

**GAO**

Report to the Committee on Finance,  
U.S. Senate

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September 2009

# TAX DEBT COLLECTION

## IRS Needs to Better Manage the Collection Notices Sent to Individuals



**GAO**

Accountability \* Integrity \* Reliability

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Highlights of [GAO-09-976](#), a report to the Committee on Finance, U.S. Senate

## TAX DEBT COLLECTION

### IRS Needs to Better Manage the Collection Notices Sent to Individuals

#### Why GAO Did This Study

According to the Internal Revenue Service (IRS), \$23 billion in unpaid individual income tax debt existed in 2001, its most recent estimate. The notice phase is the first of IRS's three-phase process to collect unpaid debt. IRS annually sends notices to millions of individual taxpayers about billions of dollars of unpaid tax debt.

Congress and others have questioned IRS's collection process's effectiveness. As requested, GAO is reporting on (1) how well IRS has established objectives, performance measures, and responsibility for reviewing notice-phase performance, and (2) how well IRS's business rules for sending notices to individuals help assure that the collection notice phase is achieving desired results at the lowest costs. To address these objectives, GAO compared the evidence obtained from IRS documents and responsible IRS collection officials to applicable guidance for internal control standards.

#### What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue establish for the notice phase: (1) objectives and performance measures, (2) responsibilities for reviewing performance, (3) documented rationales for the business rules, (4) useful information on what the business rules are, and (5) periodic evaluations of the rules. In commenting, IRS agreed with the recommendations and said that IRS would make related improvements.

[View GAO-09-976 or key components.](#)  
For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

#### What GAO Found

Although the notice phase is a key part of IRS's approach and strategy for resolving billions of dollars of individuals' unpaid tax debt, IRS lacks certain internal controls to assure that notices to individuals are achieving the most benefits—such as debt collected or unpaid debt cases otherwise resolved—with the resources being used. Management controls like clearly defined objectives, performance measures, and clear responsibility for reviewing program performance help provide reasonable assurance that the objectives of an agency are being achieved effectively and efficiently. However, IRS has no documented objectives for the notice phase and no performance measures to indicate how well the phase is performing in resolving debt cases or achieving other potential desired results. Further, IRS has not established responsibility for reviewing the performance of the complete notice phase.

IRS lacks documentation for and evaluations of its business rules for notices to individuals to assure that the collection notice phase is achieving desired results. According to IRS officials, to make the best use of collection resources, IRS uses its business rules to—based on certain dollar thresholds and individual tax debt case characteristics—vary the number and types of notices sent to taxpayers and determine whether unresolved cases will be sent for further collection action or further action will be deferred. However, as shown in the table, in almost all cases, for the five business rules that IRS identified as affecting the most taxpayers, IRS did not have information on the date the rules were established, the rationale for the rule, or data supporting the rationale. IRS collection officials also lacked documentation describing the business rules and how they operate. Further, even though IRS officials estimated that the business rules had been established for years, IRS had documentation for an evaluation of only one of the five business rules. Without relevant evaluations IRS lacks assurance that the notice phase achieves desired collection results at the least cost.

**Available IRS Documentation for Selected Notice-Phase Business Rules**

Business rule	Date established	Rationale	Data supporting rationale	Evaluation
1. Minimum dollar	No	No	No	Yes
2. Low dollar	No	No	No	No
3. Medium dollar	No	No	No	No
4. Repeater (taxpayer had previous tax debt resolved)	Yes	No	No	No
5. Repeater (taxpayer currently has other unresolved debts)	No	No	No	No

Source: GAO analysis of IRS information.

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### Abbreviations

BPRS	Business Performance Review System
CAR	Collection Activity Report
CGC	Collection Governance Council
CSCO	Compliance Services Collection Operation
FMFIA	Federal Managers' Financial Integrity Act of 1982
FSP	Functional Specifications Package
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
MITS	Modernization and Information Technology Services
OPERA	Office of Program Evaluation and Risk Analysis
PRP	Program Requirements Package
SB/SE	Small Business/Self-Employed Division
TAP	Taxpayer Advocacy Panel
TACT	Taxpayer Communication Taskforce
W&I	Wage and Investment Division

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United States Government Accountability Office  
Washington, DC 20548

September 30, 2009

The Honorable Max Baucus  
Chairman  
The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate

The Internal Revenue Service (IRS) must pursue collection of unpaid tax debt to help ensure compliance and confidence in the tax system and address the tax gap, which is the estimated difference between tax amounts that taxpayers voluntarily and timely pay and those they owe. IRS most recently estimated that \$23 billion of the gross tax gap (\$345 billion) for tax year 2001 was for nonpayment of known individual income tax assessments.<sup>1</sup>

As we previously reported to you, the first phase of IRS's complex, three-phase collection process is the notice phase in which taxpayers are mailed a series of notices informing them of their tax debts and asking for payment.<sup>2</sup> The notices provide opportunities for taxpayers to pay or otherwise resolve their debts before their cases are potentially forwarded to one of the following two phases—the phone and in-person contact phases—where IRS may take enforcement action such as to levy financial assets or seize physical property.

The notice phase provides IRS with an opportunity to maximize collections while minimizing costs in pursuing individual tax debts. Notices are computer-generated and mailed to taxpayers with little direct involvement by IRS employees, a process that minimizes costs. To the extent that taxpayers then take action to pay or otherwise resolve their debts, collections can occur with relatively little additional IRS investment. When individuals with tax debt do not respond to notices, IRS either takes no action or takes enforcement action through the other two

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<sup>1</sup> IRS estimated it would collect about \$55 billion of the \$345 billion gross tax gap, yielding an estimated \$290 billion net tax gap for tax year 2001.

<sup>2</sup> GAO, *Tax Debt Collection: IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts*, [GAO-08-728](#) (Washington, D.C.: June 13, 2008).

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phases to collect the tax debts. Such enforcement action is more labor-intensive and expensive.

Even though the notice phase is relatively low cost, opportunities may exist to improve tax collections through notices sent to individuals. In fiscal year 2008, IRS issued about 22 million notices to individual taxpayers, including about 12 million notices involving almost \$57 billion in newly identified unpaid tax debts from multiple tax years.<sup>3</sup> Putting aside debt amounts that IRS abated or offset with refunds during fiscal year 2008,<sup>4</sup> IRS sent about \$40.6 billion in tax debt to the more expensive collection phases for potential enforcement action compared to around \$5.6 billion that IRS collected.

Because of your continued concerns about unpaid tax debt and IRS's collection processes for individual taxpayers, you asked us to review IRS's procedures for sending notices of unpaid tax debt to individual taxpayers. Specifically, this report addresses:

- How well has IRS established objectives, performance measures and responsibility for reviewing notice-phase performance?
- How well do IRS's business rules for sending notices to individuals help assure that the collection-notice-phase is achieving desired results at the lowest costs?

To assess IRS's objectives, performance measures, and responsibility for reviewing notice phase performance, we reviewed information on how IRS has organized the work flow of the notice phase, including its objectives and related measures of performance as well as the assignments of responsibility for notice activities such as reviewing the results achieved. To assess IRS's business rules, we asked responsible IRS collection officials to provide basic information on the key rules that affect the most individual taxpayers in terms of which notices IRS sends to them. We assessed the information for both objectives in light of applicable

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<sup>3</sup> The \$57 billion is overstated to some unknown extent, in part, because IRS has to abate some of the debt amounts for reasons such as, for example, errors that overstated the tax amounts owed.

<sup>4</sup> Although IRS may defer collection action on certain tax debts, IRS continues to take systemic action to collect unpaid debt. For example, IRS may take no further action in fiscal year 2008 but could collect some of the tax debt in later years by offsetting tax refunds or by taking enforcement action because the debt had become large enough to justify pursuit. The amounts involved with abatements and refund offsets are presented in appendix I.

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guidance for federal internal control standards. More detailed information on our objectives, scope, and methodology are below.

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## Background

IRS identifies unpaid tax liabilities through its program activities. The most common include IRS (1) identifying a taxpayer who files a tax return without fully paying the tax claimed to be owed, (2) adjusting tax liabilities when filed returns are being processed by IRS by checking for obvious errors such as those involving adding or subtracting numbers incorrectly or using the wrong social security number for a claimed dependent, (3) finding additional tax liabilities by auditing a filed tax return or computer matching it to third party information on income paid to a taxpayer, (4) assessing a penalty for some taxpayer action or inaction, and (5) sending a tax bill to a taxpayer who did not file a required tax return after IRS estimates, based on available information, how much tax the person should have paid.

