
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



*The Offer in Compromise Public
Inspection Files Should Be Modernized*

August 18, 2016

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

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 18, 2016

MEMORANDUM FOR CHIEF, APPEALS
COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: Gregory D. Kutz
Acting Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Report – The Offer in Compromise Public Inspection Files
Should Be Modernized (#IE-15-019A)

This report presents the results of our evaluation to determine whether the Internal Revenue Service's (IRS) offer in compromise (OIC) public inspection files were complete (*i.e.*, available at designated locations), to assess whether the IRS's estimate of the costs to administer the files is reasonable, and to identify any potential efficiencies or cost savings.

Synopsis

In the wake of a series of high-profile scandals in the early 1950s, the IRS was required to provide the public access to information about accepted OICs. Although the IRS now accepts 20 times more OICs than it did when the offers first became subject to public inspection, the program continues to rely on labor-intensive procedures to store the files in a decentralized, paper-based system. At the time of our initial review, the OIC public inspection program did not have adequate management oversight or sufficient internal controls to ensure that the IRS complied with Federal regulations, achieved program objectives, or adequately protected sensitive taxpayer information from potential disclosure. In addition, the IRS had not evaluated options to modernize its delivery method to meet shifting taxpayer preferences, improve access to information, and better protect sensitive information. We have identified several improvements that could enhance the efficiency and effectiveness of the program. During the course of our review, the IRS updated written procedures related to the public inspection files, expanded the use of automated redaction tools, and began to evaluate alternative file storage methods.



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Recommendations

We recommended that the Commissioner, Small Business/Self-Employed (SB/SE) Division, develop processes to convert paper-based OIC public inspection files to an electronic format to better manage the retrieval, movement, retention, and destruction of files. In addition, the Commissioner, SB/SE Division, should consider the feasibility of creating an online public website that provides access to all accepted OIC files while ensuring that sensitive information is properly redacted. We also recommended that the Commissioner, SB/SE Division, and the Chief, Appeals, develop additional policies and procedures to support the OIC public inspection file process and ensure that public inspection files meet redaction requirements. These procedures should define the responsibilities of individuals who create the public inspection file. In addition, the Commissioner, SB/SE Division, should partner with the Chief, Appeals, to strengthen oversight of the public inspection files by participating in joint oversight reviews.

Response

IRS management agreed with our recommendations. The IRS stated that it is considering alternative and cost-effective delivery methods that would provide electronic access to OIC files while first ensuring proper redaction. In addition, the IRS indicated that it has issued interim guidance which provides specific policy and procedures for those who create and maintain the OIC files. The IRS also stated that the SB/SE Division and the Chief, Appeals, will conduct joint reviews that will include assessments of the public inspection files to identify any gaps in the current process as well as completeness of the files at each location. Management's complete response to the draft report is included as Appendix V.

If you have any questions about this report, you may contact me or Phil Shropshire, Director, Office of Inspections and Evaluations.



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Abbreviations

CFO	Chief Financial Officer
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OIC	Offer in Compromise
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration



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Background

An offer in compromise (OIC) is an agreement between a taxpayer and the Federal Government settling a tax liability for less than the full amount owed. The Internal Revenue Service (IRS) is authorized to settle a tax debt on one of three grounds: 1) doubt that the tax liability can be collected in full, 2) a verifiable doubt as to the amount owed, or 3) to promote effective tax administration.¹ The objectives of the OIC program are to:

- Facilitate collection of what can reasonably be collected at the earliest possible time and at the least cost to the Federal Government.
- Achieve a resolution that is in the best interests of both the taxpayer and the Federal Government.
- Provide the taxpayer with a fresh start toward future voluntary compliance with all filing and payment requirements.
- Secure revenue that may not be collected through any other means.

A taxpayer must submit an application and related documentation in order to be considered for an offer. This information may be submitted directly to one of two centralized OIC sites or through an IRS employee working the case who must forward the application to the appropriate centralized site. The centralized sites have the sole responsibility of processing initial offer receipts. The Small Business/Self-Employed (SB/SE) Division is responsible for processing and analyzing a taxpayer's offer, negotiating with the taxpayer, and communicating the final determination to the taxpayer. Additionally, under certain circumstances, IRS Collection function employees examine offers and Office of Appeals employees review the Collection function's recommendations. In Fiscal Year 2014, IRS records indicate that there were 68,000 OIC applications and 27,000 accepted offers.²

OICs have been available for public inspection for more than 60 years. In the early 1950s, an IRS employee was indicted for taking bribes from taxpayers seeking to compromise their outstanding tax liabilities. A congressional investigation revealed that the IRS had accepted offers with generous terms from racketeers and politically connected individuals. In response,

¹ The IRS can accept an OIC under the concept of "effective tax administration" in situations for which collection in full could be achieved but would cause the taxpayer economic hardship or inequitable treatment.

