



*Oversight of Revenue Officer  
Case Actions Can Be Improved*

**May 8, 2013**

**Reference Number: 2013-30-043**

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.

**Redaction Legend:**

1 = Tax Return/Return Information

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## HIGHLIGHTS

### OVERSIGHT OF REVENUE OFFICER CASE ACTIONS CAN BE IMPROVED

## Highlights

Final Report issued on May 8, 2013

Highlights of Reference Number: 2013-30-043 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

#### IMPACT ON TAXPAYERS

Actions taken by revenue officers (RO) to collect Federal taxes are designed to move cases toward resolution and include analysis prior to contacting the taxpayer (precontact analysis), initial contact, and timely follow-up actions. However, management controls are not effective to ensure that RO case actions are always performed timely. As a result, the potential exists for the inconsistent treatment of taxpayers when some ROs perform case actions timely and appropriately while others do not.

#### WHY TIGTA DID THE AUDIT

National Quality Review System reports over the past five years have repeatedly identified some problems with the timeliness of follow-up actions and initial contacts. This audit was initiated to determine whether ROs in the Collection Field function were following all required case processing procedures.

#### WHAT TIGTA FOUND

Before making initial contact with the taxpayer, ROs are required to conduct a precontact analysis. However, IRS procedures do not provide specific time periods, except to state that the precontact analysis should be performed upon assignment. TIGTA reviewed a random sample of 139 cases and determined that ROs waited an average of 16 calendar days to conduct the precontact analysis on cases with a 30-calendar-day initial contact requirement and an average of 22 calendar days on cases with a 45-calendar-day initial contact requirement. Furthermore, in eight (6 percent) of the 139 cases, the precontact analysis was either not completed or was completed after the RO contacted the taxpayer.

IRS procedures are specific about how much time an RO has to contact a taxpayer after being assigned a case. TIGTA determined that the majority of the maximum time allowed had elapsed before ROs attempted contact, and they made untimely contact in 26 (19 percent) of 134 sampled cases in which initial contact was required. Furthermore, in 82 (61 percent) of 134 cases, the taxpayers were not contacted when the ROs attempted initial contact. Finally, ROs did not take timely follow-up actions in 55 (42 percent) of 130 cases requiring action.

Controls to ensure that ROs take timely case actions were not completely effective. Specifically, the Integrated Collection System does not generate reports that allow group managers to proactively monitor RO case actions. In addition, ROs are not required to use the Integrated Collection System electronic calendar, which allows group manager access and can help ROs meet deadlines.

In June 2011, IRS management extended the maximum time periods allowed to make initial contact with the taxpayer from 30 to 45 calendar days for most cases. However, the change was implemented without assessing the impact it would have on inventory, workload, or revenue.

#### WHAT TIGTA RECOMMENDED

TIGTA made several recommendations to improve the timeliness of RO case actions. TIGTA also recommended that management assess the impact of the procedural change that extended the time periods for RO case resolutions.

The IRS agreed with most of our recommendations and plans to take corrective actions. However, it did not agree that additional controls were necessary to ensure that ROs perform precontact analysis prior to making contact with taxpayers. Instead, it plans to issue a reminder notice to employees.

Existing controls were insufficient to detect or prevent the errors identified in this audit. While TIGTA agrees that reminding ROs of the importance of this requirement can be beneficial, establishing controls that ensure compliance with IRS regulations and consistent taxpayer treatment would be more effective.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

May 8, 2013

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

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

**SUBJECT:** Final Audit Report – Oversight of Revenue Officer Case Actions  
Can Be Improved (Audit # 201230017)

This report presents the results of our review to determine whether revenue officers in the Collection Field function are following all required case processing procedures. The audit is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

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

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).



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*Oversight of Revenue Officer Case Actions Can Be Improved*

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*Abbreviations*

CFf	Collection Field function
ICS	Integrated Collection System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
NQRS	National Quality Review System
RO	Revenue Officer
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



## *Background*

Revenue officers (ROs)<sup>1</sup> in the Small Business/Self-Employed (SB/SE) Division Collection Field function (CFf) meet face to face with individual and business taxpayers to help them resolve their tax issues. ROs must work cases strategically by taking simultaneous case actions when possible to maximize collections while protecting taxpayer rights. The following three case actions are designed to move cases toward resolution:

- Precontact analysis.
- Initial contact.
- Timely follow-up actions.

### Precontact Analysis

Upon assignment of a new case, ROs must conduct a precontact analysis. Precontact analysis consists of reviewing the Integrated Data Retrieval System, the Integrated Collection System (ICS), and any case history included on the Accounts Management System in order to identify actions already taken on cases worked in the Automated Collection System. During precontact analysis, ROs decide what issues to address during initial contact with the taxpayer as well as set a reminder of when to make the initial contact with the taxpayer. There can be unique factors associated with each case that influence the amount of research needed prior to initial contact and the depth of the financial investigation required for locating and verifying asset information.

### Initial Contact

After precontact analysis is completed, ROs are required to promptly contact the taxpayer. In most cases, ROs should contact taxpayers at their residence or, in the case of a business taxpayer, at the business address. Actual contact with the taxpayer (or taxpayer's representative) and attempted contact with the taxpayer are required to be documented in the ICS history. A visit to the taxpayer's address within the initial contact time periods that does not result in actual contact with the taxpayer meets the requirement for an initial contact. This visit is called an attempted contact. The RO should document the ICS history with the reasons for any delay in making initial contact and, if the initial contact with a taxpayer is not at the taxpayer's address, the reason for any initial contact made at an alternate location.

If the case is not resolved during the initial contact, the RO should discuss a realistic plan for case resolution with the taxpayer and establish and document a plan for resolving the case in the ICS history. When used effectively, the initial contact with the taxpayer provides the RO with an

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



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early opportunity to secure complete collection or asset information (such as bank accounts and real or personal property owned) so that the RO can take appropriate enforcement action.