IRS's process for collecting identified unpaid debt has three phases. Debt goes through these phases until it is determined to be uncollectible, is collected, or is otherwise resolved:

- Notice: IRS sends the taxpayer a series of notices of balances due, in part, to prompt a reply and payment by the taxpayer and handles responses to those notices.
- Telephone: IRS uses telephone contacts with the taxpayer to prompt payment or takes enforcement action that may include levying financial assets or filing a lien against property.
- In-person: IRS staff contact the taxpayer to prompt payment or to take enforcement action, including levies, liens, and seizures of property.

According to IRS officials, the phases and routing of tax debt-collection cases result from IRS's designing the collection process to effectively and efficiently use resources to resolve taxpayer debt at the earliest possible time and using the least costly resources. Although data is not readily available to determine the relative costs and benefits of the notice phase versus the other phases, given the relatively high automation of the notice process and relatively low costs of postage compared to the more staff-intensive nature of enforcement actions in later collection phases, the notice phase is likely the most cost effective way for IRS to resolve unpaid debt cases.

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During the notice phase for individual taxpayers IRS's general practice is to send up to four notices at 5-week intervals to collect the balances due.<sup>5</sup> Generally, 6 weeks after the fourth notice, IRS either determines that any additional collection actions should be deferred or sends cases to be worked potentially in the telephone or in-person contact phases. IRS has made an administrative decision to separately send two notifications in the notice phase that are required by law—notifications (1) of the debt due and request for payment<sup>6</sup> and (2) with regard to a levy of a state tax refund<sup>7</sup>—in the first and fourth notices, respectively.<sup>8</sup> According to IRS officials, IRS sends the discretionary second and third notices because they are successful in resolving some cases at relatively low cost.

However, IRS has developed variations on the practice of sending four notices before deciding whether to send any uncollected tax debt to the next collection phase. Depending on specific debt-related characteristics, IRS may take such actions as: (1) skip the discretionary reminder notices to “accelerate” a debt to the next collection phase or (2) defer further collection action on debts not resolved with notices.<sup>9</sup> Based on these characteristics, IRS has established “business rules” that are embedded in IRS's computer system. These rules are to determine the number and types of notices as well as whether IRS defers collection action or sends the debt to other phases for further collection action. IRS officials said business rules were created in an attempt to make the most effective use of collection resources.

As shown in figure 1, IRS annually has sent millions of notices (across the four types) to collect billions of dollars in unpaid debt from individual

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<sup>5</sup> Business taxpayers receive up to two notices. Business taxpayers are outside the scope of this review.

<sup>6</sup> 26 U.S.C. § 6303(a).

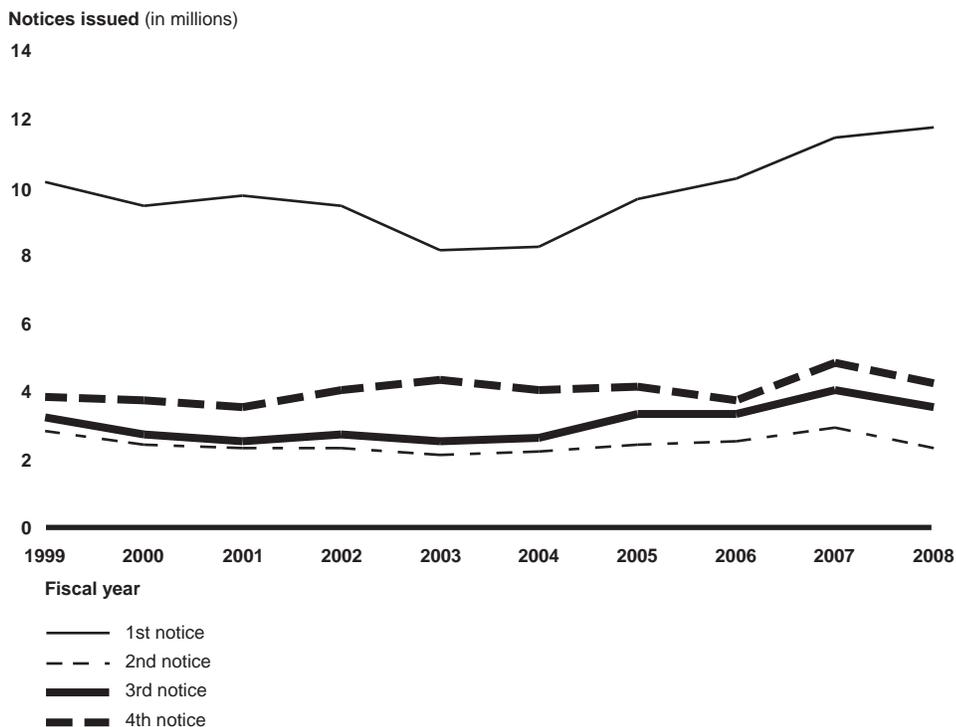
<sup>7</sup> 26 U.S.C. § 6330(f); 26 C.F.R. § 301.6330-1(a)(2)(i).

<sup>8</sup> IRS generally sends other required collection notifications in later phases of the collection process. For example, IRS separately sends a notice of intent to do other levies—such as to seize funds in a bank account—in the telephone contact phase, after which, in most cases, IRS is required by statute to wait 30 days before levying the account 26 U.S.C. § 6330(a). Such later notifications are outside the scope of this report.

<sup>9</sup> Although IRS may defer collection action on certain tax debts, IRS continues to take systemic action to collect unpaid debt, such as by offsetting the debt amounts with tax refunds claimed when the taxpayer files future tax returns. IRS also offsets debt with tax refunds during the notice phase.

taxpayers. The total number of the notices generally increased from fiscal years 2004 through 2008, reaching around 22 million in 2008, largely because of the number of “first” notices sent.

**Figure 1: Number of Collection Notices Issued to Individuals by Notice Type, Fiscal Years 1999 to 2008**

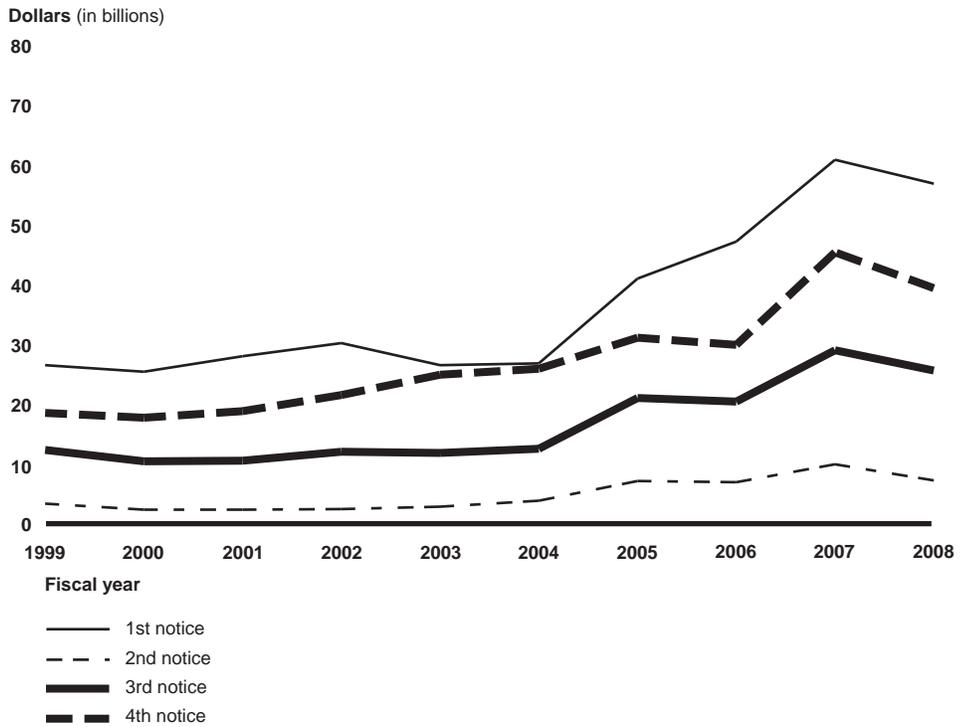


Source: IRS data.

