



*Continued Inconsistent Use of
Over-age Correspondence Lists
Contributes to Taxpayer Burden and
Unnecessary Interest Payments*

February 17, 2016

Reference Number: 2016-40-023

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

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HIGHLIGHTS

CONTINUED INCONSISTENT USE OF OVER-AGE CORRESPONDENCE LISTS CONTRIBUTES TO TAXPAYER BURDEN AND UNNECESSARY INTEREST PAYMENTS

Highlights

Final Report issued on February 17, 2016

Highlights of Reference Number: 2016-40-023 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Delays in processing taxpayers' correspondence create a burden for taxpayers who must wait to obtain assistance and, in some cases, receive refunds. Customer satisfaction surveys identified that taxpayers were dissatisfied with the length of time the IRS was taking to resolve their cases and to obtain information about their cases. In addition, these delays can result in the IRS unnecessarily paying interest to taxpayers.

WHY TIGTA DID THE AUDIT

Over-aged correspondence has steadily increased from 40 percent in Fiscal Year 2012 to 49 percent in Fiscal Year 2015. In prior reviews, TIGTA reported that the IRS should develop a consistent process to ensure that managers complete their reviews of Automated Age Listings, *i.e.*, correspondence over-age reports. This audit was initiated to evaluate the IRS processes for timely resolving taxpayer correspondence.

WHAT TIGTA FOUND

TIGTA identified that the IRS has taken actions to improve correspondence inventory management. For example, the IRS developed and implemented its *Phased Approach to Inventory* in all campuses during Fiscal Year 2014. The objective of this approach is to close as many cases as early as possible to reduce inventory and improve the timeliness of case resolutions. The IRS also initiated a pilot in

February 2015 to develop a consistent process for monitoring over-age reports.

However, despite these actions, the percentage of correspondence over-age continues to increase. This results, in part, from some managers continuing to not follow internal guidelines that require the use of over-age reports to monitor and reduce inventory. TIGTA's analysis of eight customer service representatives' over-age reports for three consecutive weeks identified that 16 to 82 percent of their over-aged assigned cases remained unresolved.

TIGTA has previously reported on this same issue. Management responded that they would ensure that these reviews are completed by managers noting that they would develop a consistent process to ensure that correspondence over-age report reviews are completed by managers. However, some managers continue to not adhere consistently to the required use of over-age reports, which contributes to the IRS's inability to effectively reduce over-aged inventory.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure that managers provide and receive annotated over-age reports from their employees on a weekly basis.

The IRS agreed with both recommendations and plans to assess current procedures to develop a consistent process related to the over-age reports.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 17, 2016

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Continued Inconsistent Use of Over-age
Correspondence Lists Contributes to Taxpayer Burden and
Unnecessary Interest Payments (Audit # 201540025)

This report presents the results of our review to evaluate the Internal Revenue Service (IRS) processes for timely resolving taxpayer correspondence. This audit was conducted as a suggestion by the IRS Oversight Board. This audit is part of the Treasury Inspector General for Tax Administration's Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Russell Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

AAL	Automated Age Listing
CIS	Correspondence Imaging System
CSR	Customer Service Representative
FY	Fiscal Year
IRS	Internal Revenue Service



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Background

The Internal Revenue Service (IRS) mailed more than 188 million notices and letters to taxpayers during Calendar Year 2014. This correspondence can require a written response from the taxpayer or the taxpayer's representative. When a response is received, it is routed to an Image Control Team unit at one of 10 IRS campuses,¹ located nationwide, where it is scanned into the Correspondence Imaging System (CIS).² Once scanned, the correspondence is assigned to a customer service representative (CSR) in the Wage and Investment Division's Accounts Management function.

The IRS's internal guidelines state that correspondence is generally considered over-aged if not resolved within 45 days. When a response to the taxpayer is necessary, providing a "quality response" is required within 30 calendar days of the receipt of the taxpayer's correspondence. The IRS defines a quality response as one that:

- Is timely.
- Is accurate.
- Addresses all of the taxpayer's issues.
- Requests additional information, if needed, from the taxpayer.
- Is written in plain language the taxpayer can understand.

