specific Measure	FY 2009	FY 2010	FY 2011
<b>Advisory, Insolvency, and Quality Output and Productivity</b>	Proofs of Claim Filed by Field (All Chapters)	183,580	202,566	233,632
	Technical Assistance Provided to Field Collection	77,941	78,554	80,728
	Advisory Case Direct Hours per Disposition	2.4	1.4	1.1
<b>Cycle Time</b>	Taxpayer Delinquent Account Module – Average Weeks	27.9	25.2	25.4
	Taxpayer Delinquency Investigation Total Investigations – Average Weeks	14.6	13.7	13.8
	Percent Offers in Compromise Field Closures in 0-9 Months	82.9	79.9	72.4
<b>Inventory</b>	Taxpayer Delinquent Account Inventory – Modules	774,045	950,395	978,848
	Field Taxpayer Delinquent Account and Combo Taxpayer Inventory	176,030	207,810	196,443
	Taxpayer Delinquency Investigation Inventory – Modules	191,486	229,946	189,939
	Field Taxpayer Delinquency Investigation Stand-Alone Taxpayer Inventory	30,984	41,215	29,176
	Queue Taxpayer Delinquent Account and Combo Taxpayer Inventory	1,109,057	949,201	1,117,934
	Potential In-Business Pyramiders	12,362	11,057	11,246
	Percent Potential In-Business Pyramiders	14.0	10.6	12.2
<b>Age of Inventory</b>	Percent Potential Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation	8.99	7.90	10.90
	Potential Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation	17,991	19,200	23,795
	Percent Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation	5.42	4.23	4.96
	Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation	10,841	10,282	10,833
	Percent Offers in Compromise Field Cases > 9 Months	8.62	14.70	14.89



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

Measure Category	Specific Measure	FY 2009	FY 2010	FY 2011
<b>Revenue Officer Inventory Level</b>	Number of Revenue Officers With Adjustments	1,640	1,392	759
<b>Closure Types</b>	Percent Full Pay	25.6	25.2	24.0
	Percent Installment Agreement	20.2	21.0	24.3
	Percent Currently Not Collectible	42.1	42.4	40.4
<b>Enforcement Activity</b>	Liens	473,796	542,045	566,889
	New Liens	470,802	539,030	563,053
	Refiled Liens	2,994	3,015	3,836
	Levies	386,444	667,322	822,757
	Seizures	581	605	776
	Percent of Timely Trust Fund Recovery Penalty Determination	59.7	76.5	82.7
	Percent of Timely Approved Form 4183 <sup>1</sup>	67.9	69.2	76.3
<b>Fraud Referrals</b>	Number of Fraud Referrals by Revenue Officers	206	220	205
	Fraud Referrals – Number in Development	704	618	763
<b>Nonfiler Activity</b>	Nonfiler Activity Number Returns Secured	317,518	381,861	438,459
	Nonfiler Activity Net Dollars Assessed	\$2,206,923,000	\$2,673,552,000	\$3,026,444,000
	Dollars Collected From Returns Secured	\$137,602,000	\$173,076,000	\$130,993,000
<b>Employee Satisfaction</b>	Employee Percent Satisfied	72.2	75.0	76.0
<b>Taxpayer Satisfaction</b>	Taxpayer Percent Satisfied	65.0	68.0	70.0
<b>Quality</b>	National Quality Review System	80.5	80.6	80.3
	National Quality Review System Offers in Compromise Quality Score	87.0	90.7	92.5
	Advisory Liens Quality Score	76.8	87.4	92.3
	Insolvency Quality Score	73.5	85.2	89.3

Source: *The Collection Field function DCR for FY 2009 to FY 2011*

<sup>1</sup> Form 4183, *Recommendation re: Trust Fund Recovery Penalty Assessment.*



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Appendix V**

*Director Collection Report Measures Included on the Enterprise Collection Report*

The ECR is a high-level operational report intended for Collection program executives. The ECR is a summary of selected work plan data from the DCR for the CFf, the Automated Collections System, and Campus Compliance. Because the ECR is a summary document and intended for Collection program executives, some measures from the DCR are not included on the ECR. The table below shows those FY 2011 DCR measures included on the FY 2011 ECR as well as which of the DCR measures include targets. In addition to the two satisfaction measures, the ECR does not include the age of the inventory or potential pyramiding measures.

