

**The Internal Revenue Service Needs to Ensure
Remittance Processing Controls Are Being
Followed**

May 2002

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

May 30, 2002

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

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

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Internal Revenue Service Needs to
Ensure Remittance Processing Controls Are Being Followed
(Audit # 200130031)

This report presents the results of our review of the Internal Revenue Service's (IRS) Remittance Processing Controls. The overall objective of this review was to determine whether the IRS met its goal of effectively and timely processing remittances to prevent the loss, theft, or embezzlement of taxpayer payments.

In summary, the IRS emphasizes sound cash management and timely remittance processing. In recognizing that remittances are subject to high risk for loss and theft, the IRS has established numerous controls. Overall, the IRS has sound written procedures to effectively and timely process remittances to prevent the loss, theft, or embezzlement of taxpayer payments. However, the Collection Field function (Cff) groups in the IRS' Territory Offices and the Payment Perfection Teller Units in the IRS' Submission Processing Centers did not always adhere to those procedures.

Without effective internal controls over remittances, the potential for losses and thefts is increased. The Office of Investigations, Treasury Inspector General for Tax Administration, conducts several investigations each year pertaining to the misuse of remittances intended for the IRS. However, our review did not identify any wrongdoing based upon the tests that we conducted.

We recommended that the Director, Compliance Policy, Small Business/Self-Employed (SB/SE) Division; the Director, Customer Account Services, SB/SE Division; and the Director, Customer Account Services, Wage and Investment (W&I) Division, address these areas by issuing memoranda to re-emphasize the remittance processing controls

specified in this report. The Director, Compliance Policy, SB/SE Division, should also consider instituting the Officer of the Day concept in all CFf groups to improve processing timeliness. Finally, the Director, Customer Account Services, W&I Division, should establish written procedures for conducting the quarterly inventory verification of unassigned Receipt for Payment of Taxes (Form 809) books, and review the program that generates the Annual Listing of Form 809 Receipt Book Report to ensure all Form 809 books assigned to employees are accounted for during the annual reconciliation.

Management's Response: The Commissioner, SB/SE Division, and the Commissioner, W&I Division, agreed with and plan to take corrective actions on all of the recommendations in the report. SB/SE Division management will be including a recommendation in the Internal Revenue Manual (IRM) to consider using the Officer of the Day concept and will be issuing a memorandum to the field groups re-emphasizing remittance procedures. W&I management distributed a Job-Aid for Review of Forms 809 to assist technicians with identifying critical errors on official reports; revised IRM to provide better explanations and examples of critical errors; and provided training to all managers in this area. Memoranda will be issued emphasizing adherence to the IRM guidelines and security over Form 809 books. The IRM will be updated to include specific procedures for conducting quarterly inventory verification of unassigned Form 809 books. W&I Division officials reviewed all of their databases that generate the Annual Listing of Form 809 Receipt Book Report and only found the malfunction in one site; this site will discontinue use of the database until the problem is resolved. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included in Appendix IV.

Copies of this report are also being sent to IRS officials who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

Prior to Fiscal Year (FY) 1999, the Field Office Teller function of the Internal Revenue Service (IRS) was responsible for processing all remittances received from taxpayers by Collection Field function (CFf) employees. Remittances include cash, checks, cashier checks, and money orders. In FY 1999, Field Office remittance processing duties were transferred into Submission Processing Center operations at the 10 IRS Campuses. This was based, in part, on recommendations from a multi-functional task group which conducted a 2-year study that concluded centralization would result in processing of remittances more efficiently and effectively.

The CFf groups in the IRS Territory Offices are now required to send tax receipts by overnight mail to the Payment Perfection Teller Unit in designated Submission Processing Centers for processing. Specific teller function duties that are now part of Submission Processing Center remittance processing include:

- Verification and review of the Daily Report of Collection Activity (Form 795).¹
- Issuance, tracking, and destruction of Receipt for Payment of Taxes (Form 809).²
- Preparation and issuance of Teller's Error Advice (Form 5919).³
- Examination and perfection of payment posting documents.
- Payment processing and deposits.

CFf employees are still responsible for securing remittances from taxpayers for payment of taxes. Once remittances are

¹ Form 795 is a control document used by CFf officials to transmit a package of returns, remittances, and payment posting vouchers and serves to identify the contents of the package.

² Form 809 is a receipt issued when a cash payment for taxes is received from a taxpayer or in other situations when a taxpayer specifically requests a receipt.

³ Form 5919 is a notice issued to CFf employees and their managers to notify them of errors on remittance documents that cannot be corrected by the Payment Perfection Teller Unit.

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received, collecting employees must ensure they are negotiable, prepare posting documents to ensure taxpayers' accounts are properly credited, and ship the remittances to the Payment Perfection Teller Unit in designated Submission Processing Centers for deposit.

Employees are required to forward remittances the same day as received or as soon as possible the next business morning, to ensure receipt in the Payment Perfection Teller Unit within 48 hours of receipt from the taxpayer. The criteria for timeliness is based on 31 U.S.C. § 3302 (2001), Money and Finance, Custodians of Money, that states money required to be deposited shall be deposited not later than the third day after the custodian receives the money.

