

December 1986

TAX
ADMINISTRATION

IRS Can Improve Its
Collection Procedures
for Taxpayers Living
Overseas







United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-223909

December 12, 1986

The Honorable Lawrence B. Gibbs
Commissioner of Internal Revenue
Department of the Treasury

Dear Mr. Gibbs:

We have completed our review of how the Internal Revenue Service (IRS) collects taxes from U.S. taxpayers who live in foreign countries and use Army Post Office (APO) and Fleet Post Office (FPO) addresses. We found that IRS has two separate collection processes for U.S. taxpayers living in foreign countries—one for those who use APO/FPO addresses and one for those who use regular foreign mailing addresses. In our opinion, the process used for taxpayers with regular foreign mailing addresses is better for locating and contacting U.S. taxpayers living in foreign countries and should also be used for taxpayers with APO/FPO addresses.

Background

According to IRS data, about 700,000 individual tax returns were filed by U.S. taxpayers living in foreign countries in tax year 1983. Of these, about 250,000 used regular foreign mailing addresses and about 450,000 used the APO/FPO mail system, which is managed by the Military Postal Service. The APO/FPO mail system can be used by military and civilian federal personnel and by certain nonfederal personnel, such as government contractors, who are stationed overseas. The rates are the same as domestic U.S. postal rates under agreements between the U.S. Postal Service and foreign postal authorities.

Mail going to any one of the more than 500 APO/FPO post offices, which are located in more than 70 countries or regions, is first routed through a U.S. Postal Service facility in one of four "gateway cities"—Miami, New York City, San Francisco, or Seattle. Each of these four cities serves a particular region of the world. The actual APO/FPO location may be a city, such as Frankfurt, West Germany; a military facility, such as Clark Air Base in the Philippines; a ship, such as the aircraft carrier U.S.S. Nimitz; or a distinct geographic area, such as the island of Okinawa.

Objectives, Scope, and Methodology

Our objectives were to evaluate collection policies and procedures as they relate to APO/FPO taxpayers and to identify alternatives for any needed improvements in the APO/FPO collection process. During our review, we obtained information from IRS'

- National Office and Foreign Operations District (FOD)¹ in Washington, D.C.;
- service centers in Atlanta, Georgia; Brookhaven, New York; and Fresno, California;
- Automated Collection System (ACS) call sites in Jacksonville, Florida; Manhattan, New York; Newark, New Jersey; and Oakland, California;
- district offices in Manhattan, New York; Newark, New Jersey; and San Francisco, California; and
- field offices in Jersey City, New Jersey, and Miami, Florida.

The service centers, call sites, district offices, and field offices that we selected are responsible for collection actions on APO/FPO cases. The Ogden (Utah) Service Center, Seattle (Washington) call site, and Portland (Oregon) district office also have APO/FPO collection responsibilities. Because collection responsibilities were being reassigned within those offices at the time we started our work, we chose not to include them in our review.

We obtained information about the APO/FPO collection process and about IRS' collection process for other taxpayers living overseas by reviewing relevant policies, procedures, and statistics and interviewing IRS collection officials and staff in Washington and in the field. We also arranged for a small, unscientific sample of ongoing APO/FPO collection cases to be transferred from district and field offices to FOD in an attempt to demonstrate FOD's ability to handle such cases more effectively. Our work, which was done from May through November 1985, was performed in accordance with generally accepted government auditing standards.

¹After we had completed our audit work, IRS abolished FOD and transferred responsibilities to the newly created Office of the Assistant Commissioner (International). For expediency, we will continue to refer to the organization as FOD.

Collection Process for Taxpayers Using Foreign Mailing Addresses

FOD, which is headquartered in Washington, D.C., and which has permanent or temporary posts in many foreign cities, is responsible for collecting taxes from overseas taxpayers who use a regular foreign mailing address. These taxpayers are required to file their tax returns at IRS' Philadelphia Service Center. Because FOD is responsible for overseas collections, it is staffed and organized to locate and contact U.S. taxpayers living outside the United States. For example, FOD's collection staff has access to overseas information sources, such as U.S. embassies and consulates, military bases, and foreign telephone directories. Also, a collection case being worked by FOD can be sent to one of its overseas posts so that personal or telephone contact can be made with the taxpayer.

