United States Government Accountability Office

Report to Congressional Requesters

September 2015

IRS CASE SELECTION

Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission

GAO Highlights

IRS CASE SELECTION

Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission

Why GAO Did This Study

IRS's ACS is one of the primary means for pursuing taxpayers who failed to fully pay their taxes or file their tax return in a timely manner. From fiscal years 2012 through 2014, ACS staff has declined 20 percent while the number of unresolved collection cases at year-end has increased 21 percent. Given these trends, IRS must make informed decisions about the collection cases it pursues to ensure the program is meeting its objectives and mission.

GAO was asked to review the ACS process for prioritizing and selecting collection cases. This report (1) describes the ACS process to prioritize and select collection cases and the results of that process for fiscal year 2014, and (2) determines how well the ACS case prioritization and selection process supports the collection program mission and objectives. GAO reviewed IRS guidance, processes, and controls for prioritizing and selecting collection cases, reviewed ACS data, assessed whether IRS's controls followed *Standards for Internal Control in the Federal Government*, and interviewed IRS officials.

What GAO Recommends

GAO recommends that IRS take four actions to help ensure the collection program meets its mission, such as establishing, documenting, and implementing objectives for the collection program and ACS, and establishing, documenting, and implementing procedures to complete periodic evaluations of the ACS case prioritization and selection process. In commenting on a draft of this report, IRS said it generally agreed with all of GAO's recommendations.

What GAO Found

The Internal Revenue Service's (IRS) Automated Collection System (ACS) has a multistep, automated process to prioritize and select cases of unpaid taxes and unfiled tax returns to pursue. ACS assesses cases to determine the order to work cases based on IRS's collection program priorities, the likelihood the case will be resolved, and the type of tax and amount owed. ACS also reviews cases to determine what action to take based on whether a levy source or contact information is known for taxpayers. ACS will then contact taxpayers according to its assigned priority and may issue a levy or lien against the taxpayer.

ACS managers balance cases worked to ensure ACS achieves its case closure and taxpayer service measures. These decisions include how many notification and enforcement actions to take and how many cases to assign to IRS staff so that cases are worked in a timely manner. About half of the cases closed in ACS in fiscal year 2014 were high priority, including such issues as employers not paying federal employment taxes. Of the 3.5 million cases closed or transferred out of ACS in fiscal year 2014, IRS collected almost $6.2 billion. IRS generally had more success in collecting from individual taxpayers than from business taxpayers. However, because IRS has not identified objectives for the collection program and ACS, it is difficult to assess the program's overall effectiveness.

ACS has processes for managing risk and reviewing performance, but has not implemented other key internal controls. This increases the risk that the collection program's mission of fair and equitable application of the tax laws will not be achieved. GAO identified deficiencies in the following internal control areas.

Collection program and ACS objectives, and key term of fairness are not defined: IRS officials responsible for the collection program and ACS were unable to produce documentation of collection program or ACS objectives. Although fairness is specified in the collection mission statement, IRS has not defined or operationalized it in any ACS or collection program documents. In the absence of clearly documented objectives and a clearly communicated definition of fairness, IRS cannot know how well ACS contributes to the collection program mission and ensure the case prioritization and selection process is fair. The lack of clearly articulated objectives undercuts the effectiveness of IRS efforts to assess risks and monitor ACS performance.

ACS case prioritization and selection process is not documented: IRS has little formal documentation that describes the ACS prioritization and selection process. Without adequate documentation, it is difficult for IRS to determine whether the ACS case prioritization and selection process effectively supports the collection program mission.

Effectiveness of ACS process is not periodically evaluated: IRS has no procedures for periodically evaluating the ACS case prioritization and selection process and has not acted on implementing recommendations from a recent ad hoc study. Given that key components of the ACS process have remained relatively unchanged since its creation, IRS may be missing opportunities to better prioritize its workload, which could improve collection results.

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Abbreviations

ACS	Automated Collection System
CAR	Collection Activity Report
CWOP	Collection Workload Optimization Project
ERM	Enterprise Risk Management
FERDI	Federal Employee/Retiree Delinquency Initiative
GPRAMA	Government Performance and Results Act Modernization Act of 2010
IDS	Inventory Delivery System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self Employed Division
W&I	Wage & Investment Division

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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September 10, 2015

The Honorable Paul Ryan
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Internal Revenue Service (IRS) pursues taxpayers with unpaid tax debts and delinquent returns to help ensure compliance and confidence in the tax system. This helps to address the tax gap—the estimated difference between the amount of taxes that taxpayers pay voluntarily and on time and those they owe. IRS estimated that for tax year 2006, the $450 billion gross tax gap included $46 billion due in delinquent tax liabilities and $28 billion due in unfiled tax returns.[1]

One of the primary means by which IRS pursues delinquent taxpayers is through the Automated Collection System (ACS). In fiscal year 2014, ACS collected almost $6.2 billion in delinquent federal revenue. ACS is largely a call center operation that uses automated calls and letters to remind taxpayers of their tax delinquency. ACS also handles incoming calls from taxpayers responding to delinquency notices and enforcement actions. ACS has experienced significant declines in staffing, with full-time equivalents decreasing by 20 percent (from 3,672 to 2,932) from fiscal years 2012 through 2014.[2] Over the same period, the number of

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[1]The remaining and most significant portion of the gross tax gap, $376 billion, comes from underreporting, or not reporting the full tax liability on a timely-filed return. IRS estimates that it will eventually recover about 14 percent ($65 billion) of the gross tax gap through late payments and enforcement actions, including collection. See GAO's key issues page for additional information on the tax gap: http://www.gao.gov/key_issues/tax_gap/issue_summary.

[2]A full time equivalent is the equivalent of one staff person working full-time for a year. In fiscal year 2014, ACS staff made up 26.4 percent of IRS collection program staff.

unresolved collection cases at the end of each year increased by 21 percent (from 4.2 million to 5.1 million). As workload and staffing move in opposite directions, IRS must decide which cases to prioritize over others to ensure ACS carries out the IRS collection program mission through the fair and equitable application of the tax laws.

In light of these issues, you asked us to review the IRS process for prioritizing and selecting collection cases to pursue in ACS.[3] This report (1) describes the ACS process to prioritize and select collection cases and the results of that process for fiscal year 2014; and (2) determines how well the ACS case prioritization and selection process supports the collection program mission and objectives. This report is part of a larger body of our work on case selection across IRS.[4]

For the first objective, we reviewed IRS documents, to the extent they were available, that describe the process for ACS case prioritization and selection. These documents include the Internal Revenue Manual (IRM), program documents, IRS reports, and presentations prepared by IRS staff. We visited an ACS call site in Philadelphia twice to review the ACS process, including how ACS collection cases are managed, and to observe taxpayer calls with IRS collection representatives. In addition, we analyzed IRS collection reports on the scope and scale of ACS operations and performance measures for fiscal years 2012 through 2014. We interviewed IRS officials responsible for overseeing the ACS case prioritization and selection process, as well as IRS officials responsible for the overall IRS collection program. Finally, we analyzed data on collection cases closed in ACS in fiscal year 2014 (the most recent full fiscal year available). This entailed describing the number of ACS collection cases by type of taxpayer, type of delinquency, case

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[3]Former House Committee on Ways and Means Chairman Dave Camp also requested that GAO conduct this work.

[4]GAO, *IRS Case Selection: Collection Process Is Largely Automated, but Lacks Internal Controls*, GAO-15-647 (Washington, D.C.: July 29, 2015) and *IRS Examination Selection: Internal Controls for Exempt Organization Selection Should Be Strengthened*, GAO-15-514 (Washington, D.C.: July 13, 2015).

priority, type of case closure, and average and median number of days cases were open in ACS.[5]

For the second objective, we reviewed ACS procedures, IRM sections, IRS reports, and related internal controls intended to help the IRS collection program achieve its mission and program objectives. We reviewed similar documentation to determine whether procedures are in place to periodically monitor, evaluate, and review the ACS prioritization process. To determine IRS's definition of fairness as it applies to collection activities, we reviewed the ACS procedures and process for case prioritization and selection. We also interviewed relevant IRS officials concerning their understanding of the mission, objectives, and internal controls of the collection program and ACS, and about the extent to which procedures exist to monitor ACS case prioritization and selection. We then assessed whether the procedures aligned with relevant *Standards for Internal Control in the Federal Government*.[6]

For the purposes of this review, we determined that the data used in our analysis were reliable. Our data reliability assessment included reviewing relevant documentation, interviewing knowledgeable IRS officials, and reviewing the data to identify obvious errors or outliers. For additional details on our scope and methodology, see appendix I.

We conducted this performance audit from October 2014 to September 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The mission of IRS's collection program, as set forth in the fiscal year 2015 collection program letter, is "to collect delinquent taxes and secure

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[5]Appendix IV also presents partial fiscal year 2015 results as of February 28, 2015. For our data analysis, business taxpayers include individual taxpayers who report business income and losses, as well as corporations and businesses remitting employment taxes. See appendix I for more details.

[6]GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1, 1999).

delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, provide education to customers to enable future compliance, and thereby protect and promote public confidence in the American tax system."[7]

IRS collects unpaid tax debts through a complex, three-phase process: (1) a notice phase, (2) a telephone phase (ACS), and (3) an in-person phase (Field collection).[8] While these phases are not necessarily sequential (for example, a case could go directly from the notice phase to Field collection), with few exceptions every collection case is required to go through the notice phase.[9]

Of cases initiated in fiscal year 2014, more than two-thirds were resolved in the notice phase. If a case is not resolved during the notice phase, it is sent to the automated Inventory Delivery System (IDS), where the next step is determined.[10] IDS will (1) identify and filter out uncollectible cases (i.e., removed from active collection status through a process known as shelving), (2) categorize some cases as high risk, and (3) determine

[7]The IRS collection program letter is a key organizational document for the collection program. It includes information on the IRS collection program mission, prior year accomplishments, and the collection program's actions that align with IRS's strategic plan. The IRS collection program's mission closely aligns with the IRS-wide mission, as set forth in the IRS Strategic Plan for fiscal years 2014 to 2017. The IRS-wide mission is to "provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all." See Internal Revenue Service, *Strategic Plan FY2014-2017* (Washington, D.C.: 2014).

[8]In Field collection, IRS revenue officers attempt in-person contact with taxpayers to prompt a payment or take enforcement action similar to those taken in the telephone contact phase (e.g., imposing levies or seizing financial assets).

[9]We reported on the notice phase in 2009. GAO, *Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals*, GAO-09-976 (Washington, D.C.: Sept. 30, 2009).

[10]In the notice phase and in IDS, collection cases are counted on a module basis. A module represents one taxpayer delinquency over one tax period. A taxpayer may have multiple delinquent modules outstanding with IRS at the same time. Collection cases are sent to ACS on a module basis, but once received within ACS, the modules are either added to an existing case on that taxpayer, which may include more than one module, or a new taxpayer case is established. In our report, we will generally refer to ACS collection cases on a taxpayer basis. If so, we will differentiate those data. In fiscal year 2014, on average, each ACS case had two modules. For more information on IDS, see GAO, *IRS Case Selection: Collection Process Largely Automated, but Lacks Adequate Internal Controls*, GAO-15-647 (Washington, D.C.: July 29, 2015).

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whether cases should be routed to either ACS or Field collection to potentially be worked.[11] See figure 1.

Figure 1: IRS Collection Process
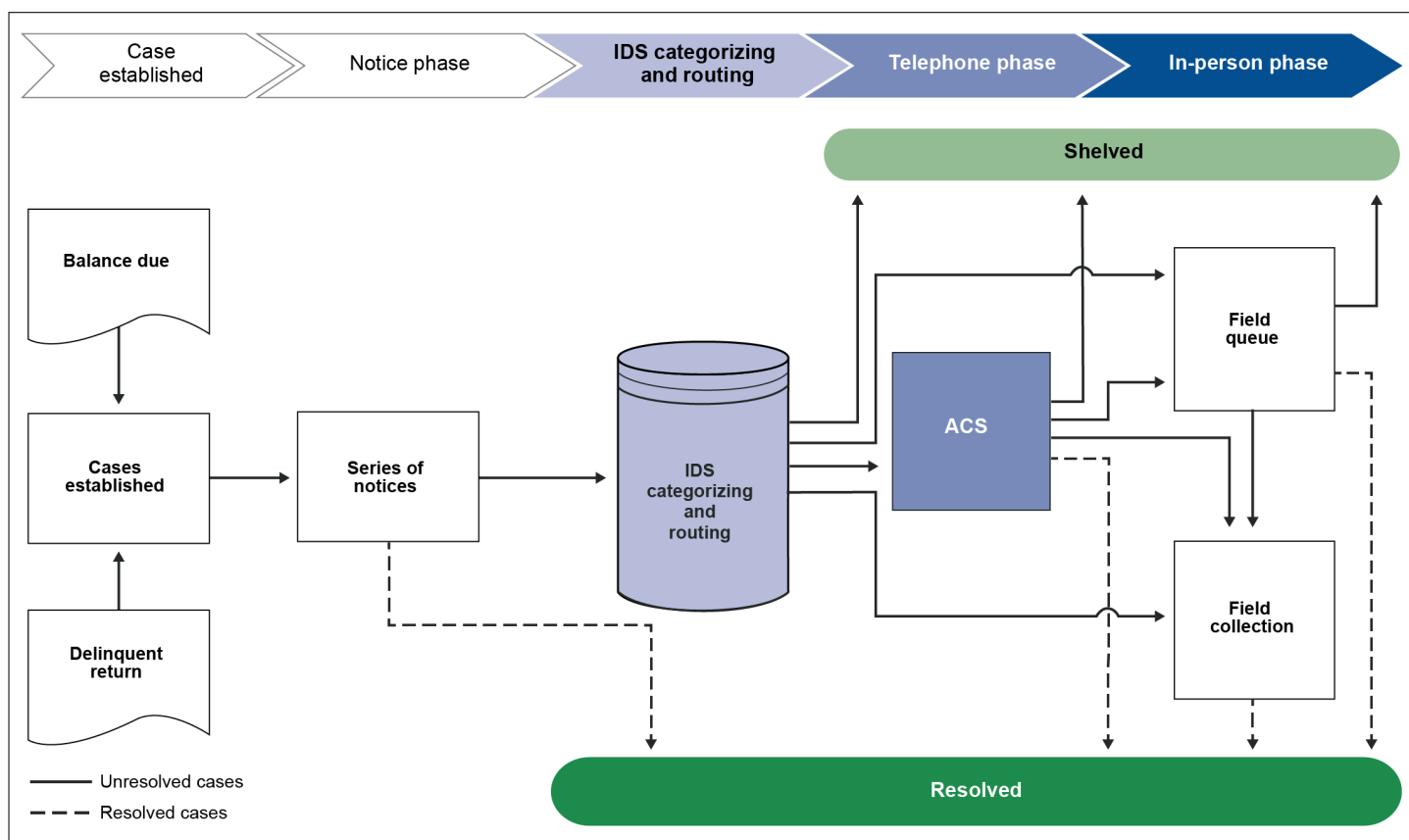
Source: GAO analysis of IRS data. | GAO -15-744

Notes: The Field queue is a holding area for cases for potential selection in Field collection for assignment to a revenue officer. Cases can also be resolved without IRS collections actions if, for example, the taxpayer paid the amount owed or filed a missing return during the notice phase, or while the taxpayer's case was awaiting assignment in the queue.

