

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Compliance Services Collection Operations Should Improve the Timeliness of Responding to Taxpayer Correspondence

March 19, 2021

Report Number: 2021-30-018

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.

**HIGHLIGHTS: Compliance Services Collection Operations
Should Improve the Timeliness of Responding to Taxpayer Correspondence**

Final Audit Report issued on March 19, 2021

Report Number 2021-30-018

Why TIGTA Did This Audit

The Compliance Services Collection Operations (CSCO) is tasked with processing taxpayer written responses to notices and letters that are initiated from the Taxpayer Delinquent Account (TDA) and Taxpayer Delinquency Investigation (TDI) notice programs. This audit was performed to determine whether CSCO is effectively processing taxpayer correspondence.

Impact on Taxpayers

Taxpayers have a right to receive prompt, courteous, and professional assistance from the IRS. Taxpayers also have the right to be informed and to know what they need to do to comply with the tax laws through clear and easily understandable communications from the IRS. IRS delays in servicing taxpayers' TDA and TDI correspondence can potentially burden taxpayers and lead to unwarranted penalties and interest that may accrue on their respective accounts.

What TIGTA Found

In Fiscal Year (FY) 2019, TDA correspondence receipts for all CSCO decreased by 27 percent compared to FY 2016. However, FY 2019 TDA ending inventory increased by 173 percent compared to FY 2016. In addition, TDA over-aged inventory in CSCO significantly increased from FY 2016 through FY 2019. In FY 2019, over 75 percent of CSCO's ending TDA inventory exceeded 45 calendar days from the IRS received date, an increase exceeding 99,000 over-aged TDA cases in comparison to FY 2016.

CSCO TDI receipts in FY 2019 increased by 57 percent compared to FY 2016. Additionally, the FY 2019 TDI ending inventory increased by 366 percent compared to FY 2016. In FY 2016, approximately 5 percent of CSCO's ending TDI inventory exceeded 45 calendar days from the IRS received date. In FY 2019, over 53 percent of CSCO's ending TDI inventory exceeded 45 calendar days from the IRS received date, an increase exceeding 37,000 over-aged TDI cases in comparison to FY 2016.

In order to understand the causes of TDA and TDI over-aged inventory, TIGTA reviewed a sample of 314 taxpayer TDA and TDI correspondence items from the Memphis and Austin CSCO Campuses containing 338 taxpayer requests. The review showed that 217 (64 percent) requests were either not yet assigned to tax examiners or actions had not been taken to resolve the requests. Also, 163 (75 percent) of the 217 requests with no actions taken exceeded 45 calendar days from the IRS receipt date and were considered over-aged. For the remaining 121 (36 percent) of the 338 taxpayer requests, CSCO employee actions were performed and accurate. However, TIGTA determined that 54 (45 percent) of the requests were not worked timely (within 30 calendar days of IRS receipt). Also, 44 of the 54 untimely actions were considered over-aged.

IRS management stated that the main factor impacting the timely processing of CSCO correspondence was limited staffing that was split between both the TDA and TDI programs. Other factors were a delay in hiring new CSCO tax examiners until the fourth quarter FY 2020 and a delay in overtime funding for CSCO until the second quarter of FY 2020.

What TIGTA Recommended

TIGTA made five recommendations to assist CSCO with the timely processing of taxpayer requests and undelivered mail. The IRS agreed with all five recommendations and some of its plans are to: determine viable options for timely processing of CSCO aged inventory; issue an Internal Revenue Manual Procedural Update to clarify the timeliness requirement regarding the CSCO received date; create a team to determine the issues preventing CSCO correspondence from being batched within the current three-business-day requirement; clarify Internal Revenue Manual time frame inconsistencies for the batching of incoming TDA and TDI correspondence and train employees on the updates; and complete an undelivered mail study to identify options for more timely processing of CSCO undelivered mail.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 19, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in blue ink that reads "Michael E. McKenney".

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Compliance Services Collection Operations Should Improve the Timeliness of Responding to Taxpayer Correspondence (Audit # 202030025)

This report presents the results of our review to determine whether the Internal Revenue Service's Compliance Services Collection Operations is effectively processing taxpayer correspondence. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance*.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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Background

Compliance Services Collection Operations (CSCO) assists the Internal Revenue Service (IRS) with enforcement programs to ensure compliance.¹ CSCO is part of the Small Business/Self-Employed (SB/SE) Division's Collection function, with locations at nine IRS campuses.² As part of its enforcement responsibility, CSCO is tasked with processing taxpayer responses to notices and letters that are initiated from the Taxpayer Delinquent Account (TDA) and Taxpayer Delinquency Investigation (TDI) notice programs. The TDA program generates and issues notices to taxpayers that have an outstanding tax liability. TDA notices pertain to different subject matters, such as balance due notices, installment agreement applications, and Trust Fund Recovery Penalty issues.³ The TDI program similarly generates and issues return delinquency notices to taxpayers that are identified as liable to file but have not filed a tax return by the return due date. TDI notices generally pertain to unfiled individual or business tax returns and can include Automated Substitute for Return and Refund Hold notices.⁴ Both the TDA and TDI programs systemically send notices to taxpayers requesting information or actions from the taxpayer in an effort to resolve their tax accounts.

In order for the IRS to provide first-class customer service to taxpayers and promote voluntary taxpayer compliance, it is imperative that CSCO provide quality, prompt, and professional service in addressing responses to incoming taxpayer correspondence from the IRS's TDA and TDI programs. A quality response to taxpayer correspondence is defined as being timely, accurate, professional in tone, and responsive to the taxpayer needs by resolving all issues without further contact.⁵ CSCO employees who service taxpayer TDA and TDI correspondence (hereafter referred to as tax examiners) follow the guidance provided in the Collection Internal Revenue Manual (IRM) when servicing taxpayer TDI and TDA correspondence.⁶ Figure 1 shows the number of TDA and TDI taxpayer correspondence items closed by tax examiners from Fiscal Year (FY) 2016 to FY 2019.⁷

¹ See Appendix III for a glossary of terms.

² The campuses vary in the types of taxpayer correspondence that are worked. For example, some campuses work only individual taxpayer correspondence, while other campuses work both individual and business taxpayer correspondence.

³ Internal Revenue Code (I.R.C.) Section (§) 6672 and Internal Revenue Manual (IRM) 5.19.14.1(1) (Aug. 3, 2018). When a business fails to collect or pay trust fund taxes to the IRS, the unpaid liability can be assessed against the responsible person for the trust fund component of the unpaid liability, *i.e.*, the employees' portion of certain taxes collected by employers, referred to as a Trust Fund Recovery Penalty.

⁴ Automated Substitute for Return is an enforcement program that focuses on taxpayers that have not filed tax returns and is used by the SB/SE Division's Collection function. The goal of the Automated Substitute for Return program is to secure delinquent tax returns, if possible, and create substitutes for returns when filed returns are not received. Refund Hold inventory occurs when the IRS holds individual income tax refunds and credit elects when a current or prior year refund return is filed and the taxpayer's account has at least one unfiled return within the five years prior to the current tax year.

⁵ IRM 1.2.1.13.3(4) (Dec. 17, 2019).

⁶ IRM 5.19.1 (Nov. 30, 2020) and IRM 5.19.2 (July 14, 2017).

⁷ A Government shutdown occurred in FY 2019, from December 22, 2018, through January 25, 2019.

