TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Examination Collectibility Procedures Need to Be Clarified and Applied Consistently

September 7, 2016

Reference Number: 2016-30-070

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EXAMINATION COLLECTIBILITY PROCEDURES NEED TO BE CLARIFIED AND APPLIED CONSISTENTLY

Highlights

Final Report issued on September 7, 2016

Highlights of Reference Number: 2016-30-070 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Throughout an examination, examiners are expected to follow Internal Revenue Manual procedures to consider the taxpayer's ability to pay a potential assessment. Taxpayers who have financial difficulties and cannot afford to make tax payments may be further burdened if the IRS audits them for additional assessments that they cannot pay. Further, taxpayers may be treated inconsistently when examiners do not follow procedures to consider a taxpayer's ability to make payments.

WHY TIGTA DID THE AUDIT

In Fiscal Year 2015, 50 percent of all Field Collection closures and 19 percent of all Automated Collection System closures of taxpayer delinquent accounts resulting from an examination were closed currently not collectible. This audit was initiated to determine whether the Small Business/Self-Employed Division Examination function is properly and accurately performing collectibility determinations before and during Field and Office examinations.

WHAT TIGTA FOUND

Examiners did not follow collectibility procedures in 62 (56 percent) of 110 sampled cases, which involved 101 separate instances in which procedures were not followed. Specifically, examiners did not always consider collectibility, document their collectibility evaluations, or discuss collectibility issues with their managers. Additionally, examiners did not always contact the Collection function when Examination function procedures required them to do so, refer required cases to the Collection function, or complete financial information needed to assist in future collection efforts. TIGTA estimates there were 1,731 Office examination cases and 1,445 Field examination cases in which employees did not follow established collectibility procedures and the case was later worked and closed by the Collection function as currently not collectible—with the IRS having received no taxpayer payments. Further, while examiners survey cases (*i.e.*, close the case without conducting an examination) for some reasons, examiners rarely survey cases due to collectibility concerns. Following collectibility procedures and coordinating with the Collection function helps ensure that both Examination and Collection function personnel are using their limited resources efficiently.

TIGTA also determined the Examination function has no reports or measurement systems related to the collectibility of examiner assessments. Without this information, IRS management does not have complete information to make changes or improvements to meet goals. The ultimate goal of considering collectibility during an examination is to decrease accounts receivable and increase the quality of assessments. Meanwhile, from Fiscal Years 2010 to 2015, gross accounts receivable increased from $138 billion to $171 billion (24 percent), while the amount written off as uncollectible receivables increased from $103 billion to $130 billion (26 percent). Examination management informed us they were not aware that the Enforcement Revenue Information System allowed them to track collectibility data, so it was not being used for that purpose.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS take several corrective actions to improve collectibility determinations and communication between the Examination and Collection functions and use available data resources to measure and track collectibility as it relates to examination assessments.

IRS management agreed with all of our recommendations and plans to take corrective action.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 7, 2016

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Examination Collectibility Procedures Need to Be Clarified and Applied Consistently (Audit # 201530034)

This report presents the results of our review to determine whether the Small Business/Self-Employed Division Examination function is properly and accurately performing collectibility determinations before and during Field and Office examinations. This audit is included in our Fiscal Year 2016 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.

If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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Abbreviations

ACS	Automated Collection System
ARDI	Accounts Receivable Dollar Inventory
BMF	Business Master File
CNC	Currently Not Collectible
FY	Fiscal Year
IMF	Individual Master File
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
RA	Revenue Agent
SB/SE	Small Business/Self-Employed
TCO	Tax Compliance Officer
TDA	Taxpayer Delinquent Account
TIGTA	Treasury Inspector General for Tax Administration

Background

Small Business/Self-Employed (SB/SE) Division[1] Examination function procedures state the Internal Revenue Service (IRS) must strive for quality assessments and promote an increased emphasis on early collections in the continuing effort to reduce the Collection function's inventory and currently not collectible (CNC) accounts.[2] To accomplish this goal, Examination function employees are required to consider the collectibility of potential tax assessments during the pre-contact, audit, and closing phases of an Office or Field examination.[3] In addition, Examination function employees are expected to educate taxpayers about the benefits of paying a proposed tax deficiency in full or through other available methods or arrangements such as installment agreements.[4] These processes are intended to decrease the IRS's Accounts Receivable Dollar Inventory (ARDI) and increase the quality of assessments.[5] In Fiscal Year (FY) 2015, $130 billion (76 percent) of $171 billion in accounts receivable was written off as uncollectible.[6]

Examination function employees are required to consider the collectibility of potential tax assessments throughout the examination.

Taxpayer returns audited by the Examination function impact other functions (*e.g.*, Collection, Appeals, Counsel) throughout the IRS. For example, assessments made by the Examination function often result in an increase in the inventory of cases in the Collection function, and a significant number of these assessments result in uncollectible accounts.[7] Figure 1 shows the numbers of Taxpayer Delinquent Account (TDA) modules established from FYs 2011 through 2015 as the result of an examination for both Individual Master File (IMF) and Business Master File (BMF) taxpayers.

[1] See Appendix V for a glossary of terms.
[2] Internal Revenue Manual (IRM) 4.1.5.1.20(4) (August 24, 2012).
[3] IRM 4.20.1.2 (February 26, 2013).
[4] IRM 4.1.5.1.20(4) (August 24, 2012) and 4.20.3.2 (December 30, 2010).
[5] IRM 4.10.2.4.1(1) (February 11, 2016) and 4.1.5.1.20(6) (August 24, 2012).
[6] Government Accountability Office, Ref. No. GAO-16-146, *IRS's Fiscal Years 2015 and 2014 Financial Statements* p. 134 (November 2015).
[7] IRM 4.1.5.1.20 (3) (August 24, 2012).

Figure 1: TDA Modules Established as the Result of an Examination FYs 2011 Through 2015

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
IMF EXAM MODULES	632,638	673,471	653,686	639,751	683,285
BMF EXAM MODULES	48,302	52,951	55,575	48,684	50,600
TOTAL TDA MODULES FROM EXAM	680,940	726,422	709,261	688,435	733,885

Source: Treasury Inspector General for Tax Administration (TIGTA) Analysis of Collection Activity Report NO-5000-242 for FYs 2011 through 2015.

From FYs 2011 through 2015, the Collection function received an average of 707,789 TDA modules each year resulting from an examination assessment. This number represents an average of 9 percent of all TDA modules established during that time period. For the same time period, the dollar value of TDAs resulting from examination assessments involved an average of approximately $21.7 billion each year. In FY 2015, the average dollar amount per tax module for TDAs issued as the result of an examination was $27,650 for IMF taxpayers and $61,889 for BMF taxpayers.

Tax Compliance Officers (TCO) in Office examination and Revenue Agents (RA) in Field examination are expected to follow IRM procedures to consider collectibility throughout an examination. Any knowledge gained about the taxpayer's ability to pay a potential assessment is an important factor in determining whether to survey the return or limit the scope and depth of the examination. Examiners are required to document their evaluation of collectibility during the pre-planning phase of the audit.[8] Examiners are also required to alert their group manager as soon as a collectibility problem is discovered on an assigned case to discuss any collectibility concerns.[9]

To help determine collectibility, examiners are instructed to look for any of the following four collectibility indicators that may be present on the taxpayer's account:[10]

- B – Bankruptcy.
- N – Currently Not Collectible.
- C – Open Collection Status.
- O – Offer in Compromise.[11]

[8] IRM 4.10.2.4.1(6) (February 11, 2016).
[9] IRM 4.20.2.3 (March 1, 2013).
[10] The collectibility indicators are systemic flags to alert the examiner and classifier to consider collection potential.
[11] IRM 4.20.2.2(1) (March 1, 2013).

If one or more of these indicators is present, procedures state that examiners should contact the Collection function for advice and then give consideration to surveying, no-changing, or limiting the scope of the examination.[12] Under existing procedures, while examiners may survey a tax return due to an *absolutely* uncollectible assessment,[13] a return should not be surveyed when a limited examination has the potential for developing leads to other noncompliant taxpayers.[14] Additionally, if examiners determine there is a lack of collectibility and would like to limit the scope of the audit, consideration should be given to how limiting the scope will affect taxpayer compliance, whether the taxpayer is manipulating assets to portray a lack of resources, and whether there are indications of criminal fraud.[15]

Collectibility may also become a factor for consideration during the course of an examination and, if so, examiners are expected to make a collectibility determination when the adjustment being proposed exceeds the taxpayer's current and future ability to pay.[16] Some factors examiners use when determining collectibility are whether the taxpayer has filed for bankruptcy, has any equity in assets, has any assets for lien or levy, to what extent the taxpayer's current income level exceeds necessary living expenses, and whether there are any large unpaid deficiencies reflected on the taxpayer's account.[17]

Taxpayers who have financial difficulties and cannot afford to make tax payments may be further burdened if the IRS audits them for additional assessments that they cannot pay. Further, taxpayers may not be treated consistently when examiners do not follow procedures to consider a taxpayer's ability to make payments.