Collection Process for Taxpayers Using APO/FPO Addresses

IRS' collection process for taxpayers using APO/FPO mailing addresses is quite different from the process described above. In essence, the APO/FPO collection process is geared to locating and contacting taxpayers who live in the United States even though most of the taxpayers who use APO/FPO addresses live outside of the country. IRS' APO/FPO collection process involves four IRS service centers, five ACS call sites, and five district and field offices—all located in the continental United States—to deal with taxpayers living in the United States.

Because of their location and because their primary experience and responsibility is focused on taxpayers residing in the United States, these various offices are not in a position to handle overseas cases efficiently. For example, ACS' primary tool for contacting taxpayers, and a tool used by revenue officers in district and field offices, is the telephone. IRS personnel told us, however, that ACS call sites and revenue officers generally do not make telephone calls outside the United States because of differences in time zones, the costs associated with overseas calls, language barriers, and the logistics involved in maintaining telephone directories for overseas locations. Personal contact is another tool used extensively by revenue officers. Because of the costs involved, however, domestic offices generally do not authorize travel outside the United States.

Could FOD Handle APO/FPO Collection Cases?

We asked IRS staff in three district and field offices to transfer a sample of their ongoing APO/FPO cases to the FOD collection staff. We asked that the sample consist of cases which (1) had been ongoing for at least a year, (2) involved unsuccessful attempts to locate the taxpayers, and/or (3) were being considered for closure due to an inability to locate the taxpayer. Thirty-seven cases involving APO/FPO taxpayers who had

failed to pay taxes or file returns for an average of about 2 years were identified as meeting these criteria and were transferred to FOD. The cases that involved nonpayment of taxes reflected tax delinquencies ranging from about \$580 to about \$211,000.

As of June 25, 1986, FOD had closed 11 of the 37 cases. Of these 11, 3 resulted in taxpayers filing delinquent tax returns; 2 resulted in taxpayers paying back taxes of about \$6,400 and \$1,700; and 6 were transferred to domestic IRS offices after the taxpayers were found to be residing in the United States. As of June 25, FOD collection staff were still working on the remaining 26 cases.

We discussed with FOD officials the feasibility of transferring all APO/FPO collection cases to FOD. Their consensus was that such a transfer was logical, would result in more effective case disposition, and would neither disrupt FOD's operation nor require significant staff additions or relocations. Officials in U.S. district offices agreed that transferring APO/FPO collection cases to FOD was logical and would probably result in more effective case disposition.

IRS Can Take Additional Steps to Improve APO/FPO Collections

Besides assigning responsibility for APO/FPO collection cases to FOD, we believe that IRS can take other steps to enhance the efficiency and effectiveness of its APO/FPO collection process. Those steps involve using another source for obtaining addresses and requiring all APO/FPO taxpayers to file their returns at the same service center.

A standard procedure for locating APO/FPO taxpayers, according to the Internal Revenue Manual and based on our personal observations, is to request addresses from the personnel locator systems maintained by each branch of the military. According to military officials, the information contained in these systems generally relates only to active duty members of the military. The Defense Manpower Data Center (DMDC), however, maintains computerized records on not only active duty members of the military but also retired members of the military and civilian employees of the Department of Defense and the armed services. IRS staff familiar with the DMDC and the military locator systems told us that use of the information maintained by DMDC could simplify and improve efforts to locate APO/FPO taxpayers. Staff in IRS' Office of Field Operations have contacted DMDC about using its information base to locate military personnel, but the details had not been worked out as of November 18, 1986.

In addition to locator information, all IRS collection units require access to certain specific taxpayer information in the course of their work. Such information is made available through an IRS computer system—the Integrated Data Retrieval System (IDRS). Using IDRS, IRS staff at service centers or district offices can, among other things, instantaneously access and research a taxpayer's account and change the recorded data to reflect account adjustments. Each of IRS' 10 service centers has its own IDRS file, which contains tax information on taxpayers for which the center is responsible. Thus, if a collection case is transferred to an IRS office within another service center's jurisdiction, information on that taxpayer's account should be transferred to the IDRS file at the receiving service center.

APO/FPO taxpayers now file their returns at four service centers (Atlanta, Brookhaven, Fresno, and Ogden). If FOD, which falls within the Philadelphia Service Center's jurisdiction, were assigned responsibility for all APO/FPO cases, IDRS files would need to be transferred to Philadelphia from the other four service centers. This movement of information could be avoided and FOD would have more timely access to taxpayer information if all APO/FPO taxpayers were required to file their returns at Philadelphia which would, in turn, result in their account information being maintained on Philadelphia's IDRS file.

