



*Payments Made at the  
Taxpayer Assistance Centers  
Are Generally Timely and  
Accurately Processed*

**September 2005**

**Reference Number: 2005-40-148**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 28, 2005

**MEMORANDUM FOR** COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:** Pamela J. Gardiner  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Payments Made at the Taxpayer Assistance Centers Are Generally Timely and Accurately Processed (Audit # 200540032)

This report presents the results of our review of whether Internal Revenue Service (IRS) controls ensure timely and accurate processing of taxpayer payments made at Taxpayer Assistance Centers (TAC).

*Synopsis*

The IRS has local offices called TACs that assist taxpayers in interpreting tax laws and regulations, preparing certain individual tax returns, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. The Field Assistance Office in the Wage and Investment (W&I) Division has responsibility for overseeing the TACs.

During Fiscal Year 2004, the TACs received over 977,000 payments from taxpayers, including both cash and noncash remittances. A review of a judgmental sample of 698 cash and noncash payments received during Calendar Years 2002 through 2005 for 14 selected TACs showed that 688 (99 percent) were appropriately posted to the taxpayers' accounts. We could not determine if 10 were posted because we did not have sufficient information to research the taxpayers' accounts (either the taxpayers did not have identification numbers assigned yet or we could not determine the correct identification numbers).

We did not identify missing payments or significant control breakdowns in the processing of payments received by the TACs. However, we identified instances when internal controls were



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not always effective (e.g., internal controls over the security of assets and the documentation of transactions). This happened because employees were not following procedures.

In 253 instances involving 219 of the 698 reviewed payments, TAC employees did not follow prescribed procedures associated with payment documentation. Twenty-five (69 percent) of 36 employees<sup>1</sup> did not follow guidelines concerning proper security over taxpayer payments. The dollar value of the 219 payments identified with 1 or more errors was \$5,721,324.95. However, no taxpayers were adversely affected by these errors.

We also determined the Integrated Data Retrieval System<sup>2</sup> profiles for 23 (66 percent) of 35 employees with open Receipt for Payment of Taxes (Form 809) receipt books in the 14 TACs visited had access to sensitive command codes. Nine of the 23 employees used the sensitive commands to access 93 taxpayer accounts; 6 of the 9 were located in 1 TAC. This occurred because management did not ensure the profiles for employees with open Form 809 receipt books had been appropriately restricted and were not monitoring the command codes used by these employees. We did not identify any specific improprieties from these accesses.

### *Recommendations*

The Commissioner, W&I Division, should reinforce the importance of complying with internal controls over payments and ensure the Integrated Data Retrieval System profiles of all employees with open Form 809 receipt books are appropriately restricted.

### *Response*

The IRS agreed with our recommendations and appreciated our acknowledgement that payments made at the TACs are generally timely and accurately processed. They stated this underscores the IRS' strong commitment to ensure internal controls over processing payments in its TACs are effective and operating as intended. The IRS will provide additional training to all TAC managers that will include the proper use of the restrictive IDRS command code and definer codes. Management will also periodically emphasize adherence to procedures. In addition, the IRS has corrected the profiles of the employees who had open Form 809 receipt books and access to sensitive command codes. After completion of training, all Field Assistance Areas will be required to certify that all employees with open Form 809 receipt books have restricted IDRS profiles. Management's complete response to the draft report is included as Appendix VI.

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<sup>1</sup> Included in the 36 employees is 1 employee interviewed who was not assigned a Receipt for Payment of Taxes (Form 809) receipt book but who accepted noncash payments.

<sup>2</sup> The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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*Office of Audit Comment*

IRS management disagreed with the outcome measure reported for the deviations from required security procedures affecting 219 payments totaling \$5,721,324.95. The IRS believes this is not a valid representation because our review reflected that no taxpayers were adversely affected and the deviations did not impact the timely and accurate processing of the payment. However, we believe these deviations denote an increased risk of theft, loss, or misuse for the payments affected during the time the procedures were not being followed.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.



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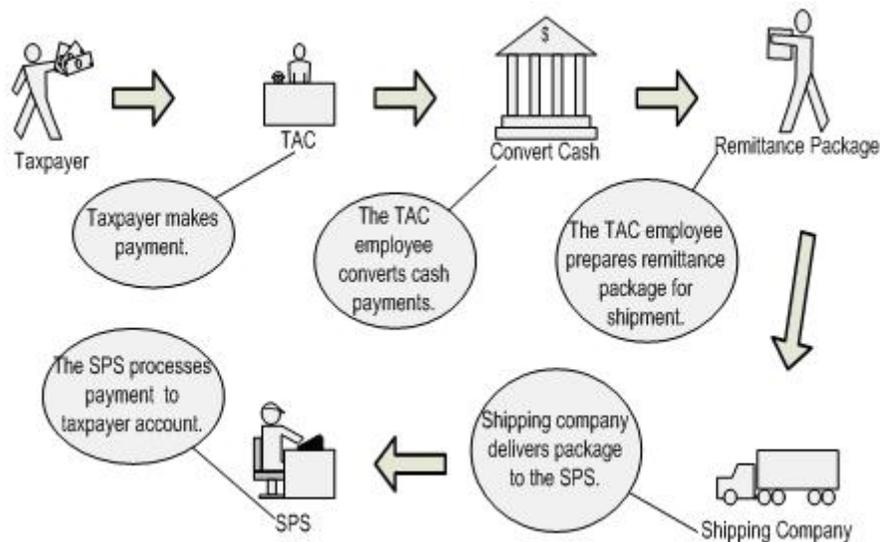
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## *Background*