² The number of offers accepted in a given fiscal year is not a percentage of the number received in that fiscal year.

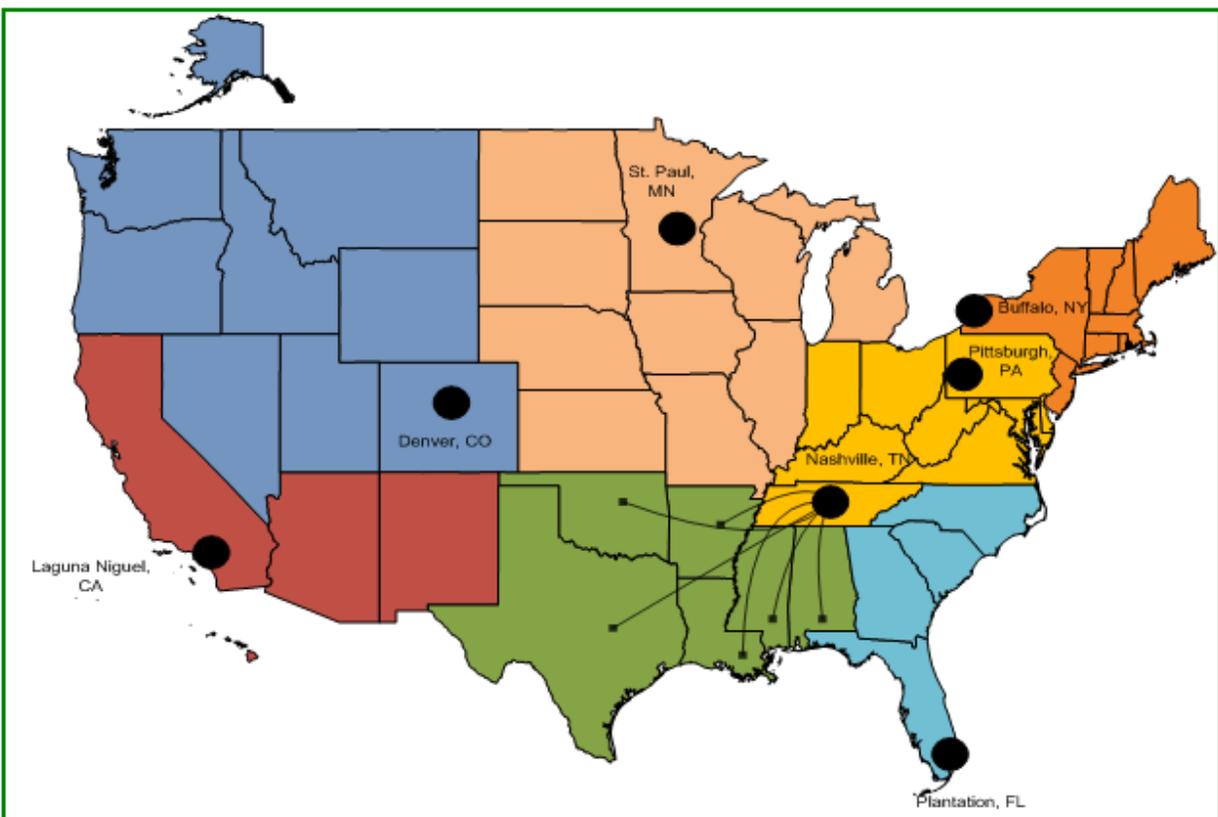


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President Truman issued Executive Order 10386³ in 1952 directing the IRS to open for public inspection any accepted OIC.

SB/SE Division employees who process the OICs use the Automated OIC system to conduct casework. The system allows the user to process, view, track the status of, and automatically redact sensitive information from each offer. Once the IRS accepts a taxpayer's offer, a separate, paper-based public inspection file is created. According to the Internal Revenue Manual (IRM),⁴ it should contain two items: a copy of the redacted Form 7249, *Offer Acceptance Report*, and a sanitized account transcript. Employees ship the file to one of seven locations around the country based on the taxpayer's geographical residence. Figure 1 depicts the current public inspection locations and the corresponding States they serve.

Figure 1: Public Inspection File Locations



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of IRS information.

³ Exec. Order 10386, *Inspection of Files Covering Compromise Settlements of Tax Liability*, 17 FR 7685 (Aug. 22, 1952). The Internal Revenue Code further codifies public inspection and copying of accepted OIC files (26 U.S.C. § 6103(k)(1)).