DCR Measure Category	DCR Specific Measure	Targets Established	Also on ECR
<b>Staffing</b>	Full-Time Equivalents	X	X
	Full-Time Equivalents – Areas		
	Revenue Officers – Assigned Taxpayer Delinquent Accounts/Taxpayer Delinquency Investigation		
	Offers in Compromise Specialists – Head Count		
	Advisory, Insolvency, and Quality Staffing		
<b>Efficiency of Staffing</b>	Percent Direct Collection Time		
	Percent Field Time		
<b>Dollars Collected</b>	Dollars Collected From Taxpayer Delinquent Accounts Assigned to Field		X
	Dollars Collected From Installment Agreements		X
	Dollars Collected From Returns Secured		X
	Total Dollars Collected		
	Dollars Collected From Notices With Revenue Officer Assignment		
<b>Taxpayer Closures and Productivity</b>	Dollars Collected From Advisory, Insolvency, and Quality		
	Taxpayer Closures	X	X
	Taxpayer Closures per Full-Time Equivalents	X	X
	Taxpayer Closures per Full-Time Equivalents – Areas		
<b>Taxpayer Delinquent Accounts Closures and Productivity</b>	Taxpayer Closures per Direct Staff Year		
	Taxpayer Delinquent Accounts – Taxpayer Closures		X
	Taxpayer Delinquent Accounts Closures – Module		X
<b>Taxpayer Delinquency Investigation Closures and Productivity</b>	Taxpayer Delinquency Investigation – Taxpayer Closures		X
	Taxpayer Delinquency Investigation Closures – Module		X
<b>Normalized Productivity</b>	Taxpayer Delinquent Accounts and Taxpayer Delinquency Investigation Taxpayer Productivity Normalized		



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

DCR Measure Category	DCR Specific Measure	Targets Established	Also on ECR
<b>Offers in Compromise Closures and Productivity</b>	Offers in Compromise Field Closures	X	X
	Offers in Compromise Field Closures per Direct Staff Year	X	
	Offers in Compromise Field Receipts		
	Offers in Compromise Field Inventory Level		X
<b>Federal Tax Deposit Alerts Productivity</b>	Federal Tax Deposit Alert Productivity Rate		
	Federal Tax Deposit Alert Disposition Rate		
<b>Advisory, Insolvency, and Quality Output and Productivity</b>	Proofs of Claim Filed by Field (All Chapters)		
	Technical Assistance Provided to Field Collection		
	Advisory Case Direct Hours per Disposition		
<b>Cycle Time</b>	Taxpayer Delinquent Accounts Module – Average Weeks		
	Taxpayer Delinquency Investigation Total Investigations – Average Weeks		
	Percent Offers in Compromise Field Closures in 0-9 Months	X	
<b>Inventory</b>	Taxpayer Delinquent Accounts Inventory – Modules		X
	Field Taxpayer Delinquent Accounts and Combo Taxpayer Inventory		X
	Taxpayer Delinquency Investigation Inventory – Modules		X
	Field Taxpayer Delinquency Investigation Stand-Alone Taxpayer Inventory		X
	Queue Taxpayer Delinquent Accounts and Combo Taxpayer Inventory		
	Potential In-Business Pyramiders		
	Percent Potential In-Business Pyramiders		
<b>Age of Inventory</b>	Percent Potential Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation		
	Potential Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation		
	Percent Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation		
	Overage – Taxpayer Delinquent Accounts/Combo Taxpayer Delinquency Investigation		
	Percent Offers in Compromise Field Cases > 9 Months		
<b>Revenue Officer Inventory Level</b>	Number of Revenue Officers With Adjustments		
<b>Closure Types</b>	Percent Full Pay		X
	Percent Installment Agreement		X
	Percent Currently Not Collectible		X
<b>Enforcement Activity</b>	Liens		
	New Liens		
	Refiled Liens		
	Levies		
	Seizures		



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

DCR Measure Category	DCR Specific Measure	Targets Established	Also on ECR
	Percent of Timely Trust Fund Recovery Penalty Determination		
	Percent of Timely Approved Form 4183		
<b>Fraud Referrals</b>	Number of Fraud Referrals by Revenue Officers		
	Fraud Referrals – Number in Development		
<b>Nonfiler Activity</b>	Nonfiler Activity Number Returns Secured		
	Nonfiler Activity Net Dollars Assessed		
	Dollars Collected From Returns Secured		
<b>Employee Satisfaction</b>	Employee Percent Satisfied	X	
<b>Taxpayer Satisfaction</b>	Taxpayer Percent Satisfied	X	
<b>Quality</b>	National Quality Review System	X	
	National Quality Review System Offers in Compromise Quality Score		
	Advisory Liens Quality Score		
	Insolvency Quality Score		