The IRS emphasizes sound cash management and timely remittance processing. However, teller operations are inherently a high-risk operation for losses and thefts. Not implementing Internal Revenue Manual (IRM) controls over payment processing limits the IRS' ability to prevent material deficiencies and inhibits the IRS' ability to detect them on a timely basis. Ineffective management of taxpayer remittances could result in lost revenue, embezzlement, and/or increased taxpayer burden. In fact, each year the Office of Investigations, Treasury Inspector General for Tax Administration (TIGTA), conducts several investigations pertaining to the misuse of remittances intended for the IRS. However, our review did not identify any wrongdoing based upon the tests that we conducted.

We reviewed Remittance Processing activities in four CFf groups located in the Albuquerque, New Mexico; Denver, Colorado; Philadelphia, Pennsylvania; and Pittsburgh, Pennsylvania, Territory Offices, as well as in the Payment Perfection Teller Units located in the Ogden, Utah, and Philadelphia, Pennsylvania, Submission Processing Centers. We conducted our audit between September 2001 and February 2002. 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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Collection Field Function Groups Have Properly Implemented Two Remittance Processing Controls

All four Cff groups have successfully implemented two important controls. First, they were properly using overnight traceable mail to forward remittances received from taxpayers to the Payment Perfection Teller Unit in designated Submission Processing Centers. Each group appropriately prepared control documents to identify remittances within each overnight package in the event that a package is lost or destroyed. The use of overnight traceable mail greatly reduces the risk that remittances will not reach their appropriate destination and increases the opportunity for remittances to be timely deposited.

Secondly, all four Cff groups conducted the annual Form 809 reconciliation as directed by the Payment Perfection Teller Units. They verified receipt book assignments and accounted for receipts within each book using reconciliation lists provided by the units.

We conducted our own reconciliation of Form 809 books and receipts for 37 employees assigned to the four Cff groups. With one exception, we accounted for all of the books and receipts. The missing book was assigned to an employee who had separated from the IRS. Prior to separation, the employee had been on extended sick leave. During that period, there was a change in managers. Also, the separation occurred almost immediately after the employee had returned to work. Another factor that may have contributed to the loss of the book is that the separation occurred during the same year the Field Office remittance processing duties were transferred into Submission Processing Center operations. Due to these extenuating circumstances, management was unable to account for the Form 809 book. However, we determined that, under normal conditions, the territories are providing adequate accountability over Form 809 books.

Collection Field Function Groups Need to Adhere to Other Controls Over Remittances

Cff managers need to ensure that employees follow prescribed procedures for transmitting and safeguarding remittances, to better enable the IRS to prevent the loss, theft, or embezzlement of taxpayer payments.

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Remittances are not always being transmitted timely to the Payment Perfection Teller Units

We reviewed 775 taxpayer remittances,⁴ all of which were under \$100,000,⁵ received by CFf employees. We determined that 231 (30 percent) were not forwarded and received in the Payment Perfection Teller Units within 48 hours of receipt from the taxpayer (see Figure 1). Of the late remittances, 201 (87 percent) were received just 1 or 2 workdays late. Also, 217 (94 percent) of the late remittances were non-cash remittances.

Figure 1. Range of Delays and Number of Related Remittances

Workdays Late	Number of Remittances
1-2	201
3-6	28
12	1
19	1
Total	231

Source: TIGTA calculation from remittance documentation.

At the time of our review, the IRM stated that all taxpayer remittances less than \$100,000 received by CFf employees must be forwarded and received at the Payment Perfection Teller Unit in the designated Submission Processing Center within 48 hours of receipt from the taxpayer. The former National Office Collection Division, on January 12, 2000, granted a deviation to this timeliness criteria for employees

⁴ For the four CFf groups we visited, we selected all remittances for which a Form 809 was issued during the period January 1 through June 30, 2001, and all non-cash remittances received during the period June 1 through June 30, 2001.

⁵ We did not identify any remittances received during the period of our review in the amount of \$100,000 or more.

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who work part time out of their residences or in the field. As a result, there was no timeliness criterion for these employees until the IRM was revised on January 1, 2002. Therefore, remittances received by these employees are not included in the above figures.

Two of the CFf groups we visited had a designated employee serve as the Officer of the Day. The Officer of the Day was responsible for processing remittances for employees who were out of the office on a given day. The group managers rotated this responsibility among each of the employees in the group. Of the 337 remittances these 2 offices processed, only 20 (6 percent) were not timely forwarded to the Payment Perfection Teller Units. Of the 20 late remittances, each was received only 1 or 2 workdays late.

Management in the other two offices we visited stated that it was up to each employee to ensure their remittances were processed timely. If they were going to be out of the office, they were required to make arrangements with another employee to process their remittances. Of the 438 remittances these 2 offices processed, 211 (48 percent) were not timely forwarded to the Payment Perfection Teller Units.

Delays in forwarding remittances to the Payment Perfection Teller Units increase the risk for theft and lost interest to the government.

CFf groups did not always follow procedures to ensure remittances were received in the Payment Perfection Teller Units

As previously stated, each of the four CFf groups prepared and maintained control documents to identify remittances within each package in the event that a package was lost or destroyed. When the Payment Perfection Teller Units returned an acknowledgement of receipt copy of the control document, the groups would associate or replace it with the original control document.