⁴ IRM 5.8.8.7(2) (Aug. 8, 2014).



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To view the files, individuals call the IRS in advance and request an appointment. Records are available for one year from the date of the offer's acceptance. After one year, the public inspection sites destroy the paper-based files.

In September 2015, we advised IRS management that ineffective redaction practices put sensitive, legally protected taxpayer information at risk.⁵ Specifically, we determined that some OIC files available for public review contained visible Social Security Numbers and Employer Identification Numbers. We notified the appropriate IRS officials about the ineffective redactions, and, in response, the IRS temporarily removed the files from availability for public inspection in order to properly redact all files.

This review was performed at the OIC public inspection sites located in Laguna Niguel, California; Denver, Colorado; Plantation, Florida; Boston, Massachusetts; St. Paul, Minnesota; Freehold, New Jersey; Buffalo, New York; New York, New York; Pittsburgh, Pennsylvania; and Nashville, Tennessee. In addition, we performed this review at the Centralized OIC sites in Holtsville, New York, and Memphis, Tennessee, and at the Governmental Liaison, Disclosure, and Safeguards Office of the Privacy, Governmental Liaison, and Disclosure Branch in Houston, Texas. We performed our evaluation during the period July 2015 through March 2016. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation. Major contributors to the report are listed in Appendix II.

⁵ We advised the IRS about the redaction problems we identified during fieldwork. After reviewing the OIC public inspection files at all of the public inspection sites, we issued a formal report to the IRS, TIGTA, Ref. No. 2016-IE-R006, *Letter Report: Procedures to Protect Taxpayer Information at Offer in Compromise Public Inspection File Locations Should Be Enhanced* (Mar. 2016).



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Results of Review

In the current environment, it is a challenge for the IRS to ensure that paper-based files are available for review at designated locations and properly redacted of sensitive taxpayer information. When this review began, the IRS had not evaluated options to modernize its delivery method to meet shifting taxpayer preferences, improve access to information, and better protect sensitive information. We have identified several improvements that are needed to ensure that the activity is managed more efficiently and effectively. During the course of our review, the IRS updated written procedures related to the public inspection files, expanded the use of automated redaction tools, and initiated the evaluation of alternative file storage methods.

Offer in Compromise Public Inspection File Activity Does Not Have Adequate Management Oversight or Controls

The OIC public inspection files do not have adequate management oversight or sufficient internal controls to ensure that the IRS complies with Federal regulations, achieves objectives, or adequately protects sensitive taxpayer information from potential disclosure. In addition, at the time of our initial review, the IRS had not evaluated alternatives to the paper-based system currently in use. The objective of OIC public inspection file activity is to promote transparency by making properly redacted OIC files available to the public for a period of one year after acceptance.

Organizations rely on internal controls, which include plans, processes, and procedures, to meet missions, goals, and objectives. The Government Accountability Office's *Standards for Internal Control in the Federal Government*⁶ sets the requirements for an effective internal control system for Federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system. Examples of internal controls are the physical controls over vulnerable assets, the documentation of responsibilities through policies, and the establishment of monitoring activities including the remediation of identified deficiencies on a timely basis. Internal control is a dynamic process that has to be adapted continually to the risks and changes an organization faces; however, the IRS has not made any significant modifications to the way the files are managed and stored in decades. The IRS did make two recent limited revisions to better protect taxpayer privacy. In July 2011, the IRS expanded procedures to include redaction of the taxpayer's street address and entire Social Security Number. In addition, in December 2012, the Automated OIC system was enhanced to allow for automatic redaction of transcripts. During the course of our review, the IRS updated written procedures, expanded the

⁶ Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).



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use of automated redaction tools, and started to evaluate alternative file storage methods. However, we have not evaluated whether these revised procedures are sufficient to address our concerns.

The OIC public inspection file program lacks inventory controls

The OIC public inspection files are incomplete (*i.e.*, not available at designated locations), and no inventory system exists to permit tracking of a public inspection file from creation until destruction. We reviewed a statistically valid sample of 300 accepted OICs and found that 36 (12 percent) of the files were not available at the designated location.⁷ Of the 36 cases that were not available at the designated public inspection site, 26 files were never located by the IRS and 10 files were eventually located by the IRS at another public inspection location.