**Figure 1: CSCO TDA/TDI Closures for
FY 2016 Through FY 2019**

	FY 2016	FY 2017	FY 2018	FY 2019
TDA Closures	1,936,740	1,636,299	1,272,878	1,234,480
TDI Closures	279,459	131,523	78,811	424,846

Source: CSCO inventory reports for FY 2016 through FY 2019.

CSCO follows the same guidelines for determining over-aged inventory as the Submission Processing function.⁸ Specifically, taxpayer correspondence is generally considered over-aged on the 45th calendar day after the IRS received date.⁹ Additional guidance, pertaining to all areas that handle taxpayer correspondence, similarly considers a timely response to be a final response or interim letter initiated within 30 calendar days of the IRS received date.¹⁰ Figures 2 and 3 show that CSCO TDA and TDI over-aged inventory have increased significantly from FY 2016 to FY 2019. Both figures detail the overall CSCO beginning inventory, receipts, closures, and ending inventory as well as the IRS's over-aged case inventory metrics. The following information provides a more detailed explanation of each data point in the figures.

- Beginning inventory represents the ending inventory from the previous fiscal year.
- Receipts represent the total number of incoming TDA or TDI notices.
- Closures represent the number of batched, worked, and closed TDA or TDI notices.¹¹
- Ending inventory represents the total number of open TDA or TDI cases at the end of each fiscal year.
- Over-aged analysis from the IRS received date represents TDA or TDI correspondence case ending inventory that is over-aged on the 45th calendar day after the IRS received date.

⁸ IRM 3.30.123.5.2 (Oct. 23, 2019).

⁹ IRM 3.30.123.5.2(14) (Oct. 23, 2019).

¹⁰ IRM 21.3.3.3.4(3) (Aug. 26, 2020).

¹¹ A batch is a specific group of like documents. IRM 3.10.73.1.5(2) (Nov. 9, 2018). Batching occurs when the CSCO sorts TDA and TDI notices it receives into respective batches for entry into the Accounts Management Services. Once these notices are entered, a batch number is generated and the notice is considered "batched" and available for assignment to a tax examiner.

Figure 2: CSCO TDA Inventory for FY 2016 Through FY 2019¹²

	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Inventory	174,434	52,742	34,429	57,299
Receipts	1,815,048	1,617,986	1,295,735	1,320,953
Closures	1,936,740	1,636,299	1,272,878	1,234,480
Ending Inventory	52,742	34,429	57,299	143,772
Ending Inventory Over-Aged Analysis				
Inventory 45 Calendar Days or More From IRS Received Date	9,332	3,049	21,087	108,415

Source: CSCO inventory and over-aged TDA reports for FY 2016 through FY 2019.¹³

In FY 2019, TDA correspondence receipts for all CSCO decreased by 27 percent from FY 2016. Conversely, the FY 2019 TDA ending inventory increased by 173 percent for TDAs compared to FY 2016 ending inventory. In addition, TDA over-aged inventory at CSCO significantly increased from FY 2016 through FY 2019. In FY 2016, approximately 18 percent of CSCO TDA ending inventory exceeded 45 calendar days from the IRS received date. However, in FY 2019, over 75 percent of CSCO TDA ending inventory exceeded 45 calendar days from the IRS received date, an increase exceeding 99,000 aged TDA cases in comparison to FY 2016.

Figure 3: CSCO TDI Inventory for FY 2016 Through FY 2019¹⁴

	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Inventory	649	15,207	265	33,905
Receipts	294,017	116,581	112,451	461,806
Closures	279,459	131,523	78,811	424,846
Ending Inventory	15,207	265	33,905	70,867
Ending Inventory Over-Aged Analysis				
Inventory 45 Calendar Days or More From IRS Received Date	743	28	4,924	38,215

Source: CSCO inventory and over-aged TDI reports for FY 2016 through FY 2019.¹⁵

CSCO TDI receipts in FY 2019 increased by 57 percent compared to FY 2016. Similarly, the FY 2019 TDI ending inventory increased by 366 percent compared to FY 2016 ending inventory. Similar to CSCO TDA over-aged inventory, its TDI over-aged inventory significantly increased from FY 2016 through FY 2019. In FY 2016, approximately 5 percent of CSCO TDI ending inventory exceeded 45 calendar days from the IRS received date. However, in FY 2019, over 53 percent of CSCO TDI ending inventory exceeded 45 calendar days from the IRS received date, an increase exceeding 37,000 aged TDI cases in comparison to FY 2016.

From FY 2016 through FY 2019, CSCO full-time equivalents decreased slightly from approximately 1,183 full-time equivalents in FY 2016 to 1,153 full-time equivalents in FY 2019

¹² Figure 2 does not include Automated Collection System Call Site or Automated Collection System Support TDA Inventory.

¹³ We were not able to verify all amounts provided by CSCO for this figure.

¹⁴ Figure 3 does not include Automated Collection System Call Site or Automated Collection System Support TDI Inventory.

¹⁵ We were not able to verify all amounts provided by CSCO for this figure.

(2.5 percent decrease). We recognize that IRS budget constraints and limited resources have negatively affected quality taxpayer service in recent years. However, having CSCO appropriately staffed is essential to address and resolve taxpayer correspondence accurately and timely.

In addition to the receipt and processing of TDA and TDI correspondence, CSCO is also responsible for the processing of undelivered mail resulting from written communications it sends to taxpayers. Undelivered mail is returned to CSCO when it sends a notice or other communication to a taxpayer and the item is returned because it could not be delivered by the United States Postal Service (USPS).¹⁶ The undeliverable mail is generally returned to the IRS with a USPS yellow label affixed to the envelope that may have a more current address for the taxpayer. The IRM requires that correspondence returned with a forwarding address on a yellow label should either be scanned through the Address Research system or manually processed to verify the possible new address.¹⁷

As part of its taxpayer correspondence processing, CSCO uses the SB/SE Division Fast Scan screening process for quick closures. Quick closures resolved using the SB/SE Division Fast Scan process include address changes, telephone number inputs, and received payments.¹⁸ For items that can be fully resolved by CSCO clerks using the Fast Scan screening process, CSCO saves time and tax examiner resources. The Fast Scan process also expedites the taxpayers' account resolution, which may reduce interest and penalties to their account.¹⁹

In June 2014, the IRS adopted the Taxpayer Bill of Rights, which includes 10 fundamental rights to provide taxpayers a better understanding of their rights when dealing with the IRS.²⁰ In December 2015, Congress codified these rights in Internal Revenue Code (I.R.C.) Section (§) 7803(a)(3), which requires the IRS Commissioner to ensure that IRS employees are familiar with and act in accordance with these 10 fundamental rights, including the right to quality service. These taxpayer rights include the right to receive prompt, courteous, and professional assistance from the IRS. Taxpayers also have the right to be informed and to know what they need to do to comply with the tax laws through clear and easily understandable communications from the IRS. This review was initiated to determine whether the SB/SE Division's CSCO is effectively processing taxpayer correspondence.

This review covers CSCO correspondence selected from the Memphis and Austin Campuses in January and February 2020 and does not cover work performed after March 2020, when the IRS offices shut down due to the COVID-19 pandemic and millions of pieces of correspondence and tax returns were backlogged.²¹

¹⁶ IRM 5.19.16.3(1) and (2) (Aug. 17, 2020).

¹⁷ IRM 5.19.16.3(3) and 5.19.16.3.1(4) (Aug. 17, 2020); Address Research is a system that researches potential addresses on undelivered mail. If a potential address is found by the system, it will send the 2797CG (R-U-There) letter to the taxpayer. The system can send up to 50 R-U-There letters on one account.