The IRS budget cuts have impacted Examination function employees. The IRS had 3,931 (27 percent) fewer RAs and 602 (32 percent) fewer TCOs at the end of FY 2015 compared to the end of FY 2010.[18] Similarly, the IRS's budget reductions contributed to significant reduction in Collection function personnel, including 37 percent fewer revenue officers in Field Collection in FY 2015 compared to FY 2010,[19] and 33 percent fewer Automated Collection System (ACS) full-time equivalents in FY 2015 compared to FY 2010.[20] With significant reductions to both Examination and Collection function resources, it is important that both examiners and collectors work the most productive cases. Consideration of the likelihood of collection is a critical factor to ensure that quality assessments are made. If examiners do not follow the IRM procedures to

[12] IRM 4.20.2.2(5)(d) and IRM 4.20.2.3(1) (March 1, 2013).
[13] IRM 4.10.2.4.1(5) (February 11, 2016).
[14] This typically applies to related returns as described in IRM 4.10.5.4 (June 1, 2010).
[15] IRM 4.20.2.2(5) (March 1, 2013).
[16] IRM 4.20.2.2(2) (March 1, 2013). Also, IRM 4.20.2.3 (March 1, 2013) says that once an examination has begun and a decision has been made to limit the scope of an examination, the examiner will include adjustments for any issues that have already been fully developed.
[17] IRM 4.20.2.2(1) and (2) (March 1, 2013).
[18] IRS Data Book, 2010 and 2015 - Table 30; Chief Financial Officer, Corporate Budget.
[19] IRS Data Book, 2010 and 2015 - Table 30; Chief Financial Officer, Corporate Budget.
[20] The ACS full-time equivalent and on roll data were provided by the IRS.

consider and evaluate collectibility while working their cases, there is a higher risk of uncollectible assessments and inefficient use of both the Examination and Collection functions' limited resources.

This review was performed at the SB/SE Division Examination and Collection function offices in Boston, Massachusetts; Holtsville, New York; and Philadelphia, Pennsylvania, during the period July 2015 through June 2016. 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.

Results of Review

Examination Function Personnel Did Not Always Follow Collectibility Procedures

Our review of a stratified statistical sample of 110 TDA cases (50 Office and 60 Field examinations) established as the result of an examination assessment and then closed by the Collection function as CNC in FY 2014, without receiving subsequent payments[21] from the taxpayer,[22] showed examiners did not follow collectibility procedures in 62 (56 percent) cases. The 62 cases involved 101 instances in which required procedures were not followed.[23] The 62 cases included 34 cases with procedural errors out of 50 Office examination cases reviewed and 28 cases with procedural errors out of 60 Field examination cases reviewed. Figure 2 shows the number of instances and types of procedures that the TCOs and RAs did not follow:

Figure 2: Number of Instances in Which Collectibility Procedures Were Not Followed in the 62 Exception Cases

Procedure Not Followed	Office Examination - TCOs	Field Examination - RAs
Did Not Consider Collectibility at All	21	**1**
Did Not Document Collectibility Evaluations/Conclusions	8	6
Did Not Discuss Cases With Indications of Collectibility Problems With the Manager	14	9
Did Not Process Installment Agreement Upon Taxpayer Request	0	**1**
Did Not Refer Agreed Cases (More Than $100k) to Collection	**1**	5
Did Not Contact Collection When Cases Had Indications of Collectibility Problems	10	6
Did Not Contact Collection When Taxpayers Had an Open Collection Case	**1**	**1**

[21] It is possible that the IRS could have received refund offsets in these cases. In addition, it is possible subsequent payments could have been received after our case data was pulled.
[22] Examination assessments in the sample cases took place as early as FY 2008 and as late as FY 2014. See Appendix I for details on our population criteria and sampling plan.
[23] Some cases had more than one type of error.

Procedure Not Followed	Office Examination - TCOs	Field Examination - RAs
Did Not Secure Collection Information on Form 9440[24]	0	15
TOTAL	****1****	****1****

Source: TIGTA analysis of sampled Examination cases.

Based on the results of our statistical sample of 110 cases, we estimate there were 1,731 Office examination cases[25] and 1,445 Field examination cases[26] in which the TCOs and RAs did not follow established collectibility procedures.[27] Our population was limited to only cases for which taxpayers did not make any payments. However, the RAs and TCOs were likely not always considering collectibility when also working other cases. Considering the collectibility of potential tax assessments throughout the examination is important for the IRS to produce quality assessments and promote an increased emphasis on early collections. Following collectibility procedures and coordinating with the Collection function will help to ensure that both Examination and Collection function personnel are using their limited resources efficiently.

Examiners do not always consider collectibility, document their collectibility evaluations, discuss collectibility issues with their managers, or process taxpayer installment agreements when requested

The IRM recognizes the importance of considering the collectibility of assessments, which is required on most cases.[28] Specifically, IRM section 4.20.2.2 – Examination Collectibility, Scope Consideration (March 1, 2013) states:[29]

> In order to decrease the ARDI and increase the quality of assessments, *examiners will consider the collectibility* of a potential assessment when setting the scope of their examination. Collectibility will be based on today's financial condition and not on the tax return (which reflects the taxpayer's past financial condition).[30] (emphasis added)

The IRM procedures make it clear that the purpose of considering collectibility before and during all examinations is to promote quality assessments and decrease the IRS's ARDI.

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[24] IRM 4.20.3.2(11)e. Form 9440, *Taxpayer Levy Source and Contact Information*, is completed for examination cases closed without a full payment.
[25] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of error cases is between 1,395 and 2,067.
[26] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of error cases is between 1,054 and 1,835.
[27] These projections are based on the 62 cases in which procedures were not followed.
[28] IRM 4.20.2.2(6) (March 1, 2013) does not require collectibility to be considered in Tax Equity and Fiscal Responsibility Act and National Research Program cases.
[29] Similar language is also found in IRM 4.10.2.4.1 – Collectibility (February 11, 2016).
[30] This IRM also states: "Current financial information should generally not be solicited from the taxpayer unless it relates to the period under examination." Therefore, TCOs and RAs cannot obtain financials from every taxpayer they examine.

Without considering collectibility, it would be difficult for examiners and their managers to make good judgments on whether it is necessary to survey a return or limit the scope of an examination.

Examiners are required to first look for signs of collectibility during the pre-planning phase of an examination.[31] Collectibility indicators may be identified on the taxpayer's account by researching the case in the Automated Information Management System. Collectibility indicators may show the taxpayer has filed for bankruptcy, has other liabilities in CNC or offer in compromise status, or has other liabilities currently being worked by the Collection function.[32] These are all signs that the taxpayer may have a problem paying a potential new assessment and are factors needed when examiners and their managers are considering surveying or limiting the scope of the audit.

Our review determined that in:[33]

- 23 cases (21 Office and two Field), examiners did not consider collectibility at all, as no documentation was found in the case files.
- 14 cases (eight Office and six Field), examiners indicated they considered collectibility in the case files, but did not document their evaluations of collectibility.
- 23 cases (14 Office and nine Field), there was no indication in the case files that examiners discussed possible collectibility problems with their managers; specifically when there were collectibility indicators on the taxpayers' accounts or other documentation in the case file.
- **********1**********1**********.

Examination management advised that collectibility may be overlooked in many cases because examiners are instructed that they should not survey or limit the scope of an examination if doing so may have an adverse impact on voluntary compliance.[34] Management cited several IRM references and examples for which nonassessment would undermine voluntary compliance, such as frivolous returns, unsupported tax avoidance arguments, grossly overstated expenses, and abusive tax avoidance transactions.

Other situations that IRS management considered to have an adverse impact on voluntary compliance included:

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[31] IRM 4.20.1.2(1) (February 26, 2013).
[32] IRM 4.20.2.2(1)(b) (March 1, 2013).
[33] Many of the cases we reviewed contained more than one type of procedural error, and therefore one or more cases could be included in one or more of the bulleted exceptions. Refer to Figure 3 for the total procedural errors identified in our case review.
[34] IRM 4.20.2.2(5) (March 1, 2013).

- Employment taxes (nonfiled schedules and classification issues that could establish safe harbor).
- Earned Income Tax Credits.
- Preparer audits (returns related to a project).
- Information returns processing mismatches or unreported income.
- Nonfiled returns.[35]

IRS management advised that the Examination function IRM sections involving collectibility provide instructions about when examiners should not limit the scope of an examination, such as when there are indications of criminal fraud;[36] and when collectibility should not be considered in an examination, such as in Tax Equity and Fiscal Responsibility Act[37] and National Research Program cases.[38] The IRM also provides:

> The effect on compliance should always be a part of the decision to limit the scope. The scope should not be limited if it would have an adverse impact on voluntary compliance.[39]

The standard stated in the IRM is vague (other than cases falling into the previously discussed categories, *e.g.*, frivolous tax returns, employment taxes, Earned Income Tax Credit cases) as to how an examiner would understand when a decision to limit the scope of an audit or survey an audit due to a collectibility issue would have an adverse impact on compliance or when it would be acceptable to survey a case due to a collectibility issue. We asked IRS management when it would be acceptable to survey a case due to a collectibility issue. They referenced the considerations listed on Form 9439, *Collectibility Evaluation Form*, which lists defunct corporations, deceased taxpayers, and detained taxpayers, among other reasons, as items to consider. However, management indicated these types of cases still need to be evaluated on an individual basis. Nevertheless, examiners are not required to utilize Form 9439 in their case work. Based on our interviews with IRS employees, an alternative reason for why some examiners overlook the requirement to consider collectibility during an examination is that they understand IRS management's expectation is that they will still have to conduct the audit even though the taxpayer has no assets upon which the IRS can collect.

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[35] IRM 4.20.2.5 (March 1, 2013) - Collectibility procedures do instruct examiners that collectibility should be considered in situations with nonfiled returns. Specifically, procedures say that the Collection function should generally be consulted in determining reasonable collection potential and "… nonassessment (*i.e.*, survey procedures) may also be considered…"
[36] IRM 4.20.2.2(5) (March 1, 2013).
[37] Pub. L. No. 97-248, 96 Stat. 324 (codified as amended in scattered sections of 26 U.S.C.).
[38] For the purposes of our case review, we did not consider any cases to be exceptions when there was an indication of criminal fraud and the examiner did not consider collectibility nor did we include Tax Equity and Fiscal Responsibility Act or National Research Program cases in our case review sample.
[39] IRM 4.20.2.2(5) (March 1, 2013).