The IRS has established agencywide policies regarding the management of records which require that documents are filed so that complete, accurate information is readily available when needed. The IRS is required to maintain a public inspection copy of all accepted OIC files for the period of one year after acceptance. Moreover, IRS file management policy outlined in the IRM states that a “can’t find” rate of more than 1 percent is *excessive* and any rate of more than 3 percent is *unreasonable*.⁸ The IRS does not have a system with the capability to track the paper file from creation until the one-year viewing period has elapsed. Sites do not log cases when received from the employee who accepted the offer or reconcile inventory with the Automated OIC system that maintains an inventory of all accepted OICs. Without a case inventory system, management is unable to determine if all cases are available as required and cannot ensure that program objectives are being achieved.

Guidance and training provided to IRS personnel with public inspection file responsibilities are insufficient

A public hard-copy inspection file can change hands between as many as seven people from creation to destruction one year later; however, the IRM provides only limited guidance to employees who have public inspection file activity responsibilities. The IRM is an important control component because it contains the official instructions and explanations of the procedures for IRS personnel to follow when administering the files. The IRM provides direction on the preparation and content of the OIC public inspection file, including what sensitive information must be redacted, and requires all IRS records to be efficiently managed until final disposition.⁹ The IRM also provides guidance that the public inspection sites destroy files after one year and guidance on what actions should be taken if a visitor attempts to take a

⁷ We project that 3,354 out of 28,028 total cases accepted between August 1, 2014, and July 31, 2015, were not available for public inspection at the designated site. We are 95 percent confident that between 2,462 and 4,246 files were not at the correct location. The precision is 892 cases, and the standard error is 455 cases.

⁸ IRM 1.15.7.7.1 (Oct. 30, 2013).

⁹ IRM 1.15.1.4 (Aug. 19, 2013); IRM 5.8.8.8 (Aug. 8, 2014).



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photo of a file.¹⁰ However, at the time of our initial review, the IRM provided no other specific guidance.

While these limited IRM procedures are consistent with internal control standards, we identified a number of public inspection file responsibilities that were not clearly delineated in the IRM or other written procedures. As a result, public inspection sites developed their own practices for managing day-to-day operations. For example, the IRM does not outline for employees who create a public inspection file where it should be sent. Employees instead rely on information on the internal SB/SE Division website or on informal guidance to determine the designated public inspection location. Of the 36 cases in our sample that were not available at the designated public inspection site, 10 files were eventually located by the IRS at another public inspection location. IRS officials indicated that these errors may have resulted because IRS employees misunderstood guidance on where to send certain offer files. In addition, employees at the public inspection sites had no formal guidance for how to handle files that were incorrectly shipped to their site. During the course of our evaluation, the IRS conducted a review of all files at all sites. As a result, the Denver public inspection site shipped 283 misrouted files to the Laguna Niguel office.

Apart from prohibiting photographs, at the time of our review, there were no defined visitation procedures for IRS personnel to follow when the public requests to review accepted offers. Interviews with site employees highlighted widespread uncertainty about acceptable practices. For example, when the site receives a visitor, some employees were unsure if management supervision of the visitor or visitor logs were required. Additionally, employees expressed uncertainty over an acceptable viewing space to review files. In fact, one site employee was concerned about the implications of the public inspection site being located on a floor normally restricted from public access. Finally, employees were uncertain how many files a visitor could view at once. Some sites indicated that they provided multiple months at a time, while another site provided an entire year's worth of files. At one site, an IRS employee stated that visitors could only view files if requested by a specific taxpayer's name.

At the time of our review, there was no ongoing training provided to employees who accepted offers or site employees instructing them how to properly redact public inspection files. As a result, employee knowledge of the public inspection files varied. For example, one employee was not aware that the Automated OIC system had an automatic redaction tool; a feature available since December 2012. At one inspection location, an employee was not aware that the office was a public inspection site and initially returned the files to the Brookhaven Campus¹¹ believing they were sent by mistake. In November 2015, as a result of our preliminary findings, the IRS made significant revisions to the IRM through interim guidance to include detailed

¹⁰ IRM 5.8.8.8 (6) & (7) (Aug. 8, 2014).

¹¹ An IRS location that can include operations for processing returns and conducting activity for compliance, customer account services, and customer assistance.



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procedures for maintenance and viewing of the OIC public inspection files. According to the IRS, the interim guidance will be incorporated into the IRM within a year. In addition, in November 2015, the IRS provided training to employees with responsibility for maintaining public inspection sites. We have not evaluated whether these revised procedures and related training are sufficient to address our concerns.