¹⁸ IRM 5.19.16.3(3) (Sept. 25, 2015).

¹⁹ IRM 5.19.16.3(1) (Sept. 25, 2015).

²⁰ I.R.C. § 7803(a)(3)

²¹ House Ways and Means Committee, Oversight Committee, Testimony of Charles P. Rettig (Nov. 19, 2020).

Results of Review

Compliance Services Collection Operations' Correspondence Actions Are Appropriate but Not Always Timely

Based on our review of a judgmental sample of 314 incoming TDA and TDI taxpayer correspondence items from the Memphis and Austin CSCO Campuses, we determined that tax examiner actions taken on correspondence are appropriate.²² However, we also identified that many of those actions are not timely performed. In addition, the batching of correspondence items prior to assignment is not always timely, leading to over-aged inventory. Not timely batching and taking action on correspondence potentially violates taxpayers' rights to receive quality, prompt, and professional assistance from the IRS.

We selected our samples of incoming TDA and TDI taxpayer correspondence items from the Memphis and Austin CSCO Campuses during our site visitations. We reviewed the actions taken on these correspondence items, as of March 20, 2020, for quality and timeliness, such as whether CSCO employees correctly and timely addressed the taxpayer's requested actions.²³ At the Memphis CSCO site, we selected our samples after Campus Support had sorted incoming taxpayer correspondence into TDA and TDI categories but before the items were sent to CSCO to be batched and entered into the CSCO inventory system. At the Austin CSCO site, we selected our samples after CSCO received and sorted incoming taxpayer correspondence into TDA and TDI categories but prior to being batched and entered into the CSCO inventory system. Specifically, we selected the following samples from our site visitations:

Memphis Campus

- 80 incoming TDA correspondence items were selected: 40 correspondence items were selected from the January 14, 2020, Campus Support received date and 40 correspondence items were selected from the January 15, 2020, Campus Support received date.
- 74 incoming TDI correspondence items were selected: 34 correspondence items were selected from the January 14, 2020, Campus Support received date and 40 correspondence items were selected from the January 15, 2020, Campus Support received date.

Austin Campus

- 80 incoming TDA correspondence items were selected: 40 correspondence items were selected from the February 10, 2020, CSCO received date and 40 correspondence items were selected from the February 11, 2020, CSCO received date.
- 80 incoming TDI correspondence items were selected: 40 correspondence items were selected from the February 7, 2020, CSCO received date and 40 correspondence items were selected from the February 10, 2020, CSCO received date.

²² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

²³ We selected March 20, 2020, as the cutoff date to coincide with the date the IRS sent its employees home due to the COVID-19 pandemic. Generally, CSCO collection activity ceased as of this date.

**Compliance Services Collection Operations Should Improve
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When we were unable to locate Accounts Management Services (AMS) narratives of the IRS’s efforts to serve these taxpayers related to the sampled correspondence, we requested those narratives from the IRS. SB/SE Division management confirmed that not all of the correspondence from the Memphis CSCO that we requested were batched or assigned when we submitted the request. However, management stated that, as of May 13, 2020, the Memphis CSCO had assigned all correspondence to CSCO staff. SB/SE Division management provided updated information on the Austin CSCO correspondence on June 2, 2020. For all of our reviews, we took into consideration all additional information provided by the IRS.

Over one-half of CSCO correspondence we reviewed had no activity or were not yet assigned

From our total sample of 314 TDA and TDI correspondence items, we identified 338 actionable taxpayer requests. We reviewed the 338 actionable taxpayer requests as of March 20, 2020, and found that CSCO tax examiners had taken actions on 121 (36 percent) of the taxpayer requests. However, 217 of the 338 taxpayer requests (64 percent, or over one-half) were either not yet assigned to CSCO tax examiners or actions had not been taken to resolve the requests. Figure 4 provides the aged status for the 217 taxpayer requests without activity as of March 20, 2020.

**Figure 4: Over-Aged Status of TDA and TDI Taxpayer Requests
Without Activity Over-Aged as of March 20, 2020**

	Memphis			Austin			Memphis and Austin
	TDA's	TDI's	TDA's/TDI's	TDA's	TDI's	TDA's/TDI's	TDA's/TDI's
Total Taxpayer Requests²⁴	87	79	166	86	86	172	338
Taxpayer Requests Without Activity	34	50	84	53	80	133	217
Taxpayer Requests Without Activity for 31 to 45 Calendar Days	0	0	0	10	44	54	54
Taxpayer Requests Without Activity for Over 45 Calendar Days (Over-Aged)	34	50	84	43	36	79	163

Source: Our analysis of TDA and TDI sampled taxpayer requests.

As previously stated, the IRS generally considers a timely response to be a final response or interim letter initiated within 30 calendar days of the IRS received date (hereafter referred to as the 30-day requirement), and a correspondence request generally becomes over-aged on the 45th calendar day after the IRS received date.²⁵ As of March 20, 2020, 54 (25 percent) of the 217 requests without activity exceeded 30 calendar days from the IRS received date, and

²⁴ Correspondence from taxpayers may have more than one requested action of the IRS per item.

²⁵ IRM 21.3.3.3.4(3) (Aug. 26, 2020); IRM 3.30.123.5.2(14) (Oct. 23, 2019).

163 (75 percent) of the requests without activity exceeded 45 calendar days from the IRS receipt date.²⁶ Therefore, all 217 requests were already untimely and the majority were also over-aged before assignment or before action was taken. Delayed assignment and actions taken to resolve taxpayer requests potentially burdens the taxpayers that are waiting for their tax matters to be resolved and potentially violates the taxpayers’ rights to quality service.

Actions taken on CSCO correspondence were accurate but not always timely

Our review of the 121 requests with actions taken showed that tax examiners took appropriate actions to resolve each request. To determine whether an action was appropriate, we considered the reason for the taxpayer request(s) included with the documentation submitted in each sampled taxpayer correspondence item and the CSCO tax examiner requirements for working the specific subject matter related to the taxpayer’s requested action(s). Taxpayer requests spanned various subject matters. For example, we found that tax examiners properly followed IRM procedures to establish installment agreements for submitted installment agreement applications, appropriately credited taxpayer modules when payments were submitted by taxpayers with balances due, and posted tax returns submitted by taxpayers for processing to address delinquent tax return issues.

Figure 5 provides the results of our analysis on the IRS’s timeliness in resolving the 121 taxpayer requests within procedural requirements as well as their over-aged status as of March 20, 2020.

Figure 5: TDA and TDI Taxpayer Requests – Actions Performed²⁷

	Memphis			Austin			Memphis and Austin
	TDA's	TDIs	TDA's/TDIs	TDA's	TDIs	TDA's/TDIs	TDA's/TDIs
Total Taxpayer Requests	87	79	166	86	86	172	338
Taxpayer Requests With Actions Performed by 3/20/20	53	29	82	33	6	39	121
Actions Performed Within 30 Calendar Days	33	13	46	15	6	21	67
Actions Performed 31 to 45 Calendar Days	6	4	10	0	0	0	10
Actions Performed Over 45 Calendar Days (Over-Aged)	14	12	26	18	0	18	44

Source: Our analysis of sampled TDA and TDI taxpayer requests.