Some of the cases in our sample had apparent indications of possible collectibility problems in the pre-planning stage of the audit. For example, 10 exception cases had CNC indicators on the taxpayers' accounts. Such indicators mean the taxpayers had a delinquent tax module in CNC status when the case was assigned to the examiner. In these cases, there were no indications the examiners discussed these issues with their managers or contacted the Collection function for assistance in determining the taxpayers' ability to pay. The IRS does not have the resources to audit every potentially productive case. However, it should at least allow examiners and their managers to consider the voluntary compliance impact in not selecting a productive audit (meaning one that will result in revenue), instead of examining a business that is defunct or a taxpayer that is experiencing an economic hardship.

Similarly, many of the cases in our sample had documentation in the case files of possible collectibility problems that became evident during the audit. Examples of the types of situations included taxpayers who were living with relatives and receiving welfare assistance; taxpayers who had serious illnesses with high medical bills; taxpayers who were unemployed with no way to pay; taxpayers who were requesting offers in compromise to pay other outstanding tax debts; and taxpayers who were receiving gifts and loans from relatives to pay rent and buy food. In the majority of these cases, there were no indications examiners discussed the collectibility issues with their managers or contacted the Collection function for assistance in determining the taxpayers' ability to pay. In addition, there was some variance in the practices and understanding of Examination employees. An employee we interviewed indicated that death and medical crises are the only reasons to survey a case. However, another employee we interviewed told us the manager in that group did not consider death a reason to survey a case. Another employee would survey a case only if there was low audit potential, but that even in those cases it is worth pursuing for compliance purposes and to educate the taxpayer.

Further, even if examiners identify and consider collectibility risks, they may not be appropriately or consistently weighing the risk against other considerations. Management advised us there is no specific training module that addresses this component of an examination. Instead, examiners are instructed to follow separate IRM procedures to complete all required taxpayer filing checks to ensure that voluntary compliance is met and to address any of the four systemic indicators of collectibility that are identified on the taxpayer's account.

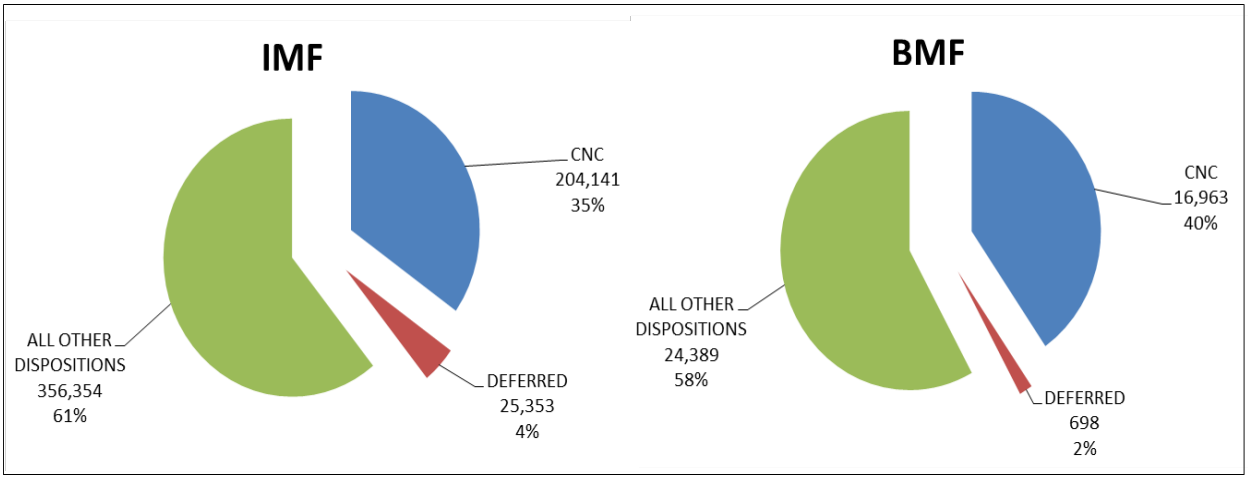
Management also advised us that new employee training was the only time examiners receive collectibility training. We reviewed the new hire training documentation for the RAs and TCOs and found very little information on collectibility. Similar to the collectibility IRM sections, these training documents do not contain specific details or examples on what constitutes adverse impact on compliance or what and how examiners are expected to document collectibility evaluations and conclusions in their work papers.

Because employees are not provided sufficient training related to collectibility considerations, it is important they discuss collectibility indicators with their managers. However, in 23 (21 percent) of 110 sampled cases, there was no documentation that such discussions occurred.

IRS management believes that even though the case files did not include discussions with the manager regarding collectibility, it would have been discussed during the Manager Concurrence meeting, which is when examiners and managers discuss the examination case and the actions to be taken going forward.[40] However, the Manager Concurrence meeting generally takes place after the examiner has an initial appointment with the taxpayer, which occurs after the pre-planning phase of the audit has been completed.[41] In some instances, examination managers should have already made the determination about whether to survey the return or limit the scope/depth of an examination during the pre-planning phase.[42]

During the course of the examination, the taxpayer may request to pay the resulting assessment with an installment agreement. To assist in timely collection efforts, examiners are required to input the pending installment agreement transaction code onto the system within 24 hours of the taxpayer's request.[43] However, we identified **********1********** ********** **********

Figure 3: FY 2015 Dispositions of TDA Modules That Were the Result of an Examination

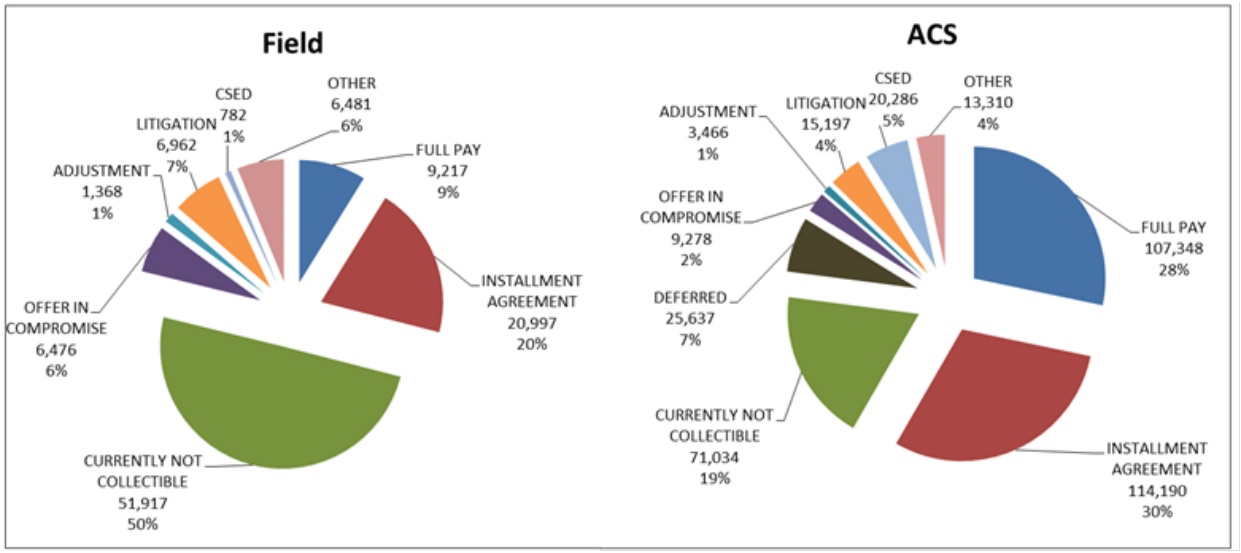


Source: TIGTA Analysis of the Collection Activity Report NO-5000-242 for FY 2015.

During FY 2015, 204,141 (35 percent) of 585,848 IMF examination assessment TDAs were closed as CNC and 25,353 (4 percent) were closed as deferred. Similarly, 16,963 (40 percent) of 42,050 BMF examination assessment TDAs were closed as CNC and 698 (2 percent) were closed as deferred. Combined, 39 percent of all TDA modules resulting from an examination were closed as deferred or CNC and may never result in the collection of additional revenue. Figure 4 compares Field Collection and the ACS FY 2015 closures for TDA modules resulting from an examination.[46]

[46] In Figure 5, the "Deferred" closures for the Field were added to the "Other" category because only 60 modules were closed as Deferred by the Field in FY 2015.

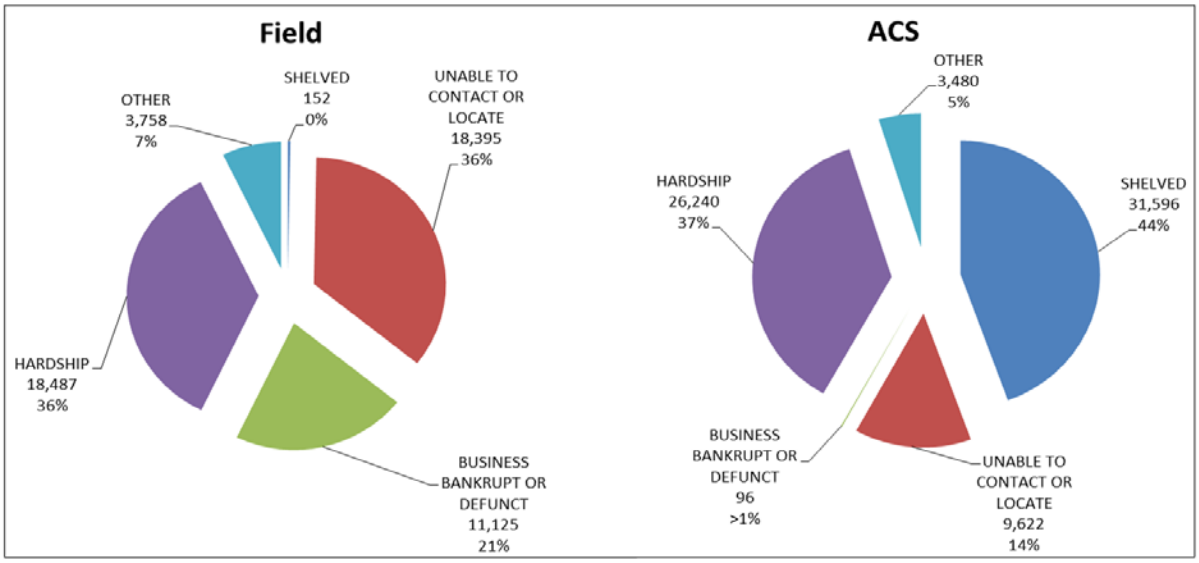
Figure 4: FY 2015 Comparison of Field and ACS Closures of TDA Modules Resulting From an Examination



Source: TIGTA Analysis of the Collection Activity Report NO-5000-242 for FY 2015.

