DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

July 13, 2001

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT: Response to Your Rebuttal to IRS' Previous Response to Draft Report – Oversight of the Philadelphia Lockbox Bank Should Be Improved (Reference No. 200040058)

In our response to the above-referenced report, we agree with your recommendation that IRS should improve its oversight of lockbox operations to ensure that the banks are processing tax payments according to established guidelines and meeting their contractual agreement.

We are actively pursuing ways to improve the overall quality of return sorting by the lockbox banks and to hold them to a higher level of accountability for errors. We are currently making plans for a task force group to convene this summer. The task force's goals will be to: develop ideas for improving the sorting process, establish penalty thresholds for sorting errors, and decrease ancillary costs associated with the submission processing centers having to conduct periodic 100 percent reviews.

The reality is that lockbox banks experience high employee turnover rates. In fact, some of their employees stay on the job for as little as a two-week period. We understand that two weeks is not enough time to expect proficiency. Therefore, while we have no plans of quality reviewing all returns sorted by the banks, should we encounter future sorting problems, we are committed to taking necessary actions to minimize processing delays for taxpayers, and avoid internal costs for subsequent tax account corrections. We owe that to our customers.

Our position is that conducting 100 percent reviews when we feel they are warranted falls under the category of improving our oversight of the lockbox banks. For this reason, we respectfully continue to disagree with the estimated cost savings you identified in the Outcome Measures section of your report. A major part of the equation is missing if you summarily disregard potential and actual benefits realized by the reviews. We agree with you that the lockbox banks should be penalized for sorting errors. Such penalties will be in effect for the 2002 income tax filing season.

If you have any questions or need additional information regarding this response, please contact me, or your staff may contact Joyce Parson at (202) 283-0927.