Manual redaction procedures put sensitive taxpayer information at risk

In our March 2016 report, we described how ineffective redaction practices put sensitive legally protected taxpayer information at risk. We identified and documented more than 300 instances of visible Taxpayer Identification Numbers¹² in the paper-based files accessible to the public. We provided the IRS with photographs of the redaction errors and advised management to suspend public inspections until a full review could be completed. The IRS completed this review in late Calendar Year 2015 and certified the files as fully redacted. In March 2016, we conducted unannounced site visits at five public inspection sites to determine whether the corrective actions had been successful. While we noted considerable improvement, we identified files that contained inadequate redactions of sensitive taxpayer information at all five sites.

Control activities can be either manual or automated. Generally speaking, manual controls are performed by individuals with minor use of information technology. Automated controls are either wholly or partially automated. Automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient. At the time of our review, the IRM required redaction of sensitive information from OIC public inspection files, but it did not specifically require all employees who accepted offers to use the automatic redaction feature available through the Automated OIC system.¹³ After we notified the IRS of the ineffective redactions we identified, SB/SE Division officials at the public inspection sites performed extensive manual reviews of the files on-site; however, subsequent to that review, we were still able to identify a small number of files that had not been properly redacted. The improperly redacted files were primarily manually redacted files.

The IRS has pointed out that there is limited opportunity for the disclosure of sensitive taxpayer information because requests to review these files are infrequent. However, each taxpayer has a right to expect that the IRS will protect their sensitive information in all circumstances. Identity theft continues to be a serious and evolving issue that has a significant impact on tax administration.

¹² Taxpayer Identification Numbers include Social Security Numbers and Employer Identification Numbers.

¹³ Office of Appeals employees and some public inspection site employees do not have access to the Automated OIC system. However, as a result of our review, the Office of Appeals piloted a program to allow certain Appeals employees to access the Automated OIC system in order to generate systematically sanitized transcripts. According to the IRS, the process was expanded throughout Appeals as of April 2016 based on the success of the pilot.



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IRS monitoring of OIC public inspection file operations needs improvement

IRS monitoring of OIC public inspection files is inadequate and does not ensure that files are available at designated locations and properly redacted. *Standards for Internal Control in the Federal Government* requires that agencies establish monitoring activities and take corrective action on identified deficiencies on a timely basis. As we previously reported in March 2016, at least as far back as July 2010, the Privacy, Governmental Liaison, and Disclosure office identified concerns with public inspection files.¹⁴ Although this July 2010 report made several recommendations for corrective action, an October 2015 report by the same office found widespread redaction problems. A review of 1,400 files found that approximately 29 percent of the cases contained redaction errors. In addition, since January 2010, the SB/SE Division performed 15 reviews at the same three public inspection sites for adherence to standards.¹⁵ Overall, the reviews concluded that redactions generally occurred in accordance with IRM procedures. However, since January 2010, no SB/SE Division oversight reviews were performed at the other four public inspection sites. Of the 17 reviews that took place since January 2010, none of them compared inventory records at the public inspection sites with a master list of accepted offers to determine whether the sites contained required records. Without performing these key monitoring activities, the IRS is not assured of timely identifying and resolving internal control weaknesses that put taxpayer data at risk and prevent the program from meeting stated objectives.

Opportunities exist to improve access to public inspection files

The IRS has not previously evaluated alternatives to the current practice of maintaining the public inspection files in a decentralized, paper-based format. While the IRS has offices serving taxpayers located throughout the country, including 376 Taxpayer Assistance Centers, accepted offers are available in only seven locations. Because the files are paper-based, individuals may have to travel considerable distances to view the files. For instance, residents of Alaska must travel to Denver, Colorado, to view offers with Alaskan addresses. Residents of Tennessee must travel to Pittsburgh, Pennsylvania, to view Tennessee offers even though there is an inspection site in Nashville, Tennessee. Moreover, no site maintains files for all accepted offers. The IRM¹⁶ requires the periodic review of record filing operations to ensure that the most efficient processes are being followed. As previously mentioned, the IRS performed reviews at some, but not all, of the public inspection sites to assess the effectiveness of redaction procedures; however, the IRS was unaware of any analysis performed to evaluate the efficiency of site selection or to determine whether public inspection sites contained all required files.

¹⁴ The Privacy, Governmental Liaison, and Disclosure office is an independent business unit within the IRS that reports to the Deputy Commissioner for Operations Support. Specifically, the Privacy, Governmental Liaison, and Disclosure office's Incident Management and Employee Protection office ensures that incidents involving the disclosure of Personally Identifiable Information are investigated, analyzed, and resolved.

¹⁵ Laguna Niguel, California; Plantation, Florida; and Nashville, Tennessee.

¹⁶ IRM 1.15.7.7 (Oct. 30, 2013).