If the 30-day time frame cannot be met, an interim response must be sent. For example, the CIS generates Letter 2645C, *Interim Letter*, which is mailed to taxpayers acknowledging receipt of their correspondence and informing them that the IRS will respond to their inquiry.

Figure 1 shows the CIS open inventory by correspondence type as of September 30, 2015.

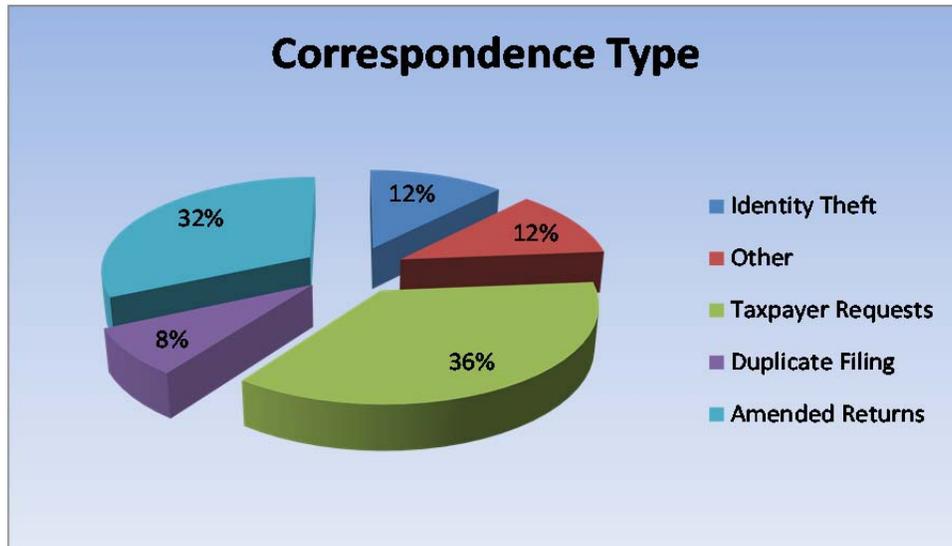
¹ Campuses are the data processing arm of the IRS that process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts. The campuses are located in Fresno, California; Atlanta, Georgia; Andover, Massachusetts; Kansas City, Missouri; Brookhaven, New York; Cincinnati, Ohio; Philadelphia, Pennsylvania; Memphis, Tennessee; Austin, Texas; and Ogden, Utah.

² The CIS automates the controlling and organizing of taxpayer-generated correspondence.



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Figure 1: Categories of CIS Open Cases As of September 30, 2015



Source: CIS – Fiscal Year (FY) 2015 Closure Performance Report.

As Figure 1 shows, four correspondence categories comprised 88 percent³ of the 667,242 pieces of correspondence as of September 30, 2015.

- **Taxpayer Requests** – 242,303 (36 percent) – General correspondence in which the taxpayer sends a written request in response to IRS-issued correspondence or the taxpayer initiates contact with the IRS.
- **Amended Returns** – 213,143 (32 percent) – Taxpayer is filing a revised tax return.
- **Identity Theft** – 80,088 (12 percent) – Taxpayers corresponding with the IRS to resolve instances in which another person used their Social Security Number to file a fraudulent tax return or the taxpayers may be at a heightened risk of having their Social Security Number misused.
- **Duplicate Filing** – 54,125 (8 percent) – Multiple individuals used the same Social Security Number when filing a tax return or one taxpayer filed more than one tax return and the IRS is determining if the case should be categorized as identity theft or a mistake.