[11]IDS has several internal processes that support the three functions cited. For example, IDS "grades" cases. Grading determines the complexity of a case for potential assignment to a revenue officer in Field collection. Revenue officers with higher skill levels and expertise are assigned more complex cases. The grading rules are established in IRM as a product of union negotiations for employee assignment and workload management.

To make these determinations, IDS considers hundreds of factors about a case while carrying out two activities that facilitate closures, prioritization, and routing:

- **Modeling** is a statistical process that analyzes the results of previously closed cases to predict likely case outcomes. In IDS, this process helps determine if a case should be shelved if a model predicts it would not be collectible.

- **Risking** determines whether a case is high risk and influences case routing and shelving decisions. For example, cases where a taxpayer owes a large amount of money would be considered high risk and would be a priority for selection.

The outputs from the modeling and risking activities are used in conjunction with hundreds of business rules to determine where to route cases for further collection actions.[12] For cases routed to ACS and Field collection, the predictive modeling results from IDS are transmitted and used again to further prioritize cases. Cases are sent to ACS for several reasons, the two most common of which, based upon IRS data, are:

- **Taxpayer case already established in ACS:** Taxpayer already has one or more delinquency issues that are being pursued in ACS.[13]

- **Default routing rules:** No other IDS rule for routing cases to Field collection or for shelving cases proves applicable, and therefore by default the module is sent to ACS.[14]

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[12]Other factors are also considered and can lead to cases not being processed for further collection actions. For example, the business routing rules test whether the taxpayer is currently in bankruptcy. Under the IRS Restructuring and Reform Act of 1998, a taxpayer may bring suit against the IRS for taking further collection actions (like levying a taxpayer's wages or putting a lien on property) if there is a willful violation of certain bankruptcy procedures, or for other reasons such as reckless, intentional, or negligent disregard of certain limitations placed on IRS employee behavior during collection actions. Pub. L. No. 105-206, 112 Stat. 685, 730-31 (July 22, 1998). IDS business routing rules may also route cases to IRS's Locator Services System if there is not enough information to contact or locate the taxpayer. This may occur if previous taxpayer correspondence has been returned as undeliverable or IRS does not have a valid telephone number for the taxpayer. Locator Services System performs research on taxpayer addresses and telephone numbers.

[13]Whenever IDS recognizes that a collection module is associated with a taxpayer case already assigned to ACS, that module is sent to ACS to be joined with the collection case on that taxpayer, thus adding another module to the taxpayer's existing collection case.

Once a collection case is sent to ACS, it is either established as a new case or added to an existing case on a taxpayer. IRS pursues ACS collection cases by taking one or more actions, including reminding taxpayers of their tax delinquency through automated outgoing calls and letters, as well as placing liens on property or levying wages or assets. These actions may prompt taxpayers to call ACS to attempt to resolve their cases. If collection cases in ACS do not contain up-to-date contact information for the taxpayer, or information about sources that IRS could levy, IRS collection representatives will search for such information. If they find it, the case enters the pool of cases on which a potential action could be taken.

ACS attempts to resolve two types of collection delinquencies: (1) balance due cases, in which a taxpayer has a tax liability to IRS, and (2) nonfiler cases, in which a taxpayer has an unfiled return.[15] One case may include both types of delinquencies.

Balance due cases can be resolved by the taxpayer paying the outstanding tax debt in full, or arranging with IRS to pay the full or partial outstanding tax debt over time (known as an installment agreement). However, these cases could also be closed as currently not collectible if ACS collection representatives are unable to locate or contact the taxpayer, or if the taxpayer is facing economic hardship or unable to pay, among other reasons.[16] Some cases closed as currently not collectible may reenter the collection inventory if IRS determines that in the future, the taxpayer will be able to pay some of the tax debt.

Unfiled return cases may be resolved if the taxpayer files the delinquent return, or if the taxpayer is no longer liable for the unpaid taxes during the period in question, among other reasons. If the collection case is

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[14]Cases may be routed to ACS for a myriad of other reasons, such as the taxpayer's being a federal employee or retiree.

[15]The tax debt inventory generally originates from one of three sources: (1) a tax return with a balance due, (2) an IRS program to collect taxes from individuals or businesses who did not file a return (nonfilers), or (3) an IRS assessment of additional tax liability after an action on a filed tax return, such as an audit.

[16]Each tax assessment has a collection statute expiration date of 10 years after the assessment. See IRM Part 5, Chapter 16, Section1, for a complete list of reasons why a collection case could be closed as currently not collectible and IRM Part 5, Chapter1, Section19, for additional details on the collection statute expiration date.

unresolved by ACS, it may move to Field collection to be pursued further, or it could be shelved.

In November 2014, IRS began realigning collection operations across its Wage & Investment (W&I) and Small Business/Self-Employed (SB/SE) business operating divisions. According to IRS, the realignment will increase efficiency, reduce redundancies, and position IRS to improve identification of emerging compliance issues. Previously, ACS operations were split with W&I handling collections against individual taxpayers, and SB/SE handling individuals with business income and losses as well as all business entity taxpayers. As part of the realignment, IRS is consolidating all ACS call and support sites within SB/SE.[17] At least through fiscal year 2015, ACS will operate separate phone numbers for W&I and SB/SE, and all sites will continue to handle the same type of taxpayers as they did prior to the realignment.[18] IRS officials said that they plan to consolidate the management of its telephones by fiscal year 2016 to align with the new organizational structure.

Case Selection Is Mostly Automated, and Priority Cases Accounted for Half of ACS's Closed Cases in Fiscal Year 2014

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[17]Post realignment, SB/SE handles collection cases that originate from all of IRS's business operating divisions, including W&I, SB/SE, the Large Business and International division, and the Tax-Exempt/Government Entities division.

[18]ACS call sites receive taxpayer calls and research collection cases while support sites assist the call sites by resolving written correspondence from taxpayers, taxpayer representatives, and third-party contacts. See appendix II for the locations of ACS call and support sites.

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ACS Uses Case Characteristics and Predictive Models to Prioritize Cases for Selection through a Multistep Process

The ACS prioritization and selection process consists of three steps, as shown in figure 2. These steps are automated—that is, they do not involve manual intervention—and occur within seconds of each other. IRS managers responsible for ACS case prioritization and selection cannot change these steps without guidance from IRS collection program executives and input from IRS's information technology staff. Overall, the ACS prioritization and selection process is set up so that high-priority cases are worked first. These include IRS program collection priorities and cases that have a greater potential to result in full payment or an installment agreement based on IRS's predictive models discussed above. Documentation of the process is limited (an issue we discuss later in this report); therefore we based our description below largely on our reviews of the documentation that does exist, on multiple interviews with IRS officials, and on our observations during two visits to the ACS call site in Philadelphia.[19]

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[19]See appendix II for additional information on ACS and its case prioritization and selection process.

Figure 2: ACS Prioritization and Selection Process

Step 1: Inventory and Risk Category
ACS first assigns cases to one of the three inventories, some of which represent the collection program's highest priority work, and a risk category based on the case's characteristics.

Step 2: Priority Level
ACS next assigns cases a priority level based on predictive model scores, special inventory, or risk category. The priority level determines how the case will be worked within its assigned inventory.

Step 3: Function Unit
ACS then places cases in a function unit, which determines the particular action that will be taken on cases by priority level.

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

Case Assigned to Inventory and Risk Category

Case Assigned to Inventory and Risk Category

Case Assigned Priority Level

Case Assigned to Function Unit

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

The first step in the ACS prioritization and selection process is to assign a case to one of three inventory groups: (1) special inventories, (2) model priority inventories, and (3) the general population inventory.

During this step, ACS first assesses cases to determine whether they fall within one of ACS's five special inventories, four of which align with IRS's collection program priorities. ACS will look at the case characteristics, such as from which IRS division the case originated, to assign it to a special inventory. ACS works all but one of the special inventories at specific call sites where staff possess the expertise to work the cases. See table 1.

Table 1: Overview of ACS Special Inventories

ACS Special Inventory	Description	Collection Program Priority[a]	Dedicated ACS Call Site
Large business cases with a balance due	IRS Large Business and International division taxpayers, which include corporations with assets greater than $10 million and may conduct business internationally.	Yes	Yes
High-income nonfiler cases	Taxpayers with estimated high incomes who have not filed their tax returns.	Yes	Yes
Federal employee and retiree cases	The IRS Federal Employee/Retiree Delinquency Initiative (FERDI), involves cases to promote federal tax compliance among current and retired federal employees, taxpayers who receive certain Social Security and railroad board benefits, and federal agency vendors.[b]	Yes	Yes
Delinquent employer payroll taxpayers (Trust fund cases)	Cases where employers have not complied with requirements to remit withholding and employment taxes on wages paid to their employees.[c]	Yes	No
International Cases	Business and individual taxpayers who have an address abroad.	No	Yes

Source: IRS documentation and IRS officials. | GAO-15-744

Notes:

[a]There is an additional IRS collection program priority in ACS of taxpayers (individuals and small businesses) with large dollar delinquent accounts but it is not a special inventory in ACS.

[b]IDS automatically routes all non-IRS employee FERDI cases to a dedicated ACS unit, and IRS employee cases are worked by Field collection. IRM Part 5, Chapter19, Section18.

[c]The quarterly nonpayment of employer payroll taxes can involve "pyramiding"—a fraudulent practice where a business withholds taxes from its employees but intentionally fails to remit them to IRS. Trust fund taxes include employment taxes, income taxes withheld from employees' wages, and certain types of excise taxes. A Trust Fund Recovery Penalty arises against those persons deemed responsible when these monies are not paid as required. Employers file returns for trust funds quarterly using form 941 or annually using form 944. ACS works trust fund cases across its seven SB/SE call sites.

Next, ACS assesses the remaining cases to determine whether they qualify for assignment to one of the business model priority inventories.[20] These inventories contain cases that IRS predicts as having a probability of resulting in full payment or installment agreements, among other outcomes. To make this determination, ACS uses the predictive model scores generated by IDS.[21] If the model score on the case is above a

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[20]There are 12 W&I model priority inventories.

[21]Each module received in ACS has a number of predictive model scores, which assign the probability of a specified outcome of the case. For balance due modules, IDS transmits 10 model scores to ACS for use. For nonfiler modules, IDS transmits 2 model scores.

specified threshold, ACS will assign the case to the corresponding model priority inventory. ACS assigns any remaining cases not placed into one of the special inventories or model priority inventories to the general population inventory.

Simultaneously with these actions, ACS assigns each case a risk category of high, medium, or low.[22] ACS bases this assignment on the case's characteristics, such as its age, the dollar value of the outstanding balance, and the type of return the taxpayer filed or failed to file, among others. According to IRS officials, the risk categories have remained largely unchanged since their inception in 2000.[23] Many of the risk categories contain dollar thresholds, which have also remained unchanged; for example, if a taxpayer has a delinquent balance due that is within or above a specified amount, ACS will assign it to the corresponding risk category. In addition, ACS uses risk categories to determine how long to retain cases in ACS before sending them to the queue or shelving them. ACS sends high- and medium-risk cases to the queue after 26 weeks. Low-risk cases are not sent to the queue but are shelved after 104 weeks. IRS officials said that ACS retains low-risk cases for longer because ACS staff have to work through high- and medium-risk cases before they can get to low-risk cases. These officials added that if low-risk cases are not resolved in ACS and subsequently sent to the queue, it is unlikely that they would get worked by revenue officers in Field collection.

[22]Each risk category has multiple sub-categories. In SB/SE there are 14 sub-categories within the high-risk category, 10 sub-categories within the medium-risk category, and 8 sub-categories within the low-risk category; in W&I these totals are 10, 16, and 8, respectively. Cases in ACS are re-risked weekly, and if a case has received a new module, or if the taxpayer has provided additional information in the interim, the risk category may change.

[23]IRS stated that in 2000 it hired a contractor to develop a risk-based collection concept similar to the one used in private debt collections.