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The SB/SE Division estimates that the files were viewed six times between July 2014 and December 2015 (18 months).¹⁷ The reasons why members of the public do not inspect the files more frequently is unknown; however, we believe that the infrequent inspections could be the results of the combination of inconvenient site locations, limited information available in the files, and the unsearchable, paper-based format.

Since December 2009, Federal agencies have been directed to take steps towards creating a more open Government. The *Open Government Directive*¹⁸ instructs agencies to respect the presumption of openness by publishing information online in order to increase accountability and to promote informed participation by the public. Additionally, the IRS *Strategic Plan FY 2014–2017* acknowledges that increasingly, “customers show a preference for Internet-based service before trying other service channels such as phones, paper, or in-person.” Yet because the sites receive a limited number of visitors, prior to our review, the IRS had not explored alternatives to modernizing the current paper-based system, a process that incurs additional expenses for the overall OIC program.

The IRS Chief Financial Officer (CFO) estimates that it costs approximately \$433,000 annually to administer the program, equating to around \$15 per offer and more than \$100,000 per viewing. The estimate includes the cost to ship and maintain paper files at the seven public inspection sites from the time the offer is accepted until disposal one year later. Appendix IV has additional details about the IRS’s estimate for administering the public inspection file activities.

Our review indicated that even after increased focus on redactions in late Calendar Year 2015, files continued to have visible sensitive information. We conclude that the paper-based model will always be at risk for human errors. In addition, we believe that a centralized website available to the public presents an opportunity to decrease taxpayer burden and costs to the IRS while increasing the transparency and fairness envisioned by the original Executive Order and a recent Office of Management and Budget directive.

¹⁷ The IRS developed this estimate based on the recollections of the public inspection site managers. As part of our review, we requested that public inspection site employees track the number of visitors for a period of three months (August to October 2015). During this time frame, the IRS did not receive any visitors to the sites.

¹⁸ Office of Management and Budget M-10-06, *Open Government Directive* (Dec. 2009).



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Recommendations

Recommendation 1: The Commissioner, SB/SE Division, should develop processes to convert paper-based OIC public inspection files to an electronic format to better manage the retrieval, movement, retention, and destruction of files. In addition, consider the feasibility of creating an online public website that provides access to all accepted OIC files while ensuring that sensitive information is properly redacted.

Management's Response: Management agreed with this recommendation. The Director, Collection Policy, SB/SE Division, is considering alternative and cost-effective delivery methods that would provide electronic access to this information while ensuring proper redaction.

Recommendation 2: The Commissioner, SB/SE Division, and Chief, Appeals, should develop additional policies and procedures to support the OIC public inspection file process to ensure that source public inspection files meet redaction requirements. These procedures should define the responsibilities of individuals who create public inspection files. The Commissioner, SB/SE Division, should provide guidance to SB/SE Division employees who maintain the files and provide guidance for interacting with the public when a request to view the files is received. In addition, the Commissioner, SB/SE Division, should partner with the Chief, Appeals, to strengthen oversight of the public inspection files by participating in joint oversight reviews.

Management's Response: Management agreed with this recommendation. The Director, Collection Policy, SB/SE Division, issued interim guidance that provides specific policy and procedures for those who create and maintain the files and interact with the public. The Director, Collection Policy, SB/SE Division, will conduct joint reviews with the Chief, Appeals, that will include assessments of the public inspection files to identify any gaps in the current process as well as completeness of the files at each location. The IRS will update guidance addressing any gaps found as well as clarify procedures addressing interaction with the public.



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Appendix I

Detailed Objectives, Scope, and Methodology

The objectives of our review were to determine whether the IRS's OIC public inspection files were complete (*i.e.*, available at designated locations), to assess whether the IRS's estimate of the costs to administer the files are reasonable, and to identify any potential efficiencies or cost savings. To accomplish these objectives, we:

- I. Determined if the OIC public inspection sites contain required files.
 - A. Determined the number of OICs accepted by the IRS annually and for each of the public inspection sites.
 1. Obtained extracts from the IRS's Automated OIC system from TIGTA's Data Center Warehouse.¹ We assessed the reliability of the Automated OIC system by reviewing existing information about the data and the system that produced them.
 2. Used the Area Office closed date to identify all OICs that were accepted from August 2014 to July 2015.
 3. Stratified accepted OICs during this date range based on State and ZIP code to determine the number of OICs per public inspection site.
 - B. Determined if all public inspection sites contain the required OIC files for the preceding 12-month period and whether the files were redacted to protect sensitive taxpayer information.²
 1. Selected a stratified random sample of 300 accepted OICs. We used stratified random sampling to categorize cases by public inspection site, *e.g.*, Laguna Niguel, California; Pittsburgh, Pennsylvania, *etc.* We discussed the sampling methodology with our contract statistician, who provided our stratified sampling plan. We relied on TIGTA's contract statistician throughout the development and selection of this sample. We selected a random sample of files in order to be able to project our results to the entire population. The population was 28,028 OICs accepted between August 1, 2014, and July 31, 2015.