However, if the CFf groups did not receive the acknowledgement of receipt promptly, they did not always follow up to determine what had happened. Specifically, only one of the four groups contacted the Payment

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Perfection Teller Unit when they did not receive an acknowledgement of receipt. However, they did not ensure they made this contact within the required 10 workdays because their procedures were to follow up only at the end of each month. The reason three groups did not follow up at all was that their managers were not aware of any problems with lost packages.

The IRM states that CFf group managers are responsible for the security of taxpayer receipts and accountability of funds until they are received in the Payment Perfection Teller Units. Senders must follow up with the destination unit within 10 workdays on deposit packages not acknowledged.

If a remittance package is lost and a group does not timely follow up with the destination unit, it becomes less likely that the remittance package will be recovered with each passing day.

CFf groups need to strengthen physical security over remittances

Three of the four CFf groups maintained remittances in areas that were accessible to employees outside of the Collection group. In some instances, remittances were left out in the open on employees' desks. In other instances, they were placed in an unlocked cabinet that was located in a general area within the office.

The IRM states that remittances are to be stored in locked containers. Also, in order to prevent theft, remittances are not to be left unattended, even in IRS offices.

Although access to the areas was not limited specifically to CFf employees, access was restricted to IRS employees. Therefore, group managers did not consider the above factors to be of high risk for loss of remittances. However, the guiding principle of security within the IRS is limiting access to assets based on "need," not simply whether someone is an IRS employee. An employee "needs" access to assets if he or she requires such access to perform assigned duties and responsibilities.

The locations of the remittances were such that misappropriation by an employee outside of the Collection

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group could go without detection. Also, the identity of the perpetrator of such action would be difficult to determine. After recognizing that access to employees outside of the Collection group exposed the remittances to unnecessary risk, each of the three managers agreed to keep remittances in a more secure location.

Recommendations

The Director, Compliance Policy, Small Business/Self-Employed Division (SB/SE), should:

1. Consider adopting the Officer of the Day concept as a “Best Practice.” Results in the two CFf groups using this concept indicate it would significantly reduce the volume of timeliness problems in transmitting remittances to the Payment Perfection Teller Units.
2. Issue a memorandum to re-emphasize procedures for CFf groups to follow up when acknowledgement of receipt is not timely received for remittances forwarded to the Payment Perfection Teller Unit and to re-emphasize controls in the IRM to maintain physical security over remittances.

Management’s Response: SB/SE Division management agreed with the recommendations. They plan to include a recommendation in the IRM 5.1.2 for local management to consider using the Officer of the Day concept to ensure timely processing. This new IRM section is now in clearance. They will also issue a memorandum to the CFf field groups re-emphasizing specified procedures.

Payment Perfection Teller Units Need to Better Follow Certain Remittance Perfection Procedures

Payment Perfection Teller Unit management needs to ensure that employees follow procedures for identifying and accounting for remittance errors, to help reduce the risk of loss, theft, or embezzlement of taxpayer payments.

Payment Perfection Teller Units need to ensure all errors are identified and reported

Remittance perfection technicians are to review the numerous remittance documents received from the CFf groups. The correctness of these documents is important because they contain information to credit the payments to

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taxpayers’ accounts. If certain types of errors are found on these documents, a Form 5919 is required to notify the originating employees and/or their supervisors. Other types of errors are annotated on the Form 795 Transmittal that is sent back to the CFf groups to acknowledge receipt of the remittances. On a monthly basis, the Payment Perfection Teller Unit in the Submission Processing Centers will prepare the Trends and Patterns Report. This report informs the Territory Offices of the cumulative total of each type of error.

We determined that the Payment Perfection Teller Units identified and reported only 71 (28 percent) of the 256 CFf errors we noted on the 775 remittances that we reviewed (see Figure 2). Further, remittance perfection technicians were not consistently identifying errors. One Payment Perfection Teller Unit identified 61 (61 percent) of the 100 errors we found on reviewed remittances processed by that unit. The other Payment Perfection Teller Unit identified only 10 (6 percent) of the 156 errors we noted.

Figure 2. Number and Types of Collection Field Function Errors Identified vs. Reported

Type of Error	Errors We Identified	Errors Reported by Submission Processing Centers
Untimely Transmittal from Territory Office to the Submission Processing Center	231	62
Untimely Cash Conversion	2	0
Form 809 Missing Cash Conversion Data	11	6

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Type of Error	Errors We Identified	Errors Reported by Submission Processing Centers
Form 809 Missing DPC ⁶	11	3
Incorrect Taxpayer Identification Number	1	0
Total	256	71

Source: TIGTA analysis of remittance documentation.

A contributing factor to the difference between the units was that several employees for one unit were new to their position and were not well acquainted with procedures. A factor that contributed to the condition for both units was that the IRM did not clearly define error conditions.

A recent internal review of remittances in one unit revealed that technicians were not properly identifying errors. In recognition of the IRM limitation, a desk guide was prepared, subsequent to the period of our review, which provides detailed information for the technicians to follow when reviewing remittance documents for errors. The desk guide should reduce the number of unidentified errors. Also, recent revisions to the IRM to more clearly define error conditions should help with error identification.