During Fiscal Year 2004, taxpayers chose to walk into local Internal Revenue Service (IRS) offices called Taxpayer Assistance Centers (TAC)<sup>1</sup> to make over 977,000 payments on their individual and business accounts. Payments were made in cash, checks, and money orders and allowed taxpayers to meet their tax obligations relating to outstanding tax balances due on tax returns and the Heavy Highway Vehicle Use Tax Return (Form 2290). Form 2290 is required to file tax due on highway motor vehicles over a taxable gross weight of 55,000 pounds used during the period.

When payments are made at the TACs, employees must process the payments and send them to the IRS Submission Processing sites, the IRS data processing centers. Figure 1 provides the flow of payments from the TACs to taxpayer accounts (Submission Processing site is abbreviated as SPS).

**Figure 1: Taxpayer Payment Flow**



*Source: IRS Manual of guidelines and procedures.*

For payments made at the TACs, the IRS has established specific procedures and internal controls to ensure the security of the payments and the accurate posting of the monies to the appropriate tax accounts.

<sup>1</sup> The TACs assist taxpayers by interpreting tax laws and regulations, preparing certain individual tax returns, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations.



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- The Receipt for Payment of Taxes (Form 809) is the only official receipt for payment of taxes. Forms 809 must be issued for all cash payments and may be issued for noncash payments such as checks or money orders if the taxpayer insists on receiving an official receipt. Only authorized employees may accept cash payments and issue the Forms 809. To reduce the potential for fraud or embezzlement, employees with an open Form 809 receipt book should not have the ability to also adjust taxpayer accounts using the Integrated Data Retrieval System (IDRS).<sup>2</sup>

The Form 809 is a 4-part form. Part 2 is given to the taxpayer after completion, Parts 1 and 3 are sent to the Submission Processing site with the payment, and Part 4 is retained by the TAC for its records.

- A cash payment must be converted to a money order or cashier's check prior to shipment to a Submission Processing site for processing and posting to the taxpayer's account. Employees must convert a cash payment to a money order or cashier's check on the day the payment is received or as soon as possible the next business day.
- Employees accepting a payment must prepare a posting document if one is not received from the taxpayer with the payment,<sup>3</sup> record the payment on a Daily Report of Collection Activity (Form 795), and immediately place the payment in a locked container. Payments and Forms 795 should be listed on a Document Transmittal (Form 3210), when there are multiple Forms 795 in a remittance package, and sent to the Submission Processing sites on the day the payments were received or no later than the next business day via traceable, overnight mail.
- Each Submission Processing site should acknowledge receipt of the remittance package within 5 workdays. If the TAC does not receive an acknowledgement, it should investigate within 10 workdays to determine the status of the shipment.

IRS guidelines require that at least one employee in each TAC be able to accept cash payments. However, the IRS granted a deviation to some TACs with only one or two employees because it determined that adjusting taxpayer accounts was needed more than accepting cash payments. Most offices granted a deviation from accepting cash payments reported receiving few cash payments in the past.

The Field Assistance Office in the Wage and Investment (W&I) Division has responsibility for overseeing the TACs. This review was performed at the W&I Division Headquarters in Atlanta, Georgia, and at 14 TACs nationwide during the period December 2004 through

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<sup>2</sup> The IDRS is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>3</sup> The posting document can be either a tax return or form, the tear-off portion of a notice sent to the taxpayer, a payment voucher, a Payment Posting Voucher (Form 3244), or a Form 809.



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May 2005.<sup>4</sup> This audit focused only on the procedures and controls at the TACs and did not test the procedures and controls at the Submission Processing sites. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>4</sup> See Appendix V for a list of the TACs visited.



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*Results of Review*

***The Majority of Payments Accepted at the Taxpayer Assistance Centers Were Timely and Accurately Processed, but Internal Controls Could Be Strengthened***

We did not identify missing payments or significant control breakdowns with the processing of payments received by the TACs. A review of a judgmental sample of 698 payments (345 cash and 353 noncash, such as checks and money orders) received by the TACs during Calendar Years 2002 through 2005 for 14 selected TACs showed that 688 (99 percent) payments were posted to taxpayers' accounts. We could not determine if 10 payments were posted because we did not have sufficient information to research the taxpayers' accounts (either the taxpayers did not have identification numbers assigned yet or we could not determine the correct identification numbers).