¹ The Data Center Warehouse is a centralized storage and administration of files that provides IRS data and data access services to TIGTA.

² Per IRM 5.8.8.6(6) (Jan. 1, 2014), at least 11 pieces of critical information are to be redacted from the files. This includes the Social Security Numbers, Employer Identification Numbers, house number and street address, adjusted gross income, and number of exemptions. During our review, we focused only on whether a Taxpayer Identification Number (*i.e.*, Social Security Number and Employer Identification Number) is visible in the files.



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2. Performed a “book-to-floor”³ test to determine if a sample of accepted OIC files was available as required.
 3. Based on the results of the testing, projected what percentage of OIC files were available for public inspection. We relied on TIGTA’s contract statistician for these projections.
 4. Based on the results of the testing, projected what percentage of OIC files had not been properly redacted to protect sensitive information. We relied on TIGTA’s contract statistician for these projections. We project that 3,354 of 28,028 total cases accepted between August 1, 2014, and July 31, 2015, were not available for public inspection at the designated site. We are 95 percent confident that between 2,462 and 4,246 files are not at the correct location. The precision is 892 cases, and the standard error is 455 cases. When we identified files at the public inspection sites that were not part of the sample but were not redacted to protect sensitive information, we documented those cases.
 5. Conducted limited follow-up at selected public inspection sites to determine whether redaction procedures improved subsequent to notifying the IRS of disclosure issues identified during fieldwork.
- II. Determined the reasonableness of the CFO estimate of the cost to administer the OIC public inspection files.
- A. Obtained the CFO’s estimate, and any available supporting documentation, for the annual cost to administer the public inspection file activities.
 - B. Determined whether the CFO’s estimate was reasonable by identifying and conducting interviews with SB/SE Division managers and employees who play a role in the public inspection file activity at the inspection sites and the Centralized OIC sites.
 - C. Reviewed the CFO’s costing analysis to determine whether or not it appeared to be all inclusive.

³ A traditional inventory test would usually include both a “book-to-floor” test (can the items found in inventory be physically located) as well as a “floor-to-book” test (are items/assets physically identified also found in the inventory). Because our primary focus was the effectiveness of the public inspection file component, we only focused on a book-to-floor comparison (did the public inspection file contain the required files?).



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief Financial Officer
Chief, Appeals
Chief Counsel
Chief, Planning, Programming, and Audit Coordination
Director, Privacy, Governmental Liaison, and Disclosure
Director, Collection, Small Business/Self-Employed Division
Director, Collection Policy, Small Business/Self-Employed Division
Director, Specialty Offers, Liens, and Advisory, Small Business/Self-Employed Division
Director, Office of Audit Coordination
Deputy Inspector General for Audit



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Appendix IV

*Offer in Compromise
Public Inspection File Costs*

Costs Per Offer – \$15.29	Costs
Public Inspection File Site Labor	\$21,272
Campus Labor	\$93,571
Appeals Labor	\$141,427
Total Direct Labor	\$256,270
Corporate Overhead	\$168,754
Postage	\$8,385
Total Public Inspection File Costs	\$433,409

Source: IRS Office of the CFO.

We requested that the Office of the CFO provide us with a cost estimate of the OIC public inspection files. To evaluate the reasonableness of the estimate, we conducted site visits to the Memphis Centralized OIC site and the Brookhaven Centralized OIC site to obtain information about the length of time spent on, and other costs associated with, creating and preparing files for distribution to the public inspection sites. In addition, we interviewed public inspection site employees at all seven locations to determine how much time was spent on maintenance and destruction of files at each location. Finally, we interviewed four Collection Field function and four Office of Appeals employees to gain an understanding of actions and time spent redacting files prior to shipping to the public inspection sites. We compared our results from these findings against the CFO's estimate and concluded that the estimate was reasonable.

Subsequent to our review of this estimate, the Office of Appeals expanded the use of the Automated OIC system automatic transcript redaction feature, which likely would reduce the overall cost of Office of Appeals labor. However, some public inspection sites indicated during our follow-up visits that employees were required to spend considerably more time reviewing the paper files subsequent to the interim guidance (and related training) issued in November 2015. We have not assessed what impact these programmatic changes have had on the overall cost estimate.