Of the 121 taxpayer requests with proper actions taken by CSCO employees, we found that 67 (55 percent) were timely worked within 30 calendar days of the IRS receipt date. The remaining 54 (45 percent) actions were not worked timely, *i.e.*, actions were taken more than 30 calendar days after the IRS receipt date. SB/SE Division Collection management concurred

²⁶ The 163 requests without actions taken were not only untimely but also over-aged and affected 153 taxpayers.

²⁷ On all taxpayer requests with actions performed, the actions taken were correctly performed. We did not identify any cases that were worked incorrectly.

with 47 of the 54 actions as not being timely. For [REDACTED] actions, management provided revised action dates. We analyzed the impact of the [REDACTED] revised action dates and found there was no change to the untimely status. For the remaining [REDACTED] actions, [REDACTED]. Our review also identified that 44 (36 percent) of the 121 taxpayer requests with proper actions taken exceeded 45 calendar days from the IRS received date; therefore, both the actions taken and any responses provided to the taxpayer were over-aged.²⁸

SB/SE Division management confirmed that some correspondence may not have been assigned and worked due to high inventory levels or because CSCO was working taxpayer correspondence based on a first-in, first-out method or by priority level. One CSCO manager explained that CSCO prioritizes TDAs over TDIs because TDAs have a much higher taxpayer response rate than TDIs. SB/SE Collection management later stated that the main factor impacting the timely processing of CSCO correspondence was limited staffing that was split between both the TDA and TDI programs. Management also noted that additional factors for delays in processing correspondence were: training requirements during the second quarter of FY 2020, delays in hiring of new CSCO tax examiners until the fourth quarter of FY 2020, and overtime funding for CSCO programs that was delayed to the middle of the second quarter of FY 2020.

When the IRS does not assign or work taxpayer requests, whether TDA or TDI, it not only risks increasing its over-aged inventory, but it fails to provide taxpayers the quality service and support they are rightfully entitled to receive in order to resolve their tax issues in a timely manner. Furthermore, taxpayers may be burdened by unwarranted penalties and interest that may accrue on their accounts attributable to IRS delays in servicing their respective TDA or TDI correspondence.

The CSCO did not always issue timely notices in response to incoming taxpayer correspondence when required

CSCO managers are responsible for overseeing employee actions and responses related to incoming TDA and TDI correspondence. Management is also responsible for ensuring that resolutions to taxpayer inquiries are completed timely and accurately.²⁹ The primary control used by CSCO managers to accomplish this responsibility is through workload reviews. Workload reviews are performed primarily to make an objective evaluation of an employee's performance, to protect the rights of customers, and to identify training needs.³⁰ The frequency of workload reviews are determined at the individual CSCO site and based on operational needs.³¹

In response to a customer satisfaction survey for cases closed in CSCO from April 2018 through March 2019, taxpayers responded that their second greatest area of dissatisfaction was not receiving adequate status updates about their CSCO case.³² The survey measured satisfaction

²⁸ The 44 over-aged actions taken on these taxpayer requests affected 41 taxpayers.

²⁹ IRM 5.19.1.1.3(3) and (4) (Sept. 26, 2018).

³⁰ IRM 1.4.20.18(1) (July 10, 2020).

³¹ IRM 1.4.20.18(1) (July 10, 2020).

³² IRS Research, Applied Analytics, and Statistics Report (TM40532), *SB/SE CSCO Mail Customer Satisfaction Report – Survey Year 2018 (April 2018 through March 2019)* p. 5 (Oct. 2019).

levels of taxpayers with cases closed in CSCO during this period. A total of 2,097 comments were evaluated from the 1,879 responders to the survey. The IRS's Research, Applied Analytics, and Statistics issued a report categorizing taxpayer comments and suggestions according to themes that emerged from their responses.

As previously stated, CSCO employees completed actions on 121 of the 338 taxpayer requests included in our sampled correspondence. We reviewed the completed actions for the 121 taxpayer requests to identify whether notices were provided to taxpayers in response to their taxpayer correspondence requests. We considered a notice of action when a taxpayer was issued a notice or when a refund was issued to a taxpayer satisfying the taxpayer request. We reviewed each taxpayer request to ensure that the tax examiner issued a timely notice informing the taxpayer about the actions taken to resolve their correspondence requests.

Despite the appropriateness of completed actions that we previously identified, we found that the notices/responses to taxpayers were not always sent or were not timely sent to the taxpayer. The IRM only requires the IRS to issue responses to taxpayer requests that are considered to be correspondence and to cases that are not worked via Fast Scan procedures.³³ *Policy Statement P-21-3, Exclusion List*, provides exclusions from what should be classified as correspondence. For example, an original or amended tax return received in response to a TDI notice does not meet the definition of correspondence. Using this policy statement, and removing any items that were worked using Fast Scan procedures, we determined that 46 of the 121 taxpayer requests did not require a response, while 75 of the taxpayer requests did require a response. Figure 6 captures our review results of CSCO response time for the 75 taxpayer requests with completed actions as of March 20, 2020.

³³ IRM 21.3.3.3.4 (Oct. 10, 2019).

Figure 6: TDA and TDI – Response to Taxpayer Requests

	Memphis			Austin			Memphis and Austin
	TDA	TDI	TDA/TDI	TDA	TDI	TDA/TDI	TDA/TDI
Number of Taxpayer Requests Requiring a Response With Actions Performed by 3/20/20	36	14	50	22	3	25	75
Required Notices of Action Issued by 3/20/20	34	12	46	19	3	22	68
Required Notices of Action Issued Within 30 Calendar Days	█	█	8	7	3	10	18
Required Notices of Action Issued Over 45 Calendar Days	13	9	22	12	0	12	34
Notice of Action Not Provided (as of 3/20/20)	█	█	4	3	0	3	7
Notice of Action Not Provided Over 45 Calendar Days (as of 3/20/20)	█	█	4	█	0	█	6

Source: Our analysis of CSCO TDA and TDI taxpayer requests.

For the Memphis and Austin Campuses combined, we identified that, as of March 20, 2020, CSCO provided taxpayer responses for 68 (91 percent) of 75 taxpayer requests that required a response. However, we found that only 18 were issued timely, within the 30-day requirement. The majority, 50 of the 68 responses, were not timely issued, with 34 exceeding 45 calendar days.

When a taxpayer request is completed, tax examiners use the Correspondence Letter System (Correspondex) to generate a response or letter to the taxpayer.³⁴ By using Correspondex, tax examiners do not physically mail out notices and cannot confirm whether a notice was mailed to the taxpayer. While tax examiners are required to document account actions in the AMS, which includes adding a narrative of what notice/letter was sent to a taxpayer, IRS management is not required to confirm that tax examiners provided a notice to the taxpayer after working a case. Therefore, the IRS cannot determine with certainty whether all requested notices through Correspondex were actually sent or not.

Quality attributes are unclear, and results do not reflect issues with timeliness

In CSCO, manager workload reviews are performed through the Embedded Quality Review System (EQRS). The EQRS is the primary tool for evaluating and documenting job performance and providing CSCO employees with manager feedback on closed case reviews. Managers rate employee actions across 53 EQRS attributes for their program area to ensure that quality, timely

³⁴ Correspondex generates letters through the Integrated Data Retrieval System.

responses are provided to the taxpayer. We reviewed these attributes and identified that Attribute 913, *Applicable Timeframes Met*, addresses timeliness requirements. IRS management confirmed that Attribute 913 measures whether actions were consistent with IRM-required time frames and also measures whether the final response was sent to the taxpayer within 30 calendar days (when an interim contact letter is not required). Therefore, Attribute 913 timeliness standards correlate to both the actions taken by CSCO employees as well as the required final notice response provided to the taxpayer.