Conclusions

IRS' domestic offices, which are responsible for handling APO/FPO collection cases, are not in the best position to deal effectively with overseas taxpayers. Two essential tools for dealing with delinquent taxpayers—the telephone and personal contact—are generally not available to domestic offices when trying to resolve overseas collection cases. Conversely, FOD, which has collection responsibility for overseas taxpayers other than those with an APO/FPO address, has offices overseas and is experienced in dealing, through both telephone and personal contact, with U.S. taxpayers living in foreign countries.

Therefore, we believe that responsibility for APO/FPO collection cases should be assigned to the Office of the Assistant Commissioner (International), which recently assumed FOD's functions. The results of the limited test involving APO/FPO cases transferred from domestic offices to FOD further support our belief.

In conjunction with this transfer of responsibility, we believe that IRS should require APO/FPO taxpayers to file their returns at the Philadelphia Service Center. This action would facilitate immediate access by

the Office of the Assistant Commissioner (International) to taxpayer information contained on IDRS when working APO/FPO collection cases. The change also would consolidate tax return filing for overseas taxpayers at one service center because overseas taxpayers who use regular foreign mailing addresses are already required to file at Philadelphia. IRS' handling of APO/FPO cases would be enhanced further if IRS could access locator information maintained by the DMDC.

Recommendations

We recommend that the Commissioner of Internal Revenue:

- Assign responsibility for APO/FPO collection cases to the Assistant Commissioner (International).
- Require APO/FPO taxpayers to file their tax returns at the Philadelphia Service Center.
- Arrange for access to DMDC's information base.

Agency Comments and Our Evaluation

You commented on a draft of this report by letter dated September 23, 1986 (see app. I). According to those comments, IRS agrees in principle with our recommendation that responsibility for APO/FPO collection cases be transferred to the Assistant Commissioner (International). That recommendation will be implemented by having ACS transfer a case to the Office of the Assistant Commissioner (International), rather than to a domestic district or field office, if ACS cannot resolve the case and it is determined that the taxpayer is overseas.

Although it was the intent of our recommendation to have APO/FPO collection cases bypass ACS and go directly to the Office of the Assistant Commissioner (International), IRS has decided to continue sending those cases through ACS pending the results of an IRS study. That study, which began in mid-October 1986 according to an official in the Office of the Assistant Commissioner (International), will cover various issues affecting the new organization, including the issues raised by our report. We understand IRS' desire to further study the issues involved in transferring responsibility for APO/FPO cases and will be interested in seeing the results of that study.

As for our other recommendations, the comments attached to your letter noted that:

-
- IRS' study will include an assessment of whether APO/FPO taxpayers should be required to file their returns at the Philadelphia Service Center.
 - IRS has arranged a quarterly match of all delinquent taxpayers with DMDC's data base to obtain current addresses.
-

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and interested congressional committees and subcommittees. We will make copies available to others upon request.

Sincerely yours,



William J. Anderson
Assistant Comptroller General

Comments From the Internal Revenue Service

Note: A summary of IRS' comments and our evaluation appear on page 6 of this report.

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

SEP 22 1986

Mr. William J. Anderson
Assistant Comptroller General
General Government Division
United States General Accounting Office
Washington, DC 20548

Bill
Dear ~~Mr.~~ Anderson:

We appreciate the opportunity to review your recent draft report on IRS efforts to identify and collect taxes from APO/FPO taxpayers.

We have carefully reviewed the draft report and agree that we should initiate transfer of responsibility for Collection cases on APO/FPO taxpayers to the Office of the Assistant Commissioner (International). However, a significant amount of preparatory work and procedural development is necessary before such a shift can be made. We have enclosed detailed comments on the report's recommendations. We hope these are useful in preparing your final report.

With best regards,

Sincerely,



Enclosure

Department of the Treasury Internal Revenue Service

Appendix I
Comments From the Internal Revenue Service

IRS COMMENTS ON GAO DRAFT REPORT
IRS EFFORTS TO IDENTIFY AND COLLECT TAXES FROM
APO/FPO TAXPAYERS

Recommendation 1: Assign responsibility for APO/FPO collection cases to FOD. [Activities performed by the former Foreign Operations District (FOD) have been incorporated into the recently established Office of the Assistant Commissioner (International)].