During FY 2015, 50 percent (51,917 modules) of all Field closures of TDA modules resulting from an examination were closed as CNC, and 19 percent (71,034 modules) were closed as CNC in the ACS. A comparison of the closing codes indicating the type of CNC closure for both Field Collection and the ACS for FY 2015 closures is shown in Figure 5.

Figure 5: FY 2015 Comparison of Field and ACS CNC Closures of TDA Modules Resulting From an Examination



Source: TIGTA Analysis of the Collection Activity Report NO-5000-242 for FY 2015.

In Field Collection, a combined total of 29,612 modules (57 percent of all CNC closures) were closed as CNC due to hardship or bankrupt/defunct businesses. For ACS, a combined total of 26,336 modules (37 percent of all CNC closures) were closed as CNC due to hardship or bankrupt/defunct businesses.

A previous TIGTA report shows that between FYs 2010 and 2015, the IRS's budget had been reduced by more than $1.2 billion. This has led to significant curtailments in training, travel, office space, and outside contracts.[47] Although management made extensive cuts to nonlabor costs, significant personnel reductions were still necessary.[48] This makes it even more imperative for the IRS to use its resources as efficiently as possible.

Figure 6 shows the number of hours examiners and ultimately revenue officers spent working the cases in our review in which procedures were not followed.[49]

Figure 6: Hours Examiners and Revenue Officers Spent Working Exception Cases[50]

	Tax Compliance Officers	Revenue Agents	Revenue Officers
Number of Exception Cases Worked	34	28	33
Total Hours for All Exception Cases	379	2,491	423
Average Hours Per Exception Case	11.15	88.96	12.82

Source: TIGTA analysis of sampled Examination cases.

Based on the number of exception cases in our sample we estimate there were 1,731 Office Examination cases[51] and 1,445 Field Examination cases[52] in which the TCOs and RAs did not follow established collectibility procedures in our population. Using the average hours worked per exception case, we estimate that the TCOs spent 19,301 hours[53] and the RAs spent 128,547 hours[54] working cases for which established collectibility procedures were not followed

[47] TIGTA, Ref. No. 2015-30-035, *Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected* p. 2 (May 2015).
[48] Personnel reductions were mainly through normal attrition and being unable to hire replacement personnel.
[49] Figure 7 lists the number of cases in which procedures were not followed; it is possible for a case to have more than one type of procedural error.
[50] The figure captures only the hours spent by Field Collection on our exception cases, because the IRS does not track the number of hours that ACS employees spend working specific cases. Additionally, the time spent on these cases by managers, Appeals, bankruptcy specialists, Counsel, and any other group within the IRS that may have played a role in the case is not captured here. See Appendix I for more details.
[51] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of error cases is between 1,395 and 2,067.
[52] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of error cases is between 1,054 and 1,835.
[53] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of hours is between 15,554 and 23,047.
[54] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of hours is between 93,764 and 163,242.

and the case went on to be closed CNC by the Collection function with the IRS receiving no payments from the taxpayers.

Based on the average dollars assessed per hour of $812 for the TCOs, we estimate that the TCOs could have assessed approximately $15.7 million on cases that were more collectible. Using the RA average dollars per hour of $809 for individual taxpayers, $782 for corporate taxpayers, $1,154 for employment tax cases, and $1,312 for excise tax cases, we estimate that the RAs could have assessed approximately $109 million on cases that were more collectible.[55] This would result in a total of approximately $124.7 million in assessments that could be more collectible.

Based on our analysis of 10 years of Collection Activity Reports and the total amount that the Collection function receives through payments and offsets on the TDAs that result from examination assessments, we estimate these more collectible assessments could result in increased revenue of $15.1 million for one year,[56] and $75.6 million over the next five years.[57]

Additionally, we estimate revenue officers spent 22,422 hours[58] working cases for which examiners did not follow collectibility procedures and the cases were subsequently closed as CNC without any payments from the taxpayers.[59]

These statistics demonstrate that examinations that result in uncollectible assessments can have a significant impact on the scarce IRS compliance resources. Our audit demonstrates that collectibility determinations are not performed in a significant number of cases. Further, we attempted to quantify the number of cases surveyed for collectibility issues; however, because these cases are not tracked we were able to find only **********1********** ****1***.[60] Moreover, in our discussions with employees and our analysis of IRS guidance, it appears that even when collectibility determinations are performed employees may be reluctant to survey a potentially uncollectible case in favor of a collectible case.

[55] The average dollars assessed per hour was computed using data from IRS Table 37 for the SB/SE Division for exams closed from FY 2008 through FY 2014, which were the years cases in our sample were closed and would have been reflected on Table 37. See Appendix I for more details.
[56] See Appendix IV for additional information on how the increase in revenue was calculated.
[57] See Appendix IV. The 5-year forecast is based on multiplying the base year by 5 and assumes, among other considerations, that economic conditions and tax laws do not change.
[58] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of hours is between 17,243 and 27,601. From our sample of 110 cases, there were 61 cases that were closed as CNC by revenue officers in which we determined that 33 had procedural errors by examiners. This estimate is based on the 33 error cases. See Appendix I for more information.
[59] These projections include all case review exceptions shown in Figure 3. Some of these exceptions are discussed in the next report section.
[60] See the last section of the report wherein we discuss the difficulty in tracking cases surveyed due to collectibility.

Few returns are surveyed due to doubt of collectibility

Under certain circumstances, an examination group may make the determination to not examine a return initially selected for examination. These cases may be closed by survey. Within the Examination function, returns classified for an examination may either be surveyed before assignment by a manager or after assignment by the examiner with manager approval. Examination function procedures state that as long as the taxpayer has not been contacted and collectibility becomes an issue, the return may be surveyed based on the assessment of collectibility. If the case is surveyed after assignment, the examiner is required to complete and obtain group manager approval of Form 1900, *Income Tax Survey After Assignment*, documenting the collectibility reasons for the survey.

We planned to review a sample of Examination cases closed as surveyed due to doubt of collectibility; however, the IRS does not systemically track these cases, which makes it difficult to identify them or quantify how often cases are surveyed because of collectibility considerations. However, even if these cases were tracked, there would likely be very few cases to review because the Examination function rarely surveys cases due to collection issues.

The IRS does use different types of disposal codes to differentiate between certain closures such as cases surveyed before or after exam assignment, cases surveyed due to excess inventory, surveyed due to missing returns, etc. In addition, the IRS has several survey reason codes to explain why a case was surveyed such as surveyed due to no large, unusual or questionable items, surveyed due to lack of resources, etc. To attempt to find cases that were surveyed due to collectibility, we identified those cases in FY 2014 that had survey disposal codes 31 (survey before assignment) and 32 (survey after assignment)[61] and which also had a survey reason code,[62] identifying 448 returns.[63] We then isolated those cases that also had a collectibility indicator on the system at the time of the examination and identified 17 returns (17 taxpayers). After requesting the files for all nine survey taxpayer cases in this population that were not coded as paperless, we received surveyed returns for seven taxpayers.[64] Review of the seven surveyed taxpayer files identified **********1**********.

Further, the examination employees we interviewed during this audit told us that they rarely or never survey a return due to collectibility. Additionally, Examination management advised us that collectibility may be overlooked in many cases because examiners are instructed that they should not survey or limit the scope of an examination if doing so may have an adverse impact

[61] Returns surveyed due to collectibility would only be included in Disposal Codes 31 (before assignment) and 32 (after assignment).
[62] IRS management informed us later in our review that the SB/SE Division Examination function does not require examiners to use a reason code when they survey cases.
[63] IRS Table 37 shows the SB/SE Division Examination function surveyed more than 110,000 returns in FY 2014; however, this includes many other types of surveys such as excess inventory, missing returns, and reference and information returns that would not include collectibility issues.
[64] IRM 4.10.2.5.8(3) (April 2, 2010). Cases surveyed due to collectibility may not be closed as paperless.

on voluntary compliance. Collectibility procedures may further discourage surveying cases due to collectibility by using wording such as "examiners may survey a tax return due to an *absolutely* uncollectible assessment" (emphasis added), but those procedures do not give specific examples of the types of situations that would qualify as absolutely uncollectible.

If examiners continue to examine and make assessments on cases that are likely to be uncollectible, the IRS's limited resources will not be used effectively.

Recommendations

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

Recommendation 1: Revise the IRM to provide clear instructions on documenting collectibility determinations, including examples of when cases should be given consideration for being surveyed and not given consideration for being surveyed due to collectibility considerations.

> ***Management's Response:*** Management agreed with this recommendation and stated they will update and revise IRM 4.20, Examination Collectibility, to provide instructions on documenting collectibility determinations and when to give consideration to collectibility on surveyed cases.
>
> Management also stated they did not agree that only audits that are deemed collectible are productive audits; that the keystone of IRS compliance activities is to promote voluntary compliance, and examinations contribute to that by having an impact on changing taxpayer behavior and also providing a deterrent to other potentially noncompliant taxpayers; and that these indirect and multiplier effects of audits on taxpayer behavior are a critical component of promoting voluntary compliance. Management further stated that limiting IRS examinations to only those taxpayers that will generate revenue undermines the broader purpose of examinations and is contrary to the IRS mission to apply the tax law with integrity and fairness to all.
>
> IRS management also disagreed with the methodology used in this audit because TIGTA only reviewed a stratified sample of cases that were closed as CNC in FY 2014, rather than reviewing overall collectibility rates on Examination assessments. Management provided an example in their response which portrays that the population of cases closed as CNC is very small in proportion to overall closed Examination cases.
>
> Further, management disagreed with the outcome measures in the report because they believed the computation did not consider situations in which a case might be determined to be CNC after an examination concludes, or the resource constraints that may impair coordination with Collection. In addition, management stated that the computation of any potential benefit should consider payments made subsequent to the assessment and that cases closed as CNC are not necessarily unproductive.