If the taxpayer is unable or unwilling to provide all the necessary information upon initial contact, ROs should attempt to secure as much preliminary information as possible and document the ICS history accordingly. If the taxpayer is unable to provide the information, an appointment should be scheduled to meet in person, preferably at the taxpayer's residence or business. If the taxpayer is unwilling to meet in person, the RO should warn the taxpayer of enforcement action that may take place if the taxpayer fails to comply with the requests for information. If the taxpayer is still unwilling to comply, the RO should begin appropriate enforcement follow-up actions.

### Timely Follow-Up Actions

Once ROs begin casework, timely follow-up actions must be initiated and deadlines must be established and followed up on. Follow-up actions should move the case toward resolution. Deadlines set for the taxpayer or representative to comply with requests for information or action should be reasonable with respect to the information or action requested. A telephone call or letter to a taxpayer or representative to inquire about a missed deadline is not considered an appropriate follow-up action. Appropriate follow-up actions include, but are not limited to:

- Filing a Notice of Federal Tax Lien.
- Issuing a Notice of Intent to Levy.
- Issuing a summons.
- Taking seizure action.

The timing and coordination of follow-up actions need to be considered as part of the overall case strategy. Often the strategy will include taking simultaneous case actions to maximize the benefits of the actions. ROs should ensure that sufficient time is planned to carry out follow-up actions if the deadline is not met. When a taxpayer or representative misses a specific deadline, ROs are required to initiate follow-up action within 10 calendar days.<sup>2</sup>

This review was performed at the SB/SE Division Headquarters in New Carrollton, Maryland, during the period January through August 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>2</sup> This requirement was in effect for the time period of our sampled cases. The requirement was later changed from 10 calendar days to 15 calendar days.



## *Results of Review*

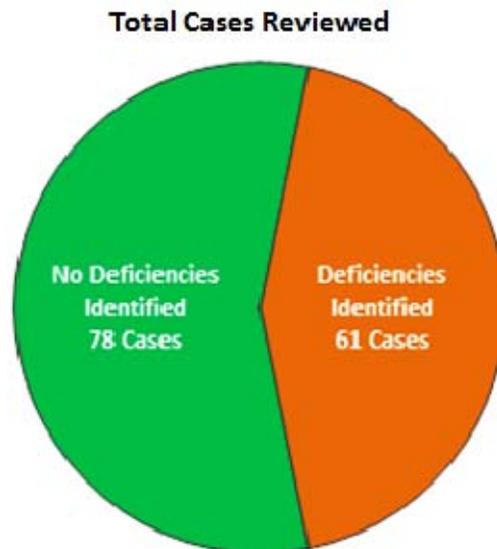
### **Controls Are Not Effective to Ensure That Revenue Officer Case Actions Are Performed Timely**

Tests of a random sample<sup>3</sup> of 139 RO cases with an initial contact due date closed during the 12-month period ending June 18, 2011, showed that.<sup>4</sup>

- Precontact analysis actions were not always timely.
- Initial contact actions were not always timely.
- Follow-up actions were not always made timely or properly.

Overall, 61 (44 percent) of 139 cases had deficiencies. Figure 1 shows the number and types of errors in our sample.

**Figure 1: Number of Errors Identified in Case Reviews**



*Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of closed CFf cases.*

<sup>3</sup> See Appendix I for our sample methodology.

<sup>4</sup> Each case was reviewed to evaluate the effectiveness of precontact analysis, initial contact, and timely follow-up actions.



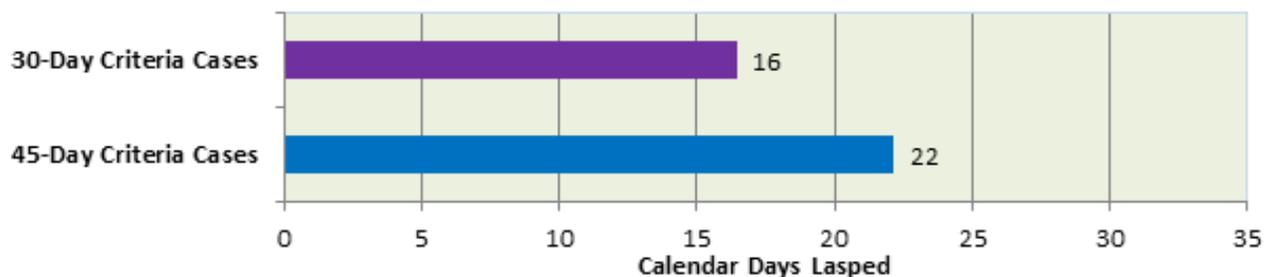
Because each case sampled was reviewed for all three case actions, each case could potentially have three errors associated with it. We identified multiple errors in 22 (16 percent) of the 139 cases. Of the 61 cases with one or more deficiencies:

- 55 cases had a timely follow-up error.
- 26 cases had an initial contact error.
- 8 had a precontact analysis error.

**Precontact analysis actions were not always timely**

The ROs were required to perform precontact analysis in each of the 139 cases reviewed. The Internal Revenue Manual (IRM)<sup>5</sup> states that ROs must conduct a precontact analysis upon assignment of a new case. However, it does not provide specific time periods. Some ROs in our sample did not conduct precontact analysis upon assignment of their cases. Figure 2 shows that, in cases requiring initial taxpayer contact within 30 days<sup>6</sup> of assignment, the ROs did not conduct the precontact analysis until an average of 16 days<sup>7</sup> after case assignment. In addition, in cases requiring an initial contact within 45 days, the ROs did not conduct the precontact analysis until an average of 22 days<sup>8</sup> after case assignment.

**Figure 2: Average Days Elapsed Before Precontact Analysis Was Conducted**



Source: TIGTA analysis of closed CFf cases.