Comment

The Service agrees with this recommendation in principle and will begin initial implementation actions. Initial assignment of cases will continue to be in the Automated Collection System (ACS) sites. However, if ACS is unable to resolve the assignment and has determined that the APO/FPO taxpayer is located overseas, the case will be transferred to the Office of the Assistant Commissioner (International). The Defense Manpower Data Center (DMDC) and other locator sources will be used to confirm overseas locations.

Also, the Service will review whether further jurisdictional transfer of APO/FPO cases is desirable. Among the issues to be considered are: the volume of APO/FPO cases; the physical location of such taxpayers at the time of contact; and the cost and revenue yield associated with assignment to International. Additionally, we will review the impact of this assignment to International on other compliance matters, such as the examination of tax returns.

Recommendation 2: Require APO/FPO taxpayers to file their returns at the Philadelphia Service Center.

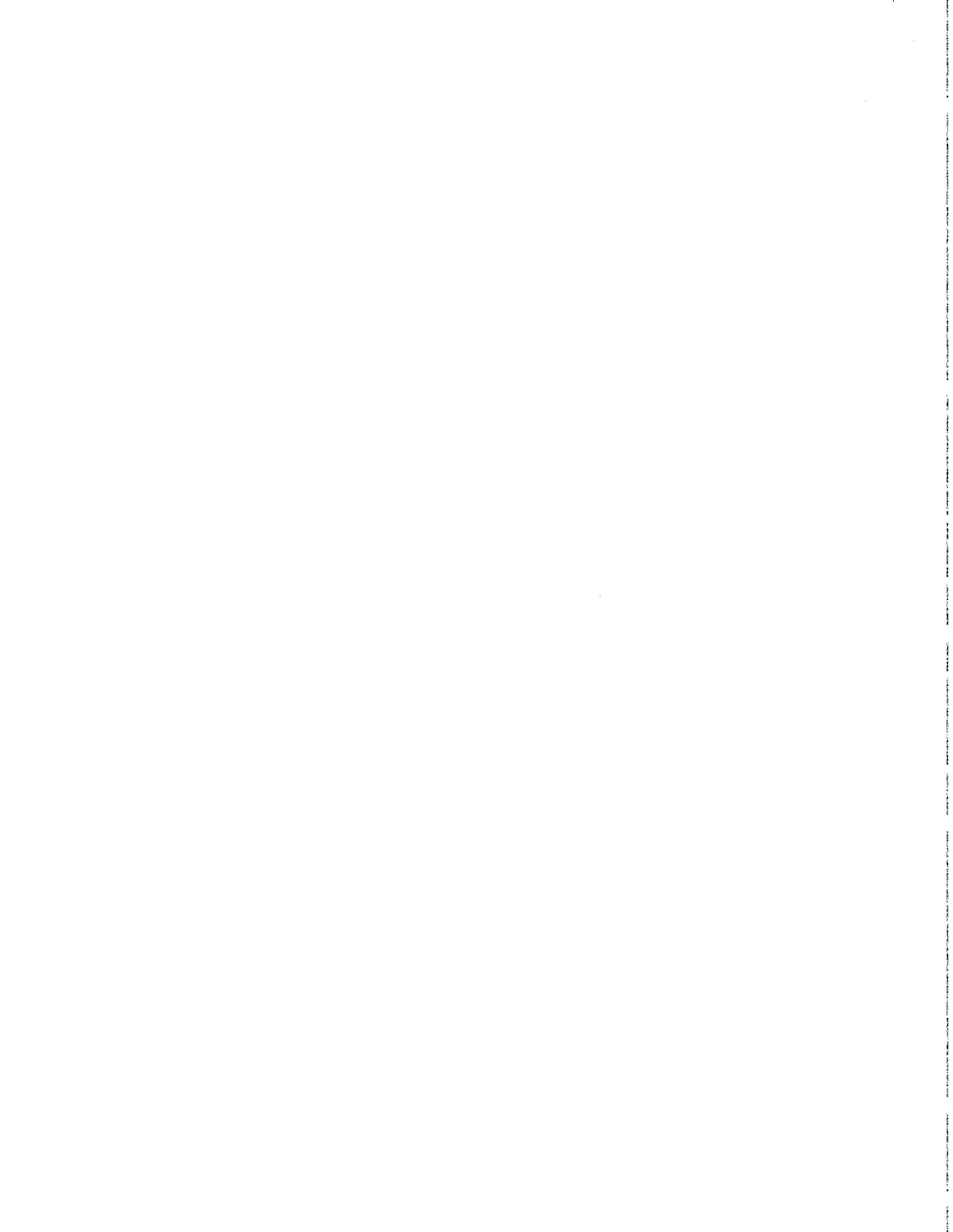
Comment

The Service will soon initiate a study of international returns processing requirements and this recommendation will be among the items to be considered. The transfer of returns processing responsibility is not necessary to accomplish the proposal under Recommendation 1.