Case Assigned Priority Level

Case Assigned to Inventory and Risk Category

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Case Assigned Priority Level
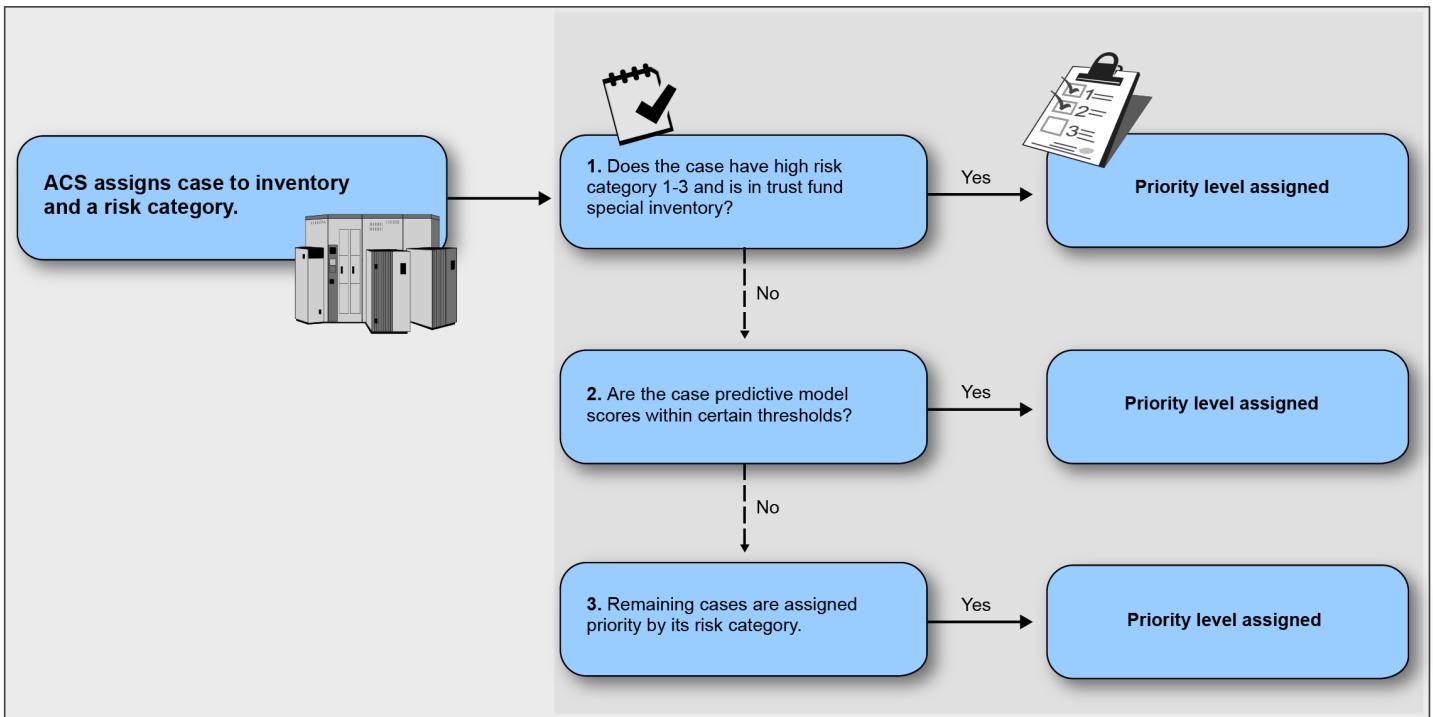
↓

Case Assigned to Function Unit
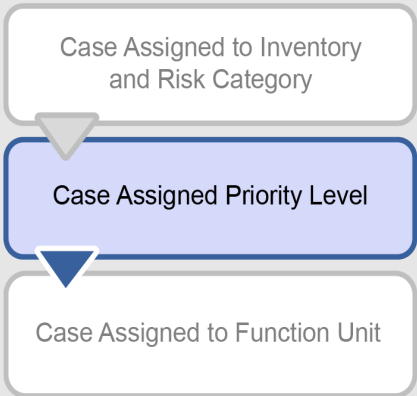
Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

After ACS assigns a case to an inventory and a risk category, the case receives a priority level, which determines the order in which ACS works the case within each inventory. ACS uses the assigned inventory, risk category, and the predictive model scores unique to each case to assign it a priority level.[24] Figure 3 illustrates how ACS sets the priority level for business taxpayers. The ACS process for setting the priority level for individual taxpayers is similar except that it prioritizes high-income nonfiler and FERDI cases, among others, first. Following the IRS realignment, which is consolidating all ACS call sites within SB/SE, IRS officials said that their goal is to integrate the case prioritization and selection processes used for SB/SE and W&I into one approach during fiscal year 2016.

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[24]The priority level can range from 0 to 5, with 0 being the highest priority.

Figure 3: ACS Process for Assigning a Priority Level to Business Cases

ACS assigns case to inventory and a risk category.

1. Does the case have high risk category 1-3 and is in trust fund special inventory? — Yes → Priority level assigned

No

2. Are the case predictive model scores within certain thresholds? — Yes → Priority level assigned

No

3. Remaining cases are assigned priority by its risk category. — Yes → Priority level assigned

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

Notes: Taxpayers that fall under the responsibility of the IRS Small Business/Self Employed, Tax Exempt/Government Entities, and Large Business and International business operating divisions fall under the ACS business prioritization process above. These taxpayers would include business entity taxpayers and individual taxpayers with business income or losses.

IRS collection program officials said that they would like to continue to expand IRS's use of the IDS model scores to prioritize cases within ACS. For example, ACS prioritizes cases into priority levels of 0 to 5, but does not prioritize the cases within each level. According to IRS collection program officials, using the model scores more robustly would allow IRS to better select among cases that have the same priority level or follow-up date. However, collection program officials have no plans to use the predictive model scores as the sole factor to prioritize cases as this would ignore the collection program priorities discussed above.

Case Assigned to Function Unit
Case Assigned to Inventory and Risk Category
Case Assigned Priority Level
Case Assigned to Function Unit

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

In the third step, ACS assigns each case to a function unit. Function units are holding bins for cases while they wait for action by either ACS collection representatives or the system itself (which acts automatically). Generally, these actions include contacting taxpayers, taking enforcement actions, such as liens and levies, or investigating cases for contact information.[25] After segregating cases by inventory and function unit, ACS works cases in a specific order, beginning with priority level, then by follow-up date, and finally by taxpayer identification number in ascending order.

ACS Managers Aim to Balance Workload to Achieve Case Closure and Taxpayer Service Measures

Although the ACS prioritization process is largely automated, IRS managers responsible for case prioritization and selection have some discretion in choosing the number and type of cases worked to ensure that ACS meets two key performance measures: (1) the number of balance due and nonfiler case closures and (2) the level of service, which measures the quality of collection representatives' interactions with taxpayers who call into ACS.[26] To ensure ACS meets these measures, ACS managers consider: (1) how collection representatives' time is spent; (2) how many notification and enforcement actions to initiate; and (3) how many and which cases to load for collection representatives to work.

How Collection Representatives' Time Is Spent

ACS managers first balance the time collection representatives spend researching cases with the time they spend answering phone calls from taxpayers. In fiscal years 2013 and 2014, collection representatives spent 77 percent of their time answering phone calls, up from 66 percent in fiscal year 2012, and thus spent less time researching cases, including those that may be of higher priority. Representatives spent more time

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[25]These ACS notifications are distinct from those IRS initially sent to taxpayers during the notice phase of the collection process.

[26]According to IRS officials, IRS sets the annual targets for the number of ACS case closures and level of service after reviewing historical information on ACS performance, as well as assessing available ACS staffing for the coming year. ACS officials develop these goals and then vet them with IRS collection program executives.

answering phones primarily because in fiscal year 2014 there were 20 percent fewer collection representatives (in terms of full-time equivalents) in ACS than in fiscal year 2012.

How Many Notification and Enforcement Actions to Initiate

ACS managers also balance the number of notification and enforcement actions—such as outgoing calls, letters, liens, and levies—with the expected number of taxpayers who will call in response.[27] ACS managers target an expected call volume that allows collection representatives to answer taxpayers' calls in a timely manner. This helps ensure that ACS meets targets for level of service. Over the previous 3 fiscal years, ACS issued fewer notification and enforcement actions because of the declining number of collection representatives spending an increasing share of their time answering calls. For example, IRS issued 37 percent fewer levies and 31 percent fewer letters between fiscal year 2012 and 2014.

How Many and Which Cases to Load for Collection Representatives to Work

Finally, ACS managers assess how many cases to upload for collection representatives to work. Managers track the number of cases and how long cases are residing in function units to ensure that older cases are worked by collection representatives in a timely manner.[28] If the managers determine cases are residing in function units too long, they upload a block of cases from those function units to ACS's inventory management tool. Each collection representative accesses the inventory management tool and works the next case available based on the priority level and oldest follow-up date. This process thus precludes collection representatives from selecting individual cases.
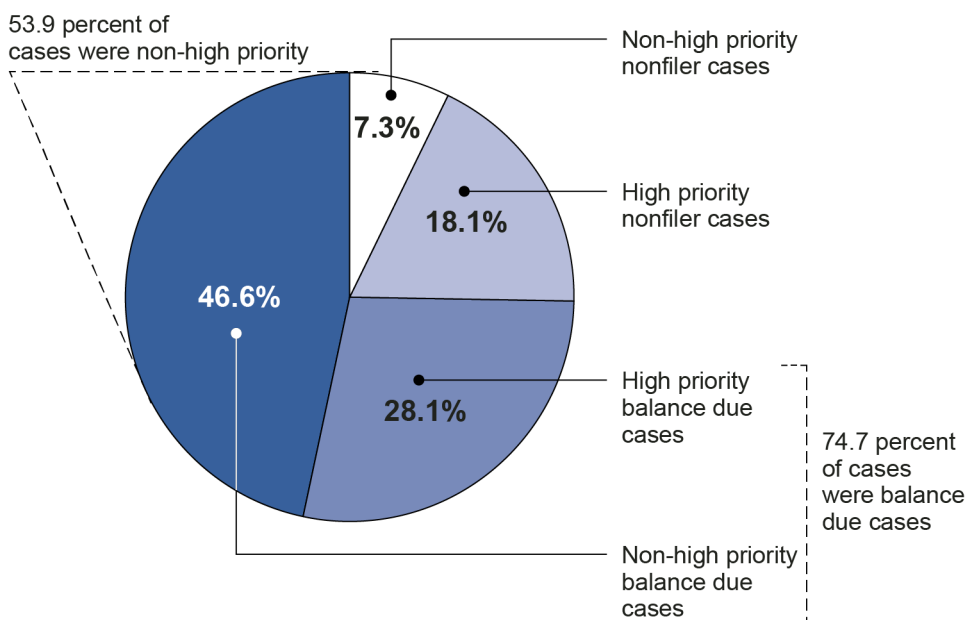
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[27]According to IRS studies, levies generate one of the highest percentages of calls from taxpayers with a roughly 20 percent response rate (in fiscal year 2014), and thus ACS staff monitors the volume at which they are issued.

[28]IRS establishes targets for the number of days that IRS allows a share of cases to reside in each of the priority function units. For instance, for SB/SE, cases in the managerial approvals function units have targets for working cases so that no more than 1 percent of cases remain in these function units for more than 10 days. IRS managers compare how many cases are in priority function units to the annual targets to ensure that cases do not reside too long in those function units without action taken on them.

Priority Cases Accounted For Half of Case Closures in Fiscal Year 2014, and IRS Performed Better at Closing Priority Individual Cases Than Priority Business Cases

In fiscal year 2014, almost half of the 3.5 million cases closed or transferred out of ACS were high-priority cases, such as high-income nonfiler and trust fund cases. See figure 4. Furthermore, three-quarters of cases closed in ACS in fiscal year 2014 were for taxpayers who had a balance due outstanding with IRS (discussed further below).[29] See appendix III for data on nonfiler cases for taxpayers who failed to file tax returns.

Figure 4: Cases Closed in ACS by Priority and Case Type, Fiscal Year 2014

53.9 percent of cases were non-high priority

Non-high priority nonfiler cases

7.3%

High priority nonfiler cases

18.1%

46.6%

High priority balance due cases

28.1%

74.7 percent of cases were balance due cases

Non-high priority balance due cases

Source: GAO analysis of IRS data. | GAO-15-744

Notes: Balance due cases also include combination cases, in which the taxpayer had both a nonfiler and balance due delinquency, consistent with how IRS reports such cases. Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5. Figure data may add up to more than 100 percent due to rounding.

Table 2 shows the mix of closed cases by inventory type. About nine percent were in one of ACS's five special inventories, which align with IRS collection program priorities. About one-third of cases were from the model priority inventories, in which IRS predicts the case has a certain

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[29]Balance due cases also include combination cases, in which the taxpayer had both a nonfiler and balance due delinquency, consistent with how IRS reports such cases.

potential to result in full payment or an installment agreement, among others, and the remaining cases were in ACS's general inventory.

Table 2: Cases Closed in ACS by Type of Inventory, Fiscal Year 2014

Special Inventories	Number	Percentage
Large Business & International Cases	7,423	0.2%
Trust Fund Cases	140,876	3.7%
High-Income Nonfiler Cases	41,656	1.1%
Federal Employee/Retiree Cases	97,841	2.6%
International Cases	26,888	0.7%
Total Special Inventories	**314,684**	8.9%
Model Priority Inventories	**1,133,879**	32.2%
General Population Inventory	**2,073,125**	58.9%
Total Number of Cases	**3,521,688**	**100.0%**

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Case data are presented on a taxpayer basis. Percentages may not sum due to rounding.

Broken out by type of taxpayer, about 60 percent of the balance due and nonfiler cases ACS closed in fiscal year 2014 were business taxpayers. These taxpayers included (1) business entities, such as corporations; (2) businesses which failed to file or remit fully their employment taxes; and (3) individuals with business income or losses.