Additionally, in eight (6 percent) of the 139 cases, the ROs either did not conduct a precontact analysis (three cases) or performed the precontact analysis after the initial contact due date (five cases). Timely precontact analysis can result in early case closures, and the sooner an RO closes an unproductive case, the sooner he or she can be assigned a more productive case.

<sup>5</sup> IRM 5.1.10.1 (Oct. 28, 2011).

<sup>6</sup> References to days in this report are to calendar days.

<sup>7</sup> We are 95 percent confident that the average number of days is between 12 and 22 days.

<sup>8</sup> We are 95 percent confident that the average number of days is between 19 and 26 days.



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For five cases sampled, the ROs’ precontact analyses determined that no initial contacts were warranted and resulted in the closing of the cases. Specifically, the precontact analyses determined that:

- In three cases, the taxpayers were not liable for the delinquency or were out of business.
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 \*\*\*\*\*1\*\*\*\*\*. When precontact analysis is delayed, it can affect the timeliness of all subsequent case actions, including the initial contact and subsequent follow-up actions.

**Initial contact actions were not always timely**

An effective initial contact is the cornerstone to timely and effective case resolution. Accordingly, the IRM<sup>9</sup> is very specific about how much time ROs have to contact a taxpayer after they are assigned a case. The initial contact time periods are:

- 15 days – Federal Tax Deposits Alerts.
- 30 days<sup>10</sup> – Business Master File, Individual Master File, and Non–Master File large dollar cases; Delinquent Return cases; and Federal Agency Balance Due and Delinquent Return cases.
- 45 days – All other cases.
- 60 days – Compliance Initiative Projects Leads.

The goal of the initial contact is to bring the taxpayer into full compliance with all filing, paying, and deposit requirements or, failing that, to obtain information needed to resolve the case. The time periods established for making initial contact are the maximum time allowed. The IRM<sup>11</sup> also states that ROs should make initial contact as soon as possible after case receipt, ideally within the first week of assignment. Only 4 percent of the sampled cases had initial contact attempted within the first week of assignment. Instead, the majority of the maximum time allowed had elapsed before ROs attempted the initial contact. Figure 3 shows the average number of days elapsed before ROs attempted initial contacts.

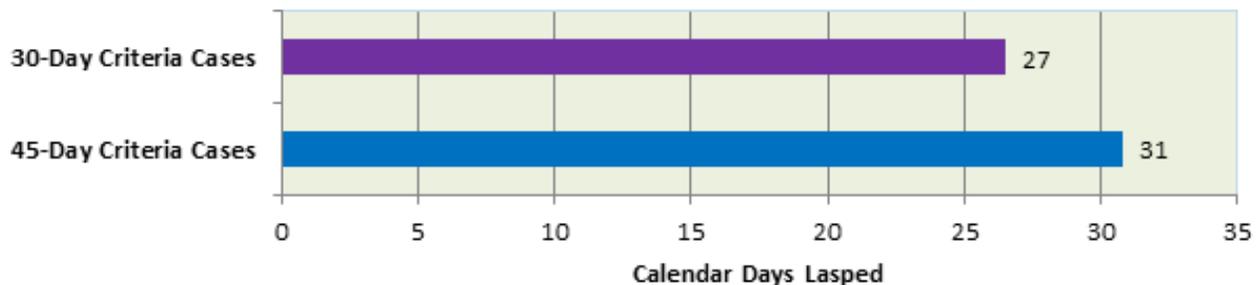
<sup>9</sup> IRM 5.1.10.3.1 (Oct. 28, 2011).

<sup>10</sup> This requirement was in effect for the time period of our sampled cases. The requirement was later changed to 45 days.

<sup>11</sup> IRM 5.1.10.3.1 (Oct. 28, 2011).



**Figure 3: Average Days Elapsed Before Making Initial Taxpayer Contact**



Source: TIGTA analysis of closed CFf cases.

- For cases with a 30-day criterion, on average 90 percent of the allowed time had elapsed before ROs made the initial contact (27 days).<sup>12</sup>
- For cases with a 45-day criterion, on average 69 percent of the allowed time had elapsed before ROs made the initial contact (31 days).<sup>13</sup>

ROs were required to make contact with the taxpayer in 134 of 139 sampled cases;<sup>14</sup> however, ROs did not make a timely initial contact in 26 (19 percent) of the 134 cases. Specifically, ROs attempted initial contact after the initial contact due date in 17 of 26 cases, while the ROs did not make initial contact attempts at all in the other nine cases. These 26 cases included 19 taxpayers with Taxpayer Delinquent Accounts<sup>15</sup> with *accrued penalties and interest* totaling \$18,490, an average of \$973 per taxpayer. This compares with an average of \$713 in *accrued penalties and interest* paid by taxpayers with Taxpayer Delinquent Accounts when ROs made timely initial contact. Based on our random sample results, we project that 96,417 taxpayers<sup>16</sup> were affected when ROs did not make timely initial contact.

The IRM<sup>17</sup> states that making actual contact with the taxpayers or representatives should be the objective of the initial contact attempt. However, there are instances in which the RO will be unable to contact the taxpayer, such as deceased taxpayers, taxpayers who have moved, or business taxpayers that are out of business. Therefore, initial contact procedures only require an attempt at taxpayer contact. Although there are valid reasons for not making actual contact, we

<sup>12</sup> We are 95 percent confident that the average number of days is between 18 and 35 days.

<sup>13</sup> We are 95 percent confident that the average number of days is between 28 and 37 days.

<sup>14</sup> There were five cases in which precontact analysis determined initial contact was not necessary. See page 5 for details.

<sup>15</sup> The other seven cases included taxpayers with Taxpayer Delinquency Investigations with a delinquent return on the taxpayers' accounts.

<sup>16</sup> We are 95 percent confident that the range is between 63,025 and 129,808 taxpayers. See Appendix I for our sample projection methodology.

<sup>17</sup> IRM 5.1.10.3 (Oct. 28, 2011).