Recommendation 3: Arrange for access to the Defense Manpower Data Center (DMDC) information base.

Comment

The Service agrees with this recommendation. We have made arrangements with DMDC for a quarterly match of all delinquent taxpayers with their data base to obtain the most current address information.



Requests for copies of GAO reports should be sent to:

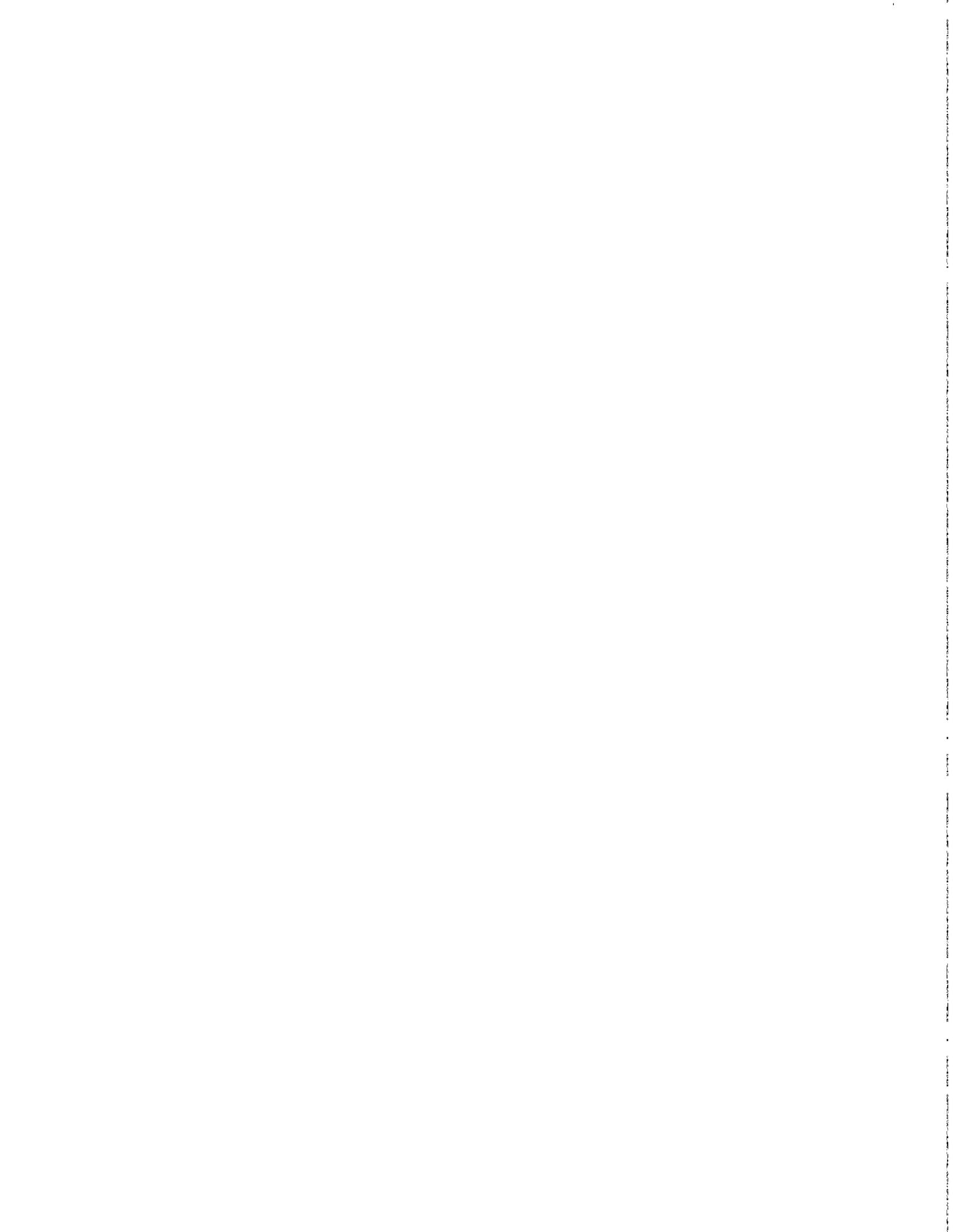
U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