Of the 3.52 million cases closed in or transferred out of ACS in fiscal year 2014, about 1.76 million cases (50 percent) were either resolved by IRS when the taxpayer paid the tax liability in full, or established an installment agreement to pay the liability partially or in full, or when IRS secured the delinquent return. IRS collected almost $6.2 billion in delinquent revenue for the federal government from those cases closed in fiscal year 2014. Another 1 million cases (29 percent) were transferred out of ACS to another location in the IRS collection program.[30] Finally,
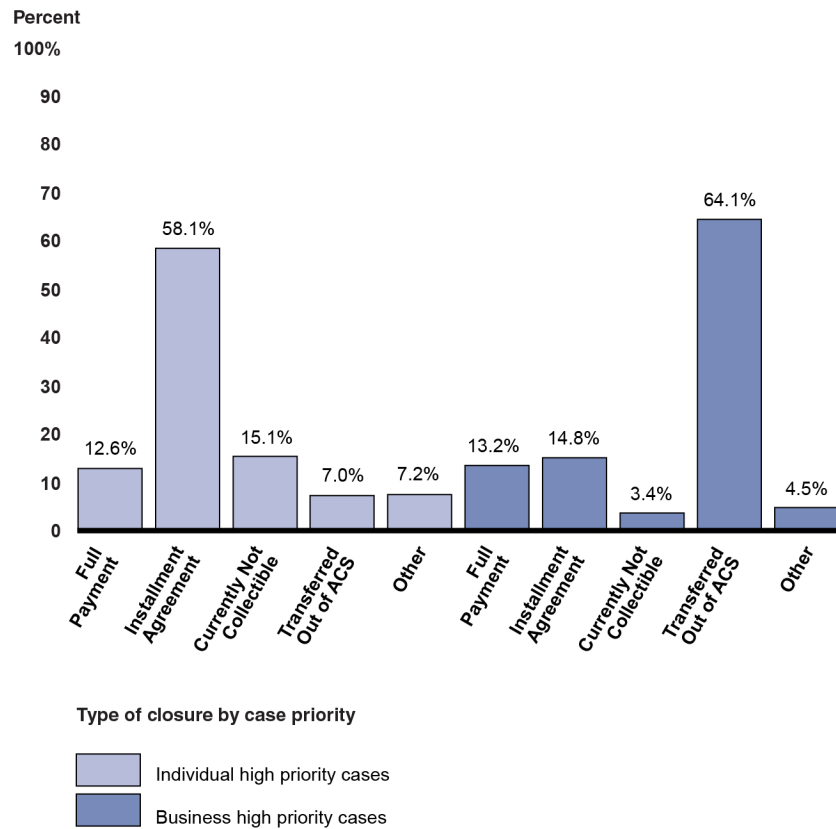
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[30]While transferred cases are no longer worked within ACS, they remain open within the IRS collection program. ACS transfers taxpayer cases from ACS to the Field queue or Field collection where ACS is prohibited from resolving the case. These would most often involve economic hardship determinations for amounts in excess of ACS authority or installment agreements lasting 5 years longer than the collection statute expiration date. Field collection can also request ACS transfer the case due to related accounts on the taxpayer already in Field collection. IRM Part 5, Chapter 19, Sections 5-7.

about 373,000 cases (11 percent) were closed as currently not collectible or shelved, and the remaining 380,000 cases (11 percent) were closed for other reasons, such as being sent to IRS exam to potentially audit the taxpayer's return.[31]

In fiscal year 2014, IRS generally performed better at closing high-priority individual balance due cases than it did at closing these types of business cases. Figure 5 shows the outcome of these types of closed cases.

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[31]Cases closed as currently not collectible could reenter the collection inventory if IRS determines that at some point in the future, the taxpayer will be able to pay some of the tax debt, since each collection assessment has a statute of limitations of 10 years (IRM Part 5, Chapter 16, Section 1). Similarly, cases that are shelved are taken out active collection status but could also reenter collection inventory.

Figure 5: Types of Closures of High Priority Balance Due Cases in ACS, Fiscal Year 2014

