

**Management Advisory Report: The Small
Business/Self-Employed Division Needs to
Improve Taxpayer Correspondence and
Availability of Management Information**

April 2001

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

April 11, 2001

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-
EMPLOYED DIVISION

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - The Small Business/Self-
Employed Division Needs to Improve Taxpayer Correspondence
and Availability of Management Information

Attached for your review are the results of our analysis of the Small Business/Self-Employed (SB/SE) Division's efforts to implement selected management and information system processes. This management advisory report is being provided for informational purposes to aid Internal Revenue Service (IRS) management in its efforts to modernize the IRS.

In summary, SB/SE Division managers developed a comprehensive process to help ensure that authority for administrative and compliance actions is formally delegated to the proper level. SB/SE Division revenue officers and revenue agents have access to the systems they need to perform their work. Finally, our review of selected compliance field offices did not identify any indicators of problems related to the processing of personnel actions.

However, there are two areas which SB/SE Division management needs to continue to address. First, additional actions are needed to ensure letters and forms sent to taxpayers do not include references to outdated IRS organizational components. Second, continued emphasis is needed to ensure Integrated Collection System and Audit Information Management System summary management information is both complete and readily available to Territory and Area Office Compliance managers.

Since we are making no recommendations, a response to this report is not required. Copies of this report are also being sent to the IRS managers affected by the report.

Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Objective and Scope

The objective of our review was to determine if SB/SE Division management took effective steps to implement selected management and information system processes.

The objective of our review was to determine if Small Business/Self-Employed (SB/SE) Division management took effective steps to implement selected management and information systems processes. We evaluated the methodology used to develop division level delegation orders and determined whether correspondence sent to taxpayers reflects the correct organizational information. We also assessed whether SB/SE Division personnel have access to the management information systems they need to perform their job responsibilities.

We reviewed various reports and interviewed headquarters and field personnel in the SB/SE Division. We did not perform substantive testing of Internal Revenue Service (IRS) actions, such as a detailed review of personnel actions, nor did we perform an in-depth review of individual delegation orders.

This review was conducted at the SB/SE Division Headquarters in Washington, DC, and at the SB/SE Division's Compliance Area 1, 4 and 10 Offices from October 2000 through January 2001. The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

Background

As part of the implementation of the IRS' modernization blueprint during calendar year 2000, work and responsibilities were realigned into the IRS' new divisions, which included the SB/SE Division. Full implementation of all aspects of the new divisions is a multi-year effort supported by multiple transition teams and detailed work plans. The work plans cover both the

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stand-down¹ process and implementation of the new structure, including management and information system processes.

Results

The SB/SE Division took comprehensive steps to help ensure the implementation of a number of its management processes, such as the delegation of authority for administrative and compliance actions. However, there are two areas which SB/SE Division management needs to continue to address. First, many letters and forms sent to taxpayers include references to outdated IRS organizational components. Second, Collection and Examination function management information is not readily available to second level managers and executives in the field Compliance function.

Management Developed a Process for Division Delegation Orders and Ensured Employees Have System Access

The SB/SE Division developed a comprehensive process to help ensure authority for administrative and compliance actions are delegated to the proper level.

The IRS is still addressing IRS-wide Delegation Order issues identified during a previous review² of the SB/SE Division's stand-up³ process. SB/SE Division management has developed a comprehensive process to help ensure that the authority for administrative and compliance actions is formally delegated to the proper level by establishing Division Delegation Orders.

¹ "Stand-down" is the term the IRS uses to denote the ending date of the prior IRS headquarters and regional structure.

² *Management Advisory Report: The Small Business/Self-Employed Division Will Substantially Stand Up on October 1, 2000* (Reference Number 2000-30-149, dated September 2000)

³ "Stand-up" is the term the IRS uses to denote the start date of the new divisions.

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Division Delegation Orders redelegate authority from IRS-wide Delegation Orders to a lower organizational level for more efficient operations. IRS-wide Delegation Orders typically delegate authority to the SB/SE Division Commissioner or Area Directors only.