This review was performed at the Accounts Management functions in Atlanta, Georgia; Kansas City, Missouri; Philadelphia, Pennsylvania; and Austin, Texas, during the period February through October 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and

³ The “Other” category involves correspondence received and is related to other issues, such as claims for loss carrybacks, injured spouse claims, health care tax credits, or cases being worked by the Taxpayer Advocate Service.



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perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

The Percentage of Over-aged Correspondence in Inventory Continues to Increase

The IRS's over-aged correspondence inventory has steadily increased from FY 2012 to FY 2015. Figure 2 provides the increase in over-aged inventory for all correspondence from FY 2012 through 2015.

Figure 2: Over-aged Inventory Rate FYs 2012 Through 2015

	FY 2012	FY 2013	FY 2014	FY 2015
Over-aged Rate	40.0%	47.4%	48.5%	49.4%

Source: Accounts Management Inventory Age reports.

Delays in processing correspondence create a burden for taxpayers, who must wait to obtain assistance and, in some cases, receive refunds. This was reflected in customer satisfaction surveys in which taxpayers indicated that they were dissatisfied with the length of time the IRS was taking to resolve their cases and to obtain information about their cases. For the IRS, delays in processing correspondence can result in the unnecessary payment of interest. For example, in FY 2014, the IRS paid more than \$27.6 million to taxpayers as a result of not timely processing or resolving correspondence cases such as amended returns, net operating losses, and injured spouse cases. We reported this same condition in September 2012 in our prior assessment of the IRS's efforts to timely process net operating loss cases.⁴

Actions are being taken in an effort to improve correspondence inventory management

Our review identified that the IRS is taking actions in an effort to reduce over-aged inventory. For example, management identified that correspondence inventories were inflated with taxpayer re-contacts because taxpayers often have to submit multiple written inquiries or make repeated telephone calls when they do not receive a timely response to their correspondence. In response, the IRS developed and implemented its *Phased Approach to Inventory* in all campuses during FY 2014. The objective of this approach is to close as many cases as early as possible to reduce

⁴ Treasury Inspector General for Tax Administration, Ref. No. 2012-40-111, *Delays in Processing Net Operating Loss Cases Resulted in Millions of Dollars in Unnecessary Interest Payments* (Sept. 2012).



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inventory and improve the timeliness of case resolutions. With the *Phased Approach to Inventory*, some taxpayers' issues are resolved quicker, which can lead to fewer repeat inquiries and less taxpayer correspondence. Figure 3 shows the decrease in correspondence scanned into the CIS since the implementation of this new approach for FYs 2014 and 2015.

**Figure 3: Correspondence Volumes Scanned
Into the CIS for FYs 2014 and 2015**

	FY 2014	FY 2015
Volume Scanned	6,181,231	5,987,417

Source: IRS management information reports.

In addition, Accounts Management function officials implemented the *Inventory Management Accountability, Good for Everyone* pilot in February 2015. The objective of the pilot is to develop a consistent process for monitoring campus Automated Age Listings (AAL) to improve efficiency and accountability. The AAL is a report generated for each CSR that lists cases in his or her inventory that need to be worked, particularly those that are over-aged. This report can be sorted by case type or number of days in inventory. Officials working on this initiative stated that the pilot includes an assessment of the effectiveness of AAL processing guidelines and job aids and should result in the enhancement of AAL accountability processes for headquarters staff and campus managers and employees. IRS officials informed us that they developed and are considering recommendations to address correspondence processing weaknesses identified in this pilot.

Finally, the IRS also emphasized correspondence inventory management in its FY 2015 *Accounts Management Program Letter and Operating Guidelines*. These guidelines state that frontline managers are to monitor employees' assigned work to ensure that the inventory is moving towards conclusion and is worked timely and correctly. The guidelines remind department managers, operations managers, and field directors that they are ultimately responsible for the timeliness and accuracy of the work performed at their site. In the current environment of limited resources, the Accounts Management function is focusing on productivity, timeliness, and process improvements. Special emphasis is being placed on working cases that can be closed in 15 to 20 minutes or less. In addition, correspondence programs such as the Identity Theft program are a priority. By making certain programs a priority, the rate of over-aged inventory can be reduced. However, despite the IRS's actions to improve correspondence processing, the percentage of correspondence that is over-aged continues to increase.