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(IRS) matter. The IRM<sup>18</sup> states that taxpayers should be given two business days to respond, and the RO should establish that time as the deadline for follow-up actions if the taxpayer fails to respond.

The IRM<sup>19</sup> also requires ROs to set deadlines when a taxpayer needs to take actions such as filing a tax return, providing financial information, or paying the balance due. The RO should warn the taxpayer of the consequences if he or she fails to comply timely. If the taxpayer misses a specific deadline, the RO is required to take enforcement action within 10 calendar days.<sup>20</sup>

However, the ROs did not perform timely follow-up enforcement actions in 55 (42 percent) of the 130 sampled cases<sup>21</sup> in which a follow-up action was required. In these 55 cases, the ROs missed deadlines for the initiation of enforcement actions, which allowed taxpayers to prolong collection action.

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ROs should have taken immediate enforcement actions after the taxpayers missed the deadlines. ROs needed to timely follow the established plans of action, instead of setting new deadlines and allowing the taxpayers to procrastinate and delay collection. ROs can lose credibility with taxpayers and their representatives when they do not follow up timely with enforcement actions after deadlines are missed. In addition, taxpayers may be treated inconsistently because in other cases ROs perform case actions timely and appropriately.

**National Quality Review System (NQRS) and Territory Manager Operational Reviews identified similar findings**

Figure 5 shows that NQRS reports over the past five years have repeatedly identified problems with the timeliness of follow-up actions and initial contacts.

<sup>18</sup> IRM 5.1.10.3 (Oct. 28, 2011).

<sup>19</sup> IRM 5.1.10.3 (Oct. 28, 2011).

<sup>20</sup> This requirement was in effect for the time period of our sampled cases. The requirement was later changed from 10 calendar days to 15 calendar days.

<sup>21</sup> Only 130 of 139 cases in our sample required the RO to schedule a follow-up action. Precontact analysis and initial contact results determined that the other nine taxpayers were either deceased, out of business, or not liable for the delinquency.



**Figure 5: NQRS Results Pertaining to Untimely Follow-Up Actions and Initial Contact**



Source: NQRS Organizational Top 10 reports for Fiscal Year 2007 through Fiscal Year 2011.

Despite these NQRS results, the IRS has not taken corrective action. The IRS does include workload management as a part of the training provided to new ROs and as a Continuing Professional Education opportunity. A May 2011 SB/SE Division Territory Manager Operational Review performed in the California Area Office concluded that the problems associated with timeliness of initial contact could be the result of inadequate RO workload management skills. In addition, management also believed the problems may have been directly related to concerns that ROs have expressed regarding their heavy caseloads.

### **Increased oversight of case actions is needed**

Group managers must provide oversight and direction to ROs and are responsible for the quality of all work assigned to their group. Group manager oversight responsibilities include ensuring employee case actions are timely and in accordance with current policies and procedures. Group managers are also required to conduct mandatory case reviews of the work of each RO under their supervision. These reviews can be a valuable tool for improving performance. For example, case reviews provide group managers with opportunities to ensure that ROs are adhering to standards, reinforce the importance of completing case actions timely and appropriately, and pinpoint and address performance gaps. They also provide the principal support for the ratings ROs receive for their critical job elements reflected in their midyear progress reports and annual appraisals.

We interviewed 10 group managers and reviewed the Fiscal Years 2010 and 2011 performance appraisals of 10 ROs with untimely actions in our case reviews. All 10 group managers are consistently using workload reviews and the Embedded Quality Review System to evaluate RO case actions. The documentation from these reviews pertaining to case actions was incorporated



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into the annual appraisals of nine<sup>22</sup> of the 10 ROs. However, even though all nine of the ROs had untimely case actions in the cases we reviewed and NQRS results identified timeliness problems in more than 50 percent of cases, only three of nine appraisals included comments identifying opportunities for improving the timeliness of case actions.

In addition to performance management, we identified additional opportunities to improve group manager oversight of RO case actions. For example, the IRM<sup>23</sup> states that all case-related activities and follow-up actions should be entered into the ICS calendar system. Group managers who we interviewed stated that the ICS calendar and notification system can effectively help ROs manage their inventory. Specifically, when ROs use ICS calendars, managers have the capability to review the follow-up actions that ROs created for their cases. This tool gives group managers the ability to proactively determine whether ROs are untimely with any deadlines or not taking enforcement actions when taxpayers miss deadlines. In addition, when an RO adds a follow-up action in the ICS calendar, a notification is generated to the RO when it becomes due. However, this IRM section also states that ROs can use any type of calendaring method they choose, such as a paper calendar or Microsoft Outlook. We were advised by management that in order to make use of the ICS calendar mandatory, the IRS would have to negotiate with the National Treasury Employee Union. Management does not believe it would be beneficial to go through negotiations at this time when there is already the option for the ROs to use the ICS calendar.

We also determined that the ICS does not generate reports (via ICS ENTITY) that allow group managers to proactively ensure the timeliness of RO precontact analysis and initial contact. Such a report would enable group managers to determine which ROs in their group have not conducted precontact analysis or initial contact with the taxpayer prior to the expiration of the respective time periods.

Regardless of the type of case action error, the potential exists for the inconsistent treatment of taxpayers when some ROs perform case actions timely and appropriately while others do not. In addition, the IRS's own studies<sup>24</sup> show that as more time elapses before an individual makes at least one payment, it becomes less likely that they will do so at any subsequent time. If the IRS takes longer to make taxpayer contact, there is a higher probability that taxpayers will not make required payments or file required tax returns. Finally, taxpayers who are not contacted timely may accrue more interest and penalties compared with taxpayers who are promptly contacted.

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<sup>22</sup> The annual appraisal for one of the 10 ROs was not available because the RO has since retired from the IRS.

<sup>23</sup> IRM 5.1.31.2.1(3) (Jul. 5, 2011).

<sup>24</sup> Publication 1500, *The IRS Research Bulletin*, (Rev. 11-99).