All 34 Form 809 receipt books, all 1,700 Form 809 receipts, and cash payments were accounted for in 13 of the 14 TACs visited. In one TAC visited, the employee with the Form 809 receipt book was not there the day of our visit and no one else in the office had access to the receipt book.

In addition, some offices have implemented practices that appear to help save resources, provide better security over cash payments, or help ensure payments are posted accurately. For example, offices with large volumes of cash consolidate their cash conversions to save conversion costs and employee time. Another office has a reviewer compare all payment-related documentation to help ensure all required information was recorded correctly.

Although procedures and internal controls are in place to ensure payments are timely processed and accurately posted, we identified instances when internal controls were not always effective (e.g., internal controls over the security of assets and the documentation of transactions). This happened because employees were not following procedures.

The Government Accountability Office has also reported instances of internal control weaknesses that affect the safeguarding of taxpayer receipts and information at the TACs.<sup>5</sup> Specifically, it reported that some offices did not follow procedures to safeguard taxpayer

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<sup>5</sup> *Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls* (GAO-02-746R, dated July 2002), *Management Report: Improvements Needed in IRS's Internal Controls* (GAO-03-562R, dated May 2003), and *Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures* (GAO-04-553R, dated April 2004).



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receipts and information. In addition, in one of two TACs visited, employees were allowed to store personal belongings with cash payments and Form 809 receipts books. Additionally, the Government Accountability Office reported that some TACs did not display signs advising taxpayers of the services provided or that exact change is needed when making cash payments.

**Procedural requirements were not always followed; however, these errors did not affect the timely and accurate processing of the payments**

In 253 instances involving 698 reviewed payments, TAC employees did not follow prescribed procedures associated with payment documentation. Twenty-five (69 percent) of 36 employees<sup>6</sup> did not follow guidelines concerning proper security over taxpayer payments. In addition, receipts of remittance packages were not always monitored. While the employees did not consistently follow all established procedures, these deviations did not affect the timely and accurate processing of the payments:

- For the 698 payments tested, TAC employees:
  - Could not provide all payment documentation for 118 (17 percent) payments.
  - Either did not record any or did not record all the required cash conversion information on Part 4 of the Form 809 for 122 (35 percent) of 345 cash payments.
  - Did not record all of the required information on the Forms 795 or the information recorded was incorrect for 13 (2 percent) payments.
- Of the 35 employees with open Form 809 receipt books and 1 employee interviewed who accepted noncash payments, 25 (69 percent) did not secure either the Form 809 receipt book, cash, checks, or money orders as prescribed by IRS guidelines. Those guidelines state that proper security over taxpayer payments “requires a locked perimeter and a locked container.” A locked container is defined as “any metal container with riveted or welded seams which is locked and to which keys and combinations are controlled.” The Form 809 receipt book carries the same security requirements as cash payments. These 25 employees were located in 7 of the 14 TACs visited; 15 of them were located in 1 office.
  - One employee placed checks and money orders received from taxpayers in a manila folder and placed it next to the employee’s computer until time to prepare the shipping package.
  - One employee stored the checks and money orders loose in an unlocked desk drawer until time to prepare the shipping package.

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<sup>6</sup> Included in the 36 employees is 1 employee interviewed who was not assigned a Form 809 receipt book but who accepted noncash payments.



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- Three employees in one TAC did not secure cash payments in the safe overnight.
- Five employees did not properly secure the Form 809 receipt books. Four did not secure the Form 809 receipt books in the safe overnight, and one secured the Form 809 receipt book in a canvas bag in a locked overhead cabinet. Neither the canvas bag nor the overhead cabinet meets the IRS specifications for an appropriately locked container.
- Fifteen employees in one TAC stored the checks and money orders in a locked canvas bag in a work station's overhead cabinet. Neither the canvas bag nor the overhead cabinet meets IRS specifications for an appropriately locked container.
- Timely acknowledgement of the remittance packages by the Submission Processing site was not monitored in 8 (57 percent) of 14 offices. The Submission Processing sites should acknowledge receipt of the remittance package within 5 workdays; if this acknowledgement is not received, the TAC should follow up within 10 workdays to determine if the package was received.

The dollar value of the 219 payments identified with 1 or more errors was \$5,721,324.95.

Also, in 5 (36 percent) of 14 offices, the TACs did not display proper signs advising taxpayers that exact change was needed when making cash payments or advising of the services available at the TAC. The TAC is required to display signs in both English and Spanish advising taxpayers of the services available at the TAC and that, if a cash payment is being made, exact change is needed.

While some internal control procedures were not followed in every TAC visited, there are compensating controls built into the payment process that should reduce the risk. For example, the Submission Processing sites review the remittance packages and issue a Teller's Error Advice (Form 5919) to alert the TAC managers of any errors or delays identified. However, good internal controls ensure:

- Security over assets such as cash, which is vulnerable to risk of loss or unauthorized use.
- All transactions and other significant events are clearly documented, all documentation and records are properly managed and maintained, and the documentation is readily available for examination.