*The Offer in Compromise Public
Inspection Files Should Be Modernized*

Appendix V

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

JUL 18 2016

MEMORANDUM FOR GREGORY D. KUTZ
ACTING DEPUTY INSPECTOR GENERAL FOR
INSPECTIONS AND EVALUATIONS

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

SUBJECT: Draft Evaluation Report – The Offer in Compromise
Public Inspection Files Should Be Modernized (Audit
#IE-15-019A)

Thank you for the opportunity to review the subject draft report which evaluated the IRS's process for making Offer in Compromise (OIC) files available for public inspection. An OIC is an agreement between a taxpayer and the Federal Government settling a tax liability for less than the full amount owed. To comply with the provisions of Internal Revenue Code Section 6103(k)(1), the IRS maintains public inspection files for every accepted OIC for a one year period. The public inspection file is comprised of a redacted Form 7249 *Offer Acceptance Report*, and a redacted account transcript for each period of liability.

Not surprisingly, public viewing requests for these files are very rare. While there is no statutory or regulatory requirement to track the frequency of visitors or the files reviewed, at TIGTA's request, we monitored requests to view the public inspection OIC files at all designated public inspection sites from August 10, 2015 to October 31, 2015. At the end of the monitoring period, there had been no requests to view the files.

Your initial investigation revealed instances in which certain taxpayer information had not been fully redacted from the public inspection file (PIF), and in which some employees were unsure of the applicable processes and procedures. After TIGTA's initial review, the IRS conducted training and issued guidance to all employees involved in the creation and monitoring of OIC PIFs. It should also be noted that in November 2014 the IRS reorganized and assigned all of the employees involved in the monitoring of OIC public inspection files into the Specialty Offers, Liens, and Advisory (SOLA) organization. The Director of SOLA, having oversight of the SB/SE employees who investigate and process



The Offer in Compromise Public Inspection Files Should Be Modernized

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offers in compromise, will provide ongoing guidance and oversight over the public inspection files process.

We have several initiatives underway to reduce or eliminate the need for manual redaction of information in public inspection files. In April 2016 designated Appeals employees nationwide began using the Automated Offer in Compromise (AOIC) system to generate systemically redacted transcripts for PIFs. Also, we are working on programming which would print only the specific information required by law rather than using redacted account transcripts in these files.

We are developing a SharePoint site to house the PIF data, controlled by a gatekeeper who would conduct a secondary redaction review. Using an electronic format will allow us to better manage the retrieval, movement, retention and destruction of files.

We appreciate your continued support and insight as we work to enhance the protections around this process, allowing us to meet the requirement to make these files available to the public, while still protecting the integrity of taxpayers' personal information. Attached is a detailed response outlining our corrective actions to address your recommendations.

If you have any questions, please contact me, or a member of your staff may contact Scott Prentky, Director Collection at (954)-423-7318.

Attachment



*The Offer in Compromise Public
Inspection Files Should Be Modernized*

Attachment

RECOMMENDATION 1:

The Commissioner, SB/SE Division should develop processes to convert paper-based OIC public inspection files to an electronic format to better manage the retrieval, movement, retention and destruction of files. In addition, consider the feasibility of creating an online public website that provides access to all accepted OIC files while ensuring that sensitive information is properly redacted.

CORRECTIVE ACTION:

In light of your report's findings, we are considering alternative and cost-effective delivery methods that would provide electronic access to this information, while ensuring proper redaction.

IMPLEMENTATION DATE:

April 15, 2017

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division (SB/SE)

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 2:

The Commissioner, SB/SE Division and Chief Appeals should develop additional policies and procedures to support the OIC public inspection file process to ensure that source public inspection files meet redaction requirements. These procedures should define the responsibilities of individuals who create public inspection files. The Commissioner, SB/SE Division should provide guidance to SB/SE Division employees who maintain the files and provide guidance for interacting with the public when a request to view the files is received. In addition, the Commissioner, SB/SE Division should partner with the Chief, Appeals to strengthen oversight of the public inspection files by participating in joint oversight reviews.

CORRECTIVE ACTION:

We agree with this recommendation. Interim Guidance memo SBSE-05-1115-0072 issued 11/30/2015 provides specific policy and procedures for those who create and maintain the files including interaction with the public. We will conduct joint reviews that will include assessments of the PIFs to identify any gaps in the current process as well as completeness of the files at each location. We will update guidance addressing any gaps found as well as clarify procedures addressing interaction with the public.



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IMPLEMENTATION DATE:

April 15, 2017

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self Employed Division (SB/SE)

CORRECTIVE ACTION MONITORING PLAN:

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



To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.