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### **Recommendations**

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

**Recommendation 1:** Establish controls to ensure that ROs perform and document precontact analysis prior to the initial contact due date.

**Management's Response:** IRS management agreed in part with this recommendation. They do not agree that additional controls are necessary; however, they will emphasize the requirement for ROs to perform and document precontact analysis prior to the initial contact due date. They will prepare and issue to CFf personnel a memorandum signed by the Director, Field Collection, and the Director, Collection Policy, emphasizing the critical importance of performing and documenting precontact analysis prior to the initial contact due date.

**Office of Audit Comment:** Existing controls were insufficient to detect or prevent the errors identified in this audit. While we agree that reminding ROs of the importance of this requirement can be beneficial, establishing controls that ensure compliance with IRS regulations and consistent taxpayer treatment would be more effective.

**Recommendation 2:** Revise the IRM to require ROs to either: a) make actual contact with the taxpayer or taxpayer's representative or b) document the actions taken to verify the taxpayer's current address if field contact is attempted but not made, both within the initial contact time period.

**Management's Response:** IRS management agreed with this recommendation and will update relevant IRMs accordingly to emphasize this requirement.

**Recommendation 3:** Remind group managers to provide ROs feedback about timely case actions when appropriate.

**Management's Response:** IRS management agreed with this recommendation and will prepare and issue to CFf managers a memorandum signed by the Director, Field Collection, and the Director, Collection Policy, reminding group managers to provide ROs feedback about timely case actions when appropriate.

**Recommendation 4:** Create a report in the ICS that will enable group managers to monitor compliance with initial contact timeliness requirements. In addition, establish procedures for group managers to use the ICS report as a proactive tool to ensure that precontact analysis and initial contact are made timely.

**Management's Response:** IRS management agreed in part with this recommendation. While they do not agree that a new report in the ICS is necessary, they will provide additional guidance to their leadership team on how to more easily utilize the ICS notifications to monitor compliance with the initial contact guidelines.



**Office of Audit Comment:** Although we believe an ICS report that specifically tracks initial contact timeliness compliance would be more effective, management’s planned corrective action meets the intent of the recommendation.

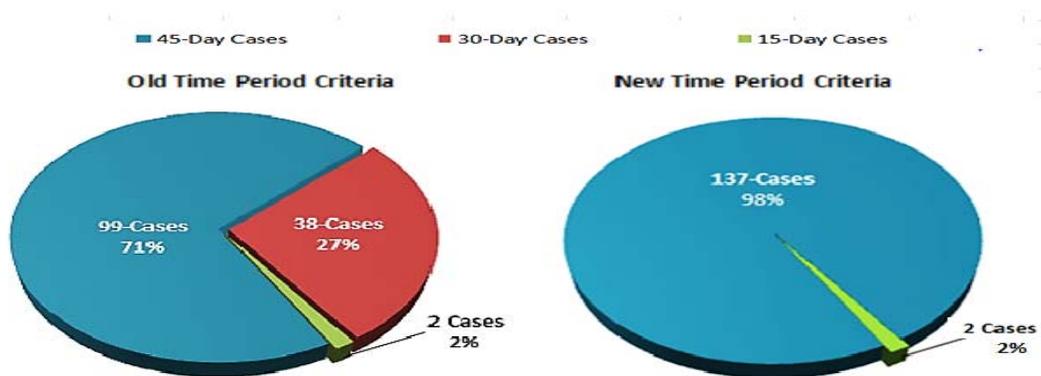
**Recommendation 5:** Revise the IRM to indicate that use of the ICS calendar system is the preferred calendar method for scheduling follow-up actions. This tool will remind ROs of pending deadlines as well as provide group managers with a tool to review the current status of follow-up actions that ROs have created and evaluate whether they are moving their cases toward resolution.

**Management’s Response:** IRS management agreed with this recommendation and will update the IRM section that pertains to taxpayer contact to indicate that use of the ICS calendar system is the preferred calendar method for scheduling follow-up actions.

### **The Case Action Time Period Requirement Was Extended Without Considering the Impact on Collection Inventory**

IRS management is aware of the challenges ROs have had in making timely initial contacts. As referenced previously in this report, the NQRS and CFf operational reviews have identified significant error rates for timely initial contact. In response, management changed the time requirements for initial contact in June 2011. Specifically, management increased the maximum time allowed for initial contact to 45 days for all cases that were classified as 30-day criteria. This change represents a 50 percent increase in the time allowed to make an initial contact and will result in most of the cases assigned to the CFf having a 45-day time requirement. Figure 6 shows that 98 percent of the CFf cases in our sample would become 45-day cases under the new time periods.

**Figure 6: Case Type Distribution Within Our Sample**



Source: TIGTA analysis of closed CFf cases.



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Collection management indicated that improving employee satisfaction drove their decision to revise the 30-day criteria. There were several RO complaints to the National Treasury Employees Union related to heavy workloads for ROs. While increasing the initial contact requirement from 30 to 45 days was not a recommended solution to these concerns, management believed that allowing more time would make it easier for ROs to make initial contact. Also, management wanted to make initial contact due dates consistent so that the cases in an RO's inventory would all have the same time period requirements. In addition to this change, procedures were also implemented to reduce RO inventories to 85 percent of their previous inventory levels and to extend the time period for follow-up actions from 10 calendar days to 15 calendar days.

The procedural changes may help improve the NQRS results related to timely initial contact. However, we noted that any improvements to the timeliness requirements will not be based on improved performance, but instead based on a less challenging definition of timely. Furthermore, to make an informed decision to change procedures, management must have complete and reliable information as well as objective criteria on which to base their decision. The Government Accountability Office's *Standards for Internal Control in the Federal Government*<sup>25</sup> requires clear documentation of significant events, including assumptions and methods surrounding key decisions. The standards also state that this documentation should be readily available for examination. However, management had no documentation related to their decision to make this procedural change.