Because our sample correspondence was selected prior to any actions taken by CSCO employees, we did not have the entire closed case file for each taxpayer correspondence that we reviewed. However, we reviewed and considered all available case activity documented by CSCO employee in the AMS narrative, which includes the same IRS received date that management uses in their quality reviews. Additionally, we reviewed the AMS history date against the Integrated Data Retrieval System date and used the earlier of the two dates, to CSCO's advantage. We then compared our results (as summarized in the subsequent bullets) against the EQRS review results for Attribute 913 for the first and second quarter of FY 2020.

- Untimely actions: 54 (45 percent) of 121 actions were not worked timely, *i.e.*, actions were taken more than 30 calendar days after the IRS receipt date.
- Untimely notices: 75 of the 121 actions required a response, *i.e.*, notice to taxpayer advising the taxpayer of action taken; 50 (67 percent) of the 75 actions requiring a response did not result in timely notices to the taxpayer.

In comparison, EQRS results for this time period show that CSCO managers rated the cases they reviewed as 100 percent met for Attribute 913 for both the Memphis and Austin CSCO. When we shared our results, SB/SE Division management responded that they could not comment on our findings because they require the complete closed case file in order to make a determination.

After reviewing a draft of this report, SB/SE Division Collection management clarified that they use the CSCO received date versus the IRS received date when rating an employee for timely reviewing a case under Attribute 913, and referenced a specific IRM pertaining to this process.³⁵ However, management confirmed that the applicable IRM does not specifically mention the CSCO received date as the review date for timeliness but rather that CSCO received date has historically been used when scoring this attribute.

IRS management had previously confirmed that Attribute 913 measures whether actions were consistent with IRM-required time frames, as the name of the attribute implies, *i.e.*, *Applicable Timeframes Met*). The IRM-required time frames reference the IRS received date, not CSCO received date, when reviewing quality of cases.³⁶ In addition, the EQRS Job Aid does not specify which date to use. SB/SE Division Collection management further confirmed that EQRS reviews are meant to evaluate CSCO employees and not the agency. This inconsistency, using a different date for quality review purposes versus the IRM's measure of what a timely response to taxpayer correspondence is, may lead to confusion as to which dates are important by CSCO

³⁵ IRM 21.10.1.5.3.2.17 (Aug. 31, 2020).

³⁶ IRM 3.30.123.5.2, *Response to Correspondence and Overage Criteria* (Oct. 23, 2019), and IRM 21.3.3.3.4(3), *Quality and Timely Responses* (Aug. 26, 2020), both reference the IRS received date.

employees and their managers and may extend to inconsistencies with employee reviews and EQRS results.

Despite any differences between our sample reviews and CSCO manager quality reviews, our findings are supported by the results of CSCO Survey Year 2018 results previously mentioned, which identified that a major area of taxpayer dissatisfaction was attributed to not receiving adequate status updates regarding their CSCO case. The IRS should review its quality review attributes and consider revisions to address the timeliness issues we identified with employee actions and responses to incoming TDA and TDI taxpayer correspondence. CSCO risks deteriorating taxpayer service if management continues to rely on results from ratings and reviews that may be potentially skewed to the positive and may not accurately reflect the timeliness issues we identified.

Correspondence was not always timely batched, leading to over-aged inventory

Generally, when a taxpayer mails in a response to a TDA or TDI notice, the mailroom's Receipt and Control Operations or Campus Support will identify the correspondence as being a response to a TDA or TDI notice and forward the correspondence to CSCO. When CSCO receives the correspondence, like items are grouped and entered into AMS inventory.³⁷ Once the grouped correspondence is entered into the AMS, the group is then issued a batch number, considered batched, and sent to the appropriate employees to be worked.³⁸

Once CSCO receives TDA and TDI taxpayer correspondence from Receipt and Control Operations or Campus Support for the day, correspondence must be batched and entered into the AMS within three business days of receipt in CSCO.³⁹ As previously noted, CSCO sorts TDA and TDI correspondence it receives into respective batches for entry into the AMS. Some cases are not required to be batched by CSCO; however, these cases are required to be worked. These cases follow the Fast Scan screening process, which allows for quick closures of certain taxpayer requests without batching. Examples of quick closures include address changes, payments, and correspondence being routed to another function or office.

We reviewed the 314 incoming TDA and TDI taxpayer correspondence items from the Memphis and Austin CSCO Campuses during our site visitations and identified 27 that fell under the Fast Scan screening process. The remaining 287 correspondence items were required to be batched by CSCO. Figure 7 provides our analysis of the batching process related to these 287 TDA and TDI correspondence items at both the Memphis and Austin CSCO Campuses.

³⁷ The AMS is used to assist in researching taxpayer accounts, to research AMS history, and for online resolution of taxpayers' questions.

³⁸ A worked case is a case that has been assigned to a tax examiner, who has resolved or addressed the taxpayer's request, but the case is not yet closed.

³⁹ For TDAs, IRM 5.19.16.6.1(2) (Aug. 17, 2020), and for TDIs, IRM 5.19.16.4.2(8) (Aug. 17, 2020).

Figure 7: Batching of TDA and TDI Sampled Correspondence

	Memphis			Austin			Memphis and Austin
	TDA	TDI	TDA/TDI	TDA	TDI	TDA/TDI	TDA/TDI
Correspondence Required to Be Batched by CSCO	70	74	144	67	76	143	287
Correspondence Batched	48	44	92	62	72	134	226
Correspondence Batched Within Three Business Days of Operations Received Date	█	0	█	█	0	█	11
Correspondence Batched After Three Business Days of Operations Received Date	47 ⁴⁰	44 ⁴¹	91	52	72	124	215
Correspondence Without Batch Date as of 3/20/20	22 ⁴²	30	52	5	4	9	61
Percentage of Correspondence Without Batch Date	31%	41%	36%	7%	5%	6%	21%
Average Over-Aged Business Days as of 3/20/20 for Correspondence Without Batch Date	43	43	43	24	25	24	40

Source: Our analysis of TDA and TDI sampled correspondence.

Our review determined that only 11 (4 percent) of 287 TDA and TDI correspondence items that were required to be batched, reviewed at both the Memphis and Austin Campuses, were correctly batched within three business days of receipt in CSCO. The remaining 276 (96 percent) items that were eligible for batching did not meet the three-business-day batching requirement. Of these, 215 items were batched untimely and 61 items were not yet batched as of March 20, 2020. SB/SE Division Collection management concurred that 212 of the 215 batched correspondence items were not batched timely but did not concur with three of the batched items because they were misclassified as TDAs rather than TDIs. However, the three items remain valid because they were not batched within the required time frame that applies to both TDAs and TDIs. Management also disagreed with █ of the 61 unbatched items in which they █ to determine █ was timely batched as of March 20, 2020.

As previously stated, 61 of the TDA and TDI correspondence items were still not batched as of March 20, 2020. As such, these correspondence items had not been entered into the AMS or had no actions taken. In Memphis, 52 (36 percent) of the 144 TDA and TDI items that required batching had no batch date, while in Austin, nine (6 percent) of 143 TDA and TDI items that required batching had no batch date. Between both campuses, all 61 unbatched

⁴⁰ Management identified three TDIs in the TDA sample from Memphis; however, the same timeliness standards apply.