*Source: TIGTA analysis of the Collection Field function FY 2011 DCR and the Collection program FY 2011 ECR.*



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Appendix VI**

*Strategic Goal to Improve Service to Make Voluntary Compliance Easier Linked to Performance Measures*

The CFf established 11 operational objectives for FY 2011 to support the IRS strategic goal to improve service to make voluntary compliance easier. We analyzed these operational objectives and the performance measures on the FY 2011 DCR to identify performance measures that were linked to the operational objectives. Few of the performance measures were linked directly with an operational objective, so we applied a broad interpretation in order to identify a link. We were able to link all 11 operational objectives to at least one performance measure.

Operational Objective	Linked to Performance Indicator	Director Collection Report Specific Measure	Director Collection Report Measure Category
Listen to taxpayers and work together to resolve their issues.	X	Taxpayer Percent Satisfied	Taxpayer Satisfaction
Communicate clear case expectations and use case closing letters.	X	Taxpayer Percent Satisfied	Taxpayer Satisfaction
Continue to identify and implement procedures to assist taxpayers who are experiencing economic challenges.	X	Percent Installment Agreement; Percent Currently Not Collectible; Offers in Compromise Field Closures; Dollars Collected From Installment Agreements; Dollars Collected From Advisory, Insolvency, and Quality; Offers in Compromise Specialists – Head Count; Advisory, Insolvency, and Quality Staffing; Insolvency Quality Score; Proofs of Claim Filed by Field (All Chapters)	Closure Type; Offers in Compromise Closures and Productivity; Dollars Collected; Staffing; Quality; Advisory, Insolvency, and Quality Output and Productivity
Support field assistance sites with technical backup.	X	Technical Assistance Provided to Field Collection	Advisory, Insolvency and Quality Output and Productivity
Collaborate with campus to enhance field processing procedures.	X	Employee Percent Satisfied	Employee Satisfaction
Reduce “rework” by conducting proper financial analysis and monitoring compliance.	X	Percent Offers in Compromise Field Closures in 0–9 Months	Age of Inventory



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

Operational Objective	Linked to Performance Indicator	Director Collection Report Specific Measure	Director Collection Report Measure Category
Treat businesses having payroll tax debt and related Trust Fund Recovery Penalty assessments as a single unified and coordinated collection effort where feasible.	X	Federal Tax Deposit Productivity Rate; Federal Tax Deposit Disposition Rate; Field Taxpayer Delinquent Account and Combo Taxpayer Inventory; Queue Taxpayer Delinquent Account and Combo Taxpayer Inventory	Federal Tax Deposit Alert Productivity; Inventory
Take all case actions in a professional, courteous, and respectful manner.	X	Taxpayer Percent Satisfied	Taxpayer Satisfaction
Use feedback from stakeholders to improve the collection process.	X	Taxpayer Percent Satisfied	Taxpayer Satisfaction
Promote awareness and increase usage of electronic products and payment options such as Online Payment Agreement, Direct Debt Installment Agreements, and Electronic Federal Tax Payment System.	X	Percent Installment Agreement; Taxpayer Percent Satisfied; Federal Tax Deposit Productivity Rate; Federal Tax Deposit Disposition Rate	Closure Type; Taxpayer Satisfaction; Federal Tax Deposit Alert Productivity
Establish an overall communication strategy to enhance understanding of the collection process and resolution options.	X	Taxpayer Percent Satisfied	Taxpayer Satisfaction

*Source: TIGTA analysis of the CFf FY 2011 operational objectives and the CFf FY 2011 DCR.*



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Appendix VII**

*Strategic Goal to Enforce the Law to Ensure That Everyone Meets Their Obligation to Pay Taxes Linked to Performance Measures*

The CFf established 10 operational objectives for FY 2011 to support the IRS strategic goal to enforce the law to ensure that everyone meets their obligation to pay taxes. We analyzed these operational objectives and the performance measures on the FY 2011 DCR to identify performance measures that were linked to the operational objectives. Few of the performance measures were linked directly with an operational objective so we applied a broad interpretation in order to identify a link. We were able to link seven of the 10 operational objectives to at least one performance measure.