Figure 2 shows that the total dollar values of these sent notices increased overall in comparing fiscal years 2004 and 2008, with a decline in 2008, when it reached around \$129 billion.<sup>10</sup>

<sup>10</sup> When added together for each year, the total dollar values of each notice type overstate the amount of unpaid tax to some unknown extent, in part, because the totals are based on the value of each notice sent. Therefore, to the extent that multiple notices were sent on a single debt within a fiscal year, the dollars are overstated. Also, IRS has to abate some of the debt amounts for reasons such as, for example, errors that overstated the tax amounts owed.

**Figure 2: Dollar Values Associated with Notices Issued to Individuals by Notice Type, Fiscal Years 1999 to 2008**



Source: IRS data.

Every year, IRS’s notice phase also disposes of debt for millions of notices that had been sent. IRS dispositions arise in various ways, such as by resolving the debt (including collecting payment from the taxpayer, abating all or some of the debt, or offsetting the taxpayer’s refund with the debt owed), deferring further collection action, or sending the case to the next collection phase for potential enforcement action. (See app. I on the trends in volumes and dollar values of dispositions from the notice phase for fiscal years 1999 to 2008.)

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and in preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective

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stewardship of public resources. Internal control should provide reasonable assurance that the objectives of the agency are being achieved through, among other things, effective and efficient use of the agency's resources.

Federal Law requires that we issue standards for internal control in government.<sup>11</sup> The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. In 2001, we issued *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001) based upon *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), to assist agencies in maintaining or implementing effective internal control. This tool is not an authoritative part of the standards for internal control, nor is it required to be used. Instead, it is intended as a supplemental guide that federal managers and others may use in assessing the effectiveness of internal control and identifying important aspects of control in need of improvement. When used with GAO's standards for internal control and the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, the tool is to provide a systematic, organized, and structured approach to assessing an agency's internal control structure.

During the course of our review, in November 2008, IRS separately initiated a review of notices sent to taxpayers, including notices sent to taxpayers during the collection notice phase. The review was led by an IRS team called the Taxpayer Communication Taskforce (TACT.) TACT's objectives included simplifying and clarifying notice language; instituting effective measures; streamlining and improving business processes; and eliminating unnecessary or duplicative notices, letters, reminders and inserts. According to its director, TACT is to brief the Commissioner on a proposed "road map" for addressing issues identified by the team. IRS did not establish a date for the briefing before we concluded our work.

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<sup>11</sup> 31 U.S.C. § 3512(c), commonly referred to as the Federal Managers' Financial Integrity Act of 1982.

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## Objectives, Scope, and Methodology

Our objectives were to determine:

- How well has IRS established objectives, performance measures, and responsibility for reviewing notice-phase performance?
- How well do IRS's business rules for sending notices to individuals help assure that the collection notice phase is achieving desired results at the lowest costs?

To assess IRS's objectives, performance measures, and responsibility for reviewing notice-phase performance, we reviewed information on how IRS has organized the work flow of the notice phase, including its objectives and related measures of performance as well as assignments of responsibility for notice activities such as reviewing the results. We reviewed collection program documents including the Internal Revenue Manual (IRM), IRS's collectionwide performance measures, and any related performance measures in the Wage and Investment Division's (W&I) and Small Business/Self-Employed Division's (SB/SE)<sup>12</sup> periodic business performance review documents. We were to analyze whether these measures provided information adequate to assess whether the notice phase achieved the desired results laid out in any stated objectives. We also interviewed responsible IRS collection officials<sup>13</sup> on any stated objectives for the notice phase and whether and how the officials use available data to assess the performance of the notice phase and develop performance measures. We reviewed available organization charts and the IRM sections on the managerial and reviewing responsibilities for the collection operations. We also obtained and reviewed the charter of the Collection Governance Council, which includes representatives of collection operations in W&I and SB/SE. We reviewed these documents to identify IRS officials responsible for managing aspects of the notice process and reviewing notice-phase performance and interviewed these officials.

To determine how well IRS's business rules help assure that the collection notice phase achieves desired results at the lowest costs, we asked IRS

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<sup>12</sup> These are the IRS divisions that serve individual taxpayers and have collection functions. Among other things, SB/SE serves individual taxpayers who operate a business as self-employed sole proprietors. W&I serves taxpayers whose primary income sources are wages and investments.

<sup>13</sup> As used in this report, IRS the phrase "collection officials" includes the W&I and SB/SE executives and managers responsible for managing aspects of the collection process, including the collection units that administer parts of the notice phase.

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collection officials who were the most knowledgeable about the business rules to identify the key business rules that affect most individual taxpayers in the notice phase. The five rules IRS identified were based on (see app. II for further descriptions of the five rules):<sup>14</sup>

- certain dollar thresholds (minimum-, low- and medium-dollar amounts) or
- “repeater” characteristics (taxpayers who recently had tax debt resolved or currently have other tax debt in collection status).

For each of the five business rules, we interviewed these knowledgeable officials on how the rule operates—i.e., how the rule determines the number and types of notices sent—and asked IRS for documentation on how the rules operated. We asked for information and documentation on when the rule was established, the rationale or purpose for the rule to include supporting data that IRS considered in establishing the rule, and any evaluations of the rule since its establishment.

To answer both objectives, we used applicable internal control standards in our *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999), *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001), and the Office of Management and Budget Circular A-123, *Management’s Responsibility for Internal Control*. To assess IRS’s objectives, measures, and performance review, we selected the applicable internal control standards based upon our report on IRS’s collection process in which we addressed the complexity, organization, and performance measures of the collection process.<sup>15</sup>

The IRS information we relied on for our audit work was descriptive. The quantitative data in this report are from an IRS Collection Activity Report (CAR) and are for the purpose of providing background and context on the notice process. We interviewed IRS officials with knowledge about CAR data about the steps taken to ensure data accuracy. We determined that the data we use in this report were sufficiently reliable for our purposes. We conducted this performance audit from July 2008 through September 2009 in accordance with generally accepted government

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<sup>14</sup> With the exception the minimum dollar rule, this report does not provide specifics on the dollar thresholds and case characteristics of the business rules because IRS considers that information to be sensitive because of its potential to be used intentionally to avoid IRS collection actions.

<sup>15</sup> GAO-08-728.

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auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## IRS Lacks Reasonable Assurance That Collection Notices to Individuals Achieve Desired Results

To assure that programs operate efficiently and effectively, agencies must assess the risks that the program will not achieve desired results at the least possible cost. A precondition to risk assessment is the establishment of clear, consistent goals and objectives at both the entity level and at the activity (program or mission) level. Without objectives, an agency cannot identify the risks that could impede the efficient and effective achievement of program or activity purposes. As shown below, guidance for the federal internal control standards states that objectives should be established for all key operational activities.

- **Objectives have been established for all key operational activities and support activities.**
- **Activity-level (program or mission-level) objectives flow from and are linked with the agency's entitywide objectives and strategic plans. The activity-level objectives are relevant to all significant agency processes.**
- **All levels of management are involved in establishing the activity-level objectives and are committed to their achievement.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

Although the notice phase affects millions of taxpayers and is a key part of IRS's strategy for resolving billions of dollars of unpaid debt, IRS has not established written objectives for the notice phase. Guidance for the internal control standards is clear that such objectives should be written and be the product of a process in which all levels of management have been involved and have committed to the objectives. By not meeting these standards, IRS cannot be assured that relevant staff and management commonly understand and pursue the same outcomes that are linked to IRS-wide objectives and strategic plans.

IRS officials said that written objectives are unnecessary because IRS officials have widespread agreement on the objectives. However, our discussions with IRS W&I and SB/SE executives and managers responsible for all parts of the collection process show that they have different views about the notice phase in terms of what it is intended to do. For example,

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one official said that the purposes of the notice phase are to prompt a response from the taxpayer and get the taxpayer actively engaged in resolving the unpaid debt. Among other possible objectives, officials said that the notice phase is to resolve unpaid debt cases at the lowest possible cost or achieve the most economical resolution of the greatest number of debts. Furthermore, IRS officials referred to abating certain debts, achieving full payments for debts, or collecting as much unpaid debt as possible as other desired outcomes.

These desirable outcomes strive for different things such as getting the taxpayer involved, resolving as many debts as possible, minimizing costs, and collecting the unpaid amounts. For example, one could focus on minimizing costs or resolving more debt cases—such as through abatements or deferring any collection action—but not collect any debt in doing so. Without documenting how these different outcomes interact, IRS does not have assurance that its staff clearly understand what the notice phase should be producing or that they may maximize one type of performance while adversely affecting other desired levels of performance.