⁴¹ Management identified █ TDA in the TDI sample from Memphis; however, the same timeliness standards apply.

⁴² Management identified █ TDIs in the TDA sample for Memphis; however, the same timeliness standards apply.

correspondence items not only failed to satisfy the three-business-day processing requirement but were also over-aged by an average of 40 business days. SB/SE Division Collection management concurred with [REDACTED] of the 61 unbatched correspondence items; however, they disagreed with [REDACTED] items, citing that the items did not meet the correspondence definition. However, we found that [REDACTED]

⁴³

After reviewing a draft of this report, SB/SE Collection management confirmed that they identified IRM inconsistencies related to the time frame requirements for batching of incoming correspondence. One IRM that is specific to the batching of TDI cases states that TDI cases must be batched within five days of receipt in CSCO.⁴⁴ This IRM is inconsistent with the IRM we used to perform our batching review of TDIs, which noted a three-business-day requirement. Management further confirmed the confusion of the IRM provided, stating that there is no clear indication of whether the five-day time frame is based on calendar days or business days. The IRM inconsistencies identified by Collection management can create confusion for CSCO employees, leading to potential delays in the batching process. Collection management confirmed the need to clarify the inconsistent IRMs.

Not batching correspondence timely can delay the time it takes for tax examiners to address taxpayer requests, thereby increasing the overall backlog and potentially leading to taxpayer requests becoming over-aged. Additionally, because the process of batching correspondence is performed in the AMS, and the AMS is used to manage CSCO inventory, AMS inventory reports will not accurately reflect the true volume of taxpayer correspondence requests if they are not timely batched. Inaccurate AMS inventory reports could lead to reporting inaccurate CSCO business results.

The Director, Campus Collection, should:

Recommendation 1: Review CSCO over-aged inventory that has not been assigned to be worked or has not had any actions taken on or before the 45th day after the IRS received date and determine what steps can be taken to minimize the over-aged inventory status, taking into consideration available resources to timely resolve taxpayer requests.

Management's Response: The IRS agreed with this recommendation and plans to determine viable options for timelier processing of CSCO aged inventory.

The Director, Headquarters Collection SB/SE, should:

Recommendation 2: Create clear time frame criteria for CSCO EQRS Attribute 913 against which employees should be measured for adherence to this timeliness quality standard and clarify the IRM for any difference in dates used to evaluate employee versus organizational compliance with timeliness requirements.

Management's Response: The IRS agreed with this recommendation and plans to clarify timeliness requirements regarding the CSCO received date under Attribute 913 and in IRM 21.10.1. In addition, the IRS plans to issue an IRM Procedural Update to

⁴³ [REDACTED]

⁴⁴ IRM 5.19.2.2.1(7) (July 14, 2017).

IRM 1.4.20, used by Collection managers, which will clarify the timeliness requirement regarding the CSCO received date.

The Director, Campus Collection SB/SE, should:

Recommendation 3: Analyze and address issues preventing CSCO correspondence from being batched within the current three-business-day requirement and encourage the timely assignment of incoming correspondence so that resolution to taxpayer issues are not further delayed.

Management's Response: The IRS agreed with this recommendation and plans to create a team to determine the issues preventing CSCO correspondence from being batched within the current three-business-day requirement and to identify options for timely assignment of incoming correspondence.

Recommendation 4: Clarify identified IRM time frame inconsistencies for the batching of incoming TDA and TDI correspondence and provide training to CSCO employees related to these updated IRMs.

Management's Response: The IRS agreed with this recommendation and plans to clarify IRM time frame inconsistencies for the batching of incoming TDA and TDI correspondence and will provide training to CSCO employees related to these updates.

Lengthy Backlogs of Undelivered Mail Waiting to Be Processed Were Found at the Memphis and Austin Campuses

The degree to which the IRS effectively and efficiently resolves undelivered mail directly affects its ability to provide taxpayers with quality service as well as keep taxpayers informed about tax law compliance requirements that help them make timely decisions related to their tax account. For example, without receiving proper notification and instructions related to an installment agreement request, taxpayers wanting to resolve their tax debt through an installment agreement may not be able to complete the steps required to finalize the agreement. Similarly, taxpayers that do not receive correspondence informing them of an outstanding liability or proposed assessment on their tax account may not be aware that they have a balance due or a proposed a tax assessment. Another potential repercussion is for taxpayers selected for the Withholding Compliance Program—when the respective employer does not receive a lock-in letter, the employer would not be aware of the IRS-mandated adjustment to an employee's Federal income tax withholding. In all of these examples, not receiving IRS correspondence on a tax matter could potentially worsen a taxpayer's situation and further hinder the taxpayer's ability to become tax compliant.

During our site visits to the Memphis and Austin Campuses, we observed lengthy backlogs of CSCO undelivered mail, *i.e.*, mail sent to taxpayers by CSCO that was returned to the IRS. In Memphis, on January 14, 2020, we observed undelivered mail waiting to be processed with received dates as early as July 29, 2019, which is the equivalent of 114 business days from the IRS received date. Similarly, in Austin, on February 12, 2020, we observed undelivered mail waiting to be processed with received dates as early as December 26, 2019, which is the

equivalent of 32 business days from the IRS received date. The backlogged undelivered mail that we identified was waiting to be batched and processed, as required by the IRM.⁴⁵

We selected a judgmental sample of undelivered mail that was unprocessed at both the Memphis and Austin Campuses. At the Memphis Campus, we selected three date ranges within the undelivered mail backlog and reviewed 40 sample items from each date range, for a total of 120 items reviewed.⁴⁶ At the Austin Campus, we selected three days within the undelivered mail backlog and reviewed 40 sample items from each day, for a total of 120 items reviewed.⁴⁷

Collectively between both campuses, we reviewed 240 undelivered mail items from respective backlog inventories that were awaiting processing. We categorized the 240 undelivered mail items by their correspondence type, as follows:

- 84 (35 percent) notifications informing taxpayer that the IRS has no record of a tax return being filed.
- 51 (21 percent) correspondence items pertaining to accepted or pending installment agreements.
- 44 (18 percent) balance due notices.
- 29 (12 percent) proposed tax assessments.⁴⁸
- 20 (8 percent) withholding compliance lock-in letters to employees or employers, which direct employers to adjust the amount of Federal income tax withheld from the identified taxpayer's gross pay.⁴⁹
- 12 (5 percent) miscellaneous correspondence items, such as interim letters, case closure notices, penalty removal/reduction notices, and account transcripts.⁵⁰

In our sample review, we found that 233 of the 240 pieces of undelivered mail had a USPS yellow label affixed to the envelope. We reviewed the 233 USPS yellow labels and verified that 73 USPS yellow labels included the latest address for the taxpayer on file with the USPS. We conducted additional analysis on these 73 yellow labels, using the Integrated Data Retrieval System, and found that only 20 taxpayer accounts had been updated to reflect the new addresses, as required by the IRM, and 53 taxpayer accounts had not been updated.⁵¹

⁴⁵ IRMs 5.19.16.3.1(4) and 5.19.16.3.2 (Aug. 17, 2020) provide batching and processing information for undelivered mail.

⁴⁶ The three date ranges selected at the Memphis Campus were July 27 to September 26, 2019; October 7 to 11, 2019; and January 6 to 10, 2020. Date ranges were selected due to the staging process and amount of backlogged mail.

⁴⁷ The three dates selected at the Austin Campus were December 26, 2019; January 22, 2020; and February 6, 2020. Individual dates were selected due to the staging process and amount of backlogged mail.

