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# THE INTERNAL REVENUE SERVICE

## ITS REORGANIZATION AND ADMINISTRATION

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NOTE.—This study has been ordered printed for purposes of information and discussion, but has not yet been considered or approved by the Joint Committee on Internal Revenue Taxation or any member thereof

This document not to be released without the consent of the chairman



JULY 25, 1955

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WASHINGTON : 1955



## LETTER OF TRANSMITTAL

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HON. JERE COOPER,  
*Chairman, Joint Committee on Internal Revenue Taxation,  
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: We are transmitting herewith a report made by your advisory group on the reorganization and administration of the Internal Revenue Service.

The factual aspects of this report have been assembled largely by the staff of the Joint Committee on Internal Revenue Taxation. Due to lack of time some of the members of the advisory group have not been able to appraise or evaluate all the facts set forth. The data assembled fully justify the recommendations made in this report as to which the advisory group is unanimous.

Respectfully submitted.

MONTGOMERY B. ANGELL.  
BARNARD H. BARNETT.  
NORMAN D. CANN.  
W. HERBERT DANNE.  
AUBREY R. MARRS.  
FRED MARTIN.  
MARK E. RICHARDSON.  
W. A. SUTHERLAND.

JULY 25, 1955.



## REPORT

### THE INTERNAL REVENUE SERVICE—ITS REORGANIZATION AND ADMINISTRATION

#### INTRODUCTION

Under date of February 19, 1953, the special advisory group, appointed under the authority of the chairman of the Joint Committee on Internal Revenue Taxation in January 1953 for the purpose of studying the reorganization and administration of the Bureau of Internal Revenue, made a partial report dealing with the proper position of the Bureau of Internal Revenue within the executive branch of the Government.

This group originally consisted of the following members:

Montgomery B. Angell

W. H. Danne

Rowland Hughes

Aubrey Marrs

Fred W. Martin

Mark E. Richardson

W. T. Sherwood, Sr.

W. A. Sutherland

Mr. Harold E. Scaff, of the Controllors Institute, was designated to succeed Mr. Rowland Hughes on the advisory group upon Mr. Hughes' appointment as Assistant Director of the Bureau of the Budget. Mr. Wilfred Godfrey substituted for Mr. Scaff at some meetings. Neither Mr. Scaff nor Mr. Godfrey is serving on the advisory group at this time and the Controllors Institute has not appointed anyone to fill the vacancy.

Mr. Norman D. Cann was appointed to fill the vacancy created by the death of Mr. W. T. Sherwood, Sr.

There is herewith submitted a report which deals primarily with the present organization and operation of the Internal Revenue Service under Reorganization Plan No. 1 which became effective March 14, 1952.

Reorganization Plan No. 1 of 1952 arose primarily because of the Internal Revenue scandals of 1950 and 1951. Reorganization Plan No. 1 was submitted to the Congress on January 14, 1952, and automatically became effective unless rejected by a constitutional majority within 60 days after its submission. Many Members of Congress felt that because the plan was so far-reaching in its potential effect on the tax system it should have been given more thorough consideration before adoption.

In the Senate the plan was vigorously opposed by Senator George and Senator Millikin of the Committee on Finance and by Senator McClellan of the Senate Committee on Governmental Operations. Representatives of the American Bar Association and the Controllors Institute were of the opinion that the plan should not be adopted without further consideration.

In his appearance before the Senate Committee on Governmental Operations, Senator George stated:

The reorganization of the Bureau of Internal Revenue is a matter which vitally concerns the entire country. \* \* \* Any tinkering with the internal revenue system should be undertaken only after full study and consideration of its consequences. Changes in the Bureau structure must be made with a minimum of disturbance to the present structure and with minimum inconvenience to the public. \* \* \* I believe that the changes recommended are such radical innovations in the present structure that they will, if adopted, seriously impair and hamper the collection of revenue so sorely needed. \* \* \* It may well be said of this plan that it abolishes the present statutory system for the collection of taxes and substitutes in its place a statutory vacuum to be filled in by the Secretary of the Treasury.

In a report dated January 27, 1948, by an advisory group appointed by the Joint Committee on Internal Revenue Taxation to investigate the Bureau of Internal Revenue, it was stated:

Because the steady flow of Government revenue cannot be jeopardized by faulty or impractical reforms, any plan of reorganization must be tested and retested before it is put into full operation. Moreover, the Bureau must maintain full-scale housekeeping operations at all times and cannot go on a standby basis or completely shut down while it engages in an extensive remodeling job.

Notwithstanding the concern expressed, Reorganization Plan No. 1 of 1952 became effective on March 14, 1952. The Joint Committee on Internal Revenue Taxation felt it necessary to continue a study of the administration and operation of the Internal Revenue Service under the reorganization plan.

In February 1954, the Commissioner of Internal Revenue made an introductory statement before the House Subcommittee on Appropriations for the Treasury Department. He said that he had not been surprised to find the Revenue Service to be "in need of revitalization"; but that he had been surprised and greatly disturbed by the extent of this need. He gave several illustrations, the first two of which are here quoted:

The reorganization approved by the Congress on March 14, 1952, was little more than a paper reorganization by March of 1953.

The lack of definite action in implementing the reorganization created many uncertainties among our people, morale was at a very low ebb, and production was adversely affected.<sup>1</sup>

In a memorandum to the Secretary of the Treasury, dated February 18, 1955, which was released to the public, the Commissioner said:

Two years ago the initial stages of the reorganization of the Internal Revenue Service had been completed. However, the big job of realigning functions, defining responsibilities, modernizing procedures, and instituting proper controls remained to be done.

We took the first 6 months to appraise the plan, concluded that it was basically sound, and, with your concurrence, decided to continue it with some necessary changes. For example, a topheavy administrative organization was avoided by reducing the number of regional offices from 17 to 9.

The tedious task of making the reorganization work was completed about July 1954, and the bare blueprint that we inherited became a dynamic, effective organization.<sup>2</sup>

The Commissioner of Internal Revenue submitted a letter in which he discussed various changes he has made with respect to the Internal Revenue Service which he believes have been beneficial. See page 37 in the appendix.

<sup>1</sup> Treasury-Post Office Departments appropriations for 1955, hearings before the subcommittee of the Committee on Appropriations, House of Representatives, Feb. 1, 1954, p. 545.

<sup>2</sup> This memorandum is reproduced in full in the appendix, p. 77.

Since the reorganization has now become an accomplished fact, it is not believed that any useful purpose can be served by discussing it from the standpoint of principle. The only alternative remaining is to show the revenue effect, and the effect upon enforcement and administration of the Internal Revenue Service and upon employee morale.

The study is divided into five parts:

- Part I. Revenue.
- Part II. Morale
- Part III. Enforcement
- Part IV. Administration
- Part V. Recommendations.

## PART I

### REVENUE

In evaluating the effect of the reorganization plan upon Government revenues, it is important to distinguish between revenue voluntarily paid through returns and withholding and revenue assessed and collected by way of enforcement activities, including examination of returns. For example, the record shows that the amount of income taxes withheld have increased from \$18.5 billion in 1952 to \$21.6 billion in 1954. Collections through audit activities declined from \$1,535 million in 1952 to \$1,111 million in 1954.

In this connection, the Commissioner in a statement before the House Subcommittee on Appropriations in February 1954 said:

While the reorganization structure itself is sound, there is still much work which has to be done before the Internal Revenue Service will be operating 100 percent under the reorganized basis.<sup>3</sup> \* \* \* We are hopeful, by this process, of raising the number of examinations to something close to that of 1952. It is doubtful, however, that we can raise the added assessments sufficiently during the remainder of 1954 to regain the 1952 level.<sup>4</sup>

The record confirms the fact that additional assessments for fiscal year 1954 are below the 1952 level. Collection of back taxes shows the same trend as indicated by the following table:

#### *Back tax collections*

[Millions of dollars]

Fiscal year	Individual income tax	Corporations	Fiscal year	Individual income tax	Corporations
1948.....	617	1,244	1952.....	657	1,516
1949.....	633	1,048	1953.....	562	1,336
1950.....	605	927	1954.....	447	652
1951.....	706	1,097	1955.....	(1)	(1)

<sup>1</sup> Not available.

NOTE.—Back tax collections consist in general of taxes paid more than 12 months after the close of the taxable year for which the return was filed.

Source: Fiscal years: 1948, the budget for fiscal year 1950, p. A-12; 1949, Treasury Bulletin, March 1950, p. 48; 1950, Treasury Bulletin, March 1951, p. 49; 1951, 1952, Monthly Reports of Internal Revenue Collections; 1953, 1954, U. S. Treasury Department IRS Report of Internal Revenue Collections. Table S-1 (supplementing data shown in press release of Aug. 16, 1954).

<sup>3</sup> Treasury-Post Office Departments appropriations for 1955, hearings before the subcommittee of the Committee on Appropriations, House of Representatives, Feb. 1, 1954, p. 548.

<sup>4</sup> Id., p. 551.

The record also shows that the amount of taxes outstanding for which warrants have been issued is substantially increasing as indicated by the following table:

*The amount of taxes outstanding for which warrants have been issued*

	Thousands		Thousands
1950.....	\$528	1953.....	\$883
1951.....	557	1954.....	1,163
1952.....	717		

Source: Monthly activity reports of the Internal Revenue Service.