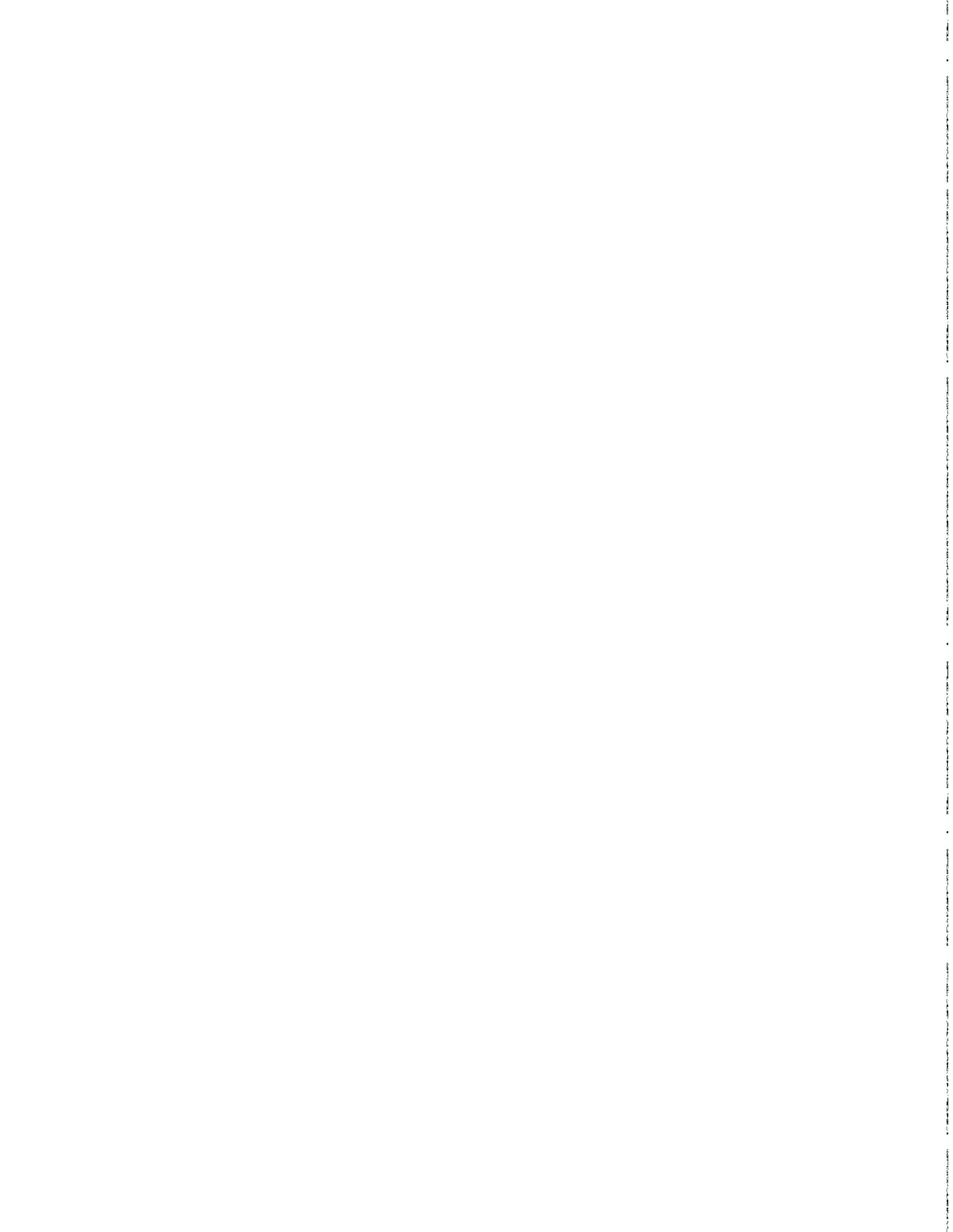
Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.





United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

Address Correction Requested

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100