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Some Managers Continue to Not Follow Internal Guidelines Requiring the Use of Automated Age Listings to Monitor and Reduce Over-aged Inventory

To assess management's corrective actions to address manager required use of the AALs to monitor and reduce over-aged correspondence inventory, we reviewed a judgmental sample⁵ of 12 CSRs.⁶ Our review identified that three (25 percent) of the 12 CSRs did not receive the required annotated copy of their AAL identifying cases needing immediate attention from their manager at the start of each week. Instead, the CSRs download an electronic copy of their AAL (also not annotated) from a shared campus folder to an individual folder that they can access. In addition, seven (58 percent) of the 12 CSRs stated that they are not required to return an annotated copy of their AAL to their manager at the close of business each Friday detailing work they completed to address the over-aged cases on their AAL.

Internal guidelines require managers to review each of their CSRs' AALs each week and annotate the cases needing immediate attention. The annotated AALs are required to be provided to each CSR by the close of business on Monday of each week. The CSRs are required to annotate the actions they took on each case and return the AAL to their manager for review by the close of business on Friday of the same week.

Our analysis of three consecutive weeks of the AALs for eight of the 12 CSRs in our judgmental sample identified that cases listed as over-aged on the first week AAL remained unresolved on the third week AAL. The percentage of the over-aged cases remaining unworked from the first week AAL to the third week AAL ranged from 16 to 82 percent. Figure 4 shows the percentage of the over-aged assigned cases included on the CSRs' first week AAL that were not closed and still reflected on the CSRs' third week AAL.

⁵ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

⁶ The 12 CSRs were located in three IRS sites with a high percentage of over-age inventory. These sites are in Kansas City, Missouri; Philadelphia, Pennsylvania; and Austin, Texas.



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**Figure 4: Analysis of Over-aged Cases
on First Week AAL Still Listed on Third Week AAL**

Campus Location of the CSR	CSR	Over-aged Cases First Week AAL	Over-aged Cases on First Week AAL Still Listed on Third Week AAL	Percentage	Range of Days in Inventory for Over-aged Cases in Third Week
Atlanta	1	56	26	46%	44 – 173
	2	41	11	27%	58 – 68
Austin	3	34	28	82%	40 – 264
	4	92	21	23%	79 – 355
Kansas City	5	55	31	56%	47 – 229
	6	19	3	16%	35 – 40
Philadelphia	7	100	30	30%	61 – 390
	8	64	24	38%	44 – 183

Source: Our analysis of selected CSR AALs.

Planned corrective actions were not effectively implemented and some managers still do not adhere to AAL review requirements

The IRS’s response to a prior Treasury Inspector General for Tax Administration report⁷ indicated that it would develop a consistent process to ensure that AAL reviews are completed by managers. This would include Accounts Management function Headquarters staff meeting with campus officials on a quarterly basis to ensure that the necessary AAL reviews are completed and identify any reassignment opportunities among the campuses. However, despite these planned actions, this review identified a continued lack of management adherence to AAL requirements, which contributes to the IRS’s inability to reduce over-aged inventory. For example, our interviews with 15 managers and 12 CSRs⁸ identified that they are not consistently

⁷ Treasury Inspector General for Tax Administration, Ref. No. 2013-40-105, *Correspondence Scan Errors and Image System Limitations Can Delay Resolution of Taxpayer Cases* (Sept. 2013).

⁸ We interviewed a total of 15 managers, three each in the Atlanta, Austin, and Kansas City Campuses and six in the Philadelphia Campus. We interviewed a total of 12 CSRs, four each in the Austin, Kansas City, and Philadelphia Campuses.