When a control environment diminishes, the risk increases that payments can be lost, stolen, misused, or destroyed.

## ***Recommendation***

***Recommendation 1:*** The Commissioner, W&I Division, should reinforce and emphasize the importance of complying with internal controls over payments through alerts and additional training.



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**Management's Response:** IRS management stated additional training would be provided to all TAC managers and they would periodically emphasize adherence to procedures. IRS management disagreed with the outcome measure reported for the deviations from required security procedures affecting 219 payments totaling \$5,721,324.95. The IRS believes this is not a valid representation because our review reflected that no taxpayers were adversely affected and the deviations did not impact the timely and accurate processing of the payment.

**Office of Audit Comment:** We believe the 219 payments totaling \$5,721,324.95 indicate an increased risk of theft, loss, or misuse of the payments affected during the time the procedures were not being followed.

### ***Employees With Open Form 809 Receipt Books Have Access to Sensitive Command Codes***

Field Assistance Office management did not ensure employees assigned an open Form 809 receipt book had limited access to taxpayer accounts on the IDRS. In the 14 offices visited, 23 (66 percent) of 35 employees with open Form 809 receipt books had access to sensitive command codes that could be used to adjust taxpayer accounts on the IDRS. Based on research of the IDRS, we determined that, during the period January 3 through February 11, 2005, 9 of the 23 employees with sensitive commands in their profiles used the sensitive command codes to access (i.e., research or adjust) 93 taxpayer accounts. Six of the nine employees were located in one TAC.



This happened because TAC managers were not limiting employees' access to sensitive command codes and were not monitoring the use for employees with open Form 809 receipt books. In addition, Field Assistance Office management did not identify this situation in IRS-provided managerial reviews for 5 (36 percent) of 14 offices. Internal guidelines require that employees with open Form 809 receipt books not be given sensitive IDRS command codes. This ensures employees responsible for accepting and processing payments do not also have the capability to record them.

Managers must ensure only appropriate employees have Form 809 receipt books and those employees with open Form 809 receipt books have only research command codes in their IDRS profiles. A command code is considered "sensitive" if it can be used to adjust account balances, change the status of a tax module account, or affect the tax liability.



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To address the issue of employees with open Form 809 receipt books having access to sensitive command codes, the W&I Division, in conjunction with the IDRS Security Program Office, developed a new IDRS control that automatically restricts employees' access to only nonsensitive command codes. As of December 2004, TAC managers had access to this new restrictive command code. Managers input a definer code to an employee's IDRS profile that restricts the use of those commands that have previously been identified as sensitive and should be restricted from use by those with open Form 809 receipt books.

However, some managers had trouble using the restrictive IDRS command code or used the wrong definer (which would not restrict the use of the correct, sensitive command codes). One office manager reported that attempts to use the restrictive command code in November were unsuccessful and no further attempts were made. That manager was manually deleting inappropriate IDRS command codes but had not identified and removed all the sensitive command codes.

Although we did not identify any specific improprieties associated with the accesses to the 93 taxpayer accounts, the risk for fraud or embezzlement increases when employees accept cash payments and have the ability to adjust taxpayer accounts. Management needs to ensure monitoring of internal controls over assets is consistent with this risk.

## ***Recommendations***

The Commissioner, W&I Division, should:

**Recommendation 2:** Require Field Assistance Office management to provide additional training or guidance on the use of the restrictive IDRS command code and the definer code, to ensure all TAC managers understand how to appropriately use the command code, and emphasize the importance of properly restricting the profiles for employees with open Form 809 receipt books.

**Management's Response:** IRS management stated the training provided to all TAC managers would include the proper use of the restrictive IDRS command code and definer codes.

**Recommendation 3:** Ensure all TAC managers have verified that all employees with open Form 809 receipt books have restricted IDRS profiles.

**Management's Response:** IRS management stated they have corrected the profiles of the employees who had open Form 809 receipt books and access to sensitive command codes. After completion of the training, all Field Assistance Areas will be required to certify that all employees with open Form 809 receipt books have restricted IDRS profiles.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether Internal Revenue Service (IRS) controls ensure timely and accurate processing of taxpayer payments made at the Taxpayer Assistance Centers (TAC).<sup>1</sup> To accomplish this objective, we:

- I. Determined whether adequate controls over payments made at the TACs had been established.
  - A. Discussed procedures with Field Assistance Office<sup>2</sup> management to determine the established policies and procedures or whether any new guidelines had been issued.
  - B. Obtained and analyzed the established policies and procedures for accepting and processing payments received at the TACs.
  - C. Determined how TAC managers should be using a new Integrated Data Retrieval System (IDRS)<sup>3</sup> command code to restrict access by employees with Receipt for Payment of Taxes (Form 809) receipt books. We also determined when the new IDRS restrictive command code was made available for managers to use.
  - D. Determined the requirement for operational reviews by local and national managers. We obtained and reviewed a judgmental sample of the operational reviews for Fiscal Years 2004 and 2005 that were provided by the IRS. We did not determine how many reviews were actually performed; however, we requested the most recent review for the office visited. Some local offices could not provide the requested copies and those copies were requested from Field Assistance management.