Without written objectives, IRS cannot move forward to the next step of establishing program performance measures that are tied to the desired results envisioned in the objectives. Without performance measures related to established objectives agencies cannot be assured that a program is achieving desired results and, if possible, improving results. As shown below, guidance for the federal internal control standards states that performance measures should be established for government programs and, among other things, be linked to objectives.

- **Activity-level objectives include measurement criteria.**
- **Performance measures and indicators have been established throughout the organization at the entitywide, activity, and individual levels.**
- **Performance measurement assessment factors are to be evaluated to ensure they are linked to mission, goals, and objectives and are balanced and set appropriate incentives for achieving goals while complying with law, regulations, and ethical standards.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

As with objectives, IRS has not established performance measures for the notice phase. IRS established the Collection Governance Council (CGC) in part to establish consistent performance measures that could be compared

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across the divisions and operating units that administer parts of the collection process and be rolled up to reflect IRS-wide collection performance. However, the three IRS-wide collection process measures<sup>16</sup> do not provide information necessary to assess the notice phase in part because two of the measures reflect telephone and in-person contact phase work in addition to notice phase work<sup>17</sup> and the other measure is specific to the telephone contact phase.<sup>18</sup>

Nor do the W&I and SB/SE unit-level performance measures that IRS uses to hold managers accountable for performance in these units provide information necessary to assess the notice phase in part because they reflect work done in addition to notice phase work. For example, the measures for the Compliance Services Collection Operations (CSCO) units reflect performance not only on handling taxpayer written responses to the four collection notices but also post-notice phase work, such as taxpayer correspondence on defaulted installment agreements.<sup>19</sup>

Without performance measures, IRS cannot tell how well the notice phase works and helps achieve any objectives that are established. In discussing this effect with IRS officials, they cited a percentage—total number of cases disposed by the entire notice phase divided by the total number of first notices issued in a given year—as evidence that the notice phase is working well. However, IRS has not established this percentage as a performance measure or defined how it is to be consistently calculated. For example, the official who calculated the percentage explained that more than one formula could be used to calculate the percentage, such as including or excluding deferred cases from the number of cases disposed. Furthermore, establishing this measure as the only measure of notice-

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<sup>16</sup> They are referred to as “IRS-wide” because they reflect performance of units across W&I and SB/SE.

<sup>17</sup> These measures, “collection coverage” and “collection efficiency,” are the (1) percentage of workload that was available and disposed and (2) the number of cases disposed compared to the number of staff working cases, respectively.

<sup>18</sup> The measure, “automated collection system customer accuracy,” is the percentage of time taxpayers received the correct answers to their inquiries, had their cases resolved correctly, or both.

<sup>19</sup> The primary tasks of the CSCO function involve securing delinquent returns that individuals are required to file and securing payment for taxes, penalties, and any interest owed. Among other things, the CSCO function processes taxpayer installment agreement requests, handles correspondence from taxpayers in regard to balance due notices, and monitors offer-in-compromise agreements and installment agreements.

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phase performance would not meet IRS's policy of having a set of balanced measures that are linked to IRS goals, such as goals for customer satisfaction, employee satisfaction, and business results.

In addition to performance information, IRS would also benefit from using cost information to make data-based decisions about notice phase effectiveness. Officials in IRS's Office of Chief Financial Officer have demonstrated the ability to determine full cost information on selected IRS programs through a series of cost studies, but the notice phase was not included in them. Even so, IRS has collected some information on the cost to produce or mail collection notices to taxpayers. For just fiscal year 2006 and just the fourth notice (which is sent by certified mail), IRS tracked and maintained postage cost data that showed IRS spent \$22 million on sending that notice type.<sup>20</sup> According to IRS's comments on a draft of this report (see appendix III), IRS has an effort underway that is intended to address the lack of some types of cost information. IRS said that it awarded a contract in August 2009, to help develop the Correspondence Management Information System (CMIS) to provide, among other things, data on the costs of notice printing and postage which will assist in determining the full cost of notices. The full costs also include such things as labor cost of processing payments or handling taxpayers' correspondence or telephone calls in response to notices.

Related to the establishment of objectives and measurement of performance against those objectives, the internal controls also envision top management reviews. To ensure that agencies are achieving desired program results, it is important to have a chain of performance reporting leading to top-level management reviews and accountability for program performance. As shown below, guidance for the federal internal control standards indicates that performance reporting up through higher levels of agency management should create a chain of accountability where performance is compared to targets.

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<sup>20</sup> As we were concluding our audit work, in July 2009 IRS's Office of Program Evaluation and Risk Analysis (OPERA) issued a report at the request of TACT that included estimates of the costs of selected notices, including the costs of at least some first notices for fiscal years 2005-2008 and costs of other types of collection notices for only fiscal year 2008.

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- **Top-Level Reviews—Management tracks major agency achievements in relation to its plans.**
    - **Top-level management regularly reviews actual performance against budgets, forecasts, and prior period results.**
  - **Management Reviews at the Functional or Activity Level—Agency managers review actual performance against targets.**
    - **Managers at all activity levels review performance reports, analyze trends, and measure results against targets.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

Without objectives and performance measures for the notice phase, IRS top management cannot review notice-phase performance. IRS's primary system for periodically measuring and reviewing performance—the Business Performance Review System (BPRS)—focuses on business units rather than notice phase performance.<sup>21</sup> According to IRS collection officials, the performance reporting creates a chain of accountability up through IRS for unit performance.

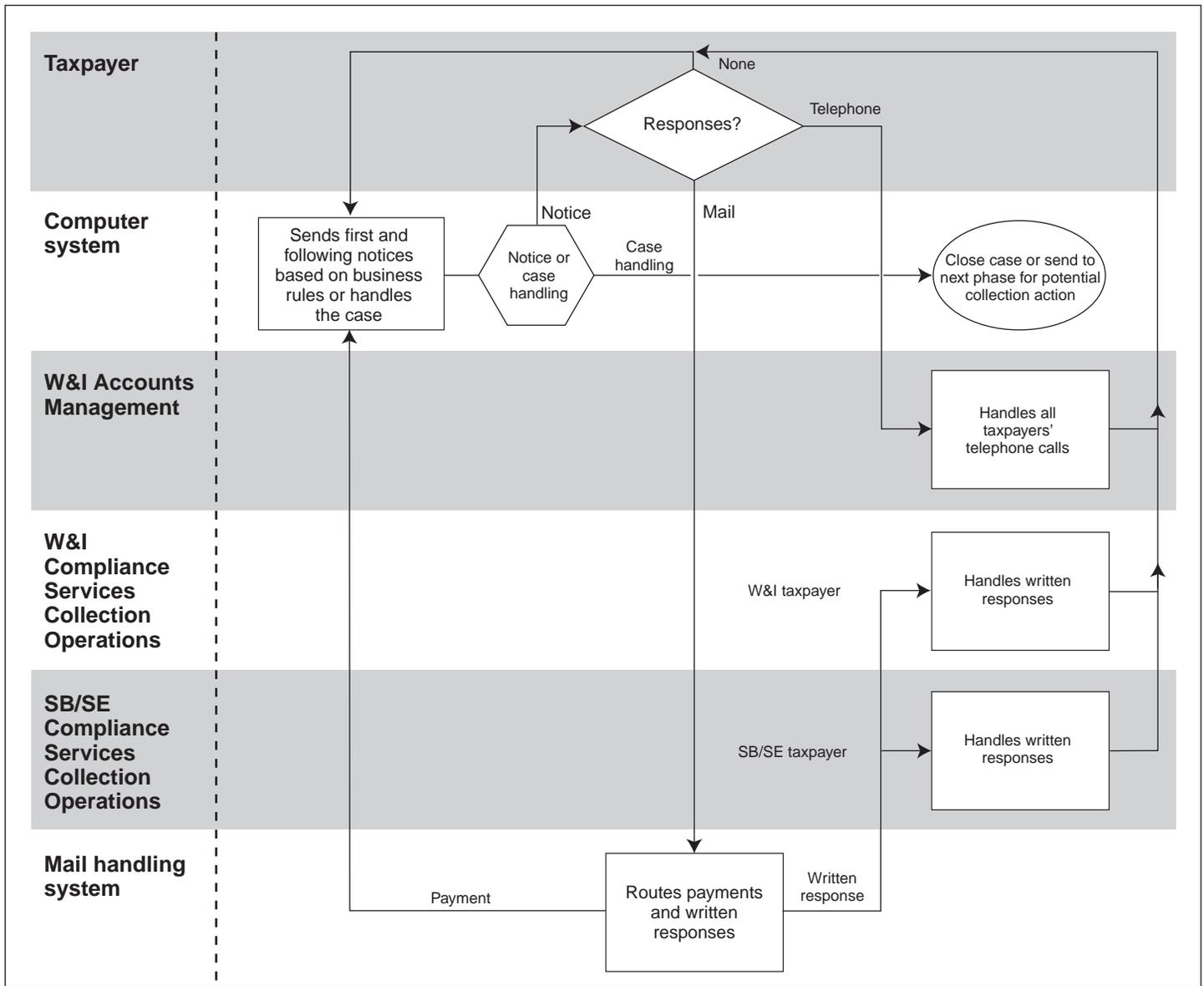
According to IRS collection officials, other data exist that IRS could use to review notice phase performance—data that include notice-phase results like full payments that do not involve W&I and SB/SE subunits—and are contained in the Collection Activity Report. Selected report data—such as the number of first notices and the number of notice cases disposed—are trended and reported to the CGC. However, the CGC is not required to report these data to higher levels of IRS management for its review as part of a mechanism for being accountable for notice performance.

