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IRS Takes Further Actions in Response to Internal Audit Review of the Use of Enforcement Statistics in the Collection Field Function

In September 1997, the Senate Finance Committee held hearings in which allegations of IRS employee evaluations based on enforcement statistics and abuses of taxpayer rights surfaced. The Internal Revenue Service took those allegations very seriously, and took a number of steps to determine the degree to which those allegations were true, as well as actions to reevaluate and change, if necessary, policies and procedures that may cause unintended consequences for taxpayers.

At the request of the then-acting Commissioner and the Chief Inspector, a number of internal reviews were initiated. The first of three reports on those reviews was released in December 1997, and focused on the use of enforcement statistics in the Arkansas-Oklahoma district. The second report was delivered to the Senate Finance Committee on Jan. 13, 1998. The third report will likely be issued in March.

Summary of Internal Audit Findings

The second report reviews the use of enforcement statistics in the Collection Field function at the national and regional levels, and in 12 districts (three from each of the IRS's four regions). The 12 districts were: *Midstates Region* - Arkansas-Oklahoma, North Central and South Texas districts; *Northeast Region* - Connecticut-Rhode Island, New Jersey and New England districts; *Southeast Region* - Georgia, Gulf Coast and North Florida districts; *Western Region* - Northern California, Pacific Northwest and Southwest districts.

The report concluded that the IRS has created an environment driven by statistical accomplishments that places taxpayer rights and a fair employee evaluation system at risk. The report presented the following four issues that collectively created this environment:

- The IRS's corporate performance measurement system, through a statistical ranking of the districts, encouraged the Collection Field function to emphasize enforcement results without corresponding emphasis on case quality; adherence to law, policy, and procedure; or taxpayer rights.

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- Three of the five corporate measures for the Collection Field Function fiscal year 1997 involved dollars collected.
 - District offices were ranked from number one through thirty-three based on the achievement of their goals.
 - The achievement of these goals was heavily cited in the self-assessments and annual evaluations of many branch chiefs, division chiefs and executives.
 - This emphasis led to an environment that heavily focused on achieving enforcement goals.
- Guidance on the use of statistics focused on productivity, did not reflect Chief Counsel advice, was developed with insufficient oversight, and encouraged sharing group goals and achievements.
 - To provide updated guidance to managers on effectively using statistics to manage programs and increase productivity, a task group convened early in FY 1995 to revise the Managing Statistics desk guide, first published in 1988, and updated in 1989 and 1992.
 - The resulting Document 9429, Managing Statistics: A Discussion Leaders' Guide for Collection Managers, published in July 1995, contained language that demonstrated a shift from customer service to increasing productivity.
 - Chief Counsel's review of the initial draft document identified questionable language that Collection did not appear to adequately resolve.
 - Although Internal Audit did not identify widespread use of enforcement statistics in revenue officer evaluations, they did identify considerably more use in group manager (managers who are in charge of a group of revenue officers) evaluations. Revenue officers and group managers work in an environment that stresses statistical goals and achievements, and the use of enforcement tools.

- The report did not identify widespread use of enforcement statistics in revenue officer evaluations. Only three percent of 1,565 evaluations contained direct references to enforcement statistics. Seven of the 12 districts had no violations, and 39 of the 52 violations occurred in one district.
 - Considerably more use of enforcement statistics were identified in group manager evaluations. References to enforcement statistics were contained in 129 of 339 group manager evaluations. Only two districts did not have any violations.
 - Approximately one-fourth of the revenue officers and group managers stated that they feel pressure to achieve enforcement goals and take enforcement actions.
- The TBOR-required certification process as practiced by management is essentially perfunctory in nature. National and regional oversight of the use of enforcement statistics and goals is limited.
 - TBOR requires district directors to certify quarterly whether any violations on the use of enforcement statistics have occurred. The process practiced by districts is perfunctory in nature; group managers and/or branch chiefs initiate the process by self-assessing that violations have not occurred.

How the IRS is Responding to the Findings

The IRS has already taken a number of steps in response to both the Senate Finance Committee hearings, and to the first audit report released in December. Those steps already taken will address many of the issues raised in the second audit report. Specifically, the IRS has already:

- Suspended the distribution of goals relating to revenue production to field offices, and stopped the practice of ranking the 33 districts on results.
- Required the Collection division chief's approval of all proposed seizures, and required the district director's approval of seizures of a residence, its contents, or perishable goods (effective Nov. 24, 1997)

- Redirected the efforts of the IRS's Measures Advisory Group to identify performance measures that will promote quality and appropriate case actions consistent with customer service and taxpayer rights issues,
- Started a review of all liens and levy procedures and practices.

The IRS has also taken a number of steps to improve its customer service to taxpayers, and provide a forum for their complaints. The IRS has:

- Initiated a Problem Solving Day in every district once a month that provides taxpayers the opportunity to meet face-to-face with district officials to resolve their tax problems.
- Opened the customer service help lines six days a week, 16 hours a day.
- Initiated with a contractor the development of a customer satisfaction survey for all business areas which interact with the public.
- Developed an employee feedback system with employees nationwide who interact with taxpayers to determine what poor treatment of taxpayers exists, what the causes of that poor treatment are, and suggested solutions

In response to the specific findings of the second audit report, the IRS has taken the additional following steps:

- On December 22, 1997, the Deputy Commissioner recalled Document 9429, Managing Statistics Within the Collection Function. Collection personnel were directed to rely on the overall guidance contained in Document 7300, Managing Statistics (1992). New guidance revisions are scheduled to be available by March 30, 1998.
- At the IRS's request, GAO is currently conducting an overall review of the quarterly certification process. Immediate action is being taken to include reviews of employee performance file materials and evaluations of managers in the certification process. The independence of the review process will also be increased. These changes in the certification process will result in new regular reviews of each district's compliance with the Taxpayer Bill of Rights, and will be effected by Feb. 15, 1998.

- The IRS will administratively apply TBOR to all enforcement activities, not just Collection, and it will expand P-1-20 to front line managers of enforcement personnel. Guidance communicating these changes will be issued by Feb. 15, 1998.
- Each of the compliance functions is currently reviewing all materials that influence the way compliance activities are managed in order to clarify expectations for all levels of management on the way in which they should be involved in the monitoring and management of case activity and engagement with their employees. These materials will be revised by May 1, 1998.
- The procedures that govern the clearance of documents containing reference to interpretation of Service policy will be strengthened so that any legal concerns raised by Chief Counsel will be adequately addressed. These strengthened procedures will be issued by Commissioner memorandum by Feb. 1, 1998.

These measures will remedy the specific issues raised by the second report. Additionally, the IRS Commissioner announced on Jan. 13 the following initiatives:

- A panel will be created to objectively determine disciplinary actions to be taken in cases arising from the Chief Inspector's investigation.
- Based on the results of the report, the IRS is reviewing the need to examine activities in all other IRS offices.
- The Commissioner is issuing a directive to all employees underscoring the importance of and the need to comply with the provisions of the Taxpayer Bill of Rights, and the severe consequences of failing to do so.

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