Office of Audit Comment: TIGTA did not report, nor did we recommend, that audits should be limited to taxpayers that are deemed collectible. This report instead recommends that the IRS follow its own procedures to consider collectibility when conducting examinations. As stated in the report, IRM procedures make it clear that the purpose of considering collectibility before and during all examinations is to promote quality assessments and decrease the IRS's ARDI.

The methodology for this review was shared with Examination management prior to and during field work, and they raised no objections during this time. We selected a sample of examination cases that were later closed by the Collection function as CNC because the IRM states that taxpayer returns audited by the Examination function impact other functions (e.g., Collection, Appeals, Counsel) throughout the IRS. The IRM also states the Examination function must strive for quality assessments and promote an increased emphasis on early collections in the continuing effort to reduce the Collection function's inventory and CNC accounts. Collection statistics showed that nearly 40 percent of Examination assessments that were later worked and closed by Collection were uncollectible, which is significantly more than what is suggested in the example management used in its response to this report. This audit step was intended to determine if Examination can take steps to reduce the number of cases that are later closed as uncollectible, so it is logical to include only those cases. We further narrowed the scope to include only the CNC cases for which taxpayers made no subsequent payments. We excluded taxpayers that demonstrated some ability to make payments, because it may have been evident when Examination worked the cases.

The outcome measure in this report is based on the exception cases identified during the review of sampled cases. The sample was drawn from the population of Examination assessments that were later worked and closed as uncollectible by the Collection function, and for which taxpayers made no subsequent payments. IRS management points out that that the computation of any potential benefit should consider payments made subsequent to the assessment. While there were no subsequent payments made by taxpayers on the cases in our sample, there could have been credits or offsets applied to these accounts. We did not consider credits and offsets as an indication of a taxpayer's ability to pay when identifying our population. In addition, while resource constraints could impede the IRS's ability to realize this benefit, we believe this is a fair estimation because it is conservatively based on our 10-year analysis of the Collection Activity Reports, using the collection rate of Examination assessments after the Examination closes.

Recommendation 2: Provide training to examiners on collectibility determinations.

Management's Response: Management agreed with this recommendation and stated they will develop and deliver training on collectibility determinations to examiners.

Recommendation 3: Consider tracking returns that are surveyed due to collectibility.

Management's Response: Management agreed with this recommendation and stated they will review whether it is feasible to modify existing programming to track returns that are surveyed due to collectibility.

Examiners Did Not Always Coordinate With the Collection Function

Collaboration with the Collection function is important for examiners because Collection function employees have expertise and experience in matters involving revenue collection and collectibility determinations of taxpayer liabilities. Collection function employees can be a valuable resource for examiners to consult when they are considering collectibility during an examination. In addition, for taxpayers who have agreed with an assessment but have limited ability to pay, a referral to the Collection function accelerates the collection process, which lessens the burden on taxpayers and provides the IRS a better chance of collecting revenue. In the same way, examiners can help Collection function employees by providing key information about the taxpayer, such as contact information and levy sources.

Collectibility procedures require examiners to contact the Collection function when collectibility indicators are identified on the taxpayer's account.[65] Procedures go on to say that after getting advice from the Collection function regarding reasonable collection potential, consideration should be given to surveying, no-changing, or limiting the scope of the examination.[66] If a decision is made to limit the scope of an examination, the Collection function should generally be consulted regarding reasonable collection potential.[67] Procedures also state that examiners are required to refer unpaid agreed assessments more than $100,000 to the Collection function.[68] In addition, taxpayer contact information and levy sources are required to be documented in all unpaid cases, which will help with future collection efforts.[69]

However, in 40 (36 percent) of 110 cases examiners either did not contact the Collection function when Examination function procedures required them to do so; failed to refer required cases to the Collection function; or failed to complete financial information needed to assist in future collection efforts. Specifically we identified:

- 19 cases for which examiners did not consult with the Collection function on cases in which there were collectibility indicators on the taxpayer's account or the taxpayer's ability to pay needed to be determined. Specifically, in:
    - 16 cases there were CNC, bankruptcy, or Field Collection collectibility indicators on the taxpayers' accounts, or the taxpayer was actively working with the ACS.

[65] IRM 4.20.2.2(5) (March 1, 2013).
[66] IRM 4.20.2.3(1) (March 1, 2013).
[67] IRM 4.20.2.3(3) (March 1, 2013).
[68] IRM 4.20.3.4 (December 30, 2010).
[69] IRM 4.20.3.3 (August 25, 2009).

  - 3 cases there were clear indications of collectibility problems, so determinations of reasonable collection potential needed to be made.

- 6 cases for which examiners did not refer agreed unpaid cases with assessments more than $100,000 to the Collection function, as required. These six cases represent 60 percent of the 10 sampled cases that had this requirement.
- 15 cases for which examiners did not complete the required Form 9440, *Taxpayer Levy Source and Contact Information*, when assessments were unpaid.

IRS Examination function management advised us that they do not consider contacting the Collection function to be a required procedure for examiners because while the IRM wording in many instances states that examiners "should" contact the Collection function, other sections use the word "may." We believe management's position is incorrect. First, the terms may and should have different meanings.[70] Second, it is apparent by the context of the sentences in which the terms are used that coordinating with the Collection function is more important in certain circumstances than in others.

For example, collectibility "*scope consideration*" procedures provide that the Collection function *may* be consulted for advice in determining the taxpayer's current and future ability to pay when the proposed assessment may exceed that ability. In this circumstance, the examiner is using professional discretion to make the determination so the contact is discretionary. However, the same procedures instruct examiners that the Collection function *should* be contacted when collectibility indicators are identified on the taxpayer's account.[71] In this circumstance, the Collection function can provide information and expertise on the collectibility indicators that examiners might not otherwise have so the contact is mandatory.

Similarly, collectibility "*scope consideration*" procedures go on to explain that the Collection function *may* be contacted for advice, but the Examination function retains the authority to determine whether or not to limit the scope due to collectibility.[72] Those same procedures go on to say that if a decision is made to limit the scope of an examination, the Collection function *should generally* be consulted regarding reasonable collection potential.[73] Further, for the purposes of our review we did not consider there to be any procedural errors in which the word "may" was used in the collectibility procedures.

Examination function management also informed us that coordination between the Examination and Collection functions is not possible based on limited resources and competing priorities, and that past attempts at collaboration or sharing of resources between the two functions did not result in increased efficiencies. However, management could not provide us with any

[70] "Should" is the past tense of the term *shall* and is used to convey an obligation. "May" is the past tense of the term *might* and is used to convey the possibility or probability. Merriam Webster's Online Ed.
[71] IRM 4.20.2.2(5) (March 1, 2013).
[72] IRM 4.20.2.2(3) (March 1, 2013).
[73] IRM 4.20.2.3(3) (March 1, 2013).

documentation or data to support this claim. Further, the RAs and TCOs interviewed during this audit advised us that consulting with the Collection function would be beneficial, but they were not sure how to initiate any discussion or who they could contact.

Examiners do not have collectibility coordinators to provide a liaison between the two functions

The IRM allows for Area Directors to appoint ARDI/Collectibility Coordinators to provide guidance to examiners on collectibility determinations and coordinate with the Collection function. An Area Director we interviewed stated that he or she was unaware that the IRM allowed him or her to appoint an ARDI/Collectibility Coordinator and that due to current IRS resources he or she would likely be unable to appoint one even if he or she wanted to. Some of the examination employees we interviewed told us they did not know how to contact the Collection function if the need arose; therefore, an ARDI/Collectibility Coordinator would be a valuable resource.

The IRM specifies the responsibilities of the ARDI/Collectibility Coordinator to include: ensuring that examiners are aware of and follow the collectibility procedures; implementing procedures to assist taxpayers who request an installment agreement but are outside the Examination function's installment agreement authority; developing procedures to refer all unpaid agreed cases with a deficiency more than $100,000 to the Collection function for resolution; coordinating training, information exchanges, and all other matters relating to the issues of quality assessments and collection of examination deficiencies; and coordinating with the Collection function to establish focal points for other collectibility referrals or address taxpayer questions.[74]

IRS management could not provide us with any evidence that the Examination function has ever appointed any ARDI/Collectibility Coordinators and advised us that any contact between the Collection and Examination functions follow informal local procedures. However, management has no assurance that local procedures exist at all IRS locations. In addition, management stated that the need for ARDI/Collectibility Coordinators has diminished due to the expansion of examiner authority to set up installment agreements for taxpayers and to shifting the responsibility for processing Form 9440 on unpaid assessments from ARDI/Collectibility Coordinators to the Examination Centralized Case Processing function. However, the Examination Centralized Case Processing function is dependent on examiners documenting Form 9440 with taxpayer levy sources and contact information for unpaid assessments in the examination case files. Our case review identified 15 (14 percent) of 110 cases for which examiners did not complete this information.

[74] IRM 4.20.1.3(2) (January 1, 2006).

Many Examination function cases closed as unable to contact or locate the taxpayers are later closed the same way by the Collection function

The lack of collaboration between the Examination and Collection functions could be contributing to the fact that in Field Collection 50 percent (51,917 modules) of all closures of TDA modules resulting from an examination were closed as CNC in FY 2015 and 19 percent (71,034 modules) were closed as CNC in the ACS (see Figure 5). Of those CNC closures, 18,395 Field Collection modules (36 percent of all Field Collection CNC closures) and 9,622 ACS modules (14 percent of all ACS CNC closures) were closed as CNC due to being unable to contact or locate the taxpayer (see Figure 6).