CFf employees will continue to make errors unless they are made aware of their mistakes. Also, errors create unnecessary delays in processing of remittances.

⁶ A Designated Payment Code (DPC) serves to facilitate identification of payments, indicate application of a payment to a specific liability, and identify the event that resulted in a payment.

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One Payment Perfection Teller Unit did not accurately account for all timeliness errors

When CFf groups are late in forwarding remittances received from taxpayers, Payment Perfection Teller Units are responsible for accumulating the number of timeliness errors. Although there are no specific procedures in the IRM regarding this issue, the Wage and Investment (W&I) Division Headquarters office provided verbal guidance to the Payment Perfection Teller Units directing them to record one timeliness error for each late remittance. However, due to miscommunication or misunderstanding, one unit was recording timeliness errors based on the number of late transmittal forms rather than the number of remittances listed on the transmittals.

As a result, the error totals reported become misleading and do not provide accurate information to use in managing operations. Timeliness errors should be calculated based on the individual remittances listed on a transmittal rather than the transmittal itself to give management a true picture of the volume and impact of the errors.

Procedures for following up on “response required” error notices need to be strengthened

For critical CFf errors that cannot be corrected by the Payment Perfection Teller Unit, the IRM requires the unit to ensure the manager of the field employee responds within 15 workdays to the Form 5919 error notice. However, neither unit reviewed took action to ensure they received responses within 15 workdays.

Both Payment Perfection Teller Units maintained files of “response required” error notices. When they received a response from the group manager they would pull the notice and place it in the completed file. Employees in each Payment Perfection Teller Unit periodically reviewed the file for outstanding notices. However, there was no formal procedure to track the notices to determine when 15 workdays had elapsed or for following up with the groups in the event that a response was not timely received.

Unless the Payment Perfection Teller Units ensure they receive timely responses in these cases, the importance of

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the error notices will lose significance and the related errors will likely continue.

Payment Perfection Teller Units need to prepare monthly narrative statements of error trends

In a previous audit,⁷ the TIGTA reported that management did not have the ability to measure or monitor timeliness for all CFf remittances processed by the Payment Perfection Teller Units. The auditors recommended measuring, through Trends and Patterns Reports, the timeliness with which all territory groups forward remittances to units. The IRS agreed to issue procedures to the units to review the Trends and Pattern Report on a monthly basis for the timeliness of remittance processing.

As a result, IRM procedures were updated to require the Payment Perfection Teller Units to prepare a narrative statement of error trends for inclusion with the monthly Trends and Patterns Report. However, neither unit was aware of the requirement and was, therefore, not preparing the narrative statement.

Without a vehicle to measure and monitor timeliness, the IRS does not have a control to ensure revenue is maximized.

Recommendation

3. The Director, Customer Account Services, W&I Division, should issue a memorandum to re-emphasize remittance processing procedures to ensure the Payment Perfection Teller Units are properly accounting for all errors, monitoring for corrective actions by group managers within 15 workdays, and preparing narrative statements of error trends.

Management's Response: W&I Division management agreed with our recommendation. They conducted program reviews of all Submission Processing Campuses at the same time as our review. In November 2001, they distributed a

⁷ IRS Inspection Service (now TIGTA) audit report entitled, *Review of Remittance Processing Activities* (Reference Number 082503, dated March 1998).

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Job-Aid for Review of Form 809 to assist remittance perfection technicians with identifying critical errors on official receipts. Also, they revised the IRM 3.8.45 to provide better explanations and examples of critical errors. Headquarters Submission Processing also trained all managers on critical error detection and program reviews in August 2001.

Payment Perfection Teller Units Need to Strengthen Controls Over Form 809 Books

Management in Payment Perfection Teller Units should improve controls over unassigned Form 809 books to further reduce the risk of loss, theft, or embezzlement of taxpayer payments.

Numerous employees had access to the inventory of unassigned Form 809 books in one Payment Perfection Teller Unit

The IRM states that Form 809 book receipts are a representation of money and are to be handled with the same care, precision, and strict control as cash. The IRM also states that accountability and control of unassigned Form 809 books must be assigned to one individual, with an appropriate backup individual.

However, in one Payment Perfection Teller Unit, there were 13 individuals with access to the unassigned Form 809 book inventory. Of the 13 individuals, 8 were authorized to open the cabinet where the unassigned books were stored, thereby providing them with direct access to the inventory. The remaining five individuals were able to gain access by requesting the cabinet be opened by one of the other eight employees. Once the cabinet is opened, employees have unsupervised access. This allows 13 individuals the opportunity to remove Form 809 books from inventory for improper use, without any means for management to identify the perpetrator of such an offense.

Management of the Payment Perfection Teller Unit felt it was necessary to provide such access due to limitations in staff size and the need to provide quick response to requests from the field for Form 809 books. However, the other Payment Perfection Teller Unit was able to meet the field's needs by only allowing three employees access to the books.

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Quarterly inventory verifications did not properly account for all unassigned Form 809 books

The 2 Payment Perfection Teller Units maintained an inventory of 552 unassigned Form 809 books. The IRM states that the unit managers must verify this inventory at least once each quarter. The IRM also states that unit managers are responsible for ensuring the accountability and control of unassigned Form 809 books.