Operational Objective	Linked to Performance Indicator	Director Collection Report Specific Measure	Director Collection Report Measure Category
Prevent pyramiding of employment taxes by taking timely and appropriate case actions.	X	Federal Tax Deposit Alert Productivity Rate; Federal Tax Deposit Alert Disposition Rate; Field Taxpayer Delinquent Account and Combo Taxpayer Inventory; Queue Taxpayer Delinquent Account and Combo Taxpayer Inventory; Potential In-Business Pyramiders; Percent Potential In-Business Pyramiders; Percent of Timely Trust Fund Recovery Penalty Determination; Percent of Timely Approved Form 4183	Federal Tax Deposit Alerts Productivity; Inventory; Enforcement Activity
Utilize Automated Trust Fund Recovery and Integrated Collection System applications to investigate, develop, and timely assess Trust Fund Recovery Penalties.	X	Federal Tax Deposit Alert Productivity Rate; Federal Tax Deposit Alert Disposition Rate; Field Taxpayer Delinquent Account and Combo Taxpayer Inventory; Queue Taxpayer Delinquent Account and Combo Taxpayer Inventory; Potential In-Business Pyramiders; Percent Potential In-Business Pyramiders; Percent of Timely Trust Fund Recovery Penalty Determination; Percent of Timely Approved Form 4183	Federal Tax Deposit Alerts Productivity; Inventory; Enforcement Activity
Pursue case actions such as suits, redemptions, and seizures when the facts of the case support it.	X	Levies; Seizures	Enforcement Activity





*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

Operational Objective	Linked to Performance Indicator	Director Collection Report Specific Measure	Director Collection Report Measure Category
Ensure indicators of fraud are properly pursued and developed.	X	Number of Fraud Referrals by Revenue Officers; Fraud Referrals – Number in Development	Fraud Referrals
Execute operational strategies within specific program areas such as nonfiler, Offer in Compromise, abusive schemes, decedents and bankruptcy.	X	Nonfiler Activity Number Returns Secured; Nonfiler Activity Net Dollars Assessed; Dollars Collected From Returns Secured; Taxpayer Delinquency Investigation Taxpayer Closures; Taxpayer Delinquency Investigation Closures – Module; Taxpayer Delinquency Investigation Total Investigations – Average Weeks; Taxpayer Delinquency Investigation Inventory – Modules; Field Taxpayer Delinquency Investigation Stand-Alone Taxpayer Inventory; Number of Fraud Referrals by Revenue Officers; Fraud Referrals –Number in Development; Offers in Compromise Field Closures per Direct Staff Year; Offers in Compromise Field Receipts; Offers in Compromise Field Inventory Level; Offers in Compromise Specialists – Head Count; Proofs of Claim Filed by Field (All Chapters)	Nonfiler Activity; Dollars Collected; Taxpayer Delinquency Investigation Closures and Productivity; Cycle Time; Inventory; Fraud Referrals; Offers in Compromise Closures and Productivity; Staffing; Advisory, Insolvency, and Quality Output and Productivity
Strengthen our partnerships with the IRS and SB/SE Research and conduct studies and validate assumptions to improve our Collection tools, processes and procedures.		–	–
Continue our emphasis on timely and accurate lien filing determinations along with understanding the circumstances of when not to file, defer, or extend lien filing. Also continue to give priority processing to lien certificate applications and requests, including discharges, subordinations, withdrawals, and non-attachments.	X	Liens; New Liens; Refiled Liens; National Quality Review Score; Advisory Liens Quality Score	Enforcement Activity; Quality
Maintain our field presence.	X	Revenue Officers – Assigned Taxpayer Delinquent Accounts/ Taxpayer Delinquency Investigations; Percent Direct Collection Time; Percent Field Time	Staffing; Efficiency of Staffing
Enhance our international collection efforts.		–	–
Partner with counsel to timely interpret/implement changes in the law that impact collection activities.		–	–

*Source: TIGTA analysis of the CFf FY 2011 operational objectives and the CFf FY 2011 DCR.*



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Appendix VIII**

*Strategic Foundation to Invest for High Performance Linked to Performance Measures*

The CFf established seven operational objectives for FY 2011 to support the IRS strategic foundation to invest for high performance. We analyzed these operational objectives and the performance measures on the FY 2011 DCR to identify performance measures that were linked to the operational objectives. Few of the performance measures were linked directly with an operational objective so we applied a broad interpretation in order to identify a link. We were able to link four of the seven operational objectives to at least one performance measure.