IRS faces a challenge in developing objectives, performance measures, and related top management reviews for the notice phase, in part, because the phase spans across IRS units or functions. As shown in figure 3, collection-notice-phase key activities are divided among five IRS units or functions. Factors that determine whether a given unit will be involved in handling a notice case include, among other things, whether the taxpayer is a W&I taxpayer or an SB/SE taxpayer and whether the taxpayer chooses to reply at all, pay the debt in full, or respond to a notice by telephone or by mail.

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<sup>21</sup> Among other things, IRS uses BPRS meetings to assess all business units' progress toward achieving IRS's mission and strategic goals. The system includes periodic reviews of strategic and operations issues and business unit performance to assess IRS's progress.

**Figure 3: IRS Units and Functions Involved in Administering Notice Phase Processes**



Source: GAO analysis of IRS information.

IRS collection officials have recognized that improvements are needed that span some of the differing responsible units. Officials have, for example, proposed an information system enhancement that would allow

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IRS to analyze unpaid debt cases earlier in the notice phase, reduce the amount of time cases spend in the notice phase, and identify cases that are less likely to resolve without additional enforcement action and move them to the other collection phases earlier in the collection process.<sup>22</sup> Further, among other reasons, IRS established the Collection Governance Council to help coordinate selected activities, including work done by the CSCO units that are responsible for parts of the notice process. Nevertheless, the Council's stated responsibilities do not focus on management and accountability for the entire notice process and have not led to the establishment of the other internal controls, like documented objectives and performance measures that would better ensure the entire process functions well.

According to TACT's director, the TACT review also found that performance measures and clear management responsibility—such as for reviewing the effectiveness of notices—were lacking for notices in general. The TACT director said that the CMIS database under development is to take better advantage of existing data to measure the effectiveness of notices, but documentation on specifics like milestones for the project was not yet available. TACT was also considering a proposal to address aspects of management responsibility. According to the TACT director, the proposal was not considered finalized because the IRS Commissioner had not yet been briefed on it.<sup>23</sup> Therefore, documentation was not provided to us in time to take it into account in this report.

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<sup>22</sup> This enhancement, Enhanced Inventory Delivery System, has been proposed internally in IRS but as of the issuance of our report its funding and implementation was uncertain because such decisions have not yet been made. According to an IRS official, the enhancement is proposed for fiscal year 2011 and decisions for funding these projects will not be made until late 2010.

<sup>23</sup> The TACT director said the Commissioner would likely be briefed by mid-September 2009.

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## IRS Lacks Documentation on the Notice Phase Business Rules and Whether They Worked as Intended

Written documentation of processes is useful to managers in guiding an agency's operations and to those overseeing and analyzing operations. As shown below, guidance for the federal internal control standards states that there should be complete and accurate documentation of transactions and significant events.<sup>24</sup>

- **Written documentation exists covering the agency's internal control structure and for all significant transactions and events.**
- **The documentation is readily available for examination.**
- **Documentation, whether in paper or electronic form, is useful to managers in controlling their operations and to any others involved in evaluating or analyzing operations.**
- **Documentation of transactions and other significant events is complete and accurate and facilitates tracing the transaction or event and related information from authorization and initiation, through its processing, to after it is completed.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

As noted earlier, IRS officials said that generally business rules were established to make the best use of IRS resources. The five business rules IRS identified as affecting most taxpayers use certain dollar thresholds (minimum-, low- and medium-dollar amounts) or "repeater" characteristics (taxpayers who either recently had resolved a previous tax debt or currently have other debt in collection status) to determine whether certain notices are sent or whether IRS will defer further collection in a given case.

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## IRS Did Not Have Documentation on When and Why the Business Rules Were Established

Given the stated purposes of the business rules, the millions of taxpayers impacted by them, and the billions of dollars in unpaid debt involved, the establishment of a business rule is a significant event that should be documented with enough detail to allow IRS managers and others to trace the basis for its establishment. Such details could include the date the rule was established, the rationale for the rule, and any data supporting the

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<sup>24</sup> In regard to financial transactions, although we have reported that IRS's financial statements have been fairly presented in all material respects since fiscal year 2000, we have also reported a material weakness in IRS's internal control over financial reporting. Specifically, we reported that IRS cannot generate and report the information needed to prepare financial statements directly from its financial systems because it does not have an adequate general ledger system for tax-related transactions.

rule. However, table 1 shows that IRS lacked such basic documentation for four of the five business rules and that for the one rule with documentation, IRS only had the information on the date it was established.

**Table 1: Available IRS Documentation for Selected Business Rules**

<b>Business rule<sup>a</sup></b>	<b>Date established</b>	<b>Rationale</b>	<b>Data supporting rationale</b>
1. Minimum dollar	No	No	No
2. Low dollar	No	No	No
3. Medium dollar	No	No	No
4. Repeater (taxpayer had previous tax debt resolved)	Yes	No	No
5. Repeater (taxpayer currently has other unresolved debts)	No	No	No

Source: GAO analysis of IRS information.

<sup>a</sup>See appendix II for descriptions of the rules. The descriptions do not provide specifics on the dollar thresholds or case characteristics on four of the five rules because IRS considers that information to be sensitive because of its potential to be used intentionally to avoid IRS collection actions.

IRS provided documentation that the repeater rule (for taxpayers that had previous tax debt resolved) was established in August 2002. Without documentation of when the other four rules were established, IRS lacked information for tracking and evaluating events over time that could affect how the rules operate. IRS officials' recollections of when the four rules were established were imprecise and in one case depended on the official's experiences in IRS. For example, an IRS official said the minimum dollar rule was established as early as 1978 because the rule was in effect when the official began working at IRS. Officials speculated that the low dollar rule was established around 1995. Officials said the medium dollar rule was established sometime in 1994 because an official had retained a dated training manual on a related program that officials recalled being established at the same time as the rule.

IRS could not provide documentation on the rationales (such as the factors considered or reasons for adopting the rule) for any of the rules we reviewed. As with the dates that rules were established, we had to rely on the recollections of IRS officials to determine why IRS had adopted the rule and its purpose. Such sources were of limited use because of their reliance on staffs' memories and because officials disagreed on some of the rules, thus making it unclear what IRS's reasoning was for the rule. For

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example, officials said that the reason IRS established the medium dollar rule to defer sending certain cases to ACS was that using automatic offsets of future tax refunds to collect these debts was less costly than using ACS. However, another official said that the rule was established not so much because of the relative costs of ACS but instead to stem the flow of paper because, at the time IRS began deferring sending cases, IRS's process for levying assets relied on paperwork, which overwhelmed the staffs. The lack of documentation for the rationale of the rule—the basic reasoning on why the rule exists—made it impossible to determine if the rule achieves its intended purpose.