Both Payment Perfection Teller Units have been conducting the quarterly inventory verification of unassigned Form 809 books. However, the verification procedures were not sufficient to ensure control over the inventory. In one Payment Perfection Teller Unit, the individual who conducted the verification also had access to the inventory as part of his or her regular duties, creating a separation of duties conflict. In the other unit, the quarterly Inventory Verification Report did not identify the serial numbers of the books in inventory. This prevented the subsequent reviewer from establishing a beginning inventory. Finally, in both units, there were no procedures for confirmation of books received into inventory or books assigned to employees. This prevented the reviewer from accounting for any changes in inventory since the prior quarterly inventory verification.

Although the IRM provides reporting requirements for the quarterly inventory verification, it does not provide any specific procedures for conducting the verification. Insufficient inventory controls increase the risk that a Form 809 book could be used improperly to commit fraud and embezzlement.

Annual inventory reconciliations did not properly account for all assigned Form 809 books

Payment Perfection Teller Units are responsible for overseeing the annual Form 809 inventory reconciliation. They are required to prepare an Annual Listing of Form 809 Receipt Book Report of all Form 809 books assigned to employees. They then provide the report to the appropriate territory managers who are responsible for matching the inventory records of the Payment Perfection Teller Unit

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with those of the Territory Offices and accounting for all Form 809 book receipts.

However, one Payment Perfection Teller Unit did not account for all assigned Form 809 books when conducting the reconciliation. We identified one Form 809 book that was included in the assigned inventory on the Form 809 database but was not listed on the reports generated from the database for the annual reconciliations conducted in FYs 2000 and 2001.

The Payment Perfection Teller Unit was unable to identify why the book was not included on the reports. Unit employees had received only basic training on operating the Form 809 inventory system, and no one within the unit had enough knowledge of the system to explain how the report was created. We were only able to ascertain that the report was not generated based on Form 809 book serial numbers. If it were, the book in question would have been identified as a discrepancy. Therefore, there appears to be a problem with the programming of the inventory system report.

Uncontrolled Form 809 book receipts can be used to commit fraud and embezzlement.

Recommendations

The Director, Customer Account Services, SB/SE Division, and the Director, Customer Account Services, W&I Division, should:

4. Issue a memorandum to re-emphasize procedures and controls in the IRM to maintain security over Form 809 books.
5. Update the IRM to establish specific procedures for conducting the quarterly inventory verification of unassigned Form 809 books.
6. Review the program that generates the Annual Listing of Form 809 Receipt Book Report to ensure each Form 809 book assigned to an employee is accounted for during the annual reconciliation. Also, ensure that individuals responsible for accountability and control of the Form 809

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book inventory have received extensive training on operating the inventory system.

Management's Response: Management of the SB/SE and W&I Divisions agreed with our recommendations. The Directors, Customer Account Services, in both divisions will issue memoranda to their Campuses emphasizing adherence to the IRM guidelines and security over Form 809 books. In the interim, W&I Division management re-emphasized limiting access to Form 809 books in a conference call with all Payment Perfection Managers in March 2002, and reduced the number of employees in the one Submission Processing Center having access to the Form 809 books. Further, the SB/SE Division's Planning and Analysis staff will ensure the Deposit Function is adhering to the IRM procedures.

The IRM will be updated to include specific procedures for conducting the quarterly inventory verification of unassigned Form 809 books in the January 2003 edition of IRM 3.8.45.

All the W&I Division databases were reviewed that generate the Annual Listing of Form 809 Receipt Book Report, and the only site with the malfunction was Philadelphia. Philadelphia will discontinue use of the database pending resolution of local technology issues, and will arrange software training for employees.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine if the Internal Revenue Service (IRS) met their goal of effectively and timely processing remittances to prevent the loss, theft, or embezzlement of taxpayer payments. To accomplish our objective, we:

- I. Determined if all Receipts for Payment of Taxes (Form 809)¹ in the possession of all Collection Field function (CFf) employees within four groups at the Territory Offices selected for review² were properly accounted for and controlled.
 - A. Conducted a physical verification of Form 809 books.
 1. Identified issued receipts and determined whether they were accounted for by the Payment Perfection Teller Unit in the Submission Processing Centers.
 2. Identified outstanding receipts in the possession of employees and determined whether there were any delays in forwarding them to the Payment Perfection Teller Unit.
 3. Accompanied employees to verify cash box contents for cash payments received but not forwarded to the Teller Unit.
 4. Identified unissued receipts and determined whether numerical sequence was maintained and whether all four parts were intact.
 - B. Evaluated the last annual reconciliation of Form 809 receipts and determined if discrepancies were properly resolved.
 - C. Determined whether employees assigned Form 809 books had Integrated Data Retrieval System (IDRS)³ adjustment capabilities.
 - D. Evaluated controls for transmittal of remittances and related processing documents from the CFf in the Territory Offices to the Payment Perfection Teller Unit in the Submission Processing Centers, including verification of receipt in the center.

¹ Form 809 is a receipt issued when a cash payment for taxes is received from a taxpayer, or in other situations when a taxpayer specifically requests a receipt.