Percent

```
100%

 90

 80

 70                                                              64.1%

 60          58.1%

 50

 40

 30

 20                 15.1%              13.2%  14.8%
     12.6%                                                              4.5%
 10                        7.0%  7.2%                3.4%

  0
     Full    Install-  Curr-   Trans-  Other  Full    Install- Curr-   Trans-  Other
     Pay-    ment      ently   ferred         Pay-    ment     ently   ferred
     ment    Agree-    Not     Out of         ment    Agree-   Not     Out of
             ment      Coll-   ACS                     ment    Coll-   ACS
                       ectible                                 ectible
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Type of closure by case priority

Individual high priority cases

Business high priority cases

Source: GAO analysis of IRS data. | GAO-15-744

Notes: Balance due cases also include combination cases, in which the taxpayer had both a nonfiler and balance due delinquency, consistent with how IRS reports such cases. Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0–1. Cases with other closing codes include those cases that were no longer liable, not liable for the tax period, had a tax liability below a certain amount, had an expired statute, were closed on another IRS system, or were closed in ACS as sent to IRS exam or the automated 6020(b) program under the authority of 26 U.S.C. § 6020(b) (hereafter "automated 6020(b) program").

Of cases closed in ACS in fiscal year 2014, the median number of days high-priority individual and business balance due cases were open was 259 and 196 days, respectively.[32] Of cases closed in fiscal year 2014, IRS closed 85 percent of business high-priority balance due cases within

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[32]Individual and business high-priority balance due cases were closed on average 445 and 241 days, respectively, in fiscal year 2014.
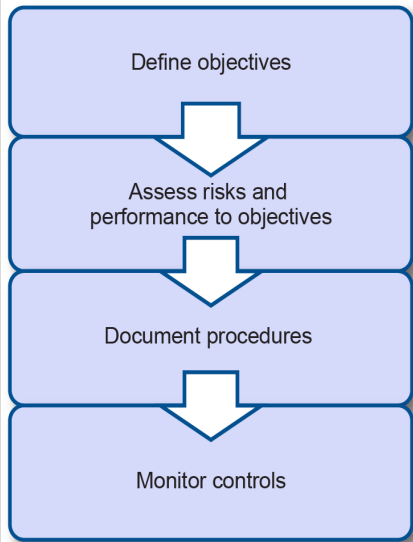
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the first year they were open, whereas 61 percent of individual high-priority cases were closed within the first year.

ACS Objectives Are Unclear, and IRS Lacks Key Documentation of and Procedures for Evaluating Case Prioritization and Selection

An effective internal control system can help federal agencies achieve their missions and objectives and improve accountability. As set forth in *Standards for Internal Control in the Federal Government*, also known as the Green Book, internal controls comprise the plans, methods, and procedures used to meet an entity's mission, goals, and objectives, which support performance-based management.[33] Internal controls help agency program managers achieve desired results and provide reasonable assurance that program objectives are being achieved through, among other things, effective and efficient use of agency resources. Internal control is not one event, but rather an ongoing series of actions and activities that occur throughout an entity's operations. Two examples of internal control standards are the establishment of clear, consistent objectives and a commitment to documenting significant events.

[33]For more information on internal control standards, see GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). A newer version of the standards, GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014), takes effect in fiscal year 2016.

Selected Key Steps in Internal Control

Define objectives

↓

Assess risks and performance to objectives

↓

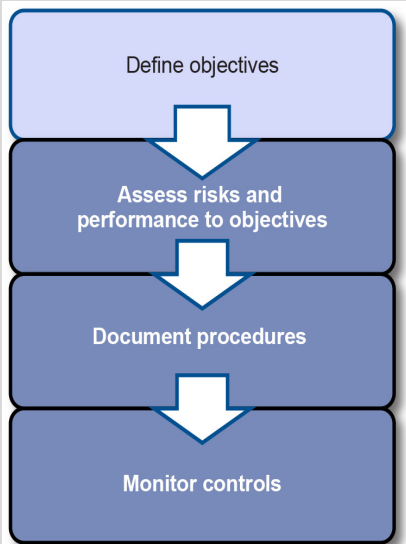Document procedures

↓

Monitor controls

Source: GAO. | GAO-15-744

Internal control standards can serve as tools to help IRS management ensure that ACS contributes to the collection program's mission of collecting delinquent taxes and securing delinquent tax returns through the fair and equitable application of the tax laws. However, when we compared IRS's processes to these standards, we found that they were deficient in some areas, thereby increasing the risk that ACS activities may not fully contribute to the collection program's mission.

The Collection Program and ACS Lack Clearly Documented Objectives, and the Key Term of Fairness Is Undefined

According to internal control standards, having clearly documented and communicated program objectives is a precondition of any further internal control activity, such as risk assessment, and is key to helping entities meet their mission, objectives, and goals.[34] IRS officials responsible for the collection program and ACS were unable to produce documentation regarding collection program or ACS objectives. While during an interview with us, collection program executives described the objectives of ensuring adequate coverage of different types of collection cases and maximizing the revenue collected by IRS, neither of these concepts were clearly documented and communicated to IRS staff. We found elements of what could be developed into program objectives in various program documents—such as the collection program letter, which includes the collection mission, and collection policy statements. However, none of these documents were identified by IRS officials as establishing program objectives. IRS officials also pointed to a variety of established

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[34]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999), pg. 10.

Define objectives

Assess risks and
performance to objectives

Document procedures

Monitor controls

Source: GAO. | GAO-15-744

performance goals and measures used within the collection program as objectives. However, according to internal control standards and the GPRA Modernization Act of 2010 (GPRAMA), performance goals and measures are not objectives, but rather should be used to assess whether an entity is achieving its objectives, and are ultimately derived from those objectives.[35]

The concept of fairness is of central importance to the collection program, as reflected in IRS's and the collection program's mission statement.[36] However, the term "fairness" was not defined or operationalized in any ACS or collection program documents as it relates to case selection. IRS officials did share a number of viewpoints of how fairness could be defined. While these informal views on fairness may have meaning to some, they do not constitute an institutional definition of fairness, nor are they substitutes for documented objectives that are accessible and can be communicated to staff.[37] One IRS official responsible for collection case selection processes offered a definition of fairness as "treating like taxpayers alike"—that is, that taxpayers with similar characteristics face an equal likelihood of being selected for collection. Another IRS official said ACS is fair because it is a "next case" system—that is, cases are automatically prioritized and selected for ACS staff to work, without IRS

[35]Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). GPRAMA significantly enhanced the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

[36]The IRS mission, as reflected in its fiscal year 2014-2017 Strategic Plan, is to "Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all." IRS *Strategic Plan: FY2014-2017* (Washington, D.C.: 2014). The collection program's mission, as conveyed in its fiscal year 2015 Collection Program Letter, is "To collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, provide education to customers to enable future compliance, and thereby protect and promote public confidence in the American tax system."

[37]We had previously recommended that IRS provide a performance measure for its former strategic objective to "increase fairness of compliance" and to clarify this strategic objective to more precisely express the desired result in a way that can be measured. In response, IRS replaced this one strategic objective with four new ones, each of which was more clearly stated and measurable. However, none of these newly formulated objectives provided a clearly-stated and measureable definition of fairness as it relates specifically to collection activities. Further, none of these four strategic objectives appears in IRS's current strategic plan. GAO, *IRS Modernization: IRS Should Enhance Its Performance Management System*, GAO-01-234 (Washington, D.C.: Feb. 23, 2001).

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staff having any role in selecting them. According to this IRS official, fairness is "built into the system." Another IRS official added that while IRS does not define and document fairness in the IRS collection program letter, IRS details the procedures and processes in the Internal Revenue Manual for how IRS staff are supposed to deal with taxpayers calling into ACS. He said that consistently following these procedures constitutes treating taxpayers fairly.[38]

The absence of clearly documented objectives and a clearly communicated definition of fairness present a number of challenges for IRS. First, without clearly formulated and communicated program objectives, IRS cannot know how well ACS contributes to the collection program mission and is not able to effectively assess the risks ACS may face or its overall effectiveness. Further, without documentation, a key concept like fairness may be open to multiple interpretations by ACS management and staff, as well as by the public. Ensuring that the multistep ACS prioritization and selection process is documented will allow IRS to communicate the concept of fairness consistently and reduce the risk that the case selection and prioritization process is perceived as unfair.

ACS Has Processes for Assessing Risk and Monitoring Performance, but the Lack of Objectives Undercuts Their Effectiveness

Internal control standards state that management needs to identify and analyze relevant risks associated with achieving the objectives. In addition, management needs to decide how to manage those risks and what actions should be taken in response. IRS officials draw on a mix of daily, weekly, monthly, and ad hoc meetings as their means of identifying and managing operational risks, which could affect the functioning of ACS.

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[38]All IRS employees are evaluated on a mandatory standard evaluating their ability to administer tax laws fairly and equitably, consistent with the employees' responsibilities. However, the IRM section covering this portion of evaluating whether IRS employees meet the standard does not define fairness but does provide examples of performance that meet or do not meet the standard.
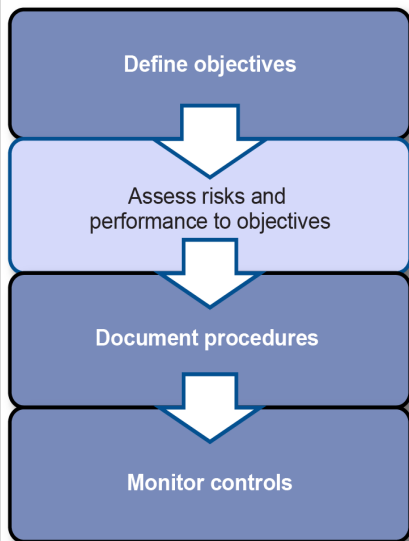
An IRS official illustrated one example of risk identification in which the agency's process identified that some levy notices contained incorrect tax liability information. This error presented a risk that ACS might systematically supply taxpayers or third parties with incorrect information. She also described the steps IRS took to address this risk. These included working with IRS information technology staff to move the affected cases out of function units that issue letters and levies, as well as issuing an alert to inform relevant ACS staff of what was going on, in case they received questions from taxpayers.

ACS managers responsible for case prioritization and selection also have quality reviews and other processes to review ACS operations. For example, program reviews, among other things, ensure ACS collection representatives work cases according to IRM procedures. In fiscal year 2014, each of the seven program reviews completed at SB/SE call sites identified areas for improvement in case processing and outlined corrective actions each call site should take in response.[39] These reviews check compliance with current procedures but do not assess the ACS case prioritization and selection process, according to IRS officials. IRS managers, including those in ACS, are to complete annual assessments of the effectiveness of controls within their own areas of responsibility, which include identifying and reporting risks.[40]

Additionally, IRS is implementing an Enterprise Risk Management (ERM) program, which will consider risks more systematically across IRS. The SB/SE Commissioner chartered a risk committee for SB/SE, which provides input into the overall IRS ERM process. The collection program also has a risk council, which provides input to the SB/SE Risk Committee. ACS is represented on this council by the Director of Campus Collections, who oversees the various ACS call sites that are spread across the country. As of April 2015, SB/SE's preliminary risk register listed 31 distinct risks, including some collection-related risks. IRS plans to periodically update the risk register and monitor the risks included on

Source: GAO. | GAO-15-744

- Define objectives
- Assess risks and performance to objectives
- Document procedures
- Monitor controls

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[39]Internal Revenue Manual, Part 1, Chapter 4, Section 20. Depending on available resources, IRS will complete program reviews of a sample of ACS call sites and may also complete follow-ups at those sites if deficiencies and errors are identified. In fiscal year 2014, IRS completed program reviews at five SB/SE ACS call sites and no W&I call sites. In fiscal year 2015, IRS planned to complete program reviews at three W&I ACS call sites and five SB/SE call sites.
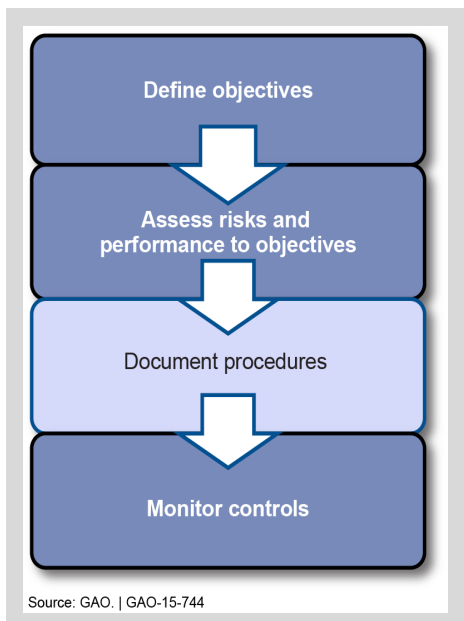
[40]Internal Revenue Manual, Part 1, Chapter 4, Section 2.

the register. IRS is also to develop and take actions in response to the risks listed on the register. In addition to these actions, ERM has procedures whereby ACS staff and management can elevate risks for management and executives to consider. The implementation of the ERM process in SB/SE is still in its initial stages with the preliminary risk register created in April 2015 and the first risk collection council meeting held that same month. As a result, it is too early to determine the effectiveness of the ERM in identifying and managing risk.

As noted above, ACS managers responsible for case prioritization and selection track performance measures, such as the number of balance due and nonfiler case closures as well as level of service. IRS officials responsible for ACS review these measures in daily, weekly, and monthly meetings, which provide information on how ACS is functioning and on whether it is meeting the targets established for its key measures. Internal control standards require management to establish activities to review performance measures and indicators, as well as to compare actual performance to planned or expected results. ACS managers responsible for case prioritization and selection monitor and review a range of reports. These reports provide data on staffing, total ACS dollars collected, enforcement activities (e.g., liens and levies), and customer satisfaction, among other measures. Collection program executives review similar ACS measures, as well as information on enterprise collection priorities, some of which ACS pursues.