The falling off of back tax collections occurred during the same period as collection personnel was being reduced. The following table shows a decrease in the number of employees engaged in collection activities:

*Comparative statement of employment, fiscal years 1950-55*

Fiscal year	Collection officers	Revenue agents	Office auditors	Special agents	Other enforcement personnel <sup>1</sup>	Total enforcement personnel
1950.....	10,174	7,705	3,194	1,283	3,840	26,196
1951.....	10,634	8,147	3,296	1,251	3,795	27,123
1952.....	10,300	7,815	3,278	1,218	3,593	26,204
1953.....	9,074	7,601	3,064	1,210	3,678	24,627
1954.....	6,877	10,605	2,430	1,277	3,646	24,835
1955 <sup>2</sup> .....	5,794	10,894	2,099	1,300	3,655	23,742

<sup>1</sup> Includes alcohol-tax inspectors, alcohol-tax investigators, storekeeper-gaugers, and returns examiners.

<sup>2</sup> As of Jan. 29, 1955.

Source: Hearings before the subcommittee on Appropriations of the House of Representatives for the Treasury and Post Office Departments, Monday, Feb. 14, 1955, p. 455.

It also appears that new assessments are not keeping pace with the assessments proposed in prior years, despite the steady rise in national income and the number of taxpayers filing returns. Moreover, this occurred during a period when the number of agents on the rolls were increasing. Some of the difficulty may be due to the large number of experienced agents leaving the Service and an attempt to replace them by inexperienced personnel. For example, information submitted by the Revenue Service shows that 3,317 collection officers were transferred to the audit division as internal revenue agents during the period July 1953 to June 1954. The effect of this transfer upon the morale of the internal revenue agents will be discussed later.

## PART II

### MORALE

In November of 1954, the staff of the Joint Committee circulated a questionnaire to various groups and individuals outside the Internal Revenue Service for the purpose of securing data as to morale, enforcement, and administration under the reorganization plan.

With the aid of the American Bar Association, American Institute of Accountants, National Society of Public Accountants, Research Institute of America, United States Chamber of Commerce, Controller Institute of America and others, questionnaires were circulated throughout the country. See questionnaire, p. 42, and sample reply p. 45.

As a result of this circulation the staff received a great many responses which give a strong indication that since the reorganization plans were put into effect and implemented there has been a serious decline in the morale of Service employees. It is believed that without good morale the Service will not be able to function properly or efficiently in the best interest of the Government and the taxpayer.

The Commissioner in a letter to all field employees dated October 27, 1954, expressed concern over the low morale of Service personnel and stated:

I have been impressed and seriously disturbed by the very evident signs of discontent and worry among field personnel.<sup>5</sup>

The responses received from the questionnaire with respect to morale may be summarized as follows:

Question 1. What is the present morale of the Service in your district? Good, 34 percent; fair, 19 percent; poor, 47 percent.

Question 2. How does morale at present compare with the morale in 1951? Same, 19 percent; better, 35 percent; worse, 46 percent.

Question 3. How does morale at present compare with morale at the end of 1953? Same, 47 percent; better, 29 percent; worse, 24 percent.

Question 4. Is the morale now: Improving, 27 percent; constant, 47 percent; declining, 26 percent.

It is important to emphasize that mere enumeration of answers to questions asked should be only the first step in an accurate analysis of respondents' answers.

The complete table dealing with the question of morale appears in the appendix, page 50, and only the replies from the New York region show a percentage of "good" greater than "poor." An analysis of the New York region seems to indicate that the retention of experienced men who are able to inject such experience and ability into performance, and to follow to a great extent old and tried techniques and practices, even under new procedures, results in better morale.

In addition to the responses to the staff questionnaire, there were received hundreds of letters from all regions dealing with the reorganization. This correspondence indicates that morale in all levels is far from good. The reasons given in responses for most of the difficulty appear to be grounded in the following:

1. There is a conflict of authority between regional commissioner's offices and directors' offices, which results in interference in the audit function.

2. The inspection service through its investigations creates fear and uncertainty among employees as to whether their honest decisions will be questioned and thus there is considerable buckpassing of difficult questions to supervisors, resulting in impaired efficiency.

3. Instructions from the national office are ambiguously worded. Many such instructions apply to one region and are directed to all regions which merely creates confusion.

4. When supervisory positions both in the Washington office and in the field offices become vacant, they are in some cases filled with personnel, from within and without the Service, lacking technical experience or qualifications.

<sup>5</sup> The full text of this letter is reproduced in the appendix, p. 75.

5. Methods, policies, and procedures for administering the tax laws have been formulated and adopted by persons lacking tax administration experience without consultation with experienced internal revenue employees in sections affected.

As previously stated the preceding brief digest indicates some of the reasons for low morale in the Internal Revenue Service. A more detailed analysis appears in the appendix, page 50. See also Service memorandum on page 84.

### PART III

#### ENFORCEMENT

The enforcement activities of the Internal Revenue Service appear to be at a low ebb. The staff questionnaire revealed that a major deterrent to effective examinations is the "production quota" system. The Commissioner attempted to explain this in his release to all field employees dated October 27, 1954.

For some time we in the national office have been disturbed by (1) the fact that the total number of individual cases handled by the service is not consistent with the total number of employees and (2) the fact that there are some excessively wide variations in total case production among the 64 district offices. I can assure you the figures are not explainable by such factors as differences in case type, population density, number of employees, and the like.

As a consequence, during 1954 we have been encouraging regional and district offices to establish specific office standards of production, so that both supervisors and employees know what is considered normal.<sup>6</sup>

The "standard of production" which was established in the Service appears to have caused a worsening of the enforcement picture. Replies to the staff questionnaire indicate that under the established production quota system proper standards of individual performance and proper standards of examination are ignored in favor of number of returns examined. The established production quota procedure has too frequently reduced the agent's investigation to a cursory examination of readily available records and a quick look for a few obvious items on which a change can be made so as to close the case and meet the quota set.

Replies to the staff questionnaire indicate considerable complaint with respect to the consolidation of the office of the collector with the office of the revenue agent in charge under a district director. Under the reorganization procedure many former collectors were placed in control of the Audit Division, and a number of deputy collectors were ultimately transferred to that Division. Due to the diversified character of the deputy collectors' prior duties many did not have experience in audit work to enable them to make a proper examination of taxpayer's accounting and legal records.

A majority of the respondents to the staff questionnaire felt that enforcement activities of the Service have been greatly impaired by the new audit procedure which delegates to the group supervisor multiple functions such as personnel supervisor, reviewer, liaison, conferee and technical guide.<sup>7</sup> Under this procedure it is felt that no one individual is capable of performing all of these functions in a satisfactory manner. Due to such multiple duties and responsibilities of the group supervisor, cases in general do not receive proper considera-

<sup>6</sup> The full text of this letter is reproduced in the appendix, p. 75; see also Commissioner's memorandum, p. 110.

<sup>7</sup> See material in the appendix, p. 81.

tion at that level. As a result of heavy duties imposed, issues too difficult or time consuming are either not developed or are sent to a higher level for decision.

The result of the staff questionnaire relative to whether the abolishment of the old conference section in the agent's office and the substitution of the group supervisor procedure resulted in more or less cases being settled prior to reference to the Appellate Division is: Same, 23 percent; more, 44 percent; less, 33 percent. While the opinions expressed indicate that more cases are being settled prior to reference to the Appellate Division, it was pointed out that many cases are being settled without adequate consideration. Many respondents to the staff questionnaire felt that the old conference section eliminated many cases which are now being sent to the appellate staff.

With respect to the question which inquired whether there is now more or less chance of arriving at fair settlements the results are: Same, 21.3 percent; more, 44.0 percent; and less, 34.7 percent.

Reasons were requested from those respondents who indicated "more" or "less" with reference to the preceding question. In summary of those replies which indicated that there is now less chance of arriving at fair settlements promptly it was pointed out that agents are now endeavoring to avoid taking cases to an informal conference due to the time required for research and documentation. The agent also fears that taking too many cases to conference will give the group supervisor the impression that he is not capable of resolving the case in the field. Here again production quotas were mentioned as a hindering factor and it was stated that many important issues were overlooked in arriving at settlements. The respondents who felt that "more" cases were settled attributed it to the reorganization in general or gave no specific reason.

Question 8 of the questionnaire inquired as to which procedure was preferred. The results of the tabulation were: Old, 40.3 percent; new, 59.7 percent.

The opinions expressed by the respondents varied widely. A brief summary of the reasons given by those respondents who preferred the prereorganization procedure is as follows: More fair settlement of cases; less paperwork required of the agents in rewriting reports; a clear-cut and functional separation of audit from collection. Respondents also felt that a group supervisor who has advised an agent on a matter during his examination cannot be disinterested and, therefore, is not in the position of an impartial judge. It was also pointed out that prior to the reorganization it was possible to discuss a tax case with a conferee in the agent's office who had made a thorough study of the revenue agent's report and the taxpayer's protest, and was prepared to discuss fully the issues involved. It may be that those who approved the old procedure felt that under the new procedure the group supervisor rarely has time to consider a taxpayer's complaint prior to conference.

A summary of replies from respondents who prefer the new procedure indicates that they feel the new procedure is less cumbersome and more expeditious than the old.

## THE NEW INFORMAL CONFERENCE PROCEDURE

One of the greatest accomplishments attributed to "the new informal conference procedure" is the substantial decline in the proportion of cases *protested*, both in respect to number as well as amount. The Quarterly Surveys reveal the following situation as respects the "proportion of cases *protested*":

*Protested cases*

Calendar year	Individual and fiduciary income returns involving deficiencies			Corporation income returns involving deficiencies		
	Total number	Protested	Percent	Total number	Protested	Percent
1952.....	259,766	17,996	6.9	53,235	5,109	9.6
1953.....	324,398	7,260	2.2	45,229	1,958	4.3
1954.....	554,301	7,730	1.4	52,256	2,004	3.8

Source: Quarterly Survey, Dec. 31, 1954, pp. 8-9 and 22-23; Quarterly Survey, Dec. 31, 1953, pp. 8-9 and 22-23; *ibid.*, pp. 56-59.