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following required AAL procedures. Our interviews identified that managers in each campus have implemented inconsistent procedures that do not comply with required internal guidelines. This includes the use of different types of memoranda, review sheets, or checklists to review CSRs' work. For example, three managers in one campus stated that they create weekly age listing memoranda and place them in CSRs' personnel folders when assigned cases appear in the AALs in consecutive weeks. The managers in the other campuses do not follow this process to hold the CSRs accountable for unresolved AAL cases.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Ensure that managers are providing, by the close of business each Monday, the CSRs with annotated AALs identifying cases that need immediate attention.

Management's Response: The IRS agreed with this recommendation. The IRS plans to assess its current procedures in order to develop a consistent process related to the AAL. The IRS will consider the weekly manager annotations as part of this improvement initiative.

Recommendation 2: Ensure that the CSRs return the annotated copy of the AAL received from their manager, as required, by the close of business each Friday detailing actions they took on each of the cases the manager identified as needing immediate attention.

Management's Response: The IRS agreed with this recommendation. The IRS plans to assess its current procedure in order to develop a consistent process related to the AAL. The weekly CSR annotations will be taken into consideration as the IRS works to improve this process.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the IRS processes for timely resolving taxpayer correspondence. To accomplish our objective, we:

- I. Determined the types of correspondence that are not timely processed and the reasons for untimely processing.
 - A. Analyzed over-age inventory at all 10 campuses during the 20-week period October 4, 2014, through February 14, 2015, and evaluated the processes followed in the Atlanta, Austin, Kansas City, and Philadelphia Campuses to determine the reasons why the over-aged correspondence is increasing. We judgmentally selected the Austin and Kansas City Campuses because the over-aged inventory exceeded 50 percent of campus inventory for all 20 weeks in our test period and the Philadelphia Campus' over-aged inventory exceeded 50 percent for 19 weeks. Because the Atlanta Campus did not have a significant over-age issue, we visited it to determine if the process for working correspondence was different from the other three campuses. These consistently high over-aged correspondence rates exceeded the rates in the other seven campuses. For example, the over-aged inventory in the Andover, Cincinnati, and Ogden Campuses did not exceed 50 percent during the test period.
 - B. Assessed the internal guidelines and procedures for working correspondence to determine if guidance and procedures are adequate to provide equitable taxpayer service and protect the Government's interest on net operating loss and carryback cases.
 - C. Assessed the timeliness measures for resolving the different types of correspondence received by the Accounts Management function. We determined if the measures are reasonable and can be achieved.
 - D. Conducted walkthroughs at the Accounts Management functions in the Austin, Kansas City, and Philadelphia Campuses to assess compliance with processing procedures and priorities established in the FY 2014 program letter.
 - E. Determined if correspondence is worked in accordance with the *Phased Approach to Inventory* and the effect on over-age correspondence.



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- II. Evaluated the effect of over-age correspondence on tax administration and customer service.
 - A. Quantified the interest lost due to the Accounts Management function not timely resolving net operating loss carryback cases and correspondence cases such as amended returns and injured spouse cases that require the IRS to pay interest.
- III. Determined whether resources are efficiently managed to work the most correspondence.
 - A. Determined if the AAL process ensures that correspondence is worked timely and provides a consistent process for addressing over-aged inventory. We judgmentally¹ selected eight CSRs and compared the prior (May, June, July, and August 2015), current, and following week's AALs. We determined the percentage of over-aged assigned cases included on the CSRs' first week AAL that were not closed and were reflected on the CSRs' third week AAL. We used a judgmental sample because we did not intend to project the results of this test to the entire population.
- IV. Determined the validity, completeness, and accuracy of IRS data used during the audit. We assessed the reliability of data extracted from the CIS and Individual Master File² by: 1) querying the CIS and Individual Master File on the Treasury Inspector General for Tax Administration Data Center Warehouse Limited Access Data files, 2) examining the data obtained to ensure that the data met our specific criteria, and 3) selecting a judgmental sample of cases from each file to verify that the data elements matched the taxpayer account information on the CIS and Integrated Data Retrieval System.³ We determined that the data were valid and reliable for the purposes of this report.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: Accounts Management function policies, procedures, and practices related to processing correspondence. We evaluated these controls by interviewing management and employees, reviewing policies and procedures, and analyzing over-age inventory.