In our sample of 110 taxpayers, we identified 18 cases (16 percent) for which the examiner was unable to contact or locate the taxpayer and after assessment the case was later closed by the Collection function as CNC – unable to contact or locate. Additionally, there was very little information documented about the steps the examiner took to try and reach the taxpayer.

When Collection function employees receive cases to work, they have no way of knowing whether the examiner who made the assessment was unable to contact or locate a taxpayer unless the Collection function employee requests access to the Examination function file. Our review of the Collection case histories for the 110 cases identified only eight cases for which a Collection function employee documented that they either spoke with someone from the Examination function or received the case file or documents pertaining to the taxpayer from the Examination function.[75]

The Master File does not have a data field for Examination function assessments to indicate when the taxpayer was unable to be located or contacted. Such an indicator could aid the Collection function in better case selection as well as provide Collection function employees working these cases with information that may lead them to either contact the examiner on the case or request the examination case file to get more information about the taxpayer. This step could lead to less duplication of efforts, depending on the time elapsed between the Examination function closing and Collection function assignment.

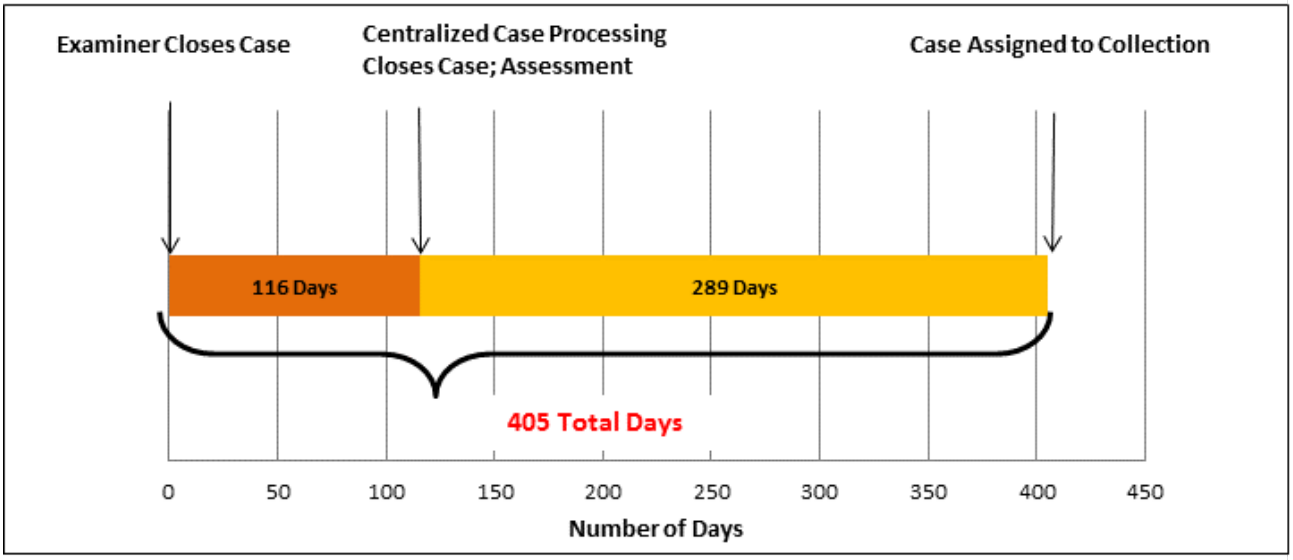
Cases were not worked by the Collection function until more than a year after the assessment by the Examination function

For our sampled cases, it took an average of 116 days from the time the examiner completed case work and closed the case until the examination was officially closed by the Examination Centralized Case Processing function, which creates the assessment (module) that enters the Collection function notice stream. It then took an average of 289 days between the official Examination function closing date and the date when the module was assigned to either the ACS

[75] Collection function procedures do not require employees to contact the examiner or request the examination case file in these cases.

or to Field Collection to be worked.[76] Figure 7 shows the examination case closing timeline for sampled cases.

Figure 7: Average Examination Case Closing Timeline for Sampled Cases



Source: TIGTA analysis of sampled Examination cases.

IRS management informed us that the delay in closing and issuing the assessment on some cases is due to issuance of the Statutory Notice of Deficiency.[77] For most cases not agreed by the taxpayer, the examiner closes the case and sends it to the Examination Technical Services function for the issuance of the Statutory Notice of Deficiency. At that time, the examination case is suspended for a period of 105 days to allow the taxpayer appeal rights for the assessment. Cases that are appealed or litigated can take even more time to resolve. Management also said that a backlog of cases in the Examination Centralized Case Processing function is another cause of delays.[78]

After the Examination function makes the assessment and closes the case it takes on average 289 days before balance due modules become TDAs and are assigned to the ACS or Field Collection. For example, balance due modules will first be processed through the collection notice stream in which taxpayers will receive a statutory balance due notice and may receive

[76] The 289 days includes the time it takes to send the taxpayers a series of balance due notices, potentially the time spent going through the appeals process and tax court, as well as time that the case may spend assigned to the Collection Queue waiting to be worked by Field Collection or the ACS.
[77] Letter 531 (Rev. 10-2015).
[78] The backlog of cases experienced by the Examination Centralized Case Processing function was due to the Government shutdown that occurred at the beginning of FY 2015. IRS management informed us that currently, the Examination Centralized Case Processing function has an inventory turnover rate of 11 days.

from one to three balance due reminder notices. The final notice warns the taxpayer of the IRS's intent to levy and on how the taxpayer can prevent collection action. Additionally, the taxpayer has the opportunity to appeal through a collection due process hearing. If the liability is not resolved through the appeals process, some taxpayers may decide to proceed to tax court.

Examination function management suggested this time gap causes a disconnection between the IRS and the taxpayer, and determining how to shorten the time may be the key to better collection outcomes. Taxpayers' financial conditions can change significantly over the course of a year, which could result in uncollectible assessments that may have been otherwise collectible.

Recommendations

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

Recommendation 4: Provide training to examiners on the need to coordinate with the Collection function.

> ***Management's Response:*** Management agreed with this recommendation and stated they will develop and deliver training on the need for examiners to coordinate with the collection function.

Recommendation 5: Revise the IRM to be consistent about when the examiner should contact the Collection function.

> ***Management's Response:*** Management agreed with this recommendation and stated they will update and revise IRM 4.20, Examination Collectibility, to be consistent about when the examiner should contact the Collection function.

Recommendation 6: Consider the feasibility of adding a Master File indicator to alert the Collection function when a taxpayer was unable to be contacted or located during an examination.

> ***Management's Response:*** Management agreed with this recommendation and stated they will review the feasibility of adding a Master File indicator to alert the Collection function when a taxpayer was unable to be contacted or located during an examination.

The Examination Function Does Not Track or Measure the Collectibility of Assessments

The Government Performance and Results Act of 1993 establishes that Federal Government agencies are expected to identify performance measures for program activities and compare results of activities with measures identified.[79] Performance measures, as well as methods of

[79] 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.).

performance assessment, provide management with information on how resources should be allocated to ensure program effectiveness. They help support development and justification of budget proposals by indicating how taxpayers and others benefit. Determining the best method of performance assessment, including the establishment of performance measures, helps managers to focus on the key goals of the program. In addition, they help provide management with the information necessary to make strategic decisions about how to produce higher quality assessments.

Performance measurement involves the ongoing monitoring and reporting of program effectiveness and the progress made towards achieving established goals and objectives. Sufficient management information needs to be obtained to evaluate the effectiveness of a program and allocate resources effectively. In addition, guidance for Federal internal control standards states that performance measures should be established for Government programs and be linked to the program's objectives.[80]

While the Examination function does have established performance measures and general goals in place, during the audit, management informed us that no reports or measurement systems are in place with respect to the collectibility of examiner assessments. In addition, management did not have plans to monitor or measure the collectibility of assessments because they believed this had always been a Collection function responsibility. However, Examination function procedures on collectibility state that examiners will consider the collectibility of a potential assessment in order to decrease the ARDI and increase the quality of assessments.[81] Therefore, it is the responsibility of the Examination function to ensure that collectibility is considered during an examination. The Collection function's responsibility does not begin until after the examiner makes an assessment and only if the assessment becomes a delinquent account. Examination management later informed us they were not initially aware of the Enforcement Revenue Information System, which does allow for tracking collectibility data, but is not currently used for that purpose.

Additionally, examiner consideration of collectibility is not measured by the National Quality Review System. It is, however, possible to consider collectibility under Attribute 409, Appropriate Procedural Action, which is the attribute that managers use when there is not a more specific procedural attribute that addresses an issue.[82] Both measurement systems address whether the examiner solicits payment from the taxpayer during the examination, which management considers to be related to collectibility. However, there is nothing specific that

[80] Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).
[81] IRM sections 4.10.2.4.3(1) (April 2, 2010) and 4.20.2.2(1) (March 1, 2013).
[82] The line item "collectibility should be considered throughout the examination" is included in Attribute 409 – Appropriate Procedural Action in the manager's Embedded Quality Review System; however, this attribute also measures if the examiner took the appropriate procedural actions and used the appropriate special forms not addressed in any other attribute.

measures whether consideration of collectibility during an examination is helping the IRS is achieve its goals of decreasing the ARDI and increasing the quality of assessments.

The ultimate goal of considering collectibility during an examination is to decrease the ARDI and increase the quality of assessments. Meanwhile, from FY 2010 to FY 2015, gross accounts receivable has increased from $138 billion to $171 billion (24 percent), while the amount written off as uncollectible receivables has increased from $103 billion to $130 billion (26 percent). Because the collectibility of examination assessments is not being monitored or measured, IRS management does not have complete information to make changes that may be needed or improvements that could help the IRS achieve this goal. Additionally, this information is important for Examination management to determine if they are achieving their goal of striving for quality assessments to help reduce Collection function inventory.