The above figures would indicate that the proportion of *protested* individual and fiduciary income deficiencies had dropped from 6.9 percent in the calendar year 1952 to 2.2 percent in 1953 and 1.4 percent in 1954. The comparable situation with respect to corporation income deficiencies is a drop from 9.6 percent to 4.3 percent in 1953 and 3.8 percent in 1954. The Service claims this "is undoubtedly due to the *new* informal conference procedures", which leads to the impression that the drop in volume and amounts of statutory notices is to be ascribed to the superiority of the "new informal conference procedures," whereby cases are settled in the early stages and, with the same volume of work, fewer deficiency returns ever reach the statutory notice status. On analysis, this conclusion is not supported when it is realized the words "cases *protested*" do not have the same meaning under the new organization as they had under the old.

## THE NEW INFORMAL CONFERENCE PROCEDURE ANALYZED

The "new informal conference procedure" should be carefully examined. Hearings before the revenue authorities have always been "informal" in income, estate, and gift tax controversies.

Under the old procedure the examining agent discussed the case with the taxpayer, and consulted with his group chief as to raising issues or conceding them. Having the examining agent present with the group chief at the so-called informal conference level is not exactly new. Conferences before the group chief with the agent present, and before the preparation of the final report of the agent, were daily occurrences under the Bureau, especially if requested by the taxpayer. In fact, in certain offices the agents in charge assigned trained conferees to such groups. This practice, however, was not universal because the old conference sections were there to give the taxpayer a real hearing.

"The new informal conference procedures" merely eliminate one place for a conference and confine the taxpayer, in the average case before the director's office, to a conference with the examining agent

and his immediate supervisor. Under the old system the taxpayer had every conference opportunity that is afforded by the new; and, in addition, a right to a conference before the conference section of the agent in charge. This conference section played no part in setting up the tax to which the taxpayer was objecting. It functioned under its own chief conferee and was administratively free from the group chiefs and the review section. The conference section performed a very useful function not only from a public-relations standpoint but also in reducing the pre-90-day workload of the Appellate Division and stabilizing the settlement activities of the agent's office. There is a question as to whether any particular advantage is gained by either the taxpayer or the Government from the adoption of "the new informal conference procedures."

The present informal conference procedure with the group supervisor, which is in lieu of the old conference section, appears to have many shortcomings. The absence of a record showing the issues and conclusion reached in the settlement at the preappellate level may operate unfairly both with respect to the taxpayer and the Government. Many practitioners have indicated that under the informal procedure some issues are entirely overlooked by the agents in the initial examinations. In fact, some practitioners have disclosed that cases with controversial issues have been settled in a few hours on minor issues, the large major issues being entirely overlooked. This, of course, is a real danger to the Government revenues. It is felt that a thorough study should be made of this informal conference procedure. For establishment of this procedure see p. 79.

The new procedure will now be examined from the standpoint of what is a "protested case." As before, the examining agent discusses his findings with the taxpayer. If the taxpayer agrees with the proposed adjustments he executes the agreement form, and the examining officer prepares a report and submits it to his group supervisor. Upon approval of the report by the group supervisor it goes to Review for technical review.

If the taxpayer does not agree the agent informs the taxpayer of his right to an informal conference. The agent will furnish the taxpayer a "*brief statement identifying the proposed adjustments.*" An approved form letter for that purpose has been issued by the Service.<sup>8</sup> This form letter advises the taxpayer that he may present his "objections" to the proposed changes at "an informal conference." This is a new form letter which was unnecessary under the old procedure. It nowhere uses the word "protest." The official explanation of "the informal conference procedure" is to provide a means whereby contested issues may be resolved "*prior to the preparation of the internal revenue agent's final report.*" It was apparently thought that combining the conference function with the investigative supervisor would somehow bring the disposition of disputed cases closer to the taxpayer and also improve the supervision of field examiners. At this point and so long as the case pends in the informal conference status, the agent's report has probably not been prepared, and certainly has not been typed or reviewed; neither is the taxpayer required to file a brief or reduce his "objections" to writing.

<sup>8</sup> See material in the appendix, p. 80.

In the event that an agreement is reached at the informal conference, the conference report and the examining agent's report are prepared and submitted to Review. If approved a copy of the examining agent's report is furnished the taxpayer.

In the event that no agreement is reached at the informal conference, the examining agent's report will be prepared and a copy furnished the taxpayer, together with a 30-day letter affording the taxpayer the privilege of filing "a *formal protest*, under oath, with the Director of Internal Revenue." If a "timely *protest*" is received the case will be transmitted to the Appellate Division. This is the first point at which the word "protest" is used and it undoubtedly is the procedural stage at which a deficiency return is counted as a "*protested*" return. Under the old procedure a protest, *eo nomine*, was made to the agent's findings and the case was heard by the conference section of the agent in charge. The conference sections have now been abolished and, in lieu thereof we have the group supervisor conducting the informal conferences, "with the examining officer present." Under the terminology, the objections taken before the group supervisor are not accorded the designation of a protested case, and are not counted as such in the statistics. When the conference work at the lower level was conducted by the conference sections, it was classed as a protested case. Hence the drop in number of *protested* returns and the diminishing ratio.

This is set forth by the Quarterly Survey for December 31, 1952, at which time all 17 districts had just been established on paper and the figures for the entire calendar year were undoubtedly kept largely under the old system. See pages 48 to 59, Quarterly Survey for the quarter ended December 31, 1952. The calendar 1952 figures cover protests to the conference sections under the old procedure; the calendar 1953 figures cover the protests to the appellate divisions under the new procedure. They are in no wise comparable. This situation is further pinpointed by tables S-2 and S-4 on pages 50 and 54 of the Quarterly Survey for December 31, 1952. There is shown the substantial number of cases closed without preliminary notice, on preliminary notice, and by conference group. In the calendar year 1952, the bulk of the conference work was done in the old conference sections and they functioned on protested cases. That is the real explanation why there were the following deficiency adjustments *protested* in the calendar year 1952:

1. Individual and fiduciary income returns.....	17, 996
2. Corporation income returns.....	5, 109
3. Estate and gift returns.....	1, 070
Total.....	24, 175

The appellate group (formerly the Technical Staff) did not receive as many as 24,175 deficiency returns in nondocketed status in 1952 or any prior year. The drop in the proportion of cases protested is illusory because the numbers of "cases protested" as between the calendar years 1952 and 1953 are kept on different bases and cannot form a factor in an accurate ratio.

There is another objection to the use of the ratio comparison. It is that the *base* upon which the ratio is constructed is different in the 2 years. The total number of deficiency returns for 1953 covers all such returns including the former collectors' cases. In the

calendar year 1952, there are comparatively few such cases, if any, included in total number of deficiency returns. In other words, the *base* is swelled in 1953 with old collectors' type of cases.

The soundest comparison in judging the accomplishments of the new organization is between the fiscal years 1952 and 1953 and not the calendar years 1952 and 1953. The latter half of 1952 was a period of disruption and detracts from the first half; similarly the latter half of 1953 is buoyed up by the inclusion of increasing numbers of collectors' type cases. In the Quarterly Survey for June 30, 1953, pages 68-73, are tables showing the activity of the directors' offices (Audit Divisions) in the closing of cases. These tables cover deficiencies in individual and fiduciary returns, corporate returns, and estate and gift returns. They reveal reduced activity in both numbers of returns closed in those offices and in the amount of deficiencies involved. These tables also show the drop in the number of deficiency returns closed "By conference group." By December 31, 1953, the closings "By conference group", are down to relatively nominal figures. This is because the conference groups, as such, have been abolished. Undoubtedly some of the cases which were formerly protested to and closed by the conference sections, now find their way to the Appellate Divisions. The contraction of conference facilities at the preappellate staff level resulting in earlier closings has delayed the closing of the corporation cases and the more difficult individual cases.

The lower amounts in issued deficiency notices, at an annual rate as shown in the Quarterly Survey referred to might be due to a lower amount of investigative work and detection of deficiencies and not to any superiority of "the new informal conference procedures."

Any change in the policy of asserting jeopardy assessments would be relatively unimportant as to the mere numbers of statutory notices. Also, should the entire amount of jeopardy assessments be eliminated from the statistics, there would still be revealed the substantial drop in the amount of proposed deficiencies included in statutory notices issued in 1954.

#### CORPORATION INCOME TAX

Historically, the audit of corporation income-tax returns has been under one auditing jurisdiction, namely, the revenue agents in charge prior to reorganization, and the Audit Division of the directors' offices after reorganization. For the most part, the better and more experienced revenue agents were assigned to this work. The corporation figures are:

## Corporation income and excess profits taxes

[Additional tax, penalty and interest assessed as a result of audit]

Fiscal year	Number of examinations	Additional assessments, corporation income tax	Additional assessments, excess profits tax (World War II)	Additional assessments, corporation income tax and all excess-profits taxes
		<i>Thousands</i>	<i>Thousands</i>	<i>Thousands</i>
1947 .....	151, 870	\$568, 456	\$451, 293	\$1, 019, 749
1948 .....	126, 934	336, 698	584, 863	921, 561
1949 .....	143, 022	336, 931	561, 681	898, 612
1950 .....	166, 299	399, 491	325, 864	725, 355
1951 .....	199, 039	496, 281	280, 934	777, 215
1952 .....	139, 725	500, 741	201, 973	702, 714
1953 .....	110, 515	<sup>1</sup> 386, 230	156, 729	<sup>2</sup> 542, 959
1954 .....	125, 281	-----	-----	<sup>2</sup> 583, 070
July 1, 1953, to Mar. 31, 1954 .....	90, 994	-----	-----	435, 149
July 1, 1954, to Mar. 31, 1955 .....	110, 445	-----	-----	494, 032

<sup>1</sup> The additional assessments of excess-profits taxes for the taxable year 1950 and subsequent taxable years is now included in the regular corporate income-tax assessments. The 1953 and 1954 fiscal figures are substantially below the fiscal 1952 figures.