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

² The IRS database that maintains transactions or records of individual tax accounts.

³ The IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Appendix II

Major Contributors to This Report

Russell Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)
Allen Gray, Audit Director
Paula Johnson, Audit Manager
Tanya Boone, Lead Auditor
Ken Carlson, Senior Auditor
Audrey Graper, Auditor
Laura Robertson, Auditor



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Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Deputy Commissioner, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Accounts Management, Wage and Investment Division
Director, Strategy and Finance, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Chief, Performance Evaluation and Improvement, Wage and Investment Division
Director, Office of Audit Coordination



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Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

JAN 27 2016

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland *Debra Holland*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Continued Inconsistent Use of Overage
Correspondence Lists, Contributes to Taxpayer Burden and
Unnecessary Interest Payments (Audit # 201540025)

Thank you for the opportunity to review the subject draft report and provide comments. We appreciate the Treasury Inspector General for Tax Administration's acknowledgment of actions we have taken to reduce overage inventory, such as the Phased Approach to Inventory, and the Inventory Management Accountability, Good for Everyone pilot, conducted in 2015, along with our emphasis on timeliness and accuracy in managing correspondence inventory.

The report identifies a lack of use of the Automated Age Listings (AAL) as contributing to increased overage inventory. We agree that AAL review and monitoring can improve; however, it is important to note that the IRS budget has been cut by more than \$1.2 billion since 2010, contributing to a staff decrease of approximately 15,000 employees. Fiscal Year (FY) 2015 marked the fifth consecutive year that the IRS has been challenged with performing our tax administration responsibilities and meeting taxpayer demand for services in an environment of reduced funding. More specifically, the Accounts Management function has lost over 2,000 Full-time Equivalent (FTE) staff positions since FY 2012, a reduction of 12.5 percent. Our resources are divided among staffing the toll-free customer service lines and processing incoming taxpayer correspondence. In FY 2015, FTEs for correspondence processing was still down 7.6 percent from FY 2012. These reductions to our available resources are, by far, the most significant factor in our increasing overage inventory.

We appreciate your acknowledgement of our efforts to improve productivity, timeliness, and overall processes in the current environment of limited resources. The same employees who work correspondence cases also staff our toll-free telephone service lines and, during peak periods, our resources are strained to handle both of these



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critical workloads. Factors that can contribute to inventory aging, including waiting on additional information from taxpayers, issue complexity, and competing priorities, can significantly impact the ability to resolve and conclude correspondence matters within desired timeframes. We emphasize again that the most significant factors in inventory aging are overall workload demand and the availability of resources to address that demand.

We are committed to continually improving our responsiveness to taxpayer inquires. We agree with the report recommendations and will take additional steps to address overage correspondence processes. Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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Attachment

Recommendations

RECOMMENDATION 1

Ensure that managers are providing, by the close of business each Monday, CSRs with annotated AAL identifying cases that need immediate attention.

CORRECTIVE ACTION

We agree with this recommendation and will assess our current procedures in order to develop a consistent process related to the Automated Age Listings (AAL). We will consider the weekly manager annotations as part of this improvement initiative.

IMPLEMENTATION DATE

October 15, 2016

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Ensure that CSRs return an annotated copy of the AAL received from their manager, as required, by the close of business each Friday detailing actions they took on each of the cases the manager identified as needing immediate attention.

CORRECTIVE ACTION

We agree with this recommendation and will assess our current procedures in order to develop a consistent process related to the AAL. The weekly CSR annotations will be taken into consideration as we work to improve this process.

IMPLEMENTATION DATE

October 15, 2016

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.