Recommendation

Recommendation 7: The Director, Examination, SB/SE Division, should use available resources, such as the Enforcement Revenue Information System, to measure and track collectibility as it relates to examination assessments and the goal of decreasing the ARDI and increasing the quality of assessments.

> ***Management's Response:*** Management agreed with this recommendation and stated they will review the ERIS system to identify opportunities to improve the monitoring of collectibility as it relates to examination assessments.
>
> Management also pointed out that they initiated preliminary exploration of the use of ERIS as a result of this audit and found in FY 2014 they had a 90.4 percent collection rate on SB/SE Division examinations. They have not compared the result over time, but state they are encouraged that less than 10 percent of examination results appear to be uncollectible.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether the SB/SE Division[83] Examination function is properly and accurately performing collectibility determinations before and during Field and Office examinations. To accomplish this objective, we:

I. Identified IRS procedures and performance measures relating to conducting collectibility determinations during an examination and the overall collectibility of examination assessments.

   A. Researched and reviewed applicable IRM sections.

   B. Interviewed SB/SE Division Examination function employees and SB/SE Division Collection function employees.

   C. Analyzed the current measurement system and associated goals that are used to evaluate the collectibility of examination assessments.

II. Analyzed collection data from the IRS Collection Activity Reports for trends and indicators on the collectibility of examination assessments.

III. Determined whether the SB/SE Division Examination function procedures and processes for collectibility determinations of examination assessments were being followed and were effective.

   A. Identified a population of 448 returns (385 taxpayers) surveyed by Field and Office examinations with survey disposal codes 31 and 32 during FY 2014 by querying the IRS Audit Information Management System data from the Data Center Warehouse. To find potential cases that were surveyed due to collectibility we:

      1. Isolated those cases that had a collectibility indicator on the system at the time of the examination.

      2. Requested from the IRS all surveyed returns that were not coded as paperless.

      3. Reviewed the files we received to determine whether they were surveyed due to collectibility.

   B. Identified a population of 40,837 taxpayers with modules closed as CNC in FY 2014 by the ACS or Field Collection function in which the module contained an examination assessment prior to the CNC closure and no subsequent payments were

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

received from the taxpayer after the examination assessment by querying the ACS and Integrated Collection System files in the Data Center Warehouse. We matched the population to the Audit Information Management System files in the Data Center Warehouse and identified 5,665 Field and Office examination cases[84] that were closed no earlier than FY 2008.[85]

1. Selected a stratified statistical sample of 110 taxpayers[86] from the population of 5,665 taxpayer cases based on a 90 percent confidence interval, an unknown error rate, and ±7.5% precision. We selected a stratified statistical sample so that we would be able to project our results. Specifically, we selected stratified statistical samples of 32 Office examination cases closed as CNC by the ACS, 17 Field examination cases closed as CNC by the ACS, 18 Office examination cases closed as CNC by Field Collection, and 43 Field examination cases closed as CNC by Field Collection. TIGTA's contracted statistician reviewed and assisted in developing the sampling plan and projections.
2. Reviewed the Examination case files to determine if a collectibility determination was properly conducted and documented according to IRM procedures. We discussed error cases with IRS management.
3. Projected the error cases to the sub-populations of the 5,665 taxpayer cases (2,561 Office and 3,104 Field cases). Office examination projections were based on a 67.59 percent estimated population exception rate, a ±13.13 percent weighted strata precision, and a 95 percent confidence interval. Field examination projections were based on a 46.54 percent estimated population exception rate, a ±12.58 percent weighted strata precision, and a 95 percent confidence interval.
4. Calculated the average number of hours that TCOs and RAs spent working the error cases in our sample using the Exam Time Totals found on the Audit Information Management System for each case. We used the average hours worked per exception case and multiplied it by the projected number of errors in the population to estimate the number of hours that TCOs and RAs spent working cases for which established collectibility procedures were not followed and the case went on to be closed CNC by the Collection function with the IRS receiving no payments from the taxpayers. Additionally, we multiplied the average

[84] Our initial population was 7,018 Field and Office examination cases; however, during the course of our review we learned that Large Business and International Division taxpayer cases were included in our population and we decided to eliminate those cases.
[85] The Data Center Warehouse only contained Examinations that were closed in FY 2008 and later.
[86] We initially selected 130 cases to review; however, during the course of our review we learned that 20 Large Business and International Division taxpayer cases were included in our sample. We decided to eliminate those cases from our population and sample.

exception hours per case by the upper and lower confidence intervals from Step III.B.3. in order to obtain the confidence intervals for the hour projection.

5. Calculated the average dollars assessed per hour using data from the IRS Table 37 for examinations conducted from FY 2003 through FY 2014, which were the years examiners spent working the cases in our sample. Based on the average dollars assessed per hour for TCOs, we estimated the dollars that TCOs could have assessed on cases that were potentially more collectible. Based on the average dollars per hour RAs assessed for individual taxpayers, corporate taxpayers and other tax return classes, we estimated the dollars that RAs could have assessed on cases that were more collectible.

6. Calculated the average number of hours that revenue officers spent working the error cases in our sample using the Total Case Hours found on the Integrated Collection System for each case. Using the average hours worked per exception case and multiplying it by the projected number of errors in the population we estimated the hours that revenue officers spent working cases for which established collectibility procedures were not followed by the Examination function and the case went on to be closed CNC by the Field Collection function with the IRS receiving no payments from the taxpayers. Additionally, we multiplied the average exception hours per case by the upper and lower confidence intervals in order to obtain the confidence intervals for the hour projection.

C. Validated the data obtained in Steps III.A. and III.B. by selecting a random sample of cases from each population and ensuring that select fields matched the information found on the Integrated Data Retrieval System (*i.e.*, taxpayer name, tax module, form number). Our validation supported that the data were sufficiently reliable and could be used to meet the objective of this audit.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the SB/SE Divisions' policies, procedures, and practices related to determining collectibility during an examination. We evaluated these controls by interviewing IRS management and both Examination and Collection function employees, as well as conducting a case review.

Appendix II

Major Contributors to This Report

Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Phyllis Heald London, Audit Manager
Nicole DeBernardi, Lead Auditor
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Marcus Sloan, Auditor

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Director, Examination, Small Business/Self-Employed Division
Director, Field Exam, Small Business/Self-Employed Division
Director, Headquarters Exam, Small Business/Self-Employed Division
Director, Office of Audit Coordination

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:

- Increased Revenue – Potential; $15,111,773 in total dollars that could have been collected[87] if Examination always followed the collectibility procedures; $75,558,865 forecasted over five years (see page 5).

Methodology Used to Measure the Reported Benefit:

From a stratified statistical sample of 110 taxpayer cases closed as CNC in FY 2014 by the ACS or Field Collection in which the module contained an examination assessment prior to the CNC closure and no subsequent payments were received from the taxpayer after the examination assessment, we identified a total of 62 cases in which the TCOs and RAs did not follow collectibility procedures. Specifically, we determined there were 34 cases with procedural errors out of the 50 Office examination cases reviewed and 28 cases with procedural errors out of 60 Field examination cases reviewed. We projected the error cases to the population of 5,665 taxpayers (2,561 Office and 3,104 Field cases). We estimate there were 1,731 Office examination cases[88] and 1,445 Field examination cases[89] in which TCOs and RAs did not follow established collectibility procedures.

We calculated the average hours worked per exception case by taking the total hours spent on each exception case and dividing it by the number of exception cases. For the TCOs, the average hours worked per exception case was 11.15 hours, and for the RAs the average hours worked per exception case was 88.96 hours. We multiplied the average hours worked per exception case by the projected number of exception cases to estimate that the TCOs spent 19,301 hours (1,731 x 11.15)[90] and the RAs spent 128,547 hours (1,445 x 88.96)[91] working cases for which

[87] See Appendix V for a glossary of terms.
[88] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 1,395 and 2,067.
[89] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 1,054 and 1,835.
[90] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of hours is between 15,554 and 23,047.

established collectibility procedures were not followed and the case went on to be closed CNC by the Collection function with the IRS receiving no payments from the taxpayers.

Figure 1 shows the actual hours employees worked for the 62 error cases and the calculation of the dollars that the TCOs and RAs could have assessed on cases that were more collectible.

Figure 1: Calculation of Assessment Dollars on More Collectible Cases

	Number of Exception Cases	Total Hours Spent on Exception Cases	Total Estimated Hours Spent On Cases for Which Established Collectibility Procedures Were Not Followed	Average SB/SE Division Dollars Per Hour From Table 37	Total Dollars That Could Have Been Assessed on Cases that Were More Collectible
RAs					
Individual	20	1,635	84,373	$809	$68,257,757
Corporate	4	617	31,840	$782	$24,898,880
Employment	2	36	1,858	$1,154	$2,144,132
Excise	2	203	10,476	$1,312	$13,744,512
Total	28	2,491	128,547		$109,045,281
TCOs					
Individual	34	379	19,301	$812	$15,672,412
Totals:	62	2,870	147,848		$124,717,693

Source: TIGTA analysis of sampled examination cases and IRS Table 37.

Because average dollars assessed per hour are different for individual and the various corporate taxpayers examined, we separated the exception cases into those categories. We then multiplied the projected hours by the average RA and TCO dollars assessed per hour for each taxpayer category resulting in a total of $124,717,693 that could have potentially been assessed on cases that were more collectible.