IRS also lacked data supporting the rationales for the rules. For example, for the minimum-, low-, and medium-dollar rules that include dollar thresholds for determining notices sent and whether further collection action would be deferred, IRS officials were unable to provide analyses on why a given dollar amount was chosen as opposed to a higher or lower amount. As a further example, for the repeater rule for previously resolved debts, IRS had no data to show why it selected the time period considered in determining whether a taxpayer was a “repeater.”

IRS officials told us that documentation was lacking in most cases because the rules were established so long ago. Further, the officials said the current rules are not so much designed as a cohesive set of rules but instead are the result of numerous decisions made over the course of several years. Regardless, without documentation on when the rules were established, the rationale for the rules, and data supporting those rationales, IRS managers lack basic information to help assure that the business rules are working as originally intended. Without such documents, IRS has limited ability to determine whether the circumstances under which a rule was established have changed in such a way that the rationale for the rule is no longer valid and therefore it should be revised or abandoned.

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## Collection Managers Lack Documentation to Know What the Rules Are and How the Rules Operate

To exercise control over government operations, managers need to know how the programs they are responsible for operate. As shown below, guidance for the federal internal control standards states that managers should have pertinent information available in forms that are useful for them to exercise their responsibilities to ensure efficiency and effectiveness of operations.

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- **Pertinent information is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to carry out their duties and responsibilities efficiently and effectively.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

We found that collection officials lacked information to know what the notice-phase business rules are and how the rules operate. In some cases, the officials either did not know or misunderstood these key business rules. For example, in a meeting with us, IRS executives and managers cited three different amounts for the dollar threshold of the low dollar rule, which determines which notices are sent and whether further collection action will be deferred or the debt will potentially be offset by levying a state refund. For the medium dollar rule, IRS managers who we were told were most familiar with the rules originally said that a taxpayer under this rule would receive four notices. The managers said that sending four notices was to give the taxpayer the maximum opportunities to respond given that IRS would not be taking further collection action if payment or another response was not received. After further review, officials later told us that taxpayers receive only three notices in these cases.

IRS collection officials were able to provide specifics on the operations of some of the rules and corrected some of their misunderstandings of the rules by using a document called the Functional Specifications Package (FSP) and consulting with Modernization and Information Technology Services (MITS) staff.<sup>25</sup> The FSP contains some of the computer commands that control the sending of notices. Officials said the FSP and related system documents are the only documentation for the existence and operation of the rules. According to IRS collection officials, the language of the FSP is difficult to understand. Consequently, the managers had to consult with MITS staff to explain the rules. One of the roles of MITS is to translate operational requirements devised by the collection function into computer programming language.

Furthermore, not all collection notice rules are in the FSP. Some rules are in at least one other information system—the program requirements

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<sup>25</sup> MITS is an information systems support function separate from the operating units that deal with collections.

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package (PRP) of the master file, the information system that sends the first collection notice to taxpayers. With more than one system, IRS has limited assurance that the business rules are identical because changes in one system may not also be made in all the systems. For example, the FSP sends a notice for debts of \$5 and above, but the PRP has a slightly higher dollar threshold for taking further action. IRS officials were unaware of this inconsistency, and, after our further discussion with them, they agreed that the FSP rules should be amended to be consistent with the PRP.

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### IRS Does Not Have a Process to Evaluate Whether Its Business Rules Work as Intended

A critical part of management control is monitoring to ensure that programs are working as intended. Agency policies and procedures should generally be designed to assure that ongoing monitoring occurs in the course of normal operations and that periodic evaluations are part of management's continuous monitoring of internal control. As shown below, guidance for the federal internal control standards shows that monitoring is important as a means to provide a reasonable assurance that the objectives of the agency continue to be achieved and to determine and improve the quality of the agency's performance over time. If deficiencies are discovered, the agency can become quickly aware and take prompt action to remedy them.

- **Management's strategy provides for routine feedback and monitoring of performance and control.**
- **Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified, and it is desirable that critical systems are periodically tested.**
- **Control activities are regularly evaluated to ensure that they are still appropriate and working as intended.**
- **The strategy includes a plan for periodic evaluation of control activities for critical operational and mission support systems.**
- **Appropriate portions of the internal controls are evaluated regularly.**
- **The agency takes appropriate follow-up actions with regard to findings and recommendations of audits and other reviews.**
- **Management and auditors follow up on audit and review findings, recommendations, and the actions decided upon to ensure that those actions are taken.**

Source: Excerpts from *Internal Control Management and Evaluation Tool* (GAO-01-1008G, August 2001).

Even though IRS officials estimated that the business rules had been established for years, IRS had documentation for an evaluation of only one of the five business rules we reviewed (the minimum dollar rule). For the

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remaining four rules we reviewed, IRS officials said that they had not evaluated three rules and had evaluated one rule (the medium dollar rule) but had no documentation of the evaluation. Without a process to evaluate the business rules, IRS officials can not be assured that the rules work as intended.

IRS collection managers were unaware of evaluation of the minimum dollar rule and had no documentation on the follow-up action that was promised. IRS collection officials had originally told us that no evaluation had been done for the minimum dollar rule. During our work, we separately learned that IRS had done an evaluation in response to a 2004 Taxpayer Advocacy Panel<sup>26</sup> (TAP) recommendation that the \$5 threshold be raised to \$25. The evaluation report showed that IRS had done analyses to consider such factors as the costs of sending and handling responses to notices and potential lost revenue. Although the report concluded that raising the threshold to the recommended level would not be cost-effective, it said that IRS would do further evaluation to determine if the threshold should be increased to some amount between \$5 and \$25. However, IRS officials could not provide any documentation that a follow-up evaluation had been done<sup>27</sup> nor did IRS have plans to conduct such an evaluation. Also, IRS officials could provide none of the data supporting the report conclusions, such as information on the costs of sending and handling responses to notices.

For the medium dollar rule evaluation that IRS officials said was done, the age of the evaluation and lack of documentation limited its usefulness. The officials said that IRS had evaluated the medium dollar threshold in the 1980's and concluded that it was appropriate.<sup>28</sup> As we noted earlier, the intended purposes of all the rules we reviewed were undocumented. To the extent that IRS's costs and collections may have been considered in establishing the medium dollar rule, with changes over time—including

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<sup>26</sup> The Taxpayer Advocacy Panel is an advisory group of volunteers established under the authority of the Department of the Treasury to identify taxpayers' issues and make suggestions to help IRS improve customer service and satisfaction.

<sup>27</sup> As we were concluding our audit work, at the request of TACT rather than as follow-up to the TAP recommendation, in July 2009 IRS's OPERA issued a report analyzing the costs and collections of raising in increments the dollar thresholds for sending selected account balances notices, including at least one of the collection notice-phase notices.

<sup>28</sup> According to IRS officials, although the current dollar threshold was established in 1994, the threshold was the current amount in the 1980's with at least one intervening change. IRS officials could not recall specifics on the change.

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possible changes in taxpayer behavior and IRS's processes along with the certain change in the value of dollars due to inflation—it is unclear how the results of an evaluation done over twenty years ago would serve as adequate assurance that a current business rule is appropriate. Over time, various changes could affect the continued validity of any rationale. For example, according to IRS officials, the current medium dollar threshold was set in 1994 as part of a program for accelerating debts above a certain amount to ACS to make outbound telephone calls to attempt collection. According to IRS officials, the acceleration program was dropped after one year because future funding was eliminated. Even so, the medium dollar threshold has remained unchanged in the computer programming.

IRS officials said that IRS has no requirement to periodically evaluate the business rules. Because the business rules are not being regularly evaluated, IRS risks that the rules will result in unnecessary costs or missed collections. For example, IRS could defer sending a case for collection action based on outdated assumptions about the costs of such action. To the extent that evaluations are done, the lack of a system to make managers aware of them or to maintain the evaluations and supporting data limits their usefulness in making program decisions to ensure that desired collection results are achieved at the least costs.

According to its director, TACT also found that evaluations of business rules were lacking and was considering recommending certain actions to improve such evaluations. As with the project to build a database for measuring notice effectiveness and the proposal on management responsibility discussed above, documentation on TACT's evaluation recommendation was not available for us to take into account in this report.

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## Conclusions

Given the notice phase's primary position in IRS's collection process, its potential to collect or otherwise resolve debts at relatively low cost and the significant revenue that it can generate, notice-phase performance could be a key indicator of the efficiency of IRS's collection enforcement efforts overall. The notice phase may be operating well, but given the lack of objectives and performance measures for the process, its efficiency and effectiveness are not reasonably assured, and opportunities for improving performance may be missed. With the high volume of cases the process handles and the revenue it generates, modest percentage change improvement could result in significant cost savings or improvements in dollars collected or cases otherwise resolved.