In addition, SB/SE Division front-line employees (revenue officers and revenue agents) have access to the systems they need to perform their job responsibilities of collecting delinquent taxes and examining tax returns. Finally, our review of selected SB/SE Division Compliance field offices did not identify any indicators of problems related to the processing of personnel actions.

Additional Actions Are Needed to Ensure Correspondence Sent to Taxpayers Does Not Include Outdated Organizational Information

Many letters and publications routinely used by SB/SE Division Compliance field offices contain outdated IRS office titles and organizational component names.

Many letters and publications routinely used by SB/SE Division Compliance field offices in the course of daily contact with taxpayers still contain outdated IRS office titles and organizational component names. We reviewed nine routinely used letters and identified obsolete information in seven of the letters prepared by one or more of the five territory offices we sampled. For example, obsolete information included numerous references to District Directors.

Compliance field managers informed us that letters were generally corrected by covering errors with whiteout⁴ or by simply crossing out the outdated information and writing in the new information in ink. Some offices updated the office and organizational titles in outdated letters by developing their own local automated templates. These stopgap methods significantly increase the likelihood that correspondence with incorrect IRS

⁴ “Whiteout” refers to the use of a white liquid that is brushed over a printed or written word, which subsequently dries and thereby covers up the error.

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organizational and functional information will be sent to taxpayers. Further, manually correcting forms and letters uses scarce Compliance resources and gives an unprofessional appearance.

Additionally, IRS Publication 556, Examination of Returns, Appeal Rights, and Claims for Refund, which assists taxpayers in understanding the examination process, and Publication 1035, Extending the Assessment Period, which explains tax assessment extensions, both contain a variety of references to obsolete IRS organizational information. Such references could be confusing to taxpayers attempting to understand the examination process.

During the course of our fieldwork, IRS officials informed us that a task group has been formed to address these problems. We provided the task group with detailed information regarding the letters and publications we identified which contained obsolete references.

Continued Emphasis Is Needed to Ensure Management Information Is Readily Available

Continued emphasis is needed to ensure Collection and Examination summary level management information is readily accessible to Compliance second level managers and executives.

Continued emphasis is needed to ensure Collection and Examination function management information is readily accessible to second level managers and executives in the field Compliance function. Current IRS management information systems such as the Integrated Collection System (ICS)⁵ and the Audit Information Management System (AIMS)⁶ will not fully reflect the new organization structure until at least early

⁵ ICS is an automated system used for the control and processing of Compliance field function collection cases. Workload management information is provided by the Entity application, which is available on the ICS platform.

⁶ AIMS is an automated system which provides examination case inventory control and management reports. The system traces examination results through the final determination of tax liabilities.

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calendar year 2002. Consequently, Area and Territory managers could not readily obtain complete management information to review the results of work performed in their geographic areas without interim programming changes. For example, Area Office 10 includes the states of Texas and Oklahoma. Therefore, to monitor the program, the Area Director has to obtain separate reports for the old North Texas, South Texas, Houston and Oklahoma/Arkansas District offices.

In order to resolve this problem, in February 2001 the IRS completed programming changes in both the ICS and AIMS systems to realign data into the new Area/Territory format. These changes were ongoing during our fieldwork, therefore, we were unable to test the success of the effort. IRS officials informed us that they expect Compliance Area/Territory summary level management information to be fully reliable beginning in March 2001.

Territory and Area managers will face several challenges in attempting to use this information to make program decisions. First, there is no baseline data to compare with new information generated during the course of the year, because fully reliable management information was not available at stand-up and there is no readily comparable prior years' data. Second, to effectively use the new data, managers will require training to be proficient in two distinctly different systems. In the previous organizational structure, managers used one system or the other, but not both, depending on their assigned area of responsibility (i.e., the Collection function or the Examination function). Four of the five Territory managers we interviewed stated that they were unfamiliar with a least one of the two systems.

Conclusion

Although the IRS has taken comprehensive steps to ensure implementation of a number of its management processes, SB/SE Division management needs to ensure:

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(1) letters and forms sent to taxpayers do not include confusing references to outdated IRS organizational components, and (2) Collection and Examination summary level management information is readily available to second level managers and executives in the field Compliance function.

Major Contributors to This Report

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Appendix II

Report Distribution List

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