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<sup>1</sup> The TACs assist taxpayers by interpreting tax laws and regulations, preparing certain individual tax returns, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations.

<sup>2</sup> The Field Assistance Office in the Wage and Investment Division has responsibility for overseeing the TACs.

<sup>3</sup> The IDRS is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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- E. Followed up on the corrective actions the IRS has implemented to address weaknesses in security and processing of payments previously identified by the Treasury Inspector General for Tax Administration (TIGTA)<sup>4</sup> and the Government Accountability Office.<sup>5</sup>
- II. Evaluated the controls over and accountability for cash payments.
  - A. Selected a judgmental sample of 14 TACs from a universe of over 400.<sup>6</sup> See Appendix V for a listing of TACs visited and the criteria and methodology for selection.
  - B. Discussed office policy and procedures for accepting, recording, and submitting cash payments with the TAC manager or the employee assigned the Form 809 receipt book.
  - C. Conducted unannounced Form 809 receipt book verifications at the selected TACs, determined controls over the receipt and assignment of the Form 809 receipt books, and assessed the security over cash payments. We copied all Forms 809 issued from the assigned open Form 809 receipt books. Some employees had their books assigned to them for several years, so the 402 receipts issued for cash and noncash payments that we copied and researched were made during Calendar Years 2002 through 2005. One TAC received large amounts of cash; therefore, we selected a judgmental sample of nine employees and copied their issued Forms 809.
  - D. Performed IDRS research on all selected Forms 809 to determine whether the payments were processed to the correct account in the proper amount.
- III. Evaluated the controls over and accountability for noncash payments (checks and money orders).
  - A. Discussed with the group manager or TAC employee policies and procedures used for receipt of noncash payments.

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<sup>4</sup> *Taxpayer Remittances Were Generally Safeguarded Within the Cincinnati Submission Processing Site; However, Perimeter Security Needs Improvement* (Reference Number 2004-30-183, dated September 2004), *The Internal Revenue Service Needs to Improve Oversight of Remittance Processing Operations* (Reference Number 2003-40-002, dated October 2002), *The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed* (Reference Number 2002-30-103, dated May 2002), and *Controls Over Houston Receipts Left Taxpayer Cash Payments Vulnerable to Embezzlement* (Reference Number 2001-40-149, dated August 2001).

<sup>5</sup> *Management Report: Improvements Needed in IRS's Accounting Procedures and Internal Controls* (GAO-02-746R, dated July 2002), *Management Report: Improvements Needed in IRS's Internal Controls* (GAO-03-562R, dated May 2003), *Management Report: Improvements Needed in IRS's Internal Controls and Accounting Procedures* (GAO-04-553R, dated April 2004).

<sup>6</sup> The IRS could not provide us with the exact number of TACs.



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- B. Obtained the most recent Daily Report of Collection Activity (Form 795) at each TAC visited to research and compare to the issued Forms 809.
  - C. Obtained a judgmental sample of at least 10 Forms 795<sup>7</sup> acknowledged as received by a Submission Processing site (an IRS data processing center) and any Teller's Error Advice (Form 5919) associated with the Forms 795 and determined how the managers used the Forms 5919 to improve cash/noncash payment operations. We selected the 174 Forms 795 by pulling a sample of forms from file drawers and folders provided by the IRS or by asking the TAC to provide the requested copies. We attempted to select at least 10 Forms 795 for Fiscal Year 2004 from each of the 14 TACs visited; however, we discovered some of the copied Forms were for Fiscal Year 2005. We included those in our sample.
  - D. Selected a judgmental sample of 296 payments from the Forms 795 selected in Step III.C. and performed IDRS research to determine whether the payments were applied to the correct taxpayer accounts in the correct amount. Since this would be a sample of payments from a sample of Forms 795, we did not use any specific sampling criteria. We used our judgment to select the payments researched.
- IV. Obtained an extract of 173,901 IDRS accesses for the period January 3 to February 11, 2005. Researched that extract for any accesses made by the 35 employees identified with Form 809 receipt books assigned to them. We also obtained a printout of the employee's IDRS profile and determined if the employee's profile had been appropriately restricted for access to sensitive command codes.
- V. Contacted the TIGTA Office of Investigations to determine whether there were any allegations or reports of missing or stolen payments. We had planned to use this information to help plan which offices to include in our field visits. However, there were no current taxpayer complaints or reports of missing or stolen payments.
- VI. Discussed discrepancies with appropriate TAC managers.

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<sup>7</sup> We selected a judgmental sample because the size of the universe of Forms 795 could not be determined. This is a paper-based system that would require visiting each Submission Processing site and manually counting the Forms 795 to get a total.