Operational Objective	Linked to Performance Indicator	Director Collection Report Specific Measure	Director Collection Report Measure Category
Actively engage employees; listen to their concerns and ideas and act on them.	X	Employee Percent Satisfied	Employee Satisfaction
Capitalize on opportunities for knowledge transfer throughout the Collection program.		-	-
Refine and clarify embedded quality attributes in order to improve performance feedback and case quality.	X	Employee Percent Satisfied	Employee Satisfaction
Enhance our enterprise workload selection process through case modeling.		-	-
Seek new and innovative ways to accomplish the Collection program mission.		-	-
Identify, cultivate, and support our future leaders.	X	Employee Percent Satisfied; Number of Revenue Officers With Adjustments	Employee Satisfaction; Revenue Officer Inventory Level
Develop and deliver interactive continuing professional education that maintains a highly skilled workforce.	X	National Quality Review Score; Offers in Compromise Quality Score; Advisory Liens Quality Score; Insolvency Quality Score	Quality

*Source: TIGTA analysis of the CFf FY 2011 operational objectives and the CFf FY 2011 DCR.*



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

## Appendix IX

### *Performance Measures Not Linked to an Operational Objective*

Even though we applied broad criteria to identify a link between the operational objectives and performance measures, there were 22 measures in which we could not identify a link to at least one operational objective. Because these measures are not tied to either a CFf operational goal or an IRS strategic goal or foundation, their usefulness as a performance measure is unclear.

Director Collection Report Measure Category	Director Collection Report Specific Measure
<b>Staffing</b>	Full-Time Equivalents; Full-Time Equivalents – Areas
<b>Dollars Collected</b>	Dollars Collected From Taxpayer Delinquent Accounts Assigned to Field; Dollars Collected From Returns Secured; Total Dollars Collected; Dollars Collected From Notices With Revenue Officer Assignment
<b>Taxpayer Closures and Productivity</b>	Taxpayer Closures; Taxpayer Closures per Full-Time Equivalent; Taxpayer Closures per Full-Time Equivalent – Areas; Taxpayer Closures per Direct Staff Year
<b>TDA Closures and Productivity</b>	Taxpayer Delinquent Account Taxpayer Closures; Taxpayer Delinquent Account Closures – Module
<b>Normalized Productivity</b>	Taxpayer Delinquent Account and Taxpayer Delinquency Investigation Taxpayer Productivity Normalized
<b>Advisory, Insolvency, and Quality Output and Productivity</b>	Advisory Case Direct Hours per Disposition
<b>Cycle Time</b>	Taxpayer Delinquent Account Module – Average Weeks
<b>Inventory</b>	Taxpayer Delinquent Account Inventory – Modules
<b>Age of Inventory</b>	Percent Potential Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation; Potential Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation; Percent Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation; Overage – Taxpayer Delinquent Account/Combo Taxpayer Delinquency Investigation
<b>Closure Types</b>	Percent Full Pay
<b>Enforcement Activity</b>	Levies

Source: TIGTA analysis of the CFf FY 2011 operational objectives and the CFf FY 2011 DCR.



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

## Appendix X

### *Glossary of Terms*

**Automated Collection System** – A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

**Collection Activity Reports** – Automated reports that provide managers timely and reliable raw data to show results each month by program, case type, location, *etc.*

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

**Compliance Services Collection Operations** – Units of tax examiners that work Balance Due Notice Program cases.

**Congressional Justification** – The budget request submitted to the IRS Oversight Board, the Department of the Treasury, the Office of Management and Budget, and Congress. 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.

**Data Dictionary** – Document that provides information about data such as meaning, relationships to other data, origin, usage, and format.

**Fiscal Year** – A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.

**Full-Time Equivalent** – A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

**Government Performance and Results Act of 1993**<sup>1</sup> – Law requiring agencies to set organizational goals pertinent to the agency mission as well as the means to accurately measure them. Such goals should be cascaded through the organization and linked to the development of employee elements and standards.