² We selected two Submission Processing Centers based on the volume and dollar amount of remittances processed. For each center, we then selected two CFf groups (total of four) based upon size and location of employees, specifically those offices having about ten Revenue Officers located in the same office.

³ The IDRS is a computer system capable of retrieving or updating stored information. It works in conjunction with taxpayers' account records.

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- II. Determined if Forms 809 were properly accounted for and controlled by the Payment Perfection Teller Units.
 - A. Evaluated the controls and physical security of unassigned Form 809 books.
 - B. Evaluated the last quarterly review of unassigned Form 809 books and determined if discrepancies were properly resolved.
 - C. Inventoried unassigned Form 809 books and reconciled counts to Payment Perfection Teller Unit records.
 - D. Determined whether outstanding Form 809 books in the possession of CFf employees within the selected groups had been properly authorized by the employee's manager and acknowledged as received by the employee.
 - E. Determined whether there was a separation of duties among the custodian of unassigned Form 809 books, employees authorized to issue receipts, employees authorized to post payments, employees that perform the quarterly inventory verifications, and employees that perform the annual reconciliation.
- III. Evaluated the use of Teller's Error Advice (Form 5919)⁴ to ensure the timeliness and accuracy of remittance processing for all CFf employees within the four groups selected for our review.
 - A. Reviewed Form 809 receipts (from each employee's current receipt book) and related transmittals (e.g., Daily Report of Collection Activity [Form 795]⁵), to identify errors in preparation and delays in submission. We selected all 48 remittances received during the period January 1 to June 30, 2001,⁶ from files maintained in the Payment Perfection Teller Units.
 - 1. Compared the transaction dates on the receipts with the cash conversion dates to identify cash conversions more than 1 business day later than the date of receipt from the taxpayer.
 - 2. If a remittance amount was less than \$100,000, compared the transaction date on the receipt with the date of the transmittal to identify shipments of remittances to the Payment Perfection Teller Unit more than 1 business day later than the date of receipt from the taxpayer.

⁴ Form 5919 is a notice issued to CFf employees and their managers to notify them of errors on remittance documents that cannot be corrected by the Payment Perfection Teller Unit.

⁵ Form 795 is a control document used by CFf officials to transmit a package of returns, remittances, and payment posting vouchers and serves to identify the contents of the package.

⁶ We selected this time period because it was recent enough that the related documentation would be available for review, while old enough that processing should have been completed by the time of our review.

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

3. If a remittance amount was \$100,000 or more, compared the transaction date on the receipt with the date of the transmittal to identify shipments of remittances to the Payment Perfection Teller Unit 1 or more business days later than the date of receipt from the taxpayer.⁷
 4. Reviewed receipts to identify critical errors⁸ in Form 809 preparation.
 5. Compared Parts 1 and 3 of the receipts to identify differences in information.
 6. Reviewed receipts to identify uncorrected non-critical errors in Form 809 preparation.
- B. Reviewed non-cash remittances to identify delays in submission. We selected all 727 remittances received during the period June 1 to June 30, 2001,⁹ from files maintained in the Payment Perfection Teller Units.
1. If a remittance amount was less than \$100,000, compared the transaction date of the remittance with the date of the transmittal to identify shipments of remittances to the Payment Perfection Teller Unit more than 1 business day later than the date of receipt from the taxpayer.
 2. If a remittance amount was \$100,000 or more, compared the transaction date of the remittance with the date of the transmittal to identify shipments of remittances to the Payment Perfection Teller Unit 1 or more business days later than the date of receipt from the taxpayer.¹⁰
- C. Compared errors and timeliness issues identified in the previous steps with Forms 5919 for the same period and determined if errors and timeliness issues were properly recorded on the Forms 5919.
- D. Determined whether managers ensured appropriate actions were taken to correct the errors identified on the Forms 5919 and obtained documentation to identify their involvement.

⁷ We did not identify any Form 809 related remittances received during the period of our review in the amount of \$100,000 or more.

⁸ Examples of critical errors include Forms 809 were received out of sequence; dates on Forms 809 were not sequentially listed; and alterations, erasures or markovers were made on critical items such as name, Taxpayer Identification Number, dollar amount, or issuance date.

⁹ We selected this time period because it was recent enough that the related documentation would be available for review, while old enough that processing should have been completed by the time of our review.

¹⁰ We did not identify any non-cash remittances received during the period of our review in the amount of \$100,000 or more.

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- E. Compared Forms 5919 with the Monthly Trends and Patterns Report¹¹ for the same period and determined if all errors were listed.
 - F. Determined how the information on the Trends and Patterns Report is used by Territory Offices, Submission Processing Centers, and national level management.
- IV. Determined if corrective actions were taken to address recommendations from a prior audit.¹²
- A. Determined whether Payment Perfection Teller Unit management reviewed the Trends and Patterns Reports on a monthly basis for the timeliness of remittance processing.
 - B. Determined whether the Payment Perfection Teller Units evaluated the timeliness of CFf payments in the amount of \$100,000 or more received in the Submission Processing Centers.
 - C. Determined whether the Payment Perfection Teller Units reconciled remittances against the accompanying transmittal forms received from CFf groups.