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## Recommendations

To better ensure the notice phase is achieving desired results at the lowest costs, we recommend that the Commissioner of Internal Revenue:

- establish objectives and performance measures to reflect the desired results for the notice phase;
- establish responsibilities for reviewing the performance of the notice phase to help ensure accountability throughout IRS;
- document the rationales for the key notice-phase business rules in terms of efficiency, effectiveness, or other desired results;
- provide IRS collection managers and executives accessible, reliable information on what the business rules are; and
- periodically and regularly evaluate the business rules in terms of efficiency and effectiveness or other results and ensure the results are available to managers so the data and methodologies can be used or considered in future evaluations.

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## Agency Comments and Our Evaluation

The IRS Deputy Commissioner for Services and Enforcement provided written comments on a draft of this report in a September 16, 2009, letter, which is reprinted in appendix III. IRS staff also provided technical comments. We incorporated these written and other technical comments into the report as appropriate.

IRS agreed with all five of our recommendations and to make related improvements. Specifically, IRS agreed to establish and document key objectives, measures, and responsibilities. IRS also agreed to periodically reevaluate its notice business rules and provide appropriate, reliable information to its managers.

IRS also stated that it closes approximately 80 percent of its notice accounts without need for further contact with the taxpayer, and that it collected \$23.6 billion through the notice process in fiscal year 2007. IRS did not clarify whether this percentage and this dollar amount involved all types of collection notices, closures, and taxpayers. In our report, we noted in figure 5 that IRS collected about \$6 billion during fiscal year 2008. This total includes collections directly from notices sent to individual taxpayers only and comes from data that IRS provided to us.

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As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. This

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report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Michael Brostek". The signature is written in a cursive, flowing style.

Michael Brostek  
Director, Tax Issues  
Strategic Issues

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# Appendix I: Data on Dispositions from the Notice Phase for Individual Taxpayers, Fiscal Years 1999 to 2008

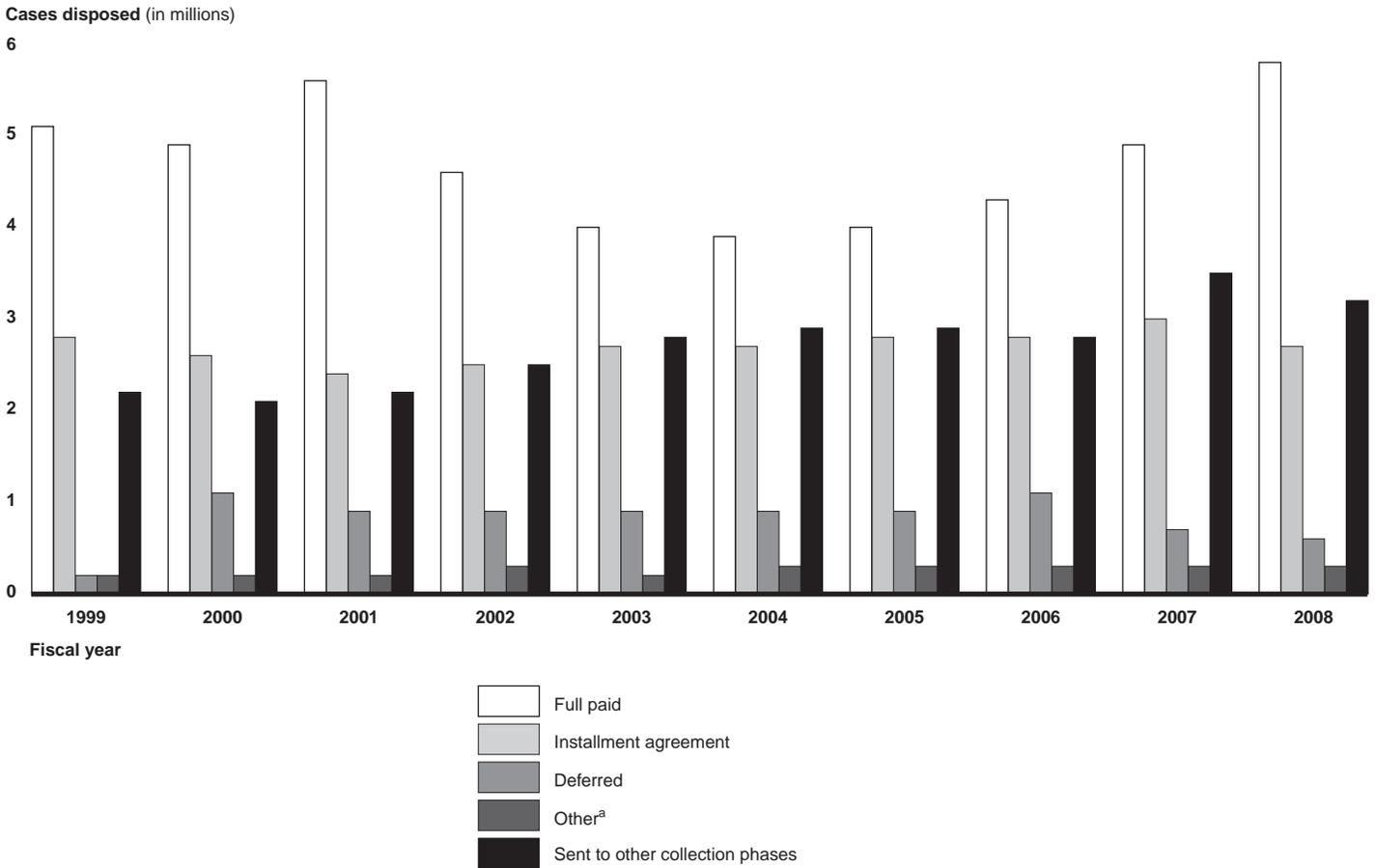
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Every year, IRS disposes of millions of tax debt collection cases through its notice phase in various ways. For example, IRS closes cases when taxpayers pay the debt in full or enter an installment agreement. In other cases, IRS defers further collection action and suspends active collection until some later date, which may be triggered by some taxpayer action. For example, taxpayers in active combat duty who have unpaid tax debts will be put in a deferred status. Also, IRS sends some unpaid tax debt cases that have gone through the notice phase to the other collection phases for potential enforcement action.

As shown in figure 4, from fiscal year 1999 through 2008, the most frequent way that IRS disposed of tax debt cases that went through the notice phase was by the taxpayer's paying the debt in full. Specifically, in fiscal year 2008, IRS disposed of 5.8 million (or 46 percent) unpaid tax debt cases through the notice phase as full paid. Another 4.1 million unpaid tax debt cases were deferred or sent to other collection phases.

Appendix I: Data on Dispositions from the Notice Phase for Individual Taxpayers, Fiscal Years 1999 to 2008

Figure 4: Primary Types of Dispositions of Unpaid Individual Income Tax Debt Cases from the Notice Phase, Fiscal Years 1999 to 2008



Source: IRS data.