**Integrated Financial System** – An administrative accounting system used by the IRS.

**Internal Revenue Manual** – Manual that contains the policies, procedures, instructions, guidelines, and delegations of authority which direct the operation and administration of the IRS.

---

<sup>1</sup> 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.).



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

**IRS Oversight Board** – A nine-member independent body charged to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws and to provide experience, independence, and stability to the IRS so it may move forward in a cogent, focused direction.

**IRS Restructuring and Reform Act of 1998**<sup>2</sup> – The Internal Revenue Service Restructuring and Reform Act of 1998 became law when the President signed legislation on July 22, 1998. This new law ushered in dramatic changes in tax law as well as in the structure and functioning of the IRS. The changes affecting the IRS focus mainly on improving customer service and expanding taxpayer rights.

**Lien** – An encumbrance on property or rights to property as security for outstanding taxes.

**Management Discussion and Analysis** – Executive report that includes performance discussion, financial statements, and discussion of financial highlights.

**National Quality Review System** – A quality review system in which a sample of cases is rated based on measures such as timeliness, accuracy, and ongoing compliance.

**Nonfilers** – Individual and business taxpayers that have been identified as liable to file a tax return but have not filed a tax return by the return due date or extended due date.

**Offer in Compromise** – An offer in compromise is an agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.

**Pyramiding** – The accumulation of additional payroll tax liabilities by delinquent in-business taxpayers.

**Raw Data** – Data that have not been analyzed.

**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.

**Suite** – A group of items forming a unit or constituting a collection.

**Target Calculation Document** – The document the CFf uses to establish target values for the upcoming fiscal year.

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

---

<sup>2</sup> 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.).



*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

**Appendix XI**

*Management's Response to the Draft Report*

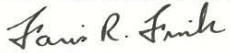


COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

FEB 28 2013

MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink   
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program (Audit 201130016)

Thank you for the opportunity to review your draft report titled: "Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program." IRS appreciates the Treasury Inspector General for Tax Administration's (TIGTA) acknowledgement that Collection leadership has developed and established 68 performance and 11 efficiency-oriented measures to measure the effectiveness of our compliance activities and noted several favorable trends. The new Enterprise Collection Strategy organization continues to focus on improving the way Collection programs analyze and report performance results. IRS Collection operations employ a variety of programs to resolve balance due and nonfiling delinquencies with millions of taxpayers each year. To manage and continually evaluate the performance of these programs, Collection leadership relies on a suite of performance measures and diagnostics supported by a variety of quantitative and qualitative analyses.

The IRS agrees that sound decision making requires organizations to pursue continual improvement in how performance is assessed. To ensure that balanced measures adequately represent key IRS Collection programs, we have taken steps to add program-level customer and employee satisfaction measures to the Enterprise Collection Report. The IRS will further enhance Collection's performance measurement process by taking steps to improve work plan documentation and will assess the need for new measures or changes to existing measures to ensure proper alignment with operational goals.





---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

2

Attached is a detailed response outlining our corrective actions addressing your recommendations.

If you have any questions, please contact me, or a member of your staff may contact Michael Julianelle, Director, Enterprise Collection Strategy, SB/SE at 202-283-2548.

Attachment



---

*Improvements Are Needed to Ensure That Performance Measures Are Balanced and Adequately Assess the Effectiveness of the Collection Program*

---

Attachment

**RECOMMENDATION 1:**

The Director, Enterprise Collection Strategy, SB/SE Division, should report performance measurement data for customer satisfaction and employee satisfaction on the ECR to promote consistency and transparency throughout the Collection program.

**CORRECTIVE ACTION:**

IRS will include program-level customer satisfaction and employee satisfaction performance measurement data in the Enterprise Collection Report.

**IMPLEMENTATION DATE:**

November 15, 2013

**RESPONSIBLE OFFICIAL(S):**

Director, Enterprise Collection Planning and Governance, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 2:**

To improve Collection program performance measures, the Director, Enterprise Collection Strategy, SB/SE Division, should establish a Collection program performance measure and target for each operational objective.

**CORRECTIVE ACTION:**

IRS will improve work plan documentation by including clear evidence of all assumptions used to support the development of meaningful operational targets.

IRS will assess the need for new measures or changes to existing measures to ensure proper alignment with operational goals.

**IMPLEMENTATION DATE:**

November 15, 2013

**RESPONSIBLE OFFICIAL(S):**

Director, Enterprise Collection Planning and Governance, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.