Government Accountability Office guidance<sup>26</sup> also states that consideration should be given to the risks involved when introducing changes into the operating process. However, management did not:

- Assess the impact the procedural change would have on CFf inventory, RO workload, and case closures. By extending the maximum time allowed to make initial contact on 30-day criteria cases to 45 days, ROs will likely take longer to close cases in their inventory. In our sample, the cases in which the RO made initial contact within 30 days took an average of 160 days to close; whereas, the cases in which the ROs made initial contact after 30 days took an average of 200 days to close.
- Determine why the 30-day initial contact criterion has become a problem for ROs in managing their workload. If a goal was to make the number of days consistent for all cases, adopting the higher of the two time periods (30 days or 45 days) does not appear to be consistent with improved CFf productivity.

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<sup>25</sup> Government Accountability Office (formerly known as the General Accounting Office), GAO/AIMD-00-21.3.1, *Internal Control: Standards for Internal Control in the Federal Government* (Nov. 1999).

<sup>26</sup> Government Accountability Office, GAO-01-1008G, *Internal Control Management Evaluation Tool* (Aug. 2001).



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- Quantify the impact on revenue collections. As previously noted in this report, if the IRS takes longer to make taxpayer contact, there is a higher probability that taxpayers will not make required payments or file required tax returns.

Our review also showed that ROs were waiting until the majority of time allowed had elapsed before making contact. It is likely that extending the time allowed will result in later contact with the taxpayers, which could not only reduce collections but also increase the amount of interest and penalties the taxpayers will accrue. We believe management should assess the impact of the procedural change so that appropriate decisions can be made to minimize any potentially adverse impact on collections and taxpayers.

In addition, it is a widely accepted principle in the collection industry that as debts age, they become increasingly more difficult to collect. In the collection industry, the probability of settling unpaid accounts falls dramatically over time, as follows:

- After three months, collectability falls to 70 percent.
- After six months, collectability falls to 52 percent.
- After 12 months, collectability falls to 23 percent.

We previously reported<sup>27</sup> the significant impact that a seven-day reduction in the time between notices would have on the effectiveness of the IRS notice stream. Specifically, the notice stream could potentially collect an additional \$363.4 million annually by sending notices out earlier. However, we could not quantify the impact that increasing the number of days to make initial contact would have on collections because of variations in the age of cases when they are assigned to an RO.

### ***Recommendation***

***Recommendation 6:*** The Commissioner, SB/SE Division, should assess the impact of the inventory level change and procedural changes that extended time periods for taking Cff RO case actions (e.g., initial contact and follow-up actions). This assessment should consider the impact on the number and timeliness of RO case closures.

***Management's Response:*** IRS management agreed with this recommendation and has already initiated a research request to examine the impact of the changes to inventory levels and case action time periods.

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<sup>27</sup> TIGTA, Ref. No. 2011-30-112, *Reducing the Processing Time Between Balance Due Notices Could Increase Collections* (Sept. 2011).



## Appendix I

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to determine whether ROs<sup>1</sup> in the CFf were following all required case processing procedures. To accomplish our objective, we:

- I. Evaluated IRS policies, procedures, and monitoring of the RO case actions in the CFf.
  - A. Reviewed IRM guidelines regarding RO precontact, initial contact, and follow-up actions for case processing.
  - B. Discussed with Collection Policy personnel the historical background and reasoning for the creation of 15-, 30-, and 45-day initial contact criteria.
  - C. Determined whether ICS ENTITY reports were being used effectively by management to monitor timeliness of RO initial contact. We determined that although the ICS provides a notification of initial contact due date for the RO, ICS cannot generate a report of pending initial contact due dates for group managers to analyze.
  - D. Judgmentally selected three CFf field offices and interviewed six group managers (two from each selected field office). Note: Based upon input from our contract statistician, our judgmental sample of three CFf offices should geographically represent the country (*i.e.*, one office each from the Eastern, Western, and Central parts of the country) to provide a representative view of group manager policies. To secure our sample, we obtained information detailing the seven Collection Areas nationwide, comprised of 490 CFf field offices. We interviewed two group managers in each of the three selected CFf field offices (San Jose, California; St. Louis, Missouri; and Fairfield, New Jersey) to determine their policies for monitoring RO precontact analysis, initial contact due dates, and follow-up actions.
  - E. Reviewed NQRS results pertaining to RO case actions from Fiscal Year 2007 to Fiscal Year 2011 to identify trends.
- II. Determined whether ROs in the CFf were complying with procedures by taking appropriate case actions.
  - A. Analyzed data from the universe of ICS cases maintained on TIGTA's Data Center Warehouse closed during the 12-month period ending June 18, 2011. From this

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



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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universe of 496,916, we obtained an extract of all closed cases with an initial contact due date.

- B. We performed a review of closed cases to evaluate the effectiveness of RO precontact analysis, initial contact, and follow-up actions. We selected and reviewed a random sample of 139 closed cases with an initial contact due date from the extract in Step II.A, which contained a total population of 496,916 cases. In accordance with advice from our statistical sampling consultant, we selected our sample using a confidence level of 95 percent, an expected error rate of 17 percent, and a precision rate of  $\pm 5$  percent. We selected a random sample in order to project the number of cases with errors.
1. Performed a case review for each selected case. We determined and assessed the following factors:
    - Whether the precontact case actions were completed timely.
    - Whether the initial contact was timely.
    - Initial contact date compared to RO assignment date.
    - Timing of the initial contact versus the number of days to close the case.
    - Method of ‘contact’ – whether leaving telephone messages with the representative, leaving calling card at the taxpayer’s residence or business, or meeting with the taxpayer.
    - Whether initial contact was made prior to any enforcement action by the RO.
    - Whether case actions were adequately documented, such as precontact analysis, initial contact, compliance checks performed, and timely follow-up actions taken.
    - Whether the RO established appropriate deadlines for follow-up action.
  2. Summarized our case review results and performed the following analysis:
    - a. Evaluated the impact the timing of the initial contact date had on the number of days to close the case.
    - b. Determined the average number of days to make the initial contact based on the type of case and applicable initial contact due date.
  3. Our statistical sampling consultant projected our exception rate for initial contact using a confidence level of 95 percent, an error rate of 19 percent, and a precision factor of 3.43 percent. Based on these parameters, 96,417 taxpayers with CFF cases closed between June 19, 2010, and June 18, 2011, may not have been



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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contacted by an RO within 30 or 45 days, respectively, of assignment to an RO. We are 95 percent confident that the range is between 63,025 and 129,808 taxpayers.