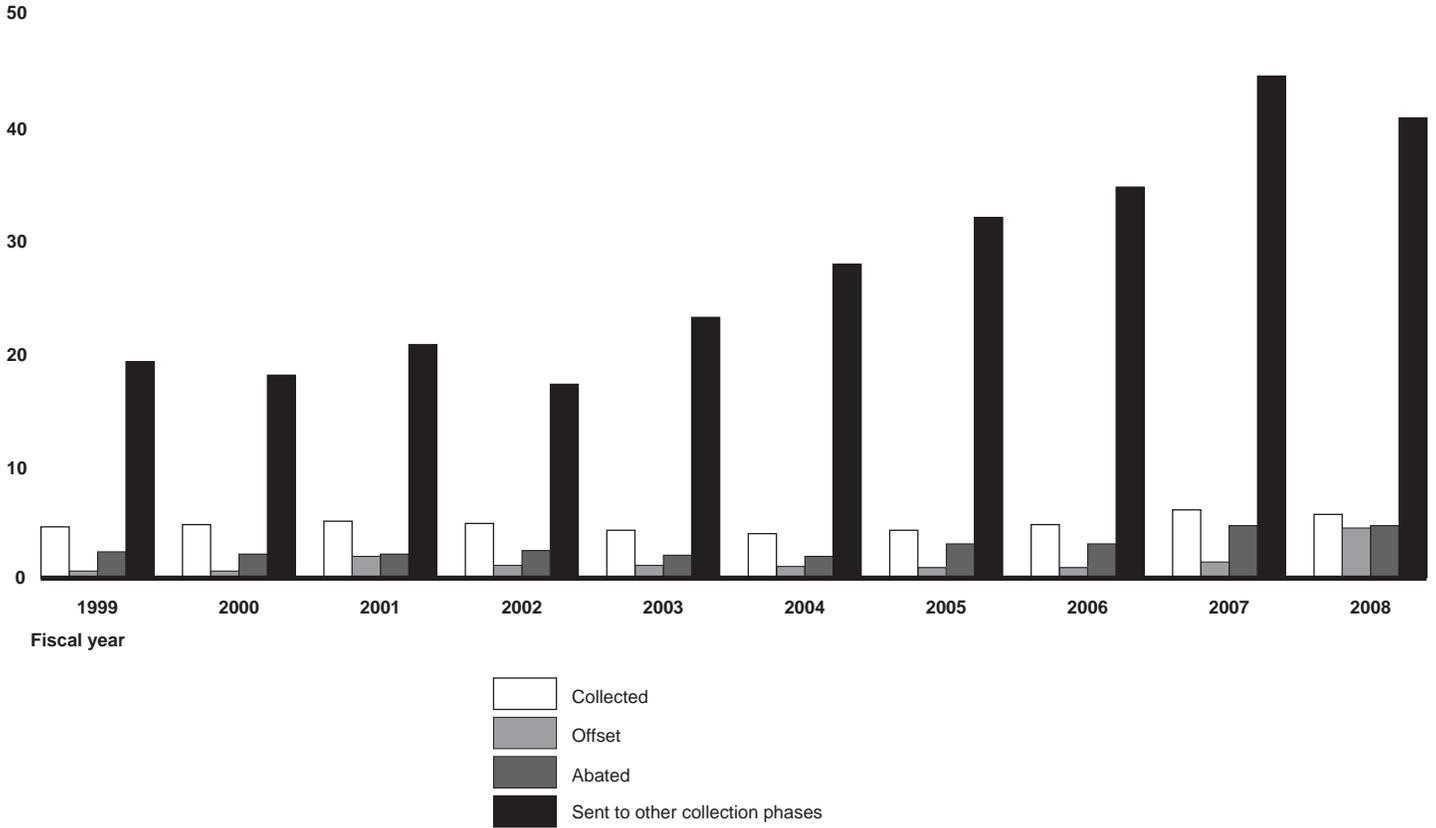
<sup>a</sup>For example, this category represents cases that are in litigation or are currently not collectible.

On the other hand, when looking at the dollar values of the dispositions from notices, IRS sent much more of the unpaid debt amounts to other collection phases for potential collection than it collected. For example, in fiscal year 2008, IRS sent \$40.6 billion in unpaid tax debt to other collection phases for potential collection enforcement action but collected \$5.6 billion during the notice phase, as shown in figure 5. The remaining dollar amounts disposed through notices in fiscal year 2008 involved \$4.4 billion in tax refund claims from the taxpayers that were used to offset the debt and \$4.6 billion that IRS had to abate based on new information.

Appendix I: Data on Dispositions from the Notice Phase for Individual Taxpayers, Fiscal Years 1999 to 2008

Figure 5: Dollar Values of Notice-Phase Results for Individual Income Tax, Fiscal Years 1999 to 2008

Dollars (in billions)



Source: IRS data.

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# Appendix II: Descriptions of Notice-Phase Business Rules Identified by IRS

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Below are descriptions of the five business rules IRS officials identified in response to our request for the key rules that affect the most individual taxpayers. With the exception of the minimum dollar rule, the descriptions do not provide specifics on the case characteristics that the business rules consider because IRS considers that information to be sensitive. Such information could potentially be used by purposefully noncompliant taxpayers to not pay taxes due and avoid IRS's collection actions.

- Minimum dollar rule—if the unpaid debt is below \$5 no notice is sent and the debt is abated.
- Low dollar rule—if the debt is below a certain threshold, three notices are sent, and if the debt remains unresolved, further collection action is deferred.
- Medium dollar rule—if the debt is above the low dollar rule threshold but below a certain higher amount, three notices are sent,<sup>1</sup> and if the debt remains unresolved and there is no known levy source, further collection action is deferred.
- Repeater rule for previously resolved debts—if a taxpayer had previous tax debt resolved in the telephone contact phase, in-person contact phase, or in the waiting queue for assignment to a revenue officer, for any new debt identified within a selected number of weeks, two notices are sent, and the case is sent to the phase that resolved the previous debt.
- Repeater rule for current unresolved debts—if the taxpayer has a current debt assigned to the telephone contact phase, in-person contact phase, or in the waiting queue for assignment to a revenue officer, for any new debt two notices are sent, and the case is sent to the phase handling the current debt.<sup>2</sup>

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<sup>1</sup> As compared to the low dollar rule, only two of the three notices sent are the same.

<sup>2</sup> This rule was revised effective January 2009 with regard to taxpayers with debts assigned to the in-person contact phase. Since the change was made after we started our review the revised rule is outside the scope of this report.

# Appendix III: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

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

September 16, 2009

Mr. Michael Brostek  
Director, Tax Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Brostek:

Thank you for the opportunity to review your draft report titled: Tax Debt Collection: IRS Needs to Better Manage the Collection Notices Sent to Individuals (GAO-09-976).

We are proud of our Collection Notice program. Notices are an integral part of the Service's collection strategy because they are highly cost effective. We close approximately 80 percent of notice accounts without the need for further contact with the taxpayer. In Fiscal Year 2007, we collected \$23.6 billion dollars through the low-cost notice process.

Last year I tasked one of my executives with improving the Servicewide notice process. This has been an extremely successful effort. When the changes are fully implemented, I expect they will transform the notice process, addressing many of the concerns mentioned in your report.

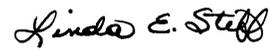
Of particular note is the development of the Correspondence Management Information System (CMIS) which expands the functionality proposed for its predecessor - the Notice Management Information System (NMIS). The CMIS will provide notice effectiveness data as well as data on the cost of printing and postage, which will assist in determining the full cost of notices. It has been funded and is currently in development. The Collection Governance Council continues to closely monitor notice performance using available statistics and make adjustments to the process, when appropriate.

We agree with your recommendations to improve our documentation and monitoring of the Notice Program, including establishing measures, delineating responsibilities, and continuing to evaluate our business rules to ensure efficiency and effectiveness.

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If you have any questions, or if you would like to discuss this response in more detail, please contact Cheryl Sherwood, Director, Campus Compliance Services at (202) 283-2518.

Sincerely,



Linda E. Stiff

Enclosure

**Enclosure**

GAO Recommendations and IRS Response to  
GAO Draft Report  
Tax Debt Collection: IRS Needs to Better  
Manage the Collection Notices Sent to Individuals  
(GAO-09-976)

**Recommendation:** To better ensure the notice phase is achieving desired results at the lowest costs, we recommend that the Commissioner of Internal Revenue:

- Establish objectives and performance measures to reflect the desired results for the notice phase;
- Establish responsibilities for reviewing the performance of the notice phase to help ensure accountability throughout IRS;
- Document the rationales for the key notice phase business rules in terms of efficiency, effectiveness, or other desired results;
- Provide IRS collection managers and executives accessible, reliable information on what the business rules are; and
- Periodically and regularly evaluate the business rules in terms of efficiency and effectiveness, or other results and ensure the results are available to managers so the data and methodologies can be used or considered in future evaluations.

**Comments:** We will make improvements to the Collection Notice program, including the establishment and documentation of key objectives, measures, and responsibilities. In addition, we agree to periodically reevaluate notice business rules and provide appropriate, reliable information to our managers.

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michael Brostek, (202) 512-9110, brostekm@gao.gov

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## Acknowledgments

In addition to the contact named above, Tom Short, Assistant Director; Susan Baker; Ray Bush; Bill Cordrey; George Guttman; Ronald W. Jones; Veronica Mayhand; Ed Nannenhorn; Karen O'Connor; Cheryl Peterson; Steve Sebastian; Jay Smale; and A.J. Stephens made key contributions to this report.

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