⁴⁸ This is comprised of two versions of the CP 3219, *Notice of Deficiency, Proposed increase in tax and notice of your right to challenge* (CP 3219A for the Automated Under Reporter program and CP 3219N issued as a Substitute for Return) and Letter 2566, *You Must File Your [Tax Year] Return*.

⁴⁹ If a taxpayer is selected for the IRS's Withholding Compliance Program, the taxpayer and the taxpayer's employer are sent lock-in letters. The objective of the IRS Withholding Compliance Program is to ensure that taxpayers have enough income tax withheld to meet their withholding tax obligations.

⁵⁰ When taxpayer cases cannot be resolved within 30 calendar days, the IRS sends interim letters to the taxpayer to inform them of the reason for the delay.

⁵¹ IRM 5.19.16.3.2 (Aug. 17, 2020).

SB/SE Division Collection management concurred that 53 taxpayer addresses were not changed to reflect the most current address the USPS has for the taxpayer as required. The 53 yellow labels providing new addresses included 25 balance dues notices, 13 notifications that the IRS had no record of tax returns being filed, and 12 notifications concerning pending or accepted installment agreements.⁵² For the 25 returned balance due notices, we determined that the balance due amount on the taxpayer accounts had collectively increased by \$27,624, partially due to penalties and interest assessed from the notice date through the dates of our review.⁵³ In addition to the unwarranted potential increases on taxpayers' accounts, the failure to address undelivered mail in a timely manner may also create an excess burden with additional time and resources required of these taxpayers to resolve their respective TDA or TDI matter. By processing undelivered mail that is returned with a USPS yellow label listing the most current address for the taxpayer, there is a better chance the correspondence will reach the intended taxpayer.

We concluded that working undelivered mail returned to CSCO is a low priority during our site visits to the Memphis and Austin Campuses. We observed different processes at each campus for the receipt and staging (holding of mail in a location while it is waiting to be batched and processed) of undelivered CSCO mail. In Memphis, the undelivered mail for the entire campus is staged in Campus Support, where it waits to be sorted and routed back to the operation that mailed it to taxpayers. Memphis Campus Support management stated that undelivered mail is not a priority and that it can sit in the staging area up to 60 days. Memphis CSCO management stated that it does try to work the mail because the taxpayer is waiting on a response from the IRS, but it does not ask Campus Support for the undelivered mail. At the Austin Campus, undelivered mail is sorted by Receipt and Control Operations and routed to the operation that sent it to the taxpayer for staging. CSCO stages its own undelivered mail waiting to be batched processed. Austin CSCO management stated that it does not have the resources to consistently work undelivered mail, which is why its processing remains a low priority.

We also found that CSCO does not have an established time requirement for the processing of undelivered mail. The IRM outlines the procedures required to batch and process undelivered mail once it is returned to the IRS. However, the IRM does not provide timeliness requirements for completing the processing of the undelivered mail. CSCO communications sent to the taxpayer may include important matters required to address outstanding TDA or TDI issues. By not addressing undelivered mail issues in a timely manner, the IRS risks further delays with the resolution of a taxpayer's TDA or TDI issues when related correspondence is returned. While we recognize the difficulties of prioritizing tasks while facing budget constraints or limited resources, CSCO management should work with personnel at each campus with a CSCO location to develop a reasonable time frame for the processing of undelivered mail.

⁵² Other items included [REDACTED]

⁵³ We reviewed the balance due amounts on the accounts as of March 2, 2020. The range of days from the date of the notice to our sample review date is 18 business days for the most recently dated notice to 120 business days for the oldest dated notice.

**Compliance Services Collection Operations Should Improve
the Timeliness of Responding to Taxpayer Correspondence**

The Director, Campus Collection, should:

Recommendation 5: Conduct a study to determine options for more timely processing of CSCO undelivered mail.

Management's Response: The IRS agreed with this recommendation and plans to complete a study to identify options for timelier processing of CSCO undelivered mail.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether CSCO is effectively processing taxpayer correspondence. To accomplish our objective, we:

- Determined and evaluated the policies and procedures for receiving, processing, and assigning incoming correspondence and interviewed IRS and CSCO management on their monitoring process related to these policies and procedures.
- Determined if TDA and TDI correspondence was accurately routed to CSCO and if CSCO employees were properly processing incoming TDA and TDI taxpayer correspondence.
 - Reviewed a judgmental sample¹ of 160 TDAs and 154 TDIs from the Memphis and Austin CSCO Campuses.² We verified if the requested taxpayer action was correctly and timely performed by reviewing responses provided on sampled items.
 - Reviewed EQRS reports and criteria to identify which attributes related to timeliness and compared those attributes to our results of review.
- Determined if CSCO is processing undeliverable correspondence as required by the IRM at the Memphis and Austin CSCO Campuses and the age and approximate volume of any backlog.
 - Reviewed a judgmental sample of 240 items to determine if returned mail was appropriately worked. We also determined if returned mail contained a USPS yellow label and analyzed what was indicated on the label.
 - Determined the effect on the taxpayers when balance due notices and other correspondence were returned.

Performance of This Review

This review was performed by conducting IRS campus site visits to CSCO locations in Memphis Tennessee, and Austin, Texas, and with information obtained from the SB/SE Division during the period of October 2019 through December 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Phyllis Heald London, Director; Beverly Tamanaha, Audit Manager; Javier Fernandez, Audit Manager; Carrie Mares, Lead Auditor; and Eugenia Smoak, Senior Auditor.

¹ A judgmental sample was used for all samples due to the staging process and the amount of backlogged mail.

² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

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: SB/SE Division policies, procedures, and practices related to the processing of incoming taxpayer correspondence and undelivered mail in CSCO. We evaluated these controls by reviewing appropriate internal procedures and guidelines, interviewing relevant management, and conducting reviews of samples of taxpayer correspondence.

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 194 taxpayers with TDA and TDI correspondence items either not worked or actions not taken by CSCO within 45 calendar days of the IRS receipt date (see Recommendations 1, 2, and 3).¹

Methodology Used to Measure the Reported Benefit:

From our judgmental sample of 314 TDA and TDI correspondence items CSCO received from 330 taxpayers,² we identified a total of 207 taxpayer requests and actions performed that were over-aged. Of the 207 over-aged items, we queried for unique taxpayers to remove any duplicate tax identification numbers. Through our query, we identified 194 unique taxpayers that were potentially burdened when their correspondence items were either not worked or actions were not taken within 45 calendar days of the IRS receipt date.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 53 taxpayers for which addresses were not changed to reflect the most current address the USPS has for the taxpayer as required (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

From our judgmental sample of 240 pieces of undelivered mail, 233 contained a USPS yellow label affixed to the envelope. We identified 53 taxpayers that were potentially burdened when the IRS did not change the address to reflect the most current address the USPS has for the taxpayer as required.

¹ Correspondence may contain requests for different taxpayers, *e.g.*, correspondence received from a Certified Public Accountant with requests across multiple clients. Correspondence may also contain multiple requests for the same taxpayer.

² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

February 19, 2021

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton **Eric C. Hylton** Digitally signed by Eric C. Hylton
Date: 2021.02.19 10:02:03 -05'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Compliance Services Collection Operations
Should Improve the Timeliness of Responding to Taxpayer
Correspondence (Audit #202030025)

Thank you for the opportunity to review the subject draft report. We appreciate your acknowledgement that the Compliance Services Collection Operations (CSCO) function's correspondence actions are appropriate. CSCO processes taxpayer responses to IRS notices and letters relating to delinquent return and balance due accounts, and in fiscal years (FY) 2016 through 2019 closed an average of over 1.7 million taxpayer correspondence items per year. This is a significant volume of work.