IRS has established a management infrastructure for both assessing risk and monitoring performance. However, the lack of clearly documented collection program and ACS objectives undercuts its effectiveness. Without clearly documented program objectives, IRS cannot ensure that its risk assessment processes effectively identify and analyze relevant risks associated with achieving objectives. ERM's training for managers reinforces the importance of understanding objectives at various levels across IRS and establishing a risk management process to minimize the effects of risk to the accomplishment of those objectives. Similarly, IRS cannot know the extent to which ACS performance measures align with or contribute to the collection program mission without deriving measures from established objectives.

The ACS Prioritization and Selection Process Is Not Clearly Documented

Define objectives

Assess risks and performance to objectives

Document procedures

Monitor controls

Source: GAO. | GAO-15-744

Internal control standards state that such controls need to be clearly documented and that documentation should be readily available for examination. However, IRS has incomplete documentation to describe ACS's process for assigning a case to an inventory and risk category, priority level, and function unit. The information we used to outline the ACS case prioritization and selection process discussed above was mostly told to us by IRS officials over a series of discussions, rather than by clear and comprehensive documentation. IRS was able to provide documentation on the case characteristics that apply to each risk category and the IRM section that explains ACS operations, including information about how cases are assigned to function units. However, this documentation does not provide an overview of the multistep ACS case prioritization and selection process.[41]

Using screen shots from their computer system, IRS officials were able to demonstrate how ACS assigns a case to an inventory and a priority level. However, the screen shots did not stand alone without explanation and input from IRS officials. IRS was able to provide documentation about how the process has changed overtime, such as information technology requests to implement the use of the predictive model scores and alter the model priority inventories in ACS.

IRS officials acknowledged that they have little formal documentation along these lines to comprehensively describe the ACS process. In lieu of documentation, IRS has to rely on the institutional knowledge of management and staff to be able to describe the process. For example, key IRS staff have been employed in ACS since at least 2000, when ACS began using the risk categories. The officials also acknowledged that the process needs to be written out to affect a smooth transition to future staff and management. Indeed, IRS officials told us that some ACS staff will soon be eligible for retirement, which highlights the importance for IRS to document the multistep ACS process.

Without adequate documentation, it is also difficult to determine whether the ACS case prioritization and selection process effectively supports collection program and ACS missions and objectives. Furthermore, as IRS realigns ACS collection operations within SB/SE, having baseline

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[41]The IRM describes ACS as a system designed to do next case processing, in which the system selects cases to be worked by priority. IRM, Part 5, Chapter 19, Section 5.

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documentation of the process as structured would assist IRS in communicating the process to staff and in making decisions about how best to consolidate ACS. Finally, the absence of a fully documented prioritization process may make it difficult for IRS to defend against accusations that it is not following its collections procedures, since these procedures are not documented and cannot be communicated to parties inside and outside of IRS.

IRS Lacks Procedures for Periodically Evaluating the ACS Process and Has Not Taken Corrective Action from Ad Hoc Evaluation

Define objectives

Assess risks and performance to objectives

Document procedures

Monitor controls

Source: GAO. | GAO-15-744

According to internal control standards, separate evaluations of controls can be useful by focusing directly on the controls' effectiveness at a specific time. The scope and frequency of separate evaluations should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures.[42] ACS has no procedures or structure for regularly completing periodic evaluations of the ACS case prioritization and selection process, including its use of the special inventories, risk categories, predictive models, and priority levels. For example, according to IRS officials, the ACS risk categories have been relatively static since their creation in 2000, and dollar values within those risk categories have not been adjusted for inflation. While some changes have been made to the ACS case prioritization and selection process, these changes were based on ad hoc studies or recommended by management based on changes in priorities, rather than the result of regular and periodic evaluations of the ACS case prioritization process. For example, as a result of the IRS Collection Process Study completed in 2010, IRS decided to retain high-risk cases longer in ACS to ensure those cases get worked.[43] IRS officials said that while they have no procedures to regularly or periodically evaluate ACS case prioritization, such evaluations could provide useful information for consolidating ACS operations in SB/SE, in light of the IRS realignment. In addition, according to IRS officials, the realignment is serving as a catalyst to review and enhance the ACS process in SB/SE, such as reviewing and enhancing the use of the risk categories and revisiting the amount of time cases are retained in ACS.

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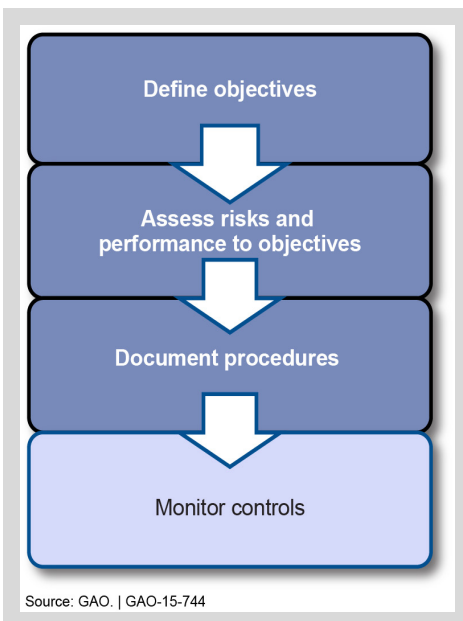
[42]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999), pg. 20.

[43]IRS, *Collection Process Study* (Washington, D.C.: Sept. 30, 2010).

IRS's December 2014 Collection Workload Optimization Project (CWOP) produced a number of findings and recommendations for how ACS could better manage and prioritize cases. For example, CWOP recommended that ACS stop prioritizing cases by follow-up date because selecting cases by the oldest follow-up date may result in ACS selecting cases with less collection potential. In our discussions about the status of the CWOP recommendations, IRS officials said that while CWOP remains an ongoing effort, they do not have a plan or time frame in place for next steps and corrective actions in response to the report. IRS officials stated that they have been unable to take action with regard to certain CWOP recommendations due to scarce resources and competing priorities for IRS's information technology services.

Internal control standards note that managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

Without periodically reviewing and evaluating the ACS case prioritization and selection process and ensuring that findings from evaluations, such as CWOP, are addressed and corrective action is taken where necessary, ACS may be missing opportunities to better prioritize its workload and improve collection results. For example, CWOP recommends that ACS prioritize collection cases in each of its inventories by the model scores rather than by the priority level codes. According to IRS, this would help ACS select the cases with the greatest collection potential. Without such evaluations, IRS may also not be able to ensure that ACS case prioritization is working as intended and may be missing opportunities to more effectively align the ACS case prioritization process with IRS's strategic objectives and with collection program and ACS objectives, once developed. In addition, if the prioritization and selection process is not periodically evaluated over time, it could lose its value and usefulness. For example, IRS does not know how the static dollar thresholds for the ACS risk categories affect the composition of cases assigned certain priorities and risks over time. Outdated dollar thresholds may no longer be serving their intended purpose of identifying high-risk or priority cases as they have remained static while taxpayer incomes have increased over time, potentially changing ACS's composition of cases.

Conclusions

ACS is one of IRS's primary enforcement tools for compelling noncompliant taxpayers to file their tax returns and pay their taxes. ACS ensures millions of taxpayers do just that, which results in billions of dollars being collected annually for the federal government, thereby helping to address the tax gap and encouraging future voluntary compliance. ACS's process for prioritizing and selecting cases helps to ensure that high-priority taxpayers, including federal employees and retirees, high-income nonfilers, and large corporations, as well as taxpayers who have a higher probability of paying their taxes in full, comply with the tax laws. But the absence of key management controls—objectives, documentation, and procedures to complete periodic evaluations—creates multiple challenges for IRS. Without clearly documented objectives, IRS cannot know if ACS is meeting its mission and the agency will not be able to manage risk or monitor performance as well as it otherwise could.

The lack of clear and comprehensive documentation on ACS's multistep case prioritization and selection process risks that it will not be communicated consistently to parties inside and outside of IRS. IRS has relied on institutional knowledge from experienced staff, some of whom are now retirement eligible. However, the risk of inconsistently communicating the ACS process increases as subsequent IRS employees work within ACS. By not periodically evaluating how the ACS process is structured (or acting on the findings of the ad hoc evaluation that was conducted), IRS is missing opportunities to enhance ACS's effectiveness. Moreover, the absence of these controls could affect IRS's ability to successfully consolidate W&I and SB/SE ACS call sites as part of the ongoing IRS realignment. Lastly, IRS risks the appearance that the ACS prioritization and selection process is unfair to taxpayers because IRS is unable to communicate key pieces of information, such as its definition of fairness, to the public.

Recommendations for Executive Action

To help ensure the IRS collection program meets its mission and selects cases fairly, we recommend that the Commissioner of Internal Revenue take the following four actions related to ACS:

1. Establish, document, and implement objectives for the collection program and ACS, and define the key term of "fairness" as it applies to collection activities, which can be communicated to IRS staff.

2. Establish and implement clear guidance and documentation for the ACS case prioritization and selection process, including inventory,

risk, and priority designations, as well as changes to those designations over time, and communicate them to appropriate IRS staff.

3. Establish, document, and implement procedures to complete periodic evaluations of the ACS case prioritization and selection process and structure. The evaluation should cover the composition of the risk categories, model thresholds, and dollar thresholds used to prioritize cases.

4. Establish, document, and implement a plan and time frame to ensure follow-up for ad hoc evaluations of the ACS case prioritization and selection process.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for review and comment. The Deputy Commissioner for Services and Enforcement provided written comments dated August 18, 2015, which are reprinted in appendix V.

IRS stated that it agrees with the importance of sound internal controls and is committed to their improvement, especially in the areas we recommended. To that end, IRS noted actions that it has taken to improve collection performance in fiscal years 2014 and 2015, including updates of analytical models and the realignment of the collection program to be entirely within SB/SE. IRS acknowledged that its documentation has not kept pace and affirmed its commitment to bringing the policies and procedures up to date. However, IRS did not believe that the level of current documentation has undercut the effectiveness of ACS.

In response to our recommendation to establish, document, and implement objectives for the collection program and ACS, IRS said it will review its current objectives for both, which it identifies as the collection program priorities, to identify and implement any additional objectives. IRS also said it plans to define key terms such as "fairness" as it applies to collection activities in a data dictionary, which is communicated to IRS staff. As we noted above, ensuring clearly documented and communicated objectives exist will allow IRS to use the management infrastructure in ACS for both assessing risk and monitoring performance to their full potential. In addition, communicating a key concept like fairness to IRS staff will help reduce the risk that it is open to multiple interpretations.

In response to our recommendation on establishing and implementing clear documentation, IRS said that it will review and implement clear guidance and documentation that can be communicated to IRS staff. As we discussed, having adequate documentation for the ACS case prioritization and selection process will assist IRS in communicating the process to staff, and in making decisions about the best way to consolidate ACS under the recent realignment of collection operations.
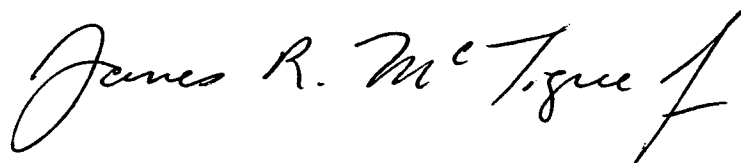
In response to our recommendation to periodically evaluate the ACS case prioritization and selection process, and follow up on prior ad hoc evaluations, IRS said it will review and, if needed, update its internal management documents and ensure follow up for ad hoc evaluations. IRS also noted that any evaluation of the ACS case prioritization and selection process completed will be based on a risk assessment at that time. Given that components of the ACS case prioritization and selection process have been in place since at least 2000 without being evaluated, ACS may be missing opportunities to better prioritize its workload and improve collection results through periodic evaluations, and ensuring follow up for ad hoc evaluations.

Lastly, IRS noted that our report did not identify any instances where the selection of a case was considered inappropriate or unfair. However, as described in our scope and methodology, we did not design our study to look for cases of inappropriate selection, but rather to assess the internal controls that help safeguard the fairness of the case selection process. By evaluating ACS's internal control framework for selection, we were able to determine whether IRS had processes in place that help provide reasonable assurance of fair selection not just of cases selected in the past but also on an ongoing basis.