<sup>2</sup> This figure includes the World War II excess profits additional assessments. The corporate figures now include all excess profits additional assessments under the 1950 act and World War II. The separate World War II figures for 1954 and 1955 are not available.

Source: Quarterly Survey, June 30, 1953, pp. 79 and 88; Quarterly Survey, June 30, 1954, p. ix; Quarterly Survey, Mar. 31, 1955, table 2, p. 2.

The figures for World War II excess-profits taxes are shown separately, through fiscal 1953, as indicated in the foregoing table. The corporation income tax figures for fiscal 1953, however, now include collections from the Korean war excess profits tax. The figures for 1953 cover only the additional assessments issued under World War II legislation, *prior to Reorganization*; the corresponding data for later periods "are not available." Beginning with the excess-profits tax cases under the Revenue Act of 1950, where the income and excess-profits taxes are *combined in one assessment*, the excess-profits tax figures are included with the corporation income tax "since it is not feasible to differentiate between the two classes of tax."

Between 1947 and 1953, the total additional assessments against corporations for income and profits taxes had dropped close to one-half of the 1947 amount. The Internal Revenue Service assigns three primary reasons for this, (1) The repeal of the World War II excess-profits tax; (2) a 38-percent drop in the manpower applied to the examination of corporate tax returns; and (3) the "temporary readjustments" during the fiscal year 1953 required to give effect to the reorganization. These will be discussed in order:

(1) The repeal of the World War II excess-profits tax. By the close of 1952, the examining program for the World War II excess-profits tax returns was virtually completed. See Quarterly Survey, October 1 to December 31, 1952, page v. The repeal of the tax and completion of the examining program undoubtedly account for most of the decrease in the amount of additional profits-tax assessments. However, it is believed that the reduction in the number of corporate field examinations accounts for a material portion of that drop. Besides, the excess-profits taxes under the Revenue Act of 1950, should begin to compensate for this loss by 1953.

(2) The 38 percent drop in manpower devoted to the examination of corporate returns. The figure of 38 percent was evidently obtained

by comparing the man-years of agents (2,324) assigned in 1947 with those (1,451) of 1953. The comparison is not valid. The man-years of agents assigned to corporate work in 1947 were doing a double job. They were examining both corporation income tax returns and corporation excess-profits tax returns. The profits-tax work was virtually completed by December 31, 1952, and had been gradually tapering off for several years. Thus, more time could be devoted to corporate income-tax returns. The volume of that work could be greatly increased with a reduced force as is shown by the record of examinations and additional assessments of corporation income tax for the fiscal years 1950 and 1951. However, instead of an expected increase in corporate income-tax deficiencies, there was in the fiscal year 1953 a drop of \$114,511,000, even with the inclusion of the excess-profits taxes growing out of the Korean action. In addition, there was a drop of 29,210 in the total number of examinations.

(3) The "temporary readjustments" during the fiscal year 1953 required to give effect to the reorganization. This is the first indication that the reorganization was responsible for the drop in deficiencies resulting from enforcement activities.

Reorganization also affected corporation income-tax deficiencies, as demonstrated by the data on the number of returns and the amount of proposed deficiencies *pending* in the directors' or former agents' offices, as of the close of quarters:

*Corporation income tax deficiencies*

Quarter ended—	Number of returns	Amount of deficiency	Quarter ended—	Number of returns	Amount of deficiency
Sept. 30, 1951.....	2,391	\$55,905,078	Mar. 31, 1953.....	1,802	\$55,414,082
Dec. 31, 1951.....	2,078	49,977,193	June 30, 1953.....	1,433	48,101,309
Mar. 31, 1952.....	2,281	54,929,356	Sept. 30, 1953.....	1,277	49,863,002
June 30, 1952.....	2,395	59,998,551	Dec. 31, 1953.....	1,310	39,001,044
Sept. 30, 1952.....	2,281	66,267,188	Mar. 3, 1954.....	1,405	42,695,000
Dec. 31, 1952.....	3,096	81,369,956	June 30, 1954.....	1,349	48,040,000

Source: Quarterly Survey, June 30, 1953, table C-b, p. 28; Quarterly Survey, June 30, 1954, table C-b, p. 26.

The drop in the revolving inventory of pending proposed deficiencies might be expected to have an effect upon corporation income-tax deficiency assessments. It represents the backlog for deficiency assessments. The future loss on this score may never be pinned down with exactitude, but it is real. An equally serious drop occurred in the same respect as to estate and gift-tax returns. In both corporation and estate and gift-tax audits, the collectors never had jurisdiction. Also, very few, if any, of the estate and gift-tax examiners were used in the taxpayers' assistance program. The estate and gift-tax figures are:

*Estate and gift tax deficiencies*

Quarter ended—	Number of returns	Amount of deficiency	Quarter ended—	Number of returns	Amount of deficiency
Sept. 30, 1951.....	425	\$12,030,586	Mar. 31, 1953.....	347	\$8,368,737
Dec. 31, 1951.....	385	25,107,730	June 30, 1953.....	232	15,005,541
Mar. 31, 1952.....	557	17,581,343	Sept. 30, 1953.....	156	4,289,914
June 30, 1952.....	382	9,713,942	Dec. 31, 1953.....	159	9,109,170
Sept. 30, 1952.....	355	24,319,266	Mar. 3, 1954.....	280	7,188,000
Dec. 31, 1952.....	340	14,481,704	June 30, 1954.....	187	4,929,000

Source: Quarterly Survey, June 30, 1953, table EG-6, p. 43; Quarterly Survey, June 30, 1954, table EG-6, p. 40.

The foregoing figures would seem to demonstrate that the reorganization has had an adverse effect upon the efficiency and the tax results of the enforcement effort. Here again, the Service has a long way to go before it recaptures the position occupied by the old organization.

The corporation returns are generally examined by the highest grade auditing and examining personnel in the Revenue Service. There is excellent ground for believing that the disruptions occasioned by a congressional investigation or by a sweeping reorganization would affect them the least, if at all. When their performance drops it is logical to expect even more serious consequences with the examiners of individual returns and with deputy collectors. There is enough information available to demonstrate that that is what happened, although a precision comparison cannot be made.

*Individual income tax—Returns examined and additional assessments by revenue agents<sup>1</sup> and deputy collectors*

[Thousands of dollars]

Fiscal year	Number of examinations		Individual income tax assessments		
	Revenue agents	Deputy collectors	Revenue agents	Deputy collectors	Total additional assessments
1948.....	341, 863	676, 964	\$484, 063	\$281, 217	\$765, 280
1949.....	372, 002	574, 877	509, 912	289, 760	799, 672
1950.....	450, 428	665, 575	527, 442	302, 245	829, 687
1951.....	440, 866	794, 455	519, 160	278, 436	797, 596
1952.....	425, 587	651, 238	564, 042	268, 663	832, 705
1953.....	399, 136	373, 786	341, 416	246, 034	587, 450
1954.....	<sup>2</sup> 1, 370, 227	-----	-----	-----	532, 692

<sup>1</sup> The number of individual income examinations made by revenue agents is compiled from the quarterly surveys. Some figures specially submitted by the Internal Revenue Service for the fiscal year 1953 show 485,168 individual income examinations. This discrepancy may be due to the inclusion of collection officers' examinations in the fiscal 1953 figures.

<sup>2</sup> It appears that for the fiscal year 1954 the audit work of the former deputies is being added to the revenue agents' work to show the directors' total audit activities.

Source: Quarterly Survey, June 30, 1954, table B, p. viii.

The combined drop in individual income-tax assessments between the revenue agents and the old deputies or collection officers cannot be accounted for by the explanations of the Internal Revenue Service which are:

The precipitous rise in jeopardy assessments during 1952 was the result of the racket drive that was instituted in June 1951 following the Kefauver hearings. Very little of these assessments were ever realized as tax collections. The policy has since been changed in respect to the making of large and unsubstantial jeopardy assessments.

The 1953 assessments began to reflect this change in policy with a drop of some \$29 million. The 1954 drop in this kind of assessment will, of course, be even greater. This drop, plus a 16-percent drop in manpower, easily accounts for the total drop of \$108 million as between 1952 and 1953.

In view of the fact that the following table A has become the leadoff table in the Quarterly Survey for the fiscal year 1954 and to date, it should be subjected to critical analysis. The table on its face shows an increase in so-called effective personnel of over 40 percent. Since this might be easily misinterpreted as evidencing a greatly increased efficiency beginning with the fiscal year 1954, it is deemed important to point out that the table merely states the number of man-days assigned to technical work and does not reflect efficiency.