The timeliness issues TIGTA found reflect the cumulative, ongoing resource challenges facing the IRS. We appreciate the support from Congress and the Administration reflected in recent budget increases, which enabled the IRS to hire enforcement personnel in FY 2019 and 2020. We were able to hire new CSCO personnel and offer overtime in the second half of FY 2020 to address increases in the CSCO workload and delayed response times. However, we have an aging workforce, and due to retirements and attrition, the net gain in our compliance staffing has been small.

We agree with you that prompt, courteous and professional service to taxpayers is important, and that there is value in looking for ways to minimize delays in processing and responding to correspondence. We agree with the stated outcome measures. Our responses to TIGTA's recommendations are detailed in the attachment.

As we consider potential enhancements, your comments will assist us in our ongoing efforts to position available resources where they can most benefit tax administration and enable more efficient but effective internal operations. If you have any questions, please contact me, or Frederick W. Schindler, Acting Director, Collection Operations.

Attachment

Compliance Services Collection Operations Should Improve the Timeliness of Responding to Taxpayer Correspondence

Attachment

RECOMMENDATION 1:

The Director, Campus Collection, should review CSCO over-aged inventory that have not been assigned to be worked and/or without any actions taken on or before the 45th day after the IRS received date and determine what steps can be taken to minimize the over-aged inventory status, taking into consideration available resources to timely resolve taxpayer requests.

CORRECTIVE ACTION:

We will determine viable options for more timely processing of CSCO aged inventory and will make recommendations for executive approval.

IMPLEMENTATION DATE:

January 15, 2022

RESPONSIBLE OFFICIAL:

Director, Campus Collection, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 2:

The Director, Headquarters Collection SB/SE, should create clear time frame criteria for CSCO EQRS Attribute 913 against which employees should be measured for adherence to this timeliness quality standard and clarify the IRM for any difference in dates used to evaluate employee versus organizational compliance with timeliness requirements.

CORRECTIVE ACTIONS:

1. We will clarify timeliness requirements regarding the CSCO received date under Attribute 913 and in Internal Revenue Manual (IRM) 21.10.1 in the CSCO Specialized Product Review Group (SPRG).
2. We will issue an IRM Procedural Update (IPU) to the IRM used by Collection managers (1.4.20) to clarify timeliness requirements regarding the CSCO received date.

IMPLEMENTATION DATES:

1. November 15, 2021
2. August 15, 2021

Compliance Services Collection Operations Should Improve the Timeliness of Responding to Taxpayer Correspondence

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RESPONSIBLE OFFICIALS:

1. Director, Quality & Technical Support, SB/SE
2. Director, Collection Policy, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 3:

The Director, Campus Collection, should analyze and address issues preventing CSCO correspondence from being batched within the current three business day requirement and encourage the timely assignment of incoming correspondence so that resolution to taxpayer issues are not further delayed.

CORRECTIVE ACTION:

We will form a team to determine the issues preventing CSCO correspondence from being batched within the current three business day requirement, including identifying options for timely assignment of incoming correspondence. We will make recommendations for executive approval.

IMPLEMENTATION DATE:

January 15, 2022

RESPONSIBLE OFFICIAL:

Director, Campus Collection, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 4:

The Director, Campus Collection, should clarify identified IRM timeframe inconsistencies for the batching of incoming TDA and TDI correspondence and provide training to CSCO employees related to these updated IRMs.

CORRECTIVE ACTIONS:

1. We will clarify IRM timeframe inconsistencies for the batching of incoming TDA and TDI correspondence via IPU or IRM updates.
2. We will provide training to CSCO employees related to these updates.

**Compliance Services Collection Operations Should Improve
the Timeliness of Responding to Taxpayer Correspondence**

3

IMPLEMENTATION DATES:

1. April 15, 2022
2. April 15, 2022

RESPONSIBLE OFFICIALS:

1. Director, Headquarters Collection, SB/SE
2. Director, Campus Collection, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

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

RECOMMENDATION 5:

The Director, Campus Collection, should conduct a study to determine options for more timely processing of CSCO undelivered mail.

CORRECTIVE ACTION:

We will complete a study regarding undelivered mail, aimed at identifying options for more timely processing of CSCO undelivered mail, and will make recommendations for executive approval based on this study.

IMPLEMENTATION DATE:

January 15, 2022

RESPONSIBLE OFFICIAL:

Director, Campus Collection, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

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

Glossary of Terms

Term	Definition
Accounts Management Services	The system used to assign batches of incoming taxpayer correspondence to the appropriate CSCO employees. The AMS can automatically determine how the employee will receive batches based on their AMS profile.
Address Research	A system that researches potential addresses on undelivered mail.
Batching	The intake and grouping of taxpayer correspondence to allow it to be worked by CSCO employees.
Compliance Services Collection Operations	An operation within the SB/SE Division that conducts IRS enforcement programs to ensure taxpayer compliance.
Computer Paragraph Notice	A computer-generated notice that may result from an analysis of a taxpayer's account or certain transactions posting to a taxpayer's account.
Correspondence Letter System	The system used by tax examiners to generate a response to a taxpayer when a request has been completed on the taxpayer's account.
Embedded Quality Review System	A system designed to assist managers in assessing employee performance, in identifying opportunities to build employee skills, in enhancing employee strengths, and in developing employee quality improvement strategies.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Full-Time Equivalent	A measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Lock-In letters	Letters sent to both the taxpayer and the taxpayer's employer directing the employer to adjust the withholding amount of Federal income tax from the taxpayer's gross pay.
Small Business/ Self-Employed Fast Scan	A screening process used by CSCO to work taxpayer correspondence cases that can be expedited as a quick closure.
Submission Processing	A function within the IRS that receives and processes individual income tax returns.
Taxpayer Bill of Rights	A bill of rights established in June 2014 that provides taxpayers with 10 fundamental rights when dealing with the IRS.
Taxpayer Correspondence	Mail sent to CSCO from taxpayers pertaining to TDAs and TDIs. One correspondence item from a taxpayer may have more than one taxpayer request.

**Compliance Services Collection Operations Should Improve
the Timeliness of Responding to Taxpayer Correspondence**

Taxpayer Delinquency Investigation	A CSCO collection program that generates notices and issues return delinquency notices to taxpayers that have been identified as liable to file but have not filed a return.
Taxpayer Delinquent Account	A CSCO collection program that generates notices to taxpayers that have an outstanding tax liability.
Taxpayer Request	Actions requested by taxpayers in either TDA or TDI correspondence sent to CSCO.
Undelivered Mail	Mail that has been sent to the taxpayer by the CSCO but returned due to being undeliverable.
United States Postal Service Yellow Label	A label that is affixed to mail returned to the sender as undeliverable.
Withholding Compliance Program	An IRS program with the objective of ensuring that taxpayers have enough income tax withheld to meet their withholding tax obligations.

Abbreviations

CP	Computer Paragraph
CSCO	Compliance Services Collection Operations
EQRS	Embedded Quality Review System
FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed
TDA	Taxpayer Delinquent Account
TDI	Taxpayer Delinquency Investigation
USPS	United States Postal Service



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Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.