We are sending copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies of the report to the Secretary of the Treasury, Commissioner of Internal Revenue, and other interested parties. In addition, this report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions or wish to discuss the material in this report further, please contact me at (202) 512-9110 or mctiguej@gao.gov. Contact points for our Offices of Congressional

Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VI.

James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe the Automated Collection System (ACS) process to prioritize and select collection cases and the results of that process for fiscal year 2014, and (2) determine how well the ACS case prioritization and selection process supports the collection program mission and objectives.

To describe ACS's process to prioritize and select collection cases, we obtained and reviewed, to the extent they were available, IRS documents on how cases are prioritized and selected once they are received within ACS. The documents reviewed include sections of the Internal Revenue Manual (IRM), program documents, IRS reports, and presentations prepared by IRS staff. To better understand background and context for ACS, we reviewed information on the Inventory Delivery System process, which routes cases to ACS, and interviewed IRS officials responsible for the IRS collection program.[1] We also twice visited an ACS call site in Philadelphia. We interviewed IRS managers in the offices of Headquarters Collection and Campus Collection, including IRS managers responsible for managing case inventory in ACS, on how collection cases are received in and flow through the ACS process. We also interviewed IRS officials regarding the various factors that the officials take into consideration in deciding how to work certain cases to meet ACS performance measures and how IRS's recent realignment will affect ACS's process. In addition, we observed ACS staff working cases and taking telephone calls from taxpayers. To better understand the scale of operations for ACS and performance measures, we reviewed data from a number of prepared reports and other data provided by IRS covering fiscal years 2012 through 2014. The data we received included the number of notification and enforcement actions taken in ACS. We derived most of the data from IRS Collection Activity Reports (CAR). We previously used CAR data to report on the IRS notice phase process in 2009.[2] At that time, we interviewed IRS officials with knowledge of CAR data about the steps taken to ensure data accuracy. We determined that the CAR data were sufficiently reliable for our purposes.

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[1]GAO, *IRS Case Selection: Collection Process Largely Automated, but Lacks Adequate Internal Controls*, GAO-15-647 (Washington, D.C.: July 29, 2015).

[2]GAO, *Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals*, GAO-09-976 (Washington, D.C.: Sept. 30, 2009).

To describe the results of the ACS case prioritization and selection
process for fiscal year 2014 (the most recent full year available), we
obtained data from ACS on collection taxpayer cases that had been
closed in fiscal year 2014 and partially from fiscal year 2015.[3] We
analyzed and reported closed ACS collection cases by the type of
taxpayer (individual or business), case priority, type of delinquency, type
of closure, and the average and median number of days cases were open
in ACS. For purposes of our analysis of taxpayer type, individual
taxpayers reflect cases handled by ACS call sites in the Wage &
Investment division. We defined business taxpayers as those cases that
were prioritized and worked within the Small Business and Self Employed
division. These include the following types of taxpayers:

- Individual taxpayers who report business income, such as (1) nonfarm
  sole proprietorships that file Form 1040, Schedule C, are
  unincorporated and owned by a single individual in which net
  business income or loss is included in the owner's individual adjusted
  gross income; (2) landlords, who file a Form 1040 and Schedule E-
  Part I and are individuals who report rental real estate activity on Part
  I of Schedule E; or (3) farmers, who file a Form 1040 and Schedule F
  or Form 4835 and are individuals who report farm income or
  landowners who report farm rental income;

- Businesses which failed to file or remit fully their employment taxes; or

- Business entity taxpayers, such as corporations.[4]

For the purposes of our analysis, we treated taxpayers who had both a
balance due and nonfiler account on their case, known as a combination
case, as a balance due case, consistent with how IRS reports ACS data.
For the purposes of this review, we determined that the ACS data used in
our analysis were reliable. Our data reliability assessment included

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[3]The Automated Collection System retains only a rolling 2-year period of data, which is
why we reported fiscal year 2014 data as the only complete year of data available in the
body of this report. Partial fiscal year 2015 data are reported in appendix IV and cover
October 1, 2014, through February 28, 2015.

[4]In general, employers who withhold federal income tax or social security and Medicare
taxes must file (1) Form 941, *Employer's Quarterly Federal Tax Return* each quarter, (2)
Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees* to report
agricultural wages, (3) Form 944, *Employer's Annual Federal Tax Return* if a taxpayer has
received written notification about the Form 944 program, or (4) Form 945, *Annual Return
of Withheld Federal Income Tax* if a taxpayer is filing to report backup withholding.

reviewing relevant documentation, interviewing knowledgeable IRS officials, and reviewing the data to identify obvious errors or outliers.

To assess how well the processes for case selection support collection program objectives and mission, we compared documentation for the processes identified above to selected standards in the *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).[5] We also reviewed IRS and collection program guidance in which objectives could potentially be stated or implied, including the IRM, the mission statements of various collection program subunits and policy statements on collections, annual collection program letters for fiscal years 2013 through 2015, and potentially collection program-related objectives in IRS Publication 3744, *Internal Revenue Service Strategic Plan FY2014-2017*.[6] We then assessed whether ACS's procedures, IRM sections, IRS reports, and related internal controls conformed to the relevant standards for internal control in the federal government.[7] To determine which internal control standards were most relevant, we utilized our *Internal Control Management and Evaluation Tool*, in conjunction with observations based on our preliminary audit work, to select the standards that most closely related to ACS activities.[8] We then focused our assessment of ACS internal controls around our selected standards by interviewing IRS officials and reviewing available documentation. To determine IRS's definition of fairness as it applies to collection activities, we reviewed the ACS procedures and process for case prioritization and selection. Furthermore, we surveyed relevant industry and institutional sources, and determined that there is no standard definition of fairness in the context of tax collection specifically— or even tax administration more generally—to which IRS could appeal in lieu of having its own internally-generated definition of fairness within the collection program. To determine whether there are procedures in place to monitor, evaluate, and review the ACS prioritization process periodically, we reviewed similar documentation mentioned above. We

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[5]IRS, *Fiscal Year 2015 Collection Program Letter.*

[6]IRS, *Strategic Plan: FY2014-2017* (Washington, D.C.: 2014).

[7]GAO, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[8]GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

also interviewed relevant IRS officials concerning their understanding of
the mission, objectives, and internal controls of the collection program
and ACS, and about the extent to which procedures exist to monitor ACS
case prioritization and selection.

We conducted this performance audit from October 2014 to September
2015 in accordance with generally accepted government auditing
standards. Those standards require that we plan and perform the audit to
obtain sufficient, appropriate evidence to provide a reasonable basis for
our findings and conclusions based on our audit objectives. We believe
that the evidence obtained provides a reasonable basis for our findings
and conclusions based on our audit objectives.

Appendix II: Automated Collection System (ACS) Overview

Overview of ACS Process

Once a case arrives, ACS assigns it to an inventory and priority level, as well as to a function unit. Depending on the function unit, ACS may take a number of actions, such as searching for contact information and a levy source, contacting taxpayers, or issuing levies or liens as appropriate. See figure 6, which depicts the ACS process.

Figure 6: Overview of ACS
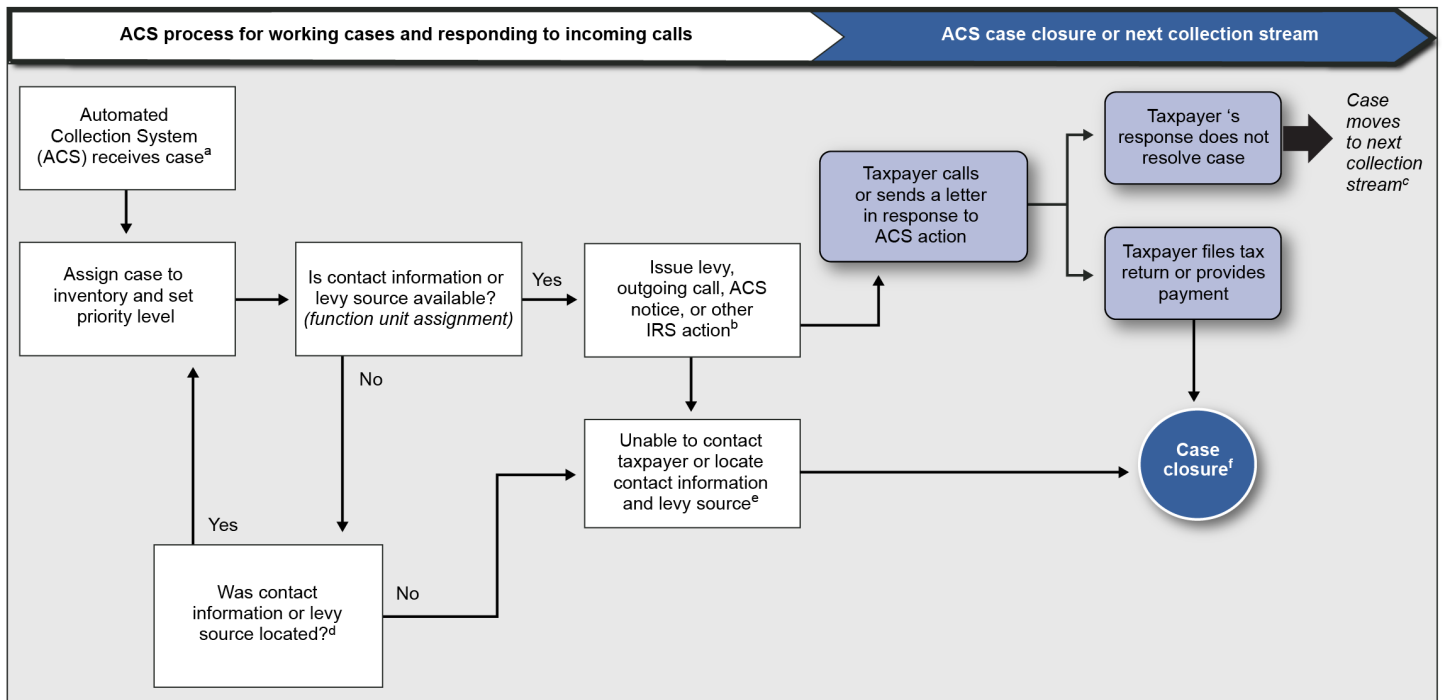
Legend

☐ ACS action   ☐ Taxpayer action

Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

Notes:

[a]This figure begins after the notice phase of the IRS collection process.

[b]IRS may take one or more of these actions.

[c]If a case is not resolved in ACS, a case may move to the next step in the collection stream, such as the Field queue (a holding area for cases to be moved to the Field collection) or is shelved, meaning the case is taken out of active collection inventory.

[d]ACS works cases based on priority and will shelve cases if they have not been closed within a certain amount of time.

[e]A collection case may be closed for a variety of reasons. For example, a collection case is closed as unable to contact if IRS is unable to contact a taxpayer although the address is known but there is no means to enforce collection through a levy. See Internal Revenue Manual (IRM), Part 5, Chapter 16, Section1 and IRM Part 5, Chapter19, Section 5.

[f]A case may be closed for a number of reasons, including but not limited to (1) a taxpayer paying the balance due fully, (2) a taxpayer filing a delinquent return with IRS, (3) IRS and the taxpayer establishing and then completing an installment agreement for payment, (4) IRS determining the taxpayer cannot be located or contacted, or (5) because the taxpayer does not have the ability to pay.

Also, the ACS process for setting the priority level for individual taxpayers is similar to the process used for business taxpayers.[1] The main difference is that, within the Wage & Investment (W&I) process, high-income nonfiler and Federal Employee/Retiree Delinquency Initiative cases, among others, are prioritized first, as, unlike those of the Small Business/Self Employed (SB/SE) process, the W&I call sites do not have responsibility to pursue trust fund cases.[2] The W&I prioritization process proceeds similarly to the SB/SE process thereafter. See figure 7.

Figure 7: ACS Process for Assigning a Priority Level to Individual Cases
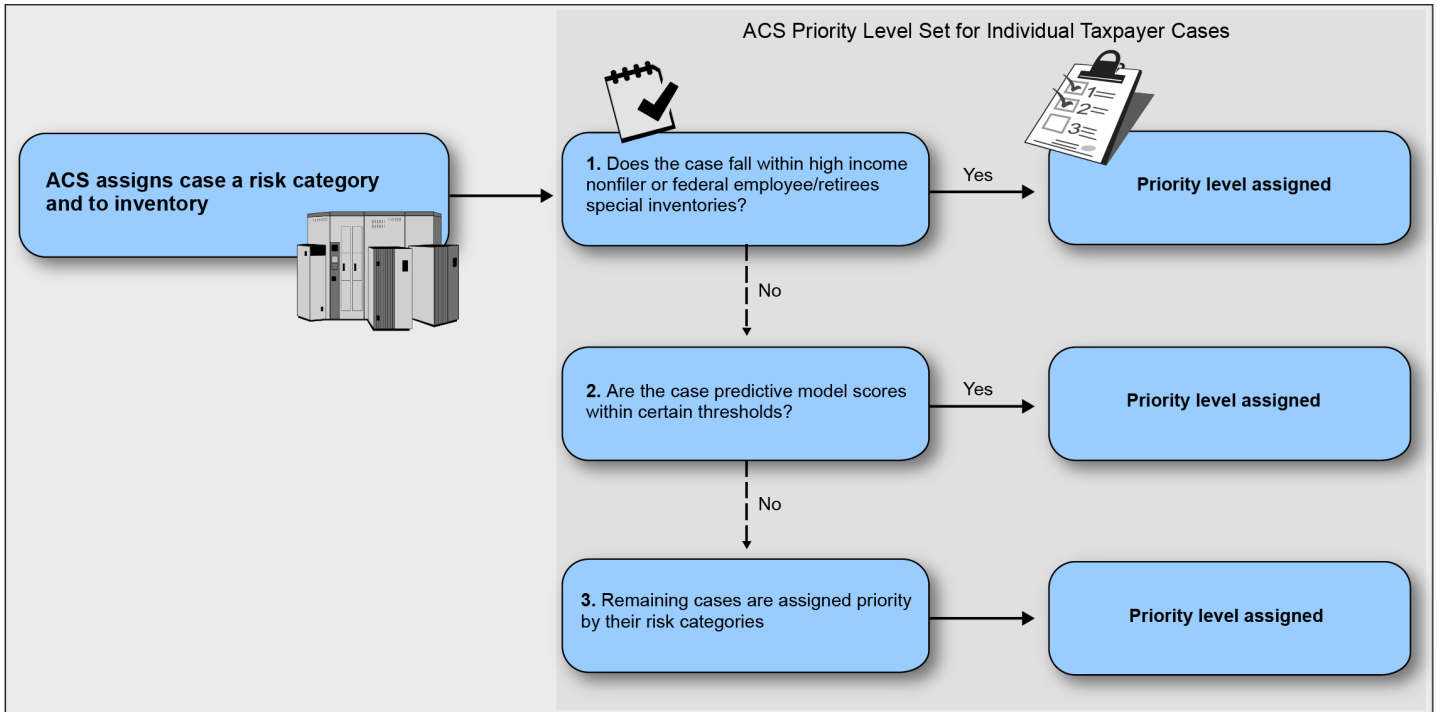
Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

Notes: High-income nonfiler cases, prioritized first, are sent to the ACS call site in Austin, Texas. In addition, some cases from the general inventory and model priority inventory are also sent to the Austin call site to be worked.

[1]The priority level can range from 0 to 5, with 0 being the highest priority.

[2]These cases do not receive the highest ACS priority of 0, but according to IRS officials, they receive priority within ACS because they are worked at specific sites.

Finally, after segregating cases by inventory and function unit, ACS works cases in a specific order, beginning with priority level, then by follow-up date, and finally by taxpayer identification number in ascending order. See figure 8 for how ACS sorts cases by priority and inventory within a function unit.

Figure 8: How ACS Cases Are Prioritized and Sorted Within a Function Unit
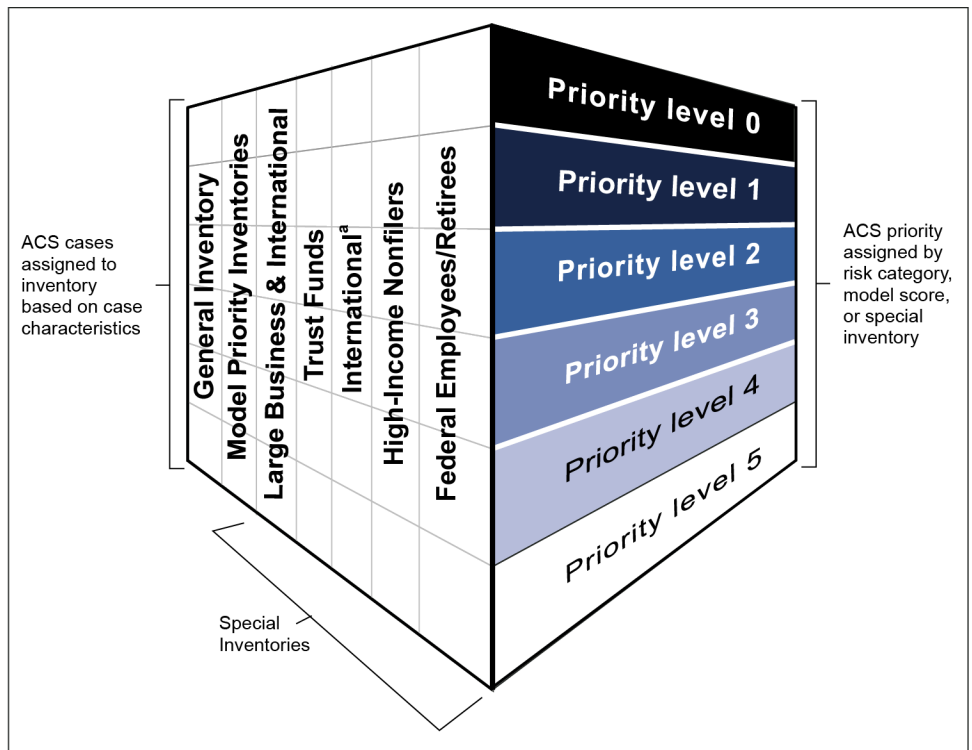
Source: GAO analysis of IRS documents and interviews with IRS officials. | GAO-15-744

Notes:

[a]International special inventory cases include both individual and business taxpayers. Priority level 0 cases are the highest priority while priority level 5 cases are the lowest.

ACS Call Site Locations

In November 2014, IRS realigned compliance operations across its W&I and SB/SE business operating divisions. Prior to the realignment, ACS operations were split with W&I handling individual taxpayers and SB/SE handling business taxpayers. As part of the realignment, IRS consolidated all ACS collection operations within SB/SE under the authority of a single IRS collection director. Figure 9 shows the various ACS call and support sites, which receive taxpayer calls and research

collection cases. Through the end of fiscal year 2015, the eight former W&I call sites will continue to handle and answer phone calls from individual taxpayers, while the seven former SB/SE call sites will do the same for business taxpayers.

Figure 9: ACS Call Site and Support Site Locations

Site type

🔴 W&I call site

🔺 W&I support site

🟢 SB/SE call site

🔺 SB/SE support site

Source: GAO analysis of IRS documents. | GAO-15-744

Notes: Under IRS's November 2014 realignment, all W&I and SB/SE ACS operations were consolidated within SB/SE under a single collection director. The support sites assist the call sites by resolving written correspondence from taxpayers, taxpayer representatives, and third-party contacts.

ACS Notification and Enforcement Actions

Table 3 shows how notifications and enforcement actions have fallen significantly between fiscal years 2012 and 2014.

Table 3: ACS Notification and Enforcement Actions, Fiscal Years 2012 to 2014

	Fiscal Year			Percentage Change from 2012 to 2014
	2012	**2013**	**2014**	
Liens	209,121	203,574	185,762	-11.2%
Levies	2,246,769	1,216,302	1,423,502	-36.6
Letters	7,011,252	5,461,390	4,847,191	-30.9
Outgoing Calls	2,030,926	1,303,081[a]	1,210,175[a]	-40.4

Source: GAO analysis of IRS data. | GAO- 15-744

Note:

[a]W&I division ACS call sites shut down their automated dialer system from February 2013 until March 2014, as IRS used ACS staff from three call sites to work on identify theft issues.

Appendix III: Automated Collection System (ACS) Data on Nonfiler Closed Cases, Fiscal Year 2014

This appendix shows the results of nonfiler cases closed in ACS in fiscal year 2014.[1]

Figure 10: Types of Closures of ACS Individual Nonfiler Cases by Priority, Fiscal Year 2014