TABLE A.—*Technical personnel—Audit divisions—Man-days worked by type of assignment, fiscal years 1952, 1953, and 1954*

Type of assignment	Fiscal year			9 months ended Mar. 31—		
	1952	1953	1954	1953	1954	1955
General supervision.....	18,625	24,253	30,787	15,905	24,803	16,025
<b>REGULAR ASSIGNMENTS</b>						
Classification and survey.....	27,815	34,844	72,686	24,804	52,495	69,214
Examination.....	1,309,881	1,135,480	1,486,416	805,063	976,139	1,244,437
Review.....	64,552	70,682	108,706	50,788	77,132	97,105
Conference.....	87,887	30,090	21,210	26,622	12,736	24,605
<b>Total.....</b>	<b>1,490,135</b>	<b>1,271,096</b>	<b>1,689,018</b>	<b>907,277</b>	<b>1,118,502</b>	<b>1,435,361</b>
<b>SPECIAL ASSIGNMENTS</b>						
All classifications <sup>2</sup> —Fraud; engineering and valuation; pension trust plans; instruction of personnel; and other assignments (total).....	178,717	266,607	655,748	184,294	515,637	680,585
Detailed out of audit division.....	92,117	176,719	119,308	164,531	78,758	50,238
<b>GRAND TOTALS</b>						
Man-days worked.....	1,779,594	1,738,675	2,494,861	1,272,007	1,737,700	2,182,259
Workdays in fiscal year.....	253	253	253	188	189	189.5
Effective personnel.....	7,034	6,872	9,861	6,766	9,194	11,516

<sup>1</sup> Beginning Jan. 1, 1954, this figure represents only informal conference time under new procedure.

<sup>2</sup> The increase in special assignments is due principally to taxpayers' assistance and instruction of personnel.

Source: Quarterly Survey, June 30, 1953, p. iii; Quarterly Survey, June 30, 1954, table A, p. vii; Quarterly Survey, Mar. 31, 1954, table A, p. iii; Quarterly Survey, Mar. 31, 1955, table 1, p. 1.

It should be noted that in spite of a large increase in the number of man-days assigned to technical work in the Audit Divisions of the Directors' offices, as is shown in the foregoing table, the additional tax secured in 1954 as the direct result of audit actually decreased. This decrease is shown in table D, which follows.

TABLE D.—Amount of tax, interest, and penalty secured as a direct result of enforcement efforts, fiscal years 1952, 1953, and 1954

[In thousands of dollars]

	Fiscal year			9 months ended—		
	1952 <sup>3</sup>	1953	1954	Mar. 31, 1953	Mar. 31, 1954	Mar. 31, 1955
<b>1. Increase in tax resulting from mathematical verifications:</b>						
Individual income tax.....		97,683	77,207		43,162	28,355.
Corporation income tax.....		3,175	1,281		847	1,177
<b>Total.....</b>		<b>100,858</b>	<b>78,488</b>	<b>52,527</b>	<b>44,009</b>	<b>29,532</b>
<b>2. Amounts of tax, interest, and penalty assessed on delinquent returns:</b>						
Income taxes.....		25,264	16,305			
Employment taxes.....		98,766	90,408			
Miscellaneous taxes.....		23,560	20,921			
<b>Total.....</b>		<b>147,590</b>	<b>127,633</b>	<b>107,377</b>	<b>93,899</b>	<b>57,744</b>
<b>3. Additional tax, interest, and penalty assessed as a direct result of audit:</b>						
Income and profits:						
Corporation income and profits <sup>1</sup> .....	702,714	542,959	583,070		435,149	494,032
Individuals and fiduciaries:						
Prerefund audit.....		13,618	33,714		4,404	10,322
Regular audit <sup>2</sup> .....	832,705	587,450	498,978		369,922	472,357
<b>Total income and profits.....</b>	<b>1,144,026</b>	<b>1,115,761</b>	<b>853,182</b>	<b>853,182</b>	<b>809,475</b>	<b>976,706</b>
Employment taxes.....		27,400	23,561	20,934	18,695	7,810
Miscellaneous internal revenue:						
Estate and gift.....	121,420	118,382	105,904	92,624	72,144	85,906
All other.....		17,706	7,471	14,133	5,864	8,754
<b>Total, miscellaneous taxes.....</b>	<b>121,420</b>	<b>136,088</b>	<b>113,376</b>	<b>106,756</b>	<b>78,008</b>	<b>94,660</b>
<b>Total, as a direct result of audit<sup>3</sup>.....</b>	<b>1,656,839</b>	<b>1,307,514</b>	<b>1,252,698</b>	<b>980,872</b>	<b>906,178</b>	<b>1,079,176</b>
<b>Grand total<sup>3</sup>.....</b>	<b>1,555,962</b>	<b>1,458,820</b>	<b>1,140,776</b>	<b>1,140,776</b>	<b>1,044,086</b>	<b>1,166,453</b>

<sup>1</sup> Includes profits taxes from World War II and under Revenue Act of 1950.<sup>2</sup> Includes work of former deputy collectors.<sup>3</sup> Only 3 amounts are listed under fiscal 1952 for lack of information.

Source: Quarterly Survey, June 30, 1953; Quarterly Survey, June 30, 1954, table D, p. ix; Quarterly Survey, Mar. 31, 1954, table D, p. v; Quarterly Survey, Mar. 31, 1955, table 5, p. 4.

Discussions pertaining to the various headings under table D now follow:

### 1. MATHEMATICAL VERIFICATIONS

It should be noted that for the fiscal year 1954 there has been a reduction of over \$22 million in additional taxes resulting from mathematical calculations. This was explained by the Service as follows:

The Commissioner has announced that a check of the 33.8 million returns filed this year shows fewer errors in arithmetic than a similar check of the same number of returns filed in 1953. In the returns checked to date, 750,570 errors were found as compared to 888,880 found in returns checked in 1953. The Commissioner said, "I believe that the fewer adjustments necessary this year resulted from increased taxpayer care and accuracy in preparing their returns."<sup>9</sup>

The first part of 1953 is when there was an all-out taxpayer assistance program. The Quarterly Survey for March 31, 1954, page v, indicates that the income-tax increases resulting from mathematical verification for the 9 months' period ending March 31, 1953, amounted

<sup>9</sup> Taxes on Parade, No. 41, Sept. 22, 1954, Commerce Clearing House, Chicago, Ill.

to \$52.5 millions. It may be noted that such increases during the first 9 months of the fiscal year 1954 showed a drop of \$8.5 million. However, for the entire fiscal year 1954 the drop was over \$22 million.

## 2. DELINQUENT RETURNS

The amounts assessed on *delinquent* returns are disappointing. This was formerly one of the primary functions of the deputy collectors. A reference to table D will show that between the fiscal years 1953 and 1954 the revenue derived from this enforcement activity dropped from \$147.6 million to \$127.6 million, or a drop of \$20 million.

## 3. ADDITIONAL ASSESSMENTS AS A DIRECT RESULT OF AUDIT

This brings us to the third classification of table D, namely, the additional tax, interest, and penalty assessed as a direct result of *audit*. As between the fiscal years 1953 and 1954, this has dropped about 55 million on the overall figures. But when compared with the limited figures for the fiscal year 1952, the drop is over 400 million. It is not truly representative to compare fiscal year 1954 with fiscal year 1953. Those 2 fiscal years merely reveal the effects on the revenue of the reorganization. Both of them should be compared with fiscal year 1952, which is the last year under the old organization.

### *Corporation income and profits*

Examiners of corporation returns have generally been the best qualified examining officers of the Revenue Service. They would normally be the least affected by reorganizations. Yet the result of their activities are also adversely affected under the new system. As between fiscal 1954 and 1953, an improvement of about \$40 million is shown. However, as World War II profits assessments dwindle, the Korean war additional profits assessments should be increasing. That probably explains the improvement. Nevertheless, fiscal 1954 is some \$120 million below fiscal 1952 in that respect.

### *Individuals and fiduciaries*

The amount of deficiency assessments against individuals and fiduciaries as a direct result of audit (prerefund and regular audit) is also disappointing. The figures are here repeated from table D:

[Thousand of dollars]

	Fiscal year		
	1952	1953	1954
Prerefund audit.....		13,618	33,714
Regular audit.....	832,705	587,450	498,978
Total.....	832,705	601,068	532,692

The fiscal year 1954 covers the period from July 1, 1953, to June 30, 1954. The reorganization was approved by the Congress on March 14, 1952. During the fiscal year 1954, the former deputy collectors were pretty well integrated with the internal revenue agents and their work on individual returns should show up in the above figures. When

a comparison is made with the fiscal 1952 deficiency assessments against individuals the continuing drop in revenue is apparent.

*Estate, gift, and so forth*

Even estate and other miscellaneous taxes show a drop of nearly \$23 million as between fiscal 1954 and 1953, and both of those years are below the fiscal 1952 level. The line under miscellaneous revenue labeled "All other," was largely accomplished by the former deputy collectors. The disproportionately large decrease in that activity seems to be evidence of some deterioration in that area of the Service.

### CONCLUSIONS

There are now available the statistics of the reorganization for the fiscal years 1953 and 1954. The performance is very disappointing when compared with that for 1952, which was the last fiscal period under the old organization. There has been an apparent drop in revenue in the fiscal year 1953, as compared with the fiscal year 1952, of over 359 million dollars in additional income tax assessments as a direct result of audit, as follows: <sup>1</sup>

Corporation income tax (excluding excess-profits tax).....	\$114, 511, 000
Deputies income assessments.....	22, 629, 000
Revenue agents' individual assessments.....	222, 626, 000
Total.....	359, 766, 000

The foregoing shows the serious drop in revenue derived from additional assessments since the reorganization; and also that the additional assessments as a direct result of audit for fiscal 1954 were lower than those for fiscal 1953.

### ADMINISTRATION

#### INTRODUCTORY

From an administrative standpoint the reorganization of the Internal Revenue Service, as implemented over the past 2 years, has been characterized by the decentralization of practically all operational activities formerly performed at national headquarters to the field offices, (see Commissioners memorandum on p. 100), and the establishment of extensive supervisory and management controls in the national office, involving elaborate reporting procedures.