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**Appendix II**

*Major Contributors to This Report*

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)  
Augusta R. Cook, Director  
Paula W. Johnson, Audit Manager  
Sharon Shepherd, Lead Auditor  
Lynn Faulkner, Senior Auditor  
Jack Forbus, Senior Auditor  
Jerome Antoine, Auditor  
Jean Bell, Auditor  
Geraldine Vaughn, Auditor



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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Services and Enforcement SE  
Deputy Commissioner, Wage and Investment Division SE:W  
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division  
SE:W:CAR  
Acting Director, Strategy and Finance, Wage and Investment Division SE:W:S  
Acting Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI  
Director, Field Assistance, Wage and Investment Division SE:W:CAR:FA  
Acting Director, Stakeholder Partnerships, Education, and Communication, Wage and  
Investment Division SE:W:CAR:SPEC  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaison: Acting Senior Operations Advisor, Wage and Investment Division SE:W:S



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## Appendix IV

### *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 the Congress.

#### **Type and Value of Outcome Measure:**

- Protection of Resources – Potential; 219 taxpayer payments totaling \$5,721,324.95 affected (see page 4).

#### **Methodology Used to Measure the Reported Benefits:**

We tested a judgmental sample of 698 cash and noncash payments received at 14 TACs during Calendar Years 2002 through 2005. We selected the offices visited based on Treasury Inspector General for Tax Administration resources and the volume of payments received by the TACs. We copied and researched all Receipts for Payment of Taxes (Form 809) issued from the current open Form 809 receipt books held by the employees present in 11 of the 14 TACs visited (1 employee with open Form 809 receipt books was out the day of our visit). In one TAC, because of the large number of employees with Form 809 receipt books, we selected a judgmental sample of Form 809 receipt books and copied all issued receipts. In another office, we selected a sample of the issued receipts from the two open Form 809 receipt books.<sup>1</sup> We also selected and researched a judgmental sample of payments recorded on a judgmental sample of Daily Reports of Collection Activity (Form 795) for Fiscal Years 2004 and 2005.

We classified as errors those payments that were not shipped timely to the appropriate Submission Processing site (an Internal Revenue Service data processing center), were not timely posted to the taxpayer's account, or were not posted to the taxpayer's account in the same amount or to the same tax period indicated on the Form 809 or the Form 795. We also classified as errors instances in which the documents did not contain the required information, the recorded information was incorrect, payments were not properly secured, or other processing time periods were not met (e.g., Forms 809 that did not contain the conversion data, Forms 809 on which the

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<sup>1</sup> In the remaining 1 of 14 TACs visited, the employee with the Form 809 receipt book was not there the day of our visit and no one else in the office had access to the receipt book.



*Payments Made at the Taxpayer Assistance Centers  
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taxpayer's identification number or other information was incorrect, or when the TAC did not monitor the acknowledgement by the Submission Processing site that the remittance package had been received).

Of the 698 payments researched, 219 contained at least 1 error. In addition, 25 employees in 7 of the TACs did not properly secure the Form 809 receipt book, cash, or noncash payments in a required locked metal container during the day or in a safe overnight.

**Type and Value of Outcome Measure:**

- Taxpayer Privacy and Security – Potential; 93 taxpayers affected (see page 7).

**Methodology Used to Measure the Reported Benefit:**

We identified the employees with open Form 809 receipt books in the 14 TACs visited and researched their Integrated Data Retrieval System (IDRS)<sup>2</sup> accesses for the period January 3 to February 11, 2005. Using the table of sensitive command codes identified by the Internal Revenue Service that employees with open Form 809 receipt books should not have access to, we identified those employees who had access to sensitive command codes and those who used sensitive command codes. We also obtained printouts of the IDRS profiles which showed the command codes the employees had access to and whether their profiles had been appropriately restricted.

We identified 23 out of 35 employees with open Form 809 receipt books whose profiles had not been appropriately restricted and who had access to sensitive command codes. Further, we identified 9 employees who actually used sensitive command codes to access 93 taxpayer accounts.