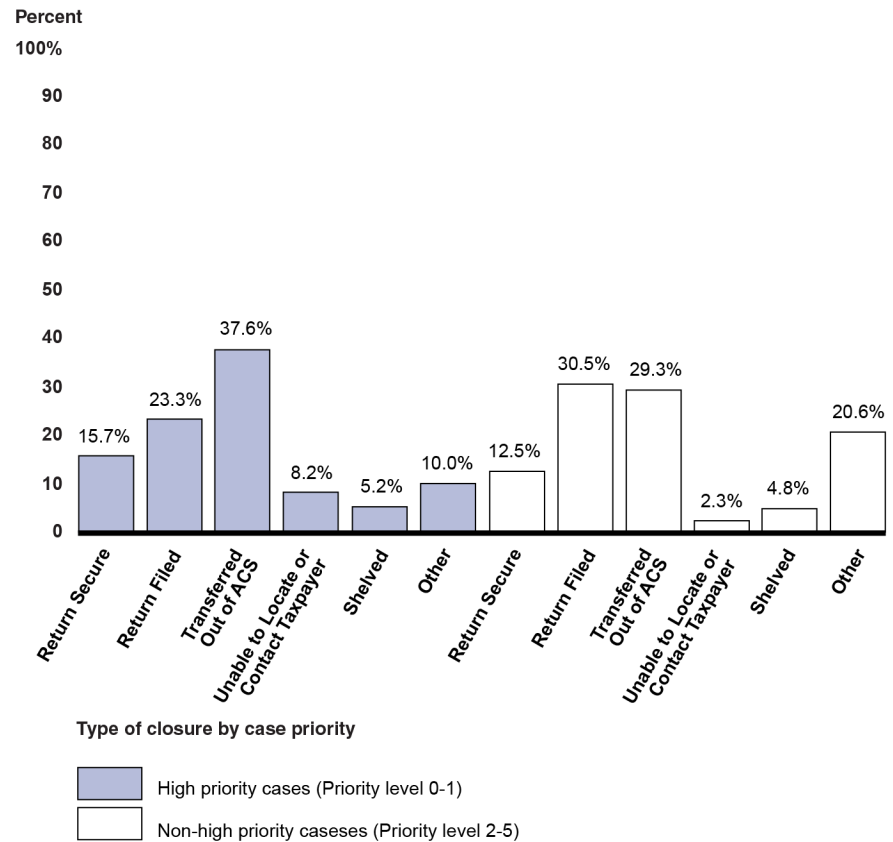
Source: GAO analysis of IRS data. | GAO-15-744

Notes: Case data are presented on a taxpayer basis. High priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5. Cases with other closing codes include those cases that were no longer liable, not liable for the tax period, had a tax liability below a certain amount, had an expired statute, were closed on another IRS system, or were closed in ACS as sent to IRS exam or the automated 6020(b) program.

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[1]Cases in which the taxpayer had a balance due and nonfiler delinquency, known as combination cases, were treated as balance due cases, consistent with how IRS reports such cases.

Figure 11: Types of Closures of ACS Business Nonfiler Cases by Priority, Fiscal Year 2014
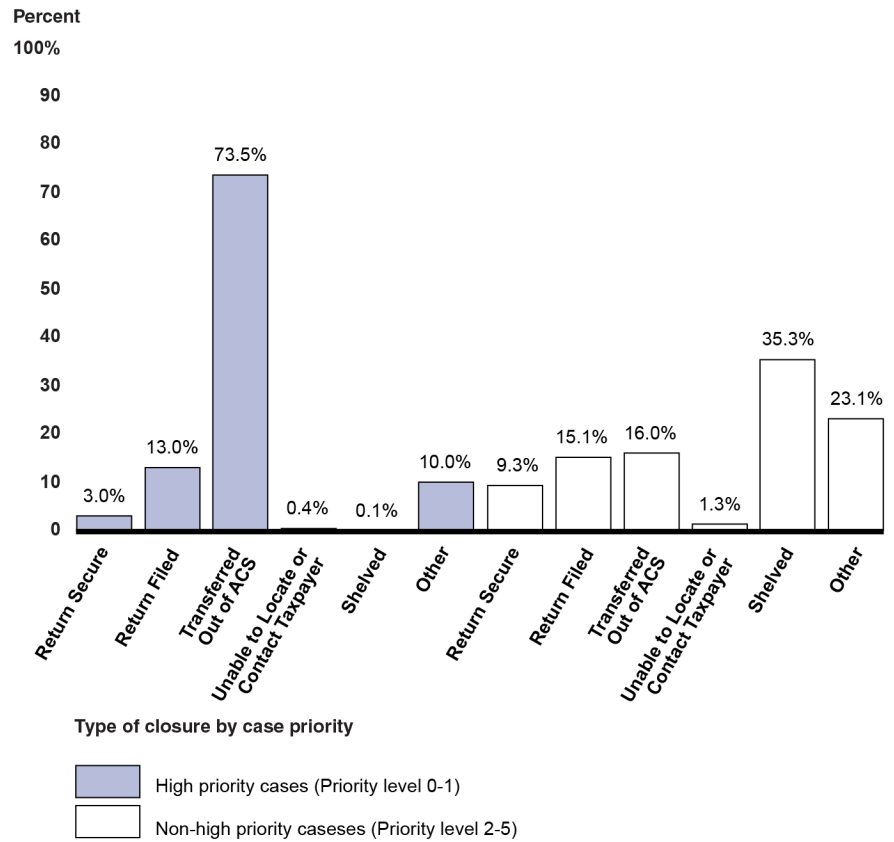
Type of closure by case priority

High priority cases (Priority level 0-1)

Non-high priority caseses (Priority level 2-5)

Source: GAO analysis of IRS data. | GAO-15-744

Notes: Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5. Cases with other closing codes include those cases that were no longer liable, not liable for the tax period, had a tax liability below a certain amount, had an expired statute, were closed on another IRS system, or were closed in ACS as sent to IRS exam or the automated 6020(b) program.

Figure 12: Number of Days That Closed ACS Nonfiler Cases Were Open, Fiscal Year 2014
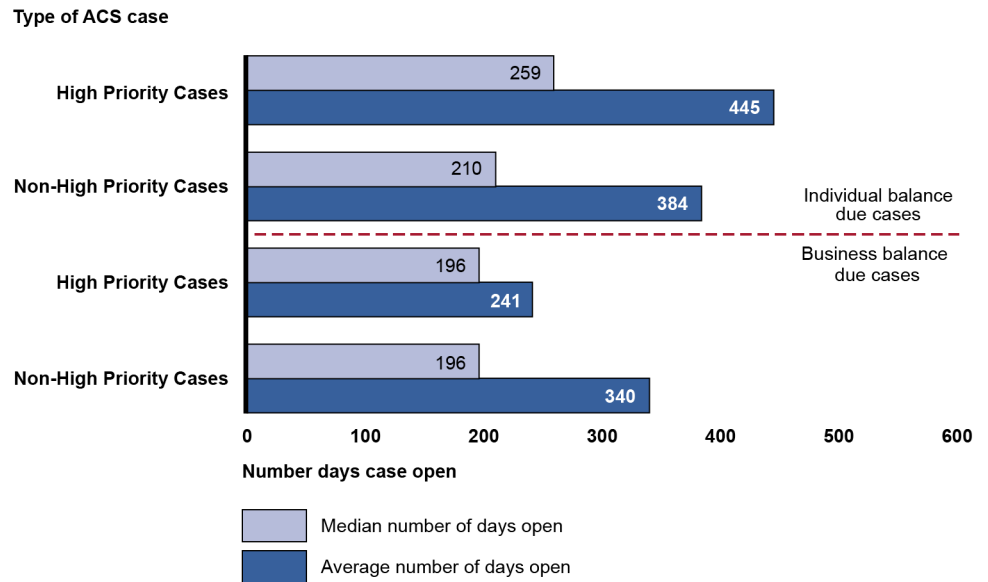
Type of ACS case

Source: GAO analysis of IRS data. | GAO-15-744

Notes: Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5.

Table 4: Distribution of Closed Nonfiler ACS Cases by Number of Years Open, Fiscal Year 2014

	One Year or Less	One to Two Years	Two to Three Years	Three or More Years
Individual Nonfiler Cases				
High-Priority Cases	51.8%	28.6%	7.3%	12.4%
Nonhigh-Priority Cases	66.0%	16.3%	10.3%	7.4%
Business Nonfiler Cases				
High-Priority Cases	94.3%	3.7%	1.3%	0.7%
Nonhigh-Priority Cases	41.4%	17.7%	37.3%	3.6%

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5.

Appendix IV: Automated Collection System (ACS) Data on Balance Due and Nonfiler Case Closures, Partial Fiscal Year 2015

This appendix shows the results of balance due and nonfiler cases closed in ACS from October 1, 2014, to February 28, 2015.

Table 5: Types of Closures of ACS Balance Due Cases by Priority Level, Partial Fiscal Year 2015

Individual Balance Due Cases	Number of Closures	Percentage
High-Priority Cases		
Full Payment	14,664	13.0%
Installment Agreement	65,627	58.1%
Currently Not Collectible	15,983	14.1%
Transferred Out of ACS	7,775	6.9%
Other	9,003	8.0%
Nonhigh-Priority Cases		
Full Payment	206,852	48.0%
Installment Agreement	115,003	26.7%
Currently Not Collectible	21,140	4.9%
Transferred Out of ACS	4,922	1.1%
Shelved	6,293	1.5%
Other	76,810	17.8%
Business Balance Due Cases		
High-Priority Cases		
Full Payment	40,741	11.0%
Installment Agreement	48,837	13.2%
Currently Not Collectible	8,368	2.3%
Transferred Out of ACS	253,498	68.5%
Other	18,681	5.0%
Nonhigh-Priority Cases		
Full Payment	133,436	36.1%
Installment Agreement	76,993	20.8%
Currently Not Collectible	12,295	3.3%
Transferred Out of ACS	4,435	1.2%
Shelved	95,978	25.9%
Other	46,958	12.7%

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Balance due cases also include combination cases, in which the taxpayer had both a nonfiler and balance due delinquency, consistent with how IRS reports such cases. Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0–1 and nonhigh-priority cases include those with a priority of 2-5. Cases with other closing codes include those cases that were no longer liable, not liable for the tax period, had a tax liability below a certain amount, had an expired statute, were closed on another IRS system, or were closed in ACS as sent to IRS exam or automated 6020(b) program. Partial fiscal year 2015 data cover October 1, 2014, through February 28, 2015.

Table 6: Types of Closures of ACS Nonfiler Cases by Priority, Partial Fiscal Year 2015

Individual Nonfiler Cases	Number of Closures	Percentage
High-Priority Cases		
Return Secured	5,831	9.9%
Return Filed	7,753	13.1%
Transferred Out of ACS	15,911	26.9%
Unable to Locate or Contact Taxpayer	6,650	11.3%
Shelved	10,975	18.6%
Other	11,983	20.3%
Nonhigh-Priority Cases		
Return Secured	6,246	8.0%
Return Filed	9,526	12.3%
Transferred Out of ACS	26,214	33.7%
Unable to Locate or Contact Taxpayer	2,731	3.5%
Shelved	9,242	11.9%
Other	23,799	30.6%
Business Nonfiler Cases		
High-Priority Cases		
Return Secured	4,035	1.9%
Return Filed	9,776	4.7%
Transferred Out of ACS	167,622	80.7%
Unable to Locate or Contact Taxpayer	1,109	0.5%
Shelved	257	0.1%
Other	25,031	12.0%
Nonhigh-Priority Cases		
Return Secured	2,673	7.0%
Return Filed	3,696	9.7%
Transferred Out of ACS	7,182	18.9%
Unable to Locate or Contact Taxpayer	1,055	2.8%
Shelved	10,096	26.5%
Other	13,335	35.1%

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Case data are presented on a taxpayer basis. High-priority cases include those with a priority of 0–1 and non-high-priority cases include those with a priority of 2-5. Cases with other closing codes include those cases that were no longer liable, not liable for the tax period, had a tax liability below a certain amount, had an expired statute, were closed on another IRS system, or were closed in ACS as sent to IRS exam or the automated 6020(b) program. Partial fiscal year 2015 data cover October 1, 2014, through February 28, 2015.

Table 7: Average and Median Number of Days ACS Balance Due Cases Open by Priority Level, Partial Fiscal Year 2015

Individual Balance Due Cases	Number of Days
High-Priority Cases	
Average	509
Median	294
Non-high-Priority Cases	
Average	356
Median	161
Business Balance Due Cases	
High-Priority Cases	
Average	302
Median	196
Non-high-Priority Cases	
Average	376
Median	196

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Case data are presented on a taxpayer basis. Partial fiscal year 2015 data covers October 1, 2014, through February 28, 2015. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5.

Table 8: Average and Median Number of Days ACS Nonfiler Cases Open by Priority Level, Partial Fiscal Year 2015

Individual Nonfiler Cases	Number of Days
High-Priority Cases	
Average	734
Median	518
Nonhigh-Priority Cases	
Average	661
Median	532
Business Nonfiler Cases	
High-Priority Cases	
Average	223
Median	196
Nonhigh-Priority Cases	
Average	482
Median	497

Source: GAO analysis of IRS data. I GAO-15-744

Notes: Case data are presented on a taxpayer basis. Partial fiscal year 2015 data covers October 1, 2014, through February 28, 2015. High-priority cases include those with a priority of 0-1 and nonhigh-priority cases include those with a priority of 2-5.

Appendix V: Comments from the Internal Revenue Service

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

DEPUTY COMMISSIONER

August 18, 2015

James R. McTigue, Jr.
Director, Strategic Issues
Strategic Issues Team
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to comment on the draft report titled, *IRS CASE SELECTION* Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission (GAO 451123). As previously noted in our response to GAO Draft Report 15-647, Collection cases are identified through the automated Inventory Delivery System (IDS), with management's only discretion being the assignment of the identified next best case to employees, by geography and grade level. This is done in accordance with seven Collection priority areas, as reported, with the related goals exceeded for these priority areas in Fiscal Year 2015. Once Collection cases are analyzed and categorized by the IDS system and a determination is made to route cases to the Automated Collection System (ACS) based on the determined criteria, the ACS system then follows the multi-step, automated process to prioritize and select cases to determine the order to work cases based on IRS's collection program priorities, the likelihood the case will be resolved and the type of the tax and amount owed as described in the draft report. The Collection selection process is designed to be automated with no discretion by Collection managers or employees to choose individual delinquent accounts or taxpayers for pursuit.

The mission of the Collection organization is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate, and to educate taxpayers so as to facilitate future compliance. By doing so, Collection protects and promotes public confidence in our tax system. Likewise, the mission of the Small Business/Self Employed (SB/SE) Division (under which Collection falls) is to apply the tax law with integrity and fairness to all.

In the Collection sphere, the concept of fairness has both a collective and individual component. We take into account the responsibilities and obligations that all taxpayers

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share, and we pursue those individuals and businesses who fail to fully pay or file their taxes to ensure fairness to those who do; and we do so while taking into account the individual ability of each taxpayer to meet his or her responsibilities.

While the Collection program is designed on extensive historical experience and its processes are quite mature, we agree with the importance of continuously improving our performance and with the need to conduct periodic evaluations of the models and dollar thresholds that are part of IDS, recognizing that out-of-date collection procedures could result in unnecessary costs or missed collections. To that end, in Fiscal Year 2014, we updated our analytical models to identify and work our most productive inventory more quickly. Also to improve our performance, in Fiscal Year 2015, we realigned the Collection program entirely within the Small Business/Self-Employed Division. Our realigned Collection organization provides streamlined leadership accountability, makes processes more efficient, reduces redundancies, and helps us to quickly identify emerging issues. Additionally, call site, campus, field, and headquarters organizations are now aligned to eliminate barriers and ensure that strategic decisions support collection-wide operational goals.

As these changes have been made in the Collection program and leadership in recent years, the documentation of some changes has not kept pace. We are committed to bringing the policies and procedures up-to-date to ensure the continuity and consistency in program leadership and program execution as designed. We note that, while your report posits a hypothetical risk to fair case selection from the lack of documented objectives and internal control deficiencies, your report did not identify any instances where the selection of a case was considered inappropriate or unfair. Although we agree to more fully document program and ACS objectives, we do not agree that the level of current documentation has undercut the effectiveness of this important program. The internal controls over the Collection program are extensive and reflect the sensitive nature of this IRS responsibility and the importance of it being discharged in a fair and equitable manner.

Since 1990, GAO has designated enforcement of the tax laws as a government-wide high risk area; we observe that the findings regarding documentation and definition of key terms such as "fairness" have not been a barrier to GAO's assessment of Collection operations in the past quarter century, until now. We are nevertheless in agreement with the importance of sound internal controls, and are committed to their improvement; especially in the areas GAO recommends we strengthen them. Responses to your specific recommendations are enclosed.

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In closing, we appreciate your continued support and insight as we strive to further strengthen our processes and programs throughout the Service. If you have questions, please contact me, or a member of your staff may contact Karen Schiller, Commissioner, Small Business/Self Employed Division, at (202) 317-0600.

Sincerely,

John M. Dalrymple
Deputy Commissioner for Services and Enforcement

Enclosure

Enclosure

<u>**IRS CASE SELECTION Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission**</u>

<u>**Recommendation 1:**</u> Establish, document and implement objectives for the collection program and ACS and define key terms such as "fairness" as it applies to collection activities, which can be communicated to IRS staff.
<u>**Comment:**</u> SB/SE will review its current objectives for the Collection program and ACS, e.g., collection program priorities – which include ACS priorities, and identify and implement any additional objectives. Collection will define key terms such as "fairness" as it applies to collection activities in the data dictionary which is communicated to IRS staff.

<u>**Recommendation 2:**</u> Establish and implement clear guidance and documentation for the ACS case prioritization and selection process, including inventory, risk, and priority designations and changes to those designations over time, and communicate them to appropriate IRS staff.
<u>**Comment:**</u> SB/SE Collection will review its current ACS case prioritization and selection process, including inventory, risk, and priority designations and changes to those designations over time and implement clear guidance and documentation which will be communicated to appropriate IRS staff.

<u>**Recommendation 3:**</u> Establish, document and implement procedures to complete periodic evaluations of the ACS case prioritization and selection process and structure. The evaluation should cover the composition of the risk categories, model thresholds, and dollar thresholds used to prioritize cases.
<u>**Comment:**</u> Although the Collection program is designed on extensive historical experience and its processes are quite mature, we agree with the importance of continually improving our performance to include periodic evaluations of the ACS case prioritization selection process. Collection will review and, if needed, update our internal management documents, e.g., IRMs. Whether we conduct an evaluation of the ACS case prioritization selection process will be based on a risk assessment at that time.

<u>**Recommendation 4:**</u> Establish, document, and implement a plan and time frame to ensure follow-up for ad-hoc evaluations of the ACS case prioritization and selection process.
<u>**Comment**</u>: As noted in Recommendation 3, Collection has agreed to review and, if needed, update our internal management documents on a periodic basis. At that time we will ensure follow-up for ad-hoc evaluations.

Appendix VI: GAO Contact and Staff Acknowledgments

Contact	James R. McTigue, Jr. (202) 512-9110, mctiguej@gao.gov
Staff Acknowledgments	In addition to the contact named above, MaryLynn Sergent, Assistant Director, Vaughn Baltzly, Jehan Chase, David Dornisch, Steven Flint, Robert Gebhart, Ted Hu, Robert Robinson, Alan Rozzi, John Sawyer, Albert Sim, and Jason Vassilicos contributed to this report.