The operating functions decentralized to the field include: (1) post-audit review function; (2) certain tax rulings; (3) engineering problems; (4) estate and gift tax activities; (5) records units; (6) all collection activities, including issuance of assessment lists and scheduling of overassessments; (7) interest computations; (8) processing of bankruptcy and receivership cases; (9) offers in compromise of less than \$500; (10) alcohol and tobacco tax operating functions.

Many of the operating functions decentralized to the field represent sound administrative decisions designed to streamline the revised structural organization. However, it is believed that the decentralization has been too rapid and too extensive, and without due regard

<sup>1</sup> Mathematical verifications and delinquent returns not considered.

to the practical aspects of operation in certain instances—such as whether postaudit review procedures conducted in nine different regions can provide effective uniformity in the interpretation and application of the internal revenue laws, regulations, and rulings.

There are a number of fields within which the problems are so complicated as to require highly trained technicians with specialized knowledge or do not arise with sufficient frequency over the country generally to justify the expense of adequately trained personnel in the different district offices or in the regional offices to deal with them properly. In such situations there should exist in the national office, or in some other central place, groups of trained experts which any field office would be free to call upon for advice. While it is most desirable that to the extent feasible the handling of tax matters should be brought to the doorstep of the taxpayer, decentralization should not be carried to the point of placing in the hands of inexperienced persons unusual and difficult problems which demand specialization of a sort which it is not feasible to provide at the local level. The problems of corporate distributions and adjustments is clearly such an area; and certain engineering problems would seem to be another. It is felt that the present reorganization has not been carried forward with a full appreciation of these principles.

Under the reorganized structure, each district director is charged with all the responsibilities and duties formerly performed by two different men, namely, the Collector of Internal Revenue and the internal revenue agent in charge. In addition, he is charged with the additional management burdens and duties inherent in the recently decentralized headquarters activities. It is difficult to see how one man is capable of effectively administering all these duties. The stream of directives and instructions flowing from the national and regional offices to the district directors offices is reported to be in such numbers as to preclude adequate comprehension and compliance. It appears that it must be difficult for the field forces to stay abreast of the numerous changes in directives and consequently production is adversely affected.

#### PERSONNEL

The following charts indicate the trends with respect to number of employees and the activities in which they are engaged.

## Personnel summary

Type of personnel	On rolls, June 30, 1952	On rolls, June 30, 1953	On rolls, Apr. 24, 1954	On rolls, Apr. 23, 1955
<b>National office:</b>				
Supervisory.....	39	42		
Legal.....	206	210		
Other technical.....	1,364	1,416		
Stenographers and typists.....	670	684		
Clerical.....	1,413	1,333		
Messengers and laborers.....	150	149		
Total, departmental.....	3,842	3,834	2,888	2,669
<b>Regional and district offices:</b>				
Collection officers.....	10,221	9,037	6,971	5,741
Office auditors.....	3,278	3,064	2,634	2,110
Returns examiners.....	866	1,002	1,129	1,200
Revenue agents.....	7,758	7,617	10,667	10,815
Special agents.....	1,186	1,200	1,296	1,515
Alcohol tax inspectors.....	526	581	528	471
Alcohol tax investigators.....	857	832	815	902
Alcohol tax storekeeper gaugers.....	1,453	1,294	1,223	1,050
Total, front-line enforcement personnel.....	26,145	24,627	25,263	23,804
Supervisory enforcement officers.....	357	514	482	479
Total, enforcement personnel.....	26,502	25,141	25,745	24,283
Legal.....	232	271	284	266
Other technical personnel.....	2,412	2,786	2,907	2,614
Stenographers and typists.....	6,578	6,453		
Clerical (excluding temporaries).....	14,642	13,791	20,164	20,614
Messengers and laborers.....	183	178		
Temporary personnel in district directors' offices.....	980	1,009	2,474	3,679
Total, regional and district offices.....	51,529	49,629	51,574	51,456
Grand total.....	55,371	53,463	54,462	54,125

## Personnel analysis

	July 4, 1953	July 3, 1954	June 4, 1955
<b>National office:</b>			
Commissioner's office.....		29	27
Administration.....		400	372
Inspection.....		91	110
Operations.....		735	736
Planning.....		397	403
Technical.....		616	617
Chief Counsel.....		439	405
Total.....	3,865	2,707	2,670
<b>Regional offices:</b>			
Administration.....	695	859	934
Collection.....	28	40	54
Audit.....	38	128	145
Intelligence.....	246	246	308
Alcohol and tobacco tax.....	3,608	3,393	3,276
Appellate.....	1,016	1,091	1,149
Total.....	5,631	5,757	5,866
Inspection.....	488	393	397
Regional counsel.....	532	566	547
<b>Directors' offices:</b>			
Administration.....	1,614	1,333	1,316
Collection.....	14,588	13,746	16,017
Delinquent accounts and returns.....			
Audit.....	23,271	24,621	16,098
Intelligence.....	1,407	1,438	1,712
Total.....	40,880	41,138	42,495

*Personnel analysis—entire service*

Activity	July 3, 1954	June 4, 1955	Activity	July 3, 1954	June 4, 1955
Technical services.....	616	617	Appellate.....	1,172	1,228
Processing and revenue account- ing.....	14,809	17,140	Legal services.....	1,005	952
Delinquent accounts and returns.....	8,669	7,380	Inspection.....	484	507
Audit.....	16,304	16,448	Statistical reporting.....	376	383
Fraud and special tax investiga- tions.....	1,727	2,077	Executive direction.....	450	419
Alcohol and tobacco tax.....	3,589	3,466	Supervision and administration.....	2,210	2,263
			Total.....	51,411	52,880

It should be noted that the total personnel engaged in frontline enforcement activities has decreased substantially in the past year. Moreover, although the number of revenue agents has increased from 7,758 as of June 30, 1952, to 10,815 as of April 23, 1955, it should be noted that a substantial part of this increase reflects the reassignment of collection officers (from old collection office) to the status of internal revenue agents. During the fiscal year ended June 30, 1954, 3,317 collection officers were reassigned to the Audit Division and designated internal revenue agents.

During the period from July 1, 1952, through November 21, 1954, approximately 585 internal revenue agents *resigned* from the Revenue Service and 174 retired. Moreover, the charts disclose that the number of revenue agents *increased* by only 148 during the year ending April 24, 1955, while the number of office auditors *decreased* by 510, and the number of collection officers *decreased* by 1,230.

In the national office, the abolition of the Uniform Audit Branch (which conducted postaudit review) involved about 450 employees. The decentralization of this and other functions to the field resulted in reducing personnel at the national office to about 2,700 by June 30, 1954, and this figure has been roughly maintained. Of the approximate 400 employees in the Office of Assistant Commissioner, Planning, about 380 are engaged in statistical reporting activities.

The rise in the annual cost of personal services for permanent employees is reflected in the following chart:

*Permanent employees only*

Fiscal year	Employees (man-years)	Cost of personal services	Average salary
1950.....	154,411	\$207,595,000	\$3,815
1951.....	156,262	219,663,000	3,904
1952.....	156,336	246,413,000	4,373
1953.....	154,596	243,882,000	4,467
1954.....	152,726	241,103,000	4,572
1955.....	252,549	243,050,000	4,625

<sup>1</sup> Actual.

<sup>2</sup> Estimated.

The number of man-years, as estimated, shows a decrease in fiscal 1955 of 177 from fiscal 1954, although the cost of personal services increased approximately \$2 million. When actual figures are available it is indicated that the decrease for fiscal 1955 will be about 800 man-years.

## INSPECTION

The Inspection Service was established to make an independent review and appraisal of all Internal Revenue Service activities, and to maintain high standards of honesty and integrity among its employees.

As of May 21, 1955, personnel in the Inspection Service totaled 506, of which 112 were in the national office, and 394 in the field. Of this latter number, 294 were inspectors, and 24 held supervisory positions.

Numerous complaints have been received that the effectiveness of many frontline enforcement personnel has been seriously diminished by reason of the constant fear of unjustified investigation. Numerous instances of petty investigations have been reported—to the great detriment of morale in the Service. In at least one region the Inspection Service makes some kind of inspection of all cases disposed of by group supervisors which are labeled “settlement.” Accordingly, group supervisors undertake to dispose of cases without labeling such dispositions as “settlement.” There is some indication that the Inspection Service often engages in “fishing expeditions.”

As presently operated, field inspectors have authority to investigate not only allegations of misconduct by employees, but can inquire into every phase of field operations. This, of course, includes the investigation of any determinations made by revenue agents or conferees in the Appellate Division. It would seem that such function necessarily requires field inspectors to review cases on their merits—even though most of the inspection personnel are not qualified by training or experience to conduct such a review. As a result of the inspection activities, morale of employees has been seriously damaged. Moreover, it is indicated that the constant vigil maintained by the field inspectors with respect to the fulfillment of “work quotas” has seriously affected the quality of the field examinations.

Information from the staff questionnaire and other sources indicates that the “broad brush” approach and overzealous attitude of the Field Inspection Service is an important factor tending to disrupt morale and reduce effectiveness of revenue agents and other employees to the detriment of the enforcement activities and the revenues.

Moreover, employees resent the fact that only income-tax returns of Treasury Department employees are singled out as a group and required to be audited while returns of other Government employees are not subject to the same requirement. See material in the appendix, page 107.