¹¹ The Trends and Patterns Report is an error report issued to Territory Office managers to notify them of the monthly cumulative total of errors on remittance documents identified by the Payment Perfection Teller Unit, organized by type, Territory Office, and group.

¹² We followed up on three recommendations included in the IRS Inspection Service (now Treasury Inspector General for Tax Administration) audit report entitled, *Review of Remittance Processing Activities* (Reference Number 082503, dated March 1998).

**The Internal Revenue Service Needs to Ensure Remittance Processing Controls
Are Being Followed**

Appendix II

Major Contributors to This Report

Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs)

Parker F. Pearson, Director

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**The Internal Revenue Service Needs to Ensure Remittance Processing Controls
Are Being Followed**

Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Small Business/Self-Employed Division S
Deputy Commissioner, Wage and Investment Division W
Director, Compliance Policy, Small Business/Self-Employed Division S:C:CP
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division S:C:CP:I
 Commissioner, Wage and Investment Division W:CAS:PCS

The Internal Revenue Service Needs to Ensure Remittance Processing Controls
Are Being Followed

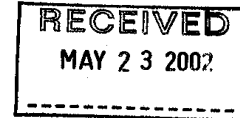
Appendix IV

Management's Response to the Draft Report



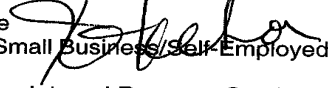
COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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



MAY 21 2002

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Joseph G. Kehoe 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Report – The Internal Revenue Service Needs to Ensure
Remittance Processing Controls Are Being Followed
(Audit #200130031)

We are pleased that you recognized our emphasis of sound cash management and timely remittance processing in your review. We also agree on the need to emphasize strict adherence to our existing procedures and ensure the effectiveness of our controls over this process.

Our Wage and Investment Division (W&I) conducted program reviews of all W&I Submission Processing Campuses, which included the same period of your audit. Their internal review findings led to several program improvements including:

- A Field Office Payment Processing Program Review Guide to assist officials with conducting a review, which is required annually by a designee of the Field Director, Submission Processing.
- Monthly reviews of Form 809 audit files in Receipt and Control by security teams to determine critical error detection/reporting. Security teams consist of officials outside of Receipt and Control management. Critical errors are those errors most often associated with potential fraud and embezzlement.
- Job-Aid for Review of Form 809 to assist remittance perfection technicians with identifying critical errors on official receipts.
- Rewrite of the January 2002, edition of IRM 3.8.45 to provide better explanations and examples of critical errors.
- Revision of Form 5919, Teller's Error Advice (October 2001) to include a space for annotating the volume of late remittances.
- Addition of Exhibit 101 (Files Requirements) to IRM 3.8.45. The manual requires campuses to update their centralized control file for Form 5919, Teller's Error Advice, at least every 5 days. They must organize the file by field office, in date order, to ensure adequate follow-up and establish a suspense mechanism to identify overdue responses.

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

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Both the Small Business/Self-Employed Division (SB/SE) and the W&I Division will use your recommendations to help us continue to improve our remittance processing.

Our comments on the recommendations follow:

RECOMMENDATION 1

Consider adopting the Officer of the Day concept as a "Best Practice." Results in the two Collection Field function (CFf) groups using this concept indicate it would significantly reduce the volume of timeliness problems in transmitting remittances to the Payment Perfection Teller Units.

ASSESSMENT OF CAUSE

Results from the CFf offices using this concept indicate it could reduce the volume of timeliness problems in transmitting remittances to the Payment Perfection Teller Units.

CORRECTIVE ACTION(S)

We have included a recommendation in Internal Revenue Manual (IRM) 5.1.2 (in clearance) for local management to consider use of the Officer of the Day concept to ensure timely processing.

IMPLEMENTATION DATE

September 1, 2002 (proposed publication date for revised IRM 5.1.2)

RESPONSIBLE OFFICIAL(S)

Director, Filing and Payment Compliance, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN(S)

The Program Manager, Collection General Processes will tell the Director, Filing and Payment Compliance, SB/SE Division if the publication is delayed.

RECOMMENDATION 2

Issue a memorandum to reemphasize procedures for CFf groups to follow up when acknowledgement of receipt is not timely received for remittances forwarded to the Payment Perfection Teller Unit and to reemphasize controls in the IRM to maintain physical security over remittances.

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

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ASSESSMENT OF CAUSE

We have sound written procedures for CFf, however, we did not always adhere to these procedures.

CORRECTIVE ACTION(S)

We will issue a memorandum to the field reemphasizing procedures for CFf groups. The memorandum is in clearance.

IMPLEMENTATION DATE

July 1, 2002

RESPONSIBLE OFFICIAL(S)

Director, Filing and Payment Compliance, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN(S)

The Program Manager, Collection General Processes, will advise the Director, Filing and Payment Compliance, SB/SE Division, if the memorandum is delayed.

RECOMMENDATION 3

The Director, Customer Account Services, W&I Division, should issue a memorandum to reemphasize remittance processing procedures to ensure the Payment Perfection Teller Units are properly accounting for all errors, monitoring for corrective actions by group managers within 15 workdays, and preparing narrative statements of error trends.