- III. Established the validity of the ICS data used in our review.
  - A. Reviewed the data for reasonableness and determined that the data were sufficient, complete, and relevant to the review. To accomplish this, we:
    - 1. Validated the completeness of ICS data by reconciling a sample of records (closed cases) to the Integrated Data Retrieval System Master File data.
    - 2. Performed standard logic and strata queries of ICS closed cases to ensure that the data were representative of the universe.

### **Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: SB/SE Division Collection function's policies, procedures, and practices for case actions; specifically, those involving precontact analysis, initial contact, and timely follow-up actions. We evaluated these controls by reviewing a random sample of Cff RO closed cases and interviewing Collection function management.



*Oversight of Revenue Officer Case Actions Can Be Improved*

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**Appendix II**

*Major Contributors to This Report*

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

Augusta R. Cook, 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 Audit Director

Beverly Tamanaha, Acting Audit Manager

Charles Nall, Lead Auditor

Rebecca Arendosh, Senior Auditor

Michael J. Della Ripa, Senior Auditor



## **Appendix III**

### *Report Distribution List*

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



## Appendix IV

### *Outcome Measure*

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

#### **Type and Value of Outcome Measure:**

- Taxpayer Burden – Potential; 96,417 taxpayers affected when ROs<sup>1</sup> did not make timely initial contact (see page 3).

#### **Methodology Used to Measure the Reported Benefit:**

We selected a random sample of 139 closed CFf cases with an initial contact requirement from the population of 496,916 cases closed between June 19, 2010, and June 18, 2011. We selected this type of sample so that we could project our results to the population of closed CFf cases for this time period. In 26 (19 percent) of the 134<sup>2</sup> closed cases with an initial contact due date requirement, the ROs did not make an initial contact within 30 or 45 days, respectively, of being assigned to an RO.

To project the results of our statistical sample, we used a 95 percent confidence level, a 19 percent error rate, and a 3.43 percent precision factor. Based on these parameters, 96,417 taxpayers with cases closed in the CFf between June 19, 2010, and June 18, 2011, may not have been contacted by an RO within 30 or 45 days, respectively, of assignment to an RO. We are 95 percent confident that the range is between 63,025 to 129,808 taxpayers.

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

<sup>2</sup> There were five cases in which precontact analysis determined initial contact was not necessary. See page 5 of the report for details.



## Appendix V

### *Glossary of Terms*

**Accounts Management System** – The Accounts Management System provides multiple systems interfaces using only one computer terminal, moving organizations toward an integrated desktop. Functionality includes inventory management; next case delivery; nationwide history and follow-ups; correspondence received from taxpayers concerning lost, stolen, destroyed, or returned refunds; immediate print capabilities to fax to taxpayers; and generation of electronic referrals. It is used by Automated Collection System employees to maintain their inventory and document case actions.

**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.

**Business Master File** – The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

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

**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.

**Compliance Initiative Projects** – Authorized activities outside of the planned strategies involving taxpayer contact for the purpose of correcting noncompliance that meet the mission, standards, and resources of the IRS.

**Data Center Warehouse (DCW)** – Delivers data analysis capabilities to the TIGTA business units. This availability to data and analysis tools enables TIGTA to conduct audits, investigations, integrity projects, and administrative support activities in a timely and efficient manner.

**Embedded Quality Review System** – The system used by managers to document all case-related reviews of employees.

**ENTITY** – The ENTITY Case Management System is a current database displaying CFf and Advisory inventory. The ENTITY application receives data from the ICS for open, closed, and return to Queue cases; the Delinquent Inventory Account List for Queue cases; and the Automated Lien System for lien information.



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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**Federal Tax Deposits** – Tax deposits made by business taxpayers, usually on a quarterly basis, to satisfy tax liabilities.

**Individual Master File** – The IRS database that maintains transactions or records of individual tax accounts.

**Initial Contact Due Date** – The maximum time period designated by the IRM for the RO to make initial (first) contact on a new case assignment.

**Installment Agreement** – Arrangements in which the taxpayers agree to pay their liabilities over time.

**Integrated Collection System** – An information management system designed to improve revenue collections by providing ROs access to the most current taxpayer information, while in the field, using laptop computers for quicker case resolution and improved customer service.

**Integrated Data Retrieval System** – The IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

**Internal Revenue Manual** – The operations manual for employees of the IRS.

**National Quality Review System** – A parallel system to the Embedded Quality Review System used by managers. This system is used by reviewers to provide independent collection review information from which management may draw inferences regarding overall case quality for a given operational segment. NQRS reviewers rate case actions using the same attributes as managers when conducting their reviews.

**National Treasury Employee Union** – The United States' largest independent Federal sector union, representing employees of the Treasury Department and various other Federal agencies.

**Non-Master File** – The IRS database that consists of transactions on tax accounts not included on the Master File.

**Notice of Federal Tax Lien** – A notice that informs a taxpayer of a Federal tax lien filing and their right to a hearing under Internal Revenue Code Section 6320, which is an encumbrance on property or rights to property as security for outstanding taxes.

**Notice of Intent to Levy** – A letter provided to the taxpayer that must be given in person, left at the taxpayer's home or business, or sent to the taxpayer's last known address by certified or registered mail. Upon receipt, the taxpayer then has 30 days to pay the amount that is owed before property can be levied.