Because every dollar assessed will not be collected, we analyzed 10 years (FY 2006 – 2015) of Collection Activity Reports, specifically looking at the total dollar amount of the TDAs issued from examination assessments each fiscal year, and the amount the SB/SE Division Collection functions received in both payments and offsets.[92] Based on this analysis we determined that on average, SB/SE Division Collection functions received approximately 7.62 percent in revenue from the individual taxpayer TDAs and 21.37 percent from the corporate taxpayer TDAs issued from examination assessments. By multiplying these percentages by the total dollars that could have been assessed, we estimate that more collectible assessments could result in potential increased revenue of $15,111,773 for one fiscal year; $6,395,479 for individual taxpayers (.0762 x $68,257,757 + .0762 x $15,672,412) and $8,716,294 for business taxpayers (.2137 x

[91] The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the number of hours is between 93,764 and 163,242.

[92] This includes monies received whether assigned to Field Collection, the ACS, the Compliance Services Collection Operation, or the Collection Queue.

$24,898,880 + .2137 x $2,144,132 + .2137 x $13,744,512.[93] We forecast this could result in an increase of revenue of $75,558,865 over the next five fiscal years ($15,111,773 x 5).[94]

[93] We recognize that not all examination assessments will become TDAs. However, because the IRS does not know what percentage of examination assessments are ultimately collected, we attempted to make a conservative estimation on the expected increase in revenue based on our 10-year analysis of the Collection Activity Reports.
[94] The 5-year forecast is based on multiplying the base year by 5 and assumes, among other considerations, that economic conditions and tax laws do not change.

Appendix V

Glossary of Terms

Term	Definition
Assessment	A determination by the IRS that an amount of tax (including penalty, interest, *etc.*, if applicable) is owed by the taxpayer.
Audit Information Management System	A computer system used by the IRS Examination function to control tax returns, input assessments/adjustments to the Master File, and provide management reports.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Balance Due Module	Occurs when the taxpayer has an outstanding (unpaid) liability for taxes, penalties, and/or interest.
Bankruptcy	A legal proceeding administered by the U.S. bankruptcy courts and governed by Title 11 of the United States Code (11 U.S.C.), commonly referred to as the Bankruptcy Code. The Bankruptcy Code establishes the law under which bankruptcy proceedings are commenced, administered, and closed.
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.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Term	Definition
Centralized Case Processing	An IRS campus function that provides support to the field operations of the Examination function.
Collection Activity Reports	Reports that provide Collection function activity information from the beginning of the fiscal year through the end of the current reporting month.
Currently Not Collectible	Accounts can be declared currently not collectible for numerous reasons including: Bankruptcy, Defunct, Hardship, In-Business, Unable to Locate, Unable to Contact, Decedent, etc.
Data Center Warehouse	An online database maintained by TIGTA. The Data Center Warehouse pulls data from IRS system resources, such as IRS Collection files and IRS Examination files, for TIGTA access.
Embedded Quality Review System	A system designed to assist managers in measuring employees' individual performance as it relates to case activities. Employee performance is evaluated against attributes that are designed to identify actions which move cases toward closure through appropriate and timely case activity.
Examiners	IRS employees who examine tax returns to determine whether taxpayers accurately reported their tax liabilities.
Field Collection	The unit in the area offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time.

Term	Definition
Internal Revenue Manual	The primary, official source of instructions to staff relating to the organization, administration, and operation of the IRS.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
National Quality Review System	A part of an integrated IRS-wide system of balanced performance measures. Performance is evaluated using attributes that identify actions that move cases toward closure through appropriate and timely case activity.
National Research Program	This program supports measurement of taxpayer compliance with Federal tax laws that require accurate reporting of tax liabilities, timely filing of returns, and timely and complete payment of taxes owed.
Offer in Compromise	An agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.
Revenue Agent	An employee in the Examination function who conducts face-to-face examinations of more complex tax returns, such as businesses, partnerships, corporations, and specialty taxes (*e.g.*, excise tax returns).
Revenue Officer	Employees in the Field 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.
Small Business/ Self-Employed Division	The IRS organization that services self-employed taxpayers and small businesses by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable tax laws.
Survey	Under certain circumstances, an examination group may make the determination to not examine a return initially selected for examination. These cases may be closed by

Term	Definition
	survey.
Tax Compliance Officer	An employee in the Examination function who primarily conducts examinations of individual taxpayers through interviews at IRS field offices.
Tax Equity and Fiscal Responsibility Act	The Tax Equity and Fiscal Responsibility Act of 1982 is the common acronym used for a complex set of examination, processing, and judicial procedures that affect the way the IRS works with partnerships and limited liability companies that file as partnerships.
Taxpayer Delinquent Account	A balance due account of a taxpayer. A separate TDA exists for each delinquent tax period.

Appendix VI

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

AUG 11 2016

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Karen Schiller
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Examination Collectibility Procedures Need to Be Clarified and Applied Consistently (Audit #201530034)

Thank you for the opportunity to review and comment on the subject draft audit report. As you acknowledge in your report, we recognize the importance of considering collectibility in examination cases and we use IRS' limited resources most effectively when we examine only the most productive cases and emphasize early collection of examination assessments.

We are committed to considering collectibility throughout the course of our examination process beginning at the pre-audit phase, continuing through the examination, and ending at the conclusion of the examination when we solicit payment and assist taxpayers with their payment options. Internal Revenue Manual (IRM) procedures make it clear that the purpose of considering collectibility before and during all examinations is to promote quality assessments and decrease the IRS's Accounts Receivable Dollar Inventory. We agree that opportunities exist to improve our examiners' understanding of the important role they play in considering collectibility, as well as the importance of documenting their decisions. We will revise affected IRMs and our training, and improve coordination with Collection.

We agree that established performance measures help managers focus on key goals and we agree to review Enforcement Revenue Information System (ERIS) data for opportunities to improve monitoring of collectibility. We initiated preliminary exploration of the use of ERIS as a result of this audit and found in FY 2014 we had a 90.4% collection rate on SB/SE examinations. We have not compared this result over time, but we are encouraged that less than 10% of examination results appear to be uncollectible.

We recognize that examining cases with little collection potential will not provide significant contributions to our revenue collection efforts. We do not agree, however, that only audits that are deemed collectible are productive audits. The keystone of our compliance activities is to promote voluntary compliance, and examinations contribute

to that by having an impact on changing taxpayer behavior and also providing a deterrent to other potentially noncompliant taxpayers. These indirect and multiplier effects of audits on taxpayer behavior are a critical component of promoting voluntary compliance. Limiting IRS examinations only to those taxpayers who will generate revenue undermines the broader purpose of examinations and is contrary to the IRS mission to apply the tax law with integrity and fairness to all.

We disagree with the methodology used in this audit. Instead of reviewing overall collectibility rates on Examination assessments, the starting point for your data was a stratified sample of 110 taxpayer cases closed as Currently Not Collectible (CNC) in FY2014. The flaw in this methodology is best illustrated by the following example:

> Examination closed 300,000 cases in a given year and all but two of those cases were full paid. Those two cases were sent to Collection and one was closed CNC. Using your methodology, 50% of the Taxpayer Delinquent Account (TDA) cases that originated in Examination were deemed uncollectible. Any conclusions using this methodology would not take into account the 99% of examination cases that were full paid, and lead to inadequate conclusions regarding the collectibility rates on examination cases.

While this is an extreme example, it does demonstrate the weakness in the methodology used in this audit. While we agree there are some potential benefits to TIGTA's recommendations, we disagree with the outcome measures in the report. The computation does not consider situations in which a case might be determined to be CNC after an examination concludes, or the resource constraints which may impair coordination with Collection. In addition, the computation of any potential benefit should consider payments made subsequent to the assessment. Cases closed CNC are not necessarily unproductive.

Attached is a detailed response outlining planned corrective actions to address your recommendations. If you have any questions, please contact me, or a member of your staff may contact Shenita Hicks, Director, Examination, Small Business/Self-Employed Division at 859-669-5526.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Examination, SB/SE Division, should revise the IRM to provide clear instructions on documenting collectibility determinations, including examples of when cases should be given consideration for being surveyed and not given consideration for being surveyed due to collectibility considerations.

CORRECTIVE ACTION:
We will update and revise IRM 4.20, Examination Collectibility to provide instructions on documenting collectibility determinations and when to give consideration to collectibility on surveyed cases.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 2:
The Director, Examination, SB/SE Division, should provide training to examiners on collectibility determinations.

CORRECTIVE ACTION:
We will develop and deliver training on collectibility determinations to examiners.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 3:
The Director, Examination, SB/SE Division, should consider tracking returns that are surveyed due to collectibility.

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CORRECTIVE ACTION:
We will review whether it is feasible to modify existing programming to track returns that are surveyed due to collectibility.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 4:
The Director, Examination, SB/SE Division, should provide training to examiners on the need to coordinate with the Collection function.

CORRECTIVE ACTION:
We will develop and deliver training on the need for examiners to coordinate with the Collection function.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 5:
The Director, Examination, SB/SE Division, should revise the IRM to be consistent about when the examiner should contact the Collection function.

CORRECTIVE ACTION:
We will update and revise IRM 4.20, Examination Collectibility, to be consistent about when the examiner should contact the Collection function.

IMPLEMENTATION DATE:
November 15, 2017

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RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 6:
The Director, Examination, SB/SE Division, should consider the feasibility of adding a Master File indicator to alert the Collection function when a taxpayer was unable to be contacted or located during an examination.

CORRECTIVE ACTION:
We will review whether it is feasible to add a Master File indicator to alert the Collection function when a taxpayer was unable to be contacted or located during an examination.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Field Exam and Campus Policy, Small Business/Self-Employed (SB/SE)

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

RECOMMENDATION 7:
The Director, Examination, SB/SE Division, should use available resources, such as the Enforcement Revenue Information System (ERIS), to measure and track collectibility as it relates to examination assessments and the goal of decreasing the ARDI and increasing the quality of assessments.

CORRECTIVE ACTION:
We will review the ERIS system to identify opportunities to improve the monitoring of collectibility as it relates to examination assessments.

IMPLEMENTATION DATE:
November 15, 2017

RESPONSIBLE OFFICIAL:
Director, Examination - Performance, Planning and Analysis, Small Business/Self-Employed (SB/SE)

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