ASSESSMENT OF CAUSE

Payment Perfection Teller Units did not routinely detect critical errors on official receipts and complete Form 5919, Teller's Error Advice, informing field office managers January - June 2001. Headquarters Submission Processing identified this finding during its 2001 program review of Field Office Payment Processing. As a result, we took the corrective actions listed below, which replace the need for a memorandum from the Director, Customer Accounts Services reemphasizing processing procedures.

CORRECTIVE ACTION(S)

In January 2002, security teams began monthly reviews of Form 809 audit files to determine if Payment Perfection teller units detected, and reported appropriately, critical errors on 809 receipts. Security teams consist of officials outside the management of

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

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Receipt and Control. Critical errors are those errors most often associated with potential fraud and embezzlement.

In November 2001, we distributed a Job-Aid for Review of Form 809 to assist remittance perfection technicians with identifying critical errors on official receipts.

A rewrite of the January 2002 edition of IRM 3.8.45 provided better explanations and examples of critical errors. In March 2001, Headquarters Submission Processing in partnership with TIGTA trained all managers on critical error detection.

In August 2001, Headquarters Submission Processing trained the Philadelphia Submission Processing Center managers and officials on critical error detection and program reviews.

IMPLEMENTATION DATE

We completed all corrective actions listed above by November 30, 2001.

RESPONSIBLE OFFICIAL(S)

Director, Submission Processing, Customer Account Services, W&I Division

CORRECTIVE ACTION MONITORING PLAN(S)

Not applicable.

RECOMMENDATION 4

The Director, Customer Account Services, SB/SE Division, and the Director, Customer Account Services, W&I Division, should issue a memorandum to reemphasize procedures and controls in the IRM to maintain security over Form 809 books.

ASSESSMENT OF CAUSE

Philadelphia was cited for having 13 employees with access to 809 inventories, a violation of IRM 3.8.45 guidelines, which state 809 controls, should be assigned to one individual with appropriate backup. Also, we had a turnover of trained employees and current personnel had not received the proper training.

CORRECTIVE ACTION(S)

The Director, Customer Account Services, W&I Division will issue a memorandum to W&I campuses by July 2002, emphasizing adherence to IRM guidelines and security over Form 809 books. In the interim, Philadelphia has reduced the number of individuals with access, and we reemphasized the limited access in a conference call with Payment Perfection Teller Managers in March 2002.

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

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The Director, Customer Account Services, SB/SE Division will issue a memorandum to SB/SE campuses by July 2002, emphasizing adherence to IRM guidelines and security over Form 809 books. In the interim, the Planning and Analysis (P&A) staff will ensure the Deposit Function is adhering to the IRM procedures.

IMPLEMENTATION DATE

August 1, 2002

RESPONSIBLE OFFICIAL(S)

Director, Submission Processing, Customer Account Services, W&I Division
Director, Customer Account Services, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN(S)

The staff of the Chief, IMF Branch, W&I Division will advise the responsible official of any delays in implementation.

The P&A analyst will verify that staff adheres to the memorandum and keep Headquarters analysts informed of any deviations from the IRM.

RECOMMENDATION 5

The Director Customer Account Services, SB/SE Division, and the Director, Customer Account Services, W&I Division, should update the IRM to establish specific procedures for conducting the quarterly inventory verification of assigned Form 809 books.

ASSESSMENT OF CAUSE

Our manual guidelines require an impartial reviewer to verify the 809 inventories by serial number.

CORRECTIVE ACTION(S)

We will include specific procedures for conducting the quarterly inventory verification of unassigned Form 809 books in the January 2003 edition of IRM 3.8.45.

IMPLEMENTATION DATE

February 1, 2003

The Internal Revenue Service Needs to Ensure Remittance Processing Controls Are Being Followed

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RESPONSIBLE OFFICIAL(S)

Director, Submission Processing, Customer Account Services, W&I Division
Director, Customer Account Services, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN(S)

The staff of the Chief, IMF Branch, W&I Division will advise the responsible official of any delays in implementation.

RECOMMENDATION 6

The Director, Customer Account Services, SB/SE Division, and the Director, Customer Account Services, W&I Division, should review the program that generates the Annual Listing of Form 809 Receipt Book Report to ensure each Form 809 book assigned to an employee is accounted for during the annual reconciliation. Also, ensure those individuals responsible for accountability and control of the Form 809 book inventory have received extensive training on operating the inventory system.

ASSESSMENT OF CAUSE

The database in Philadelphia malfunctioned.

CORRECTIVE ACTION(S)

Headquarters reviewed all W&I databases. Philadelphia was the only site with the malfunction. Philadelphia will discontinue use of its database pending resolution of local technology issues and arrange software training for employees by June 2002.

IMPLEMENTATION DATE

July 1, 2002

RESPONSIBLE OFFICIAL(S)

Director, Submission Processing, Customer Account Services, W&I Division

CORRECTIVE ACTION MONITORING PLAN(S)

The Field Director, Submission Processing, Philadelphia and Chief, IMF Branch, W&I Division, will advise the responsible official of any delays in implementation.

If you have any questions about this response, please contact Joseph R. Brimacombe, Director, Compliance Policy, Small Business/Self-Employed, at (202) 283-2150.