**Outlook (Microsoft E-mail)** – Microsoft Outlook or Outlook (full name Microsoft Office Outlook since Outlook 2003) is a personal information manager from Microsoft and is part of the Microsoft Office suite. Although often used mainly as an e-mail application, it also includes a calendar, a task manager, a contact manager, note taking, a journal, and web browsing.



## *Oversight of Revenue Officer Case Actions Can Be Improved*

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**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 (formerly known as service centers) or the Automated Collection System.

**Seizure** – A process whereby the IRS takes a taxpayer’s property to satisfy his or her outstanding tax liability.

**Summons** – A mechanism that gives the IRS authority to require taxpayers and other third parties to provide to the IRS pertinent information regarding the investigation and collection of taxes. In most circumstances, the IRS issues a summons if taxpayers fail to provide information through voluntary means.

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

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

**Territory** – Collection function geographic locations across the country, with direct supervision by one of seven Area Office directors. A Territory is headed by a second-level manager in the Collection function (Territory manager) responsible for supervision of all group managers within the Territory.



*Oversight of Revenue Officer Case Actions Can Be Improved*

**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

APR 15 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 – Oversight of Revenue Officer Case  
Actions Can Be Improved (Audit # 201230017)

Thank you for the opportunity to review your draft report titled, "Oversight of Revenue Officer Case Actions Can Be Improved." We have reviewed your report and agree with many of the findings and recommendations. We are always looking for ways to fulfill the Service's mission in the most effective and equitable ways possible, and appreciate the insights and observations provided in your report.

We continually strive to identify and implement measures designed to demonstrably improve our operations, many impacting the areas targeted in this review. As noted in your report, we have taken steps to improve the effectiveness of initial case actions through the implementation of our Planned Field Call Initiative which gives taxpayers and their representatives the opportunity to gather required documents and prepare for the initial contact with Collection personnel.

We generally concur with the methodology used, findings, and outcome measures described in this report. Attached is a detailed response outlining 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 202-283-2548.

Attachment



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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Attachment

**RECOMMENDATION 1:**

Establish controls to ensure ROs perform and document precontact analysis prior to the initial contact due date.

**CORRECTIVE ACTION:**

We agree in part with this recommendation. We do not agree that additional controls are necessary; however, we will emphasize the requirement for Revenue Officers (ROs) to perform and document precontact analysis prior to the initial contact due date.

We will prepare and issue to Collection Field personnel a memorandum signed by the Director, Field Collection and the Director, Collection Policy, emphasizing the critical importance of performing and documenting precontact analysis prior to the initial contact due date.

**IMPLEMENTATION DATE:**

September 15, 2013

**RESPONSIBLE OFFICIALS:**

Director, Field Collection  
Director, Collection Policy

**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 2:**

Revise the Internal Revenue Manual (IRM) to require ROs to either: a) make actual contact with the taxpayer or taxpayer's representative or b) document the actions taken to verify the taxpayer's current address if field contact is attempted but contact not made, both within the initial contact time period.

**CORRECTIVE ACTION:**

We agree with this recommendation and we will update relevant IRMs accordingly to emphasize this requirement.

**IMPLEMENTATION DATE:**

September 15, 2013

**RESPONSIBLE OFFICIAL:**

Director, Collection Policy



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 3:**

Remind group managers to provide ROs feedback about timely case actions when appropriate.

**CORRECTIVE ACTION:**

We agree with this recommendation. We will prepare and issue to Collection Field managers a memorandum signed by the Director, Field Collection and the Director, Collection Policy, reminding group managers to provide ROs feedback about timely case actions when appropriate.

**IMPLEMENTATION DATE:**

September 15, 2013

**RESPONSIBLE OFFICIALS:**

Director, Field Collection  
Director, Collection Policy

**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 4:**

Create a report in the ICS that will enable group managers to monitor compliance with initial contact timeliness requirements. In addition, establish procedures for group managers to use the ICS report as a proactive tool to ensure that precontact analysis and initial contact are made timely.

**CORRECTIVE ACTION:**

We agree in part with this recommendation. We do not agree that a new report in the Integrated Collection System (ICS) is necessary; however, we will provide additional guidance to our leadership team on how to more easily utilize the ICS notifications to monitor compliance with the initial contact guidelines.

We will provide this guidance to our leadership team during our upcoming leadership Continuing Professional Education (CPE) as part of the Collection Management Fundamentals material.



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## *Oversight of Revenue Officer Case Actions Can Be Improved*

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**IMPLEMENTATION DATE:**

June 15, 2014

**RESPONSIBLE OFFICIALS:**

Director, Field Collection  
Director, Collection Policy

**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 5:**

Revise the IRM to indicate that use of the ICS calendar system is the preferred calendar method for scheduling follow-up actions. This tool will remind ROs of pending deadlines, as well as provide group managers with a tool to review the current status of follow-up actions that ROs have created and evaluate whether they are moving their cases towards resolution.

**CORRECTIVE ACTION:**

We agree with this recommendation. IRM 5.1.10, Taxpayer Contact, will be updated accordingly to indicate that use of the ICS calendar system is the preferred calendar method for scheduling follow-up actions.

**IMPLEMENTATION DATE:**

September 15, 2013

**RESPONSIBLE OFFICIAL:**

Director, Collection Policy

**CORRECTIVE ACTION MONITORING PLAN:**

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

**RECOMMENDATION 6:**

Assess the impact of the inventory level change and procedural changes that extended time periods for taking CFf RO case actions (e.g. Initial contact and follow-up actions). This assessment should consider the impact on the number and timeliness of RO case closures.



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**CORRECTIVE ACTION:**

We agree with this recommendation. We have initiated a research request to examine the impact of the changes to inventory levels and case action time frames.

**IMPLEMENTATION DATE:**

December 15, 2014

**RESPONSIBLE OFFICIAL:**

Commissioner, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

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