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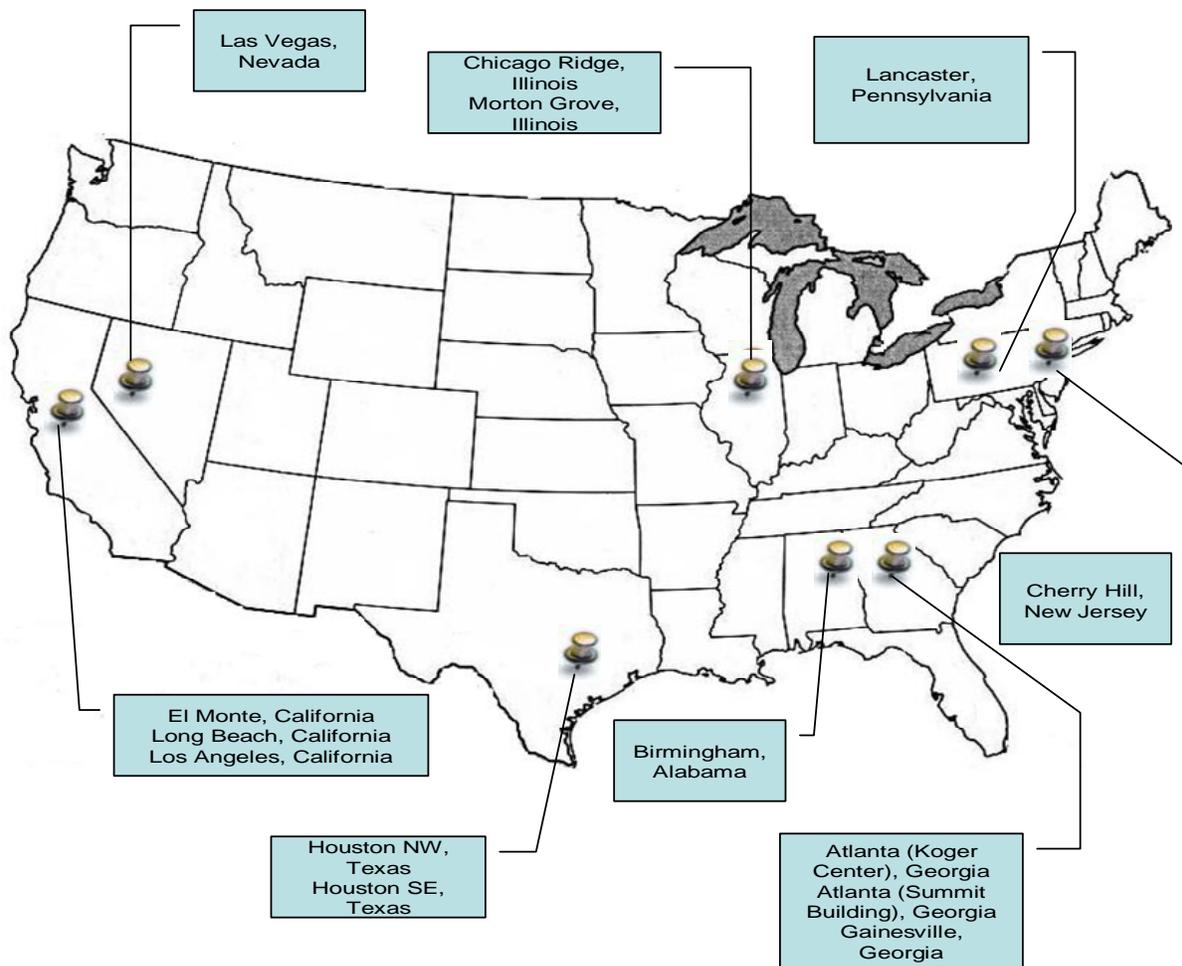
<sup>2</sup> The IDRS is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



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**Appendix V**

*Taxpayer Assistance Centers Visited  
and the Selection Criteria and Methodology*





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### **Selection Criteria and Methodology**

We used the following criteria when selecting the Taxpayer Assistance Centers (TAC) for testing.

- TACs visited during another Treasury Inspector General for Tax Administration (TIGTA) audit.<sup>1</sup>

Cherry Hill, New Jersey.  
Chicago Ridge, Illinois.  
Houston (Northwest Office), Texas.  
Houston (Southeast Office), Texas.  
Lancaster, Pennsylvania.  
Morton Grove, Illinois.

- Coverage in all five Area Offices. The TACs are the responsibility of the Field Assistance Office in the Customer Assistance, Relationships, and Education function within the Wage and Investment Division and are organized into five Area Offices.

AREA 1: Cherry Hill, New Jersey; Lancaster, Pennsylvania.

AREA 2: Chicago Ridge and Morton Grove, Illinois.

AREA 3: Atlanta (Koger Center and Summit Building) and Gainesville, Georgia;  
Birmingham, Alabama.

AREA 4: Houston (Northwest and Southeast Offices), Texas.

AREA 5: El Monte, Long Beach, and Los Angeles, California; Las Vegas, Nevada.

- Volume of payments received.
- Proximity to the TIGTA Atlanta, Georgia, office.

We also contacted the TIGTA Office of Investigations to determine if there were any open or closed investigations that would prohibit testing in a TAC.

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<sup>1</sup> *Coordination and Monitoring Is Needed for Continued Improvement in the Tax Return Preparation Process at the Taxpayer Assistance Centers* (Reference Number 2005-40-147, dated September 2005).



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**Appendix VI**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

RECEIVED  
SEP 19 2005

SEP 15 2005

MEMORANDUM FOR PAMELA J. GARDINER  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

*for* Richard J. Morgante *Pamela G. Watson*  
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – Payments Made at the Taxpayer  
Assistance Centers Are Generally Timely and Accurately  
Processed (Audit #200540032)

I reviewed your subject draft report and appreciate your positive recognition that payments made at the Taxpayer Assistance Centers (TAC) are generally timely and accurately processed. Your report underscores our strong commitment to ensure that internal controls over processing payments in our TACs are effective and operating as intended.