It appears that the establishment of an inspection arm in the Internal Revenue Service strengthens the structural organization and is a necessary and proper means of assuring high standards of honesty and integrity among employees in the Service (by providing an orderly method of investigating allegations or evidence of improper or illegal conduct), and as a means of providing a systematic verification and analysis of accounts and financial transactions and the accuracy of statistical reports. However, there are serious doubts as to the wisdom of extending this function to include the “independent review and appraisal of *all* Internal Revenue Service operations,” including the investigation and review of determinations made by technical personnel.

## POST-AUDIT REVIEW

Post-audit review was abolished in the national headquarters in the summer of 1953 and its functions were decentralized to the regional commissioners' offices. Initially the regional commissioners were instructed to install whatever post-audit review procedures were deemed necessary. As a result of the lack of implementation prior to decentralization, there apparently were no effective post-audit review procedures in operation either in the field or in the national office during part of fiscal 1954. As of June 1, 1955, there were approximately 211 employees in the Audit Division in the national office, and 144 employees in the audit divisions of the 9 regional offices—of which 87 were designated regional analysts.

The present functions and operations of post-audit review in the regional offices are described in the following statement submitted by the Internal Revenue Service.

## STATEMENT SUBMITTED BY OFFICE OF COMMISSIONER

The post review of examined cases was decentralized to the regional commissioners as of January 1, 1954.

As of June 4, 1955, there were 87 technical employees [called regional analysts] engaged in the regional review of cases closed by the various district directors' audit divisions. Such employees were distributed as follows:

<i>Region</i>	<i>Number of employees</i>
Atlanta.....	8
Boston.....	6
Chicago.....	12
Cincinnati.....	11
Dallas.....	7
New York.....	16
Omaha.....	8
Philadelphia.....	9
San Francisco.....	10
Total.....	87

It is the policy of the Internal Revenue Service to subject all completed examinations to a technical review in the office of the district director in which the examination was made. In addition, it is the Service policy to select on a uniform basis in each district director's office, a sample of examined returns for review in the offices of the various regional commissioners. The basic unit in such selection is a case file which may contain one or more returns for one or more taxpayers. The basis for selection is the amount of tax change, including penalties in any tax year, resulting from examination of any return included in such case file.

The following table sets forth by type of case file the percentages of such case files which are selected for review in the office of the regional commissioner:

<i>Type of case file</i>	<i>Percent of case files selected for regional review</i>
One containing a corporation income tax return:	
Tax change, including penalties, for 1 taxpayer for 1 year:	
\$5,000 or more.....	100
\$1,000 to \$5,000.....	25
Less than \$1,000.....	15
No tax change for any taxpayer.....	10
One containing individual, fiduciary, or partnership but not corporation returns:	
Tax change, including penalties, for 1 taxpayer for 1 year:	
\$10,000 or more.....	100
\$1,000 to \$10,000.....	15
Less than \$1,000.....	2
No tax change for any taxpayer.....	.5
One containing a gift tax return.....	100
One containing only estate tax returns:	
1. Tax change \$10,000 or more, or gross estate of \$1 million or more.....	100
2. Tax change under \$10,000 or no tax change.....	20

As stated heretofore, all case files are reviewed by the review staff in the district directors' offices. During this procedure the reviewer determines in which of the classes listed above the case file falls and indicates it by means of a code letter. As the closed case files are received in the Control Section of the district directors' audit divisions for disposition they are numbered consecutively within each code letter class. Case files are then selected for regional review in accordance with selection schedules furnished by the national office. These schedules list the numbers of the case files within each code letter class to be selected. The case files so selected constitute the minimum post review. Regional commissioners may provide for the review of additional examined returns as they deem necessary.

It is the policy of the Service not to reopen cases closed in the district directors' offices except those involving substantial errors both in amount and in relation to the total tax liability and cases in which there is evidence of fraud or collusion. Advisory letters are issued when errors are disclosed which do not warrant reconsideration. This is generally the same policy that was in effect prior to the reorganization as set forth in Com.-Mim. Coll. No. 6330, R. A. No. 1682, dated November 23, 1948.

The following table sets forth by regions the approximate number of returns reviewed in the offices of the various regional commissioners, together with the number of returns included in the case files returned for reconsideration or on which advisory letters were written.

Region	1954			Jan. 1 through May 31, 1955 <sup>1</sup>	
	Number of returns reviewed	Returns reopened for reconsideration	Returns on which advisory letters were written	Returns reopened for reconsideration	Returns on which advisory letters were written
Atlanta.....	7,506	37	9	23	3
Boston.....	5,117	53	21	40	16
Chicago.....	10,545	36	44	42	25
Cincinnati.....	10,121	41	27	51	43
Dallas.....	8,617	29	15	28	5
New York.....	16,473	11	27	19	28
Omaha.....	9,097	27	41	23	27
Philadelphia.....	10,998	30	61	14	7
San Francisco.....	10,436	13	3	22	40
Total.....	88,910	277	248	262	194

<sup>1</sup> Number of returns reviewed during period Jan. 1 through May 31, 1955, not presently available.

The national office receives copies of all regional advisory and exception letters. The issues involved are digested for study as to correctness and uniformity in application of the tax laws and prescribed procedures. Letters indicating the existence of technical problems are referred to the Assistant Commissioner, Technical, for consideration.

Copies of all reports on informal conferences are forwarded to the regional offices where they are reviewed to determine the adequacy of the informal conference procedure and whether issues are being uniformly handled throughout the region.

When the postreview of case actions in the field was decentralized to the regional commissioner, the question occurred as to how the actions of the nine regions were to be coordinated.

I. R.—Mimeograph No. 78, Supplement 4, was promulgated October 15, 1953.<sup>10</sup> It is a document dealing with the selection of field case actions by code numbers and the preparation of "management information reports" and related material by the district directors' offices. The management information reports are to be reviewed by the Regional Commissioner (Audit). These reports are then sent to the national office (Audit Division), where they are tabulated and coordinated.

Under this management information report system the national office relies upon a form containing certain words and figures. The form may represent the conscientious translation of a case action by

<sup>10</sup> See material in the appendix, p. 83.

a director's reviewer. But he is in 1 of 64 directors' offices and does not know what is going on in the other 63 offices. It is not practicable to transfer such reviewers to other regions at certain intervals. These reports are then reviewed in the Regional Commissioner's Office (Audit), but that office does not know the attitudes of the other eight regions. Thus, it appears that it may be deficient as a system for national coordination of technical case actions.

It is believed that the present system of having postaudit review in the various Regional Commissioners' Offices should be eliminated and a centralized postaudit review section established in the national office. While there were substantial defects in the operation of postaudit review prior to the reorganization, the remedy for these defects, clearly would not lie in the direction of splitting the postaudit review section among the nine regional offices. While the present system has not been in effect long enough to permit any judgment based upon the results so far obtained, it appears that inevitably the present system will result in unreasonably expensive postaudit review or ineffective review, or probably both.

#### CHIEF COUNSEL

So long as the office of the Chief Counsel remains under the direction of the General Counsel for the Treasury Department, budgetary control of the Chief's Counsel's office should be placed in the hands of the General Counsel for the Treasury Department.

The operating effectiveness of the office of Chief Counsel would be considerably enhanced if the position of Chief Counsel were restored to the dignity of a Presidential appointment. This would enable the Chief Counsel to establish his own policies and render independent opinions without divesting the Commissioner of his power to reject the recommendations of the Chief Counsel.

#### *Office of Chief Counsel Enforcement Division—Criminal prosecutions*

The following chart indicates the trend of prosecutions in fraud cases, and the impact of the new policy adopted in 1953 under which cases are referred to the Department of Justice directly from the regional field offices.

#### *Criminal prosecution*

	6 months ended De- cember 31, 1952	6 months ended De- cember 31, 1953	6 months ended De- cember 31, 1954
(a) Summary of operation of Enforcement Division:			
Pending beginning of period.....	2,473	2,969	3,800
Received from Intelligence Division.....	891	1,198	1,242
Closed without prosecution.....	113	66	98
Others closed (including referred to Department of Justice).....	362	585	764
Pending end of period.....	2,889	3,516	4,280
(b) Department of Justice:			
Pending beginning of period.....	1,711	2,103	-----
Received from Chief Counsel.....	800	1,052	-----
Dispositions:			
Guilty plea or nolo contendere.....	249	415	-----
Convicted after trial.....	58	80	-----
Acquitted after trial.....	23	28	-----
Returned for no prosecution.....	37	12	-----
Nol-prossed, dismissed.....	31	45	-----
Others.....	15	25	-----
Total returned to Chief Counsel.....	413	605	-----
Pending end of period.....	2,098	2,550	-----

*Cases referred to Department of Justice by Internal Revenue Service, cases returned by Department of Justice as no prosecution cases, and cases nol-prossed or dismissed for the period July 1, 1953, to June 30, 1954*

Region	Number of cases referred to Department of Justice for prosecution	Cases returned by Department of Justice as no prosecution cases		Number of cases nol-prossed or dismissed
		Number	Percent	
Atlanta.....	91	8	9	9
Boston.....	44	4	9	1
Chicago.....	51	0	0	9
Cincinnati.....	52	12	23	5
Dallas.....	79	19	24	2
New York.....	157	5	3	5
Omaha.....	102	5	5	4
Philadelphia.....	61	11	18	11
San Francisco.....	96	10	10	11
Total.....	733	74	10	57

NOTE.—Number of cases refer to number of individuals involved. Wagering excise and occupational tax cases are not included in the above tabulation.