As stated in your report, TACs assist taxpayers in interpreting tax laws and regulations, preparing certain individual tax returns, resolving inquiries on taxpayer accounts, accepting payments, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. I am pleased that your report captured a number of favorable results associated with the acceptance and processing of almost a million tax payments a year in the TACs. Specifically, you indicated that a review of a judgmental sample of 698 cash and noncash payments during Calendar Years 2002 through 2005 for 14 selected TACs showed that 99 percent were appropriately posted to taxpayers' accounts. The results of the other one percent in the sample were inconclusive because there was insufficient information to research the taxpayers' accounts. You also stated that no missing payments or significant controls breakdowns were identified. These findings are a direct result of our efforts to establish specific procedures and internal controls to ensure the security of the payments and the accurate posting of monies to the appropriate tax account.

While the overall results of your review were extremely positive, you also identified opportunities for improvement. As noted in your report, there were instances when employees did not follow prescribed procedures associated with the payment documentation of 219 payments totaling \$5,721,324.95. Although your report cites



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these as errors, you also point out that these errors did not adversely affect taxpayers or the timely and accurate processing of the payments.

You also found that some employees with open Receipt for Payment of Taxes (Form 809) receipt books that enable them to accept payments also had access to sensitive Integrated Data Retrieval System (IDRS) command codes used to adjust taxpayer accounts. While we are pleased that there were no specific improprieties identified, we agree there is an increased risk when employees who accept cash payments also have the ability to adjust taxpayer accounts. Therefore, upon notification of your finding, we took action to remove sensitive command codes from the IDRS profiles of these employees. Procedures are also being implemented to verify the IDRS profiles of all TAC employees with open Form 809 receipt books.

Finally, I reviewed the outcome measures provided in Appendix IV of your report. While I agree with the outcome measure related to the privacy and security of the 93 taxpayers whose accounts were accessed by employees with open Form 809 receipt books, I do not agree with the outcome measure related to protection of resources (219 payments totaling \$5,721,324.95). As noted above, your review reflects that while our employees did not consistently follow all established procedures, these deviations did not affect the timely and accurate processing of any payments. In addition, there are compensating controls built into the payment process that reduce the risk when employees do not follow procedures. As noted in your report, Submission Processing Centers review remittance packages received from TACs and issue a Teller's Error Advice (Form 5919) to alert TAC managers of any errors or delays. As a result, I do not believe this outcome measure is a valid representation of the benefits of your recommended corrective actions.

Our responses to your specific recommendations are detailed in the attachment. If you have questions, please call me at (404) 338-7060, or members of your staff may contact Ellen M. Cimaglia, Director, Field Assistance, Customer Assistance, Relationships and Education, at (404) 338-7141.

Attachment



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Attachment

**RECOMMENDATION 1**

The Commissioner, W&I Division, should reinforce and emphasize the importance of complying with internal controls over payments through alerts and additional training.

**CORRECTIVE ACTION**

We have initiated training for all TAC managers on remittance processing procedures and will periodically emphasize adherence. Topics covered in the training include guidelines for TAC managers to follow to ensure employees comply with remittance processing procedures related to security of Forms 809, and restricting access to IDRS sensitive command codes.

**IMPLEMENTATION DATE**

November 15, 2005

**RESPONSIBLE OFFICIAL**

Director, Field Assistance, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor adherence to our remittance processing procedures during operational reviews of the TACs.

**RECOMMENDATION 2**

The Commissioner, W&I Division, should require Field Assistance Office management to provide additional training or guidance on the use of the restrictive IDRS command code and the definer code, to ensure all TAC managers understand how to appropriately use the command code, and emphasize the importance of properly restricting the profiles for employees with open Form 809 receipt books.

**CORRECTIVE ACTION**

The remittance training currently underway for TAC managers includes procedures on proper use of the restrictive IDRS command code. It also includes training on the definer codes to ensure the profiles of employees with open Form 809 receipt books are properly restricted so they do not have the capability to adjust account balances, change the status of a tax account, or affect the tax liability.

**IMPLEMENTATION DATE**

November 15, 2005

**RESPONSIBLE OFFICIAL**

Director, Field Assistance, Wage and Investment Division



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**CORRECTIVE ACTION MONITORING PLAN**

We will monitor adherence to the use of restrictive IDRS command codes during operational reviews of the TACs.

**RECOMMENDATION 3**

The Commissioner, W&I Division, should ensure all TAC managers have verified that all employees with open Form 809 receipt books have restricted IDRS profiles.

**CORRECTIVE ACTION**

We have corrected the profiles of the employees who had open Form 809 receipt books and access to sensitive command codes. The TAC managers received instructions on how to properly restrict the profiles of these employees. Upon completion of the training, all Field Assistance Areas will be required to certify that all employees with open Form 809 receipt books have restricted IDRS profiles.

**IMPLEMENTATION DATE**

November 15, 2005

**RESPONSIBLE OFFICIAL**

Director, Field Assistance, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

We will monitor adherence to restricting the profiles of employees with open Form 809 receipt books during operational reviews of the TACs.