At first the above tables might indicate that there is, under the new system, very effective criminal enforcement. However, any real appraisal of the effectiveness of criminal enforcement during decentralization as compared to the period prior to decentralization would require a comparison with the period prior to decentralization. For instance, the cases forwarded to the Department of Justice for criminal prosecution in any particular period should be broken down into the number of guilty pleas, the number of convictions and of acquittals in actually tried cases, the number returned to the Internal Revenue Service as no prosecution cases, the number of cases whether disposed of by trial or plea in which jail sentences were imposed, the number in which fines only were imposed and the number of suspended sentences, etc. Ratios based upon the foregoing for any one period as compared to similar ratios based on comparative statistics for another period might furnish a real key to the efficiency of criminal tax enforcement. For instance, if during one period 60 percent of the taxpayers indicted pleaded guilty, 85 percent of the cases actually tried under not guilty pleas were convicted and 75 percent of those convicted were given jail sentences, it would be a more effective enforcement program than if in another period 40 percent entered guilty pleas, 60 percent of the cases tried under pleas of not guilty were convicted and 50 percent of those convicted were given jail sentences.

It is regretted that the statistical material available is not in such form as to permit a full appraisal of this situation. However, it should be noted from the current tables furnished that there is a great disparity in the number of cases referred to the Department of Justice by regions. Moreover, the wide spread in the percentage of cases returned by the Department of Justice as "no prosecution" cases, varying from 0 percent in the Chicago region to 24 percent in the Dallas region, might indicate the necessity for a centralized review of field recommendations for criminal prosecution prior to forwarding to the Department of Justice.

## APPELLATE DIVISION

The operating results of the Appellate Division of the Office of Assistant Commissioner (Operations) are reflected in the following tables. Approximately 10,000 cases were transferred to the Appellate Division during fiscal 1953 as a result of the abolition of the conference sections in the internal revenue agents in charge offices.

*Analysis of nondocketed case disposals (income, profits, estate, and gift tax)*

Fiscal year ended—	Total disposals	Agreed		Defaulted deficiencies		Unagreed over-assessments and claim rejections		Petitioned deficiencies	
		Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
June 30, 1941	8,270	4,614	55.8	934	11.3	517	6.2	2,205	26.7
June 30, 1942	6,128	3,494	57.0	646	10.6	430	7.0	1,558	25.4
June 30, 1943	5,930	3,661	61.7	630	10.6	249	4.2	1,390	23.5
June 30, 1944	6,480	3,953	61.0	751	11.6	315	4.9	1,461	22.5
June 30, 1945	5,754	3,277	56.9	611	12.4	291	5.1	1,475	25.6
June 30, 1946	4,579	2,639	57.6	556	12.1	186	4.1	1,198	26.2
June 30, 1947	5,243	3,275	62.5	702	13.4	223	4.2	1,043	19.9
June 30, 1948	5,473	3,368	61.6	713	13.0	183	3.4	1,209	22.1
June 30, 1949	6,108	3,760	61.6	732	12.0	349	5.7	1,267	20.7
June 30, 1950	6,986	4,268	61.1	760	11.0	341	5.0	1,527	22.1
Total for 10 years	60,861	36,309		7,135		3,084		14,333	
Average for 10 years	6,086	3,630	59.7	713	11.7	308	5.1	1,433	23.5
1951	7,147	4,374	61.2	776	10.9	429	6.0	1,568	21.9
1952	7,528	4,634	61.8	802	10.7	522	6.9	1,570	20.9
1953	11,674	8,166	70.0	933	8.0	576	4.9	1,999	17.1
1954	14,737	10,631	72.1	951	6.5	933	6.3	2,222	15.1
Total for 4 years	41,086	27,805		3,462		2,460		7,359	
Average for 4 years	10,272	6,951	67.7	866	8.4	615	5.9	1,840	18.0
First half fiscal year 1955	8,994	6,169	68.6	706	7.9	703	7.8	1,416	15.7

*Income, estate, and gift tax cases*

	Fiscal year ended June 30, 1953	Fiscal year ended June 30, 1954	6 months ending Dec. 31, 1954
Received:			
Nondocketed	<sup>1</sup> 20,962	8,950	4,419
Docketed	7,677	4,433	2,199
Total	28,639	13,383	6,618
Disposals:			
Nondocketed	<sup>2</sup> 11,674	<sup>3</sup> 14,737	8,784
Docketed	5,763	6,858	2,650
Total	17,437	21,595	11,434
Pending as of June 30:			
Nondocketed	19,365	13,578	9,213
Docketed	10,920	8,495	8,044
Total	30,285	22,073	17,257

<sup>1</sup> Includes 10,069 cases transferred from Internal Revenue Conference Sections merged into Appellate Division during the year under Reorganization Plan No. 1.

<sup>2</sup> Chart on next page discloses that of this number 8,166 (70 percent) were closed by agreement, and that 1,999 (17.1 percent) cases were closed by petition to Tax Court.

<sup>3</sup> Chart discloses that of this number 10,631 (72 percent) were settled by agreement and that 2,222 (15 percent) were closed by petition to the Tax Court.

## Analysis of docketed case disposals (income, profits, estate, and gift tax)

Fiscal year ended—	Total disposals	Agreed settlements				Dismissed or defaulted		Tried on merits	
		Original consideration		Reconsideration		Number	Percent	Number	Percent
		Number	Percent	Number	Percent				
June 30, 1941.....	4, 833	1, 732	35. 8	1, 340	27. 7	239	5. 0	1, 522	31. 6
June 30, 1942.....	3, 918	1, 231	31. 4	1, 243	31. 7	175	4. 5	1, 269	32. 4
June 30, 1943.....	4, 081	1, 400	34. 3	1, 380	33. 8	163	4. 0	1, 138	27. 9
June 30, 1944.....	3, 019	906	30. 0	1, 006	33. 3	180	6. 0	927	30. 7
June 30, 1945.....	2, 922	828	28. 3	941	32. 2	160	5. 5	993	34. 0
June 30, 1946.....	2, 816	873	31. 0	928	33. 0	142	5. 0	873	31. 0
June 30, 1947.....	2, 986	941	31. 5	1, 037	34. 7	217	7. 3	791	26. 8
June 30, 1948.....	3, 879	1, 425	36. 7	1, 047	27. 0	458	11. 8	949	24. 5
June 30, 1949.....	4, 484	1, 938	43. 2	1, 187	26. 5	413	9. 2	946	21. 1
June 30, 1950.....	4, 097	1, 652	40. 3	1, 070	26. 1	419	10. 2	956	23. 4
Total for 10 years.....	37, 035	12, 926	-----	11, 179	-----	2, 566	-----	10, 364	-----
Average for 10 years.....	3, 703	1, 293	34. 9	1, 116	30. 2	256	6. 9	1, 036	28. 0
1951.....	4, 941	2, 004	40. 6	1, 332	27. 0	541	10. 9	1, 064	21. 5
1952.....	4, 971	2, 184	43. 9	1, 189	23. 9	596	12. 0	1, 002	20. 2
1953.....	5, 763	2, 582	44. 8	1, 647	28. 6	520	9. 0	1, 014	17. 6
1954.....	6, 858	3, 165	46. 1	2, 202	32. 1	300	4. 4	1, 191	17. 4
Total for 4 years.....	22, 533	9, 935	-----	6, 370	-----	1, 957	-----	4, 271	-----
Average for 4 years.....	5, 633	2, 484	44. 0	1, 592	28. 3	489	8. 7	1, 068	19. 0
First half fiscal year 1955.....	2, 650	1, 032	38. 9	1, 039	39. 2	124	4. 7	455	17. 2

Although the preceding data indicates that the number of cases disposed of by the Appellate Division increased substantially during fiscal years 1953 and 1954, the following chart discloses that there has been a substantial drop, percentagewise, over 1951 and 1952 in the amount of deficiencies finally determined by the Appellate Division as compared to the amount of deficiencies recommended by the revenue agents or asserted in statutory notices:

## Amount of revenue involved, nondocketed cases

Fiscal year	Number of cases closed	Revenue agents' finding or statutory notice (in thousands)		Decision of appellate staff		Percentage of initial deficiencies determined
		Deficiency	Overassessment	Deficiency	Overassessment	
1951.....	1 5, 579	123, 035	36, 547	66, 573	31, 659	54. 1
1952.....	2 5, 958	102, 651	22, 636	55, 977	17, 543	54. 3
1953.....	3 9, 675	152, 963	24, 687	67, 641	28, 224	44. 2
1954.....	4 12, 515	189, 997	41, 194	87, 148	36, 753	45. 8

<sup>1</sup> Of this number, 4,374 cases were settled by agreement, 776 cases were defaulted on statutory notice, and 429 cases were unagreed overassessments and claim rejections.

<sup>2</sup> Of this number, 4,634 cases were settled by agreement, 792 were defaulted, and 522 were unagreed overassessments and claim rejections.

<sup>3</sup> Of this number, 8,166 cases were settled by agreement, 933 were defaulted, and 576 were unagreed overassessments and claim rejections.

<sup>4</sup> Of this number, 10,631 were settled by agreement, 951 were defaulted, and 933 were unagreed overassessments and claim rejections.

Source: Commissioner's annual reports.

## MATERIAL TAKEN FROM THE STAFF QUESTIONNAIRE WITH RESPECT TO ENFORCEMENT ACTIVITIES

Question 1 of the staff questionnaire inquired whether the production of the examining and enforcement personnel of the Service is being materially hampered by unnecessary supervision, lack of suffi-

cient stenographic, typing, and clerical assistance or other causes. The result is as follows: 27 percent of the replies indicated unnecessary supervision; 44 percent indicated lack of sufficient stenographic, typing, and clerical assistance; and 29 percent indicated other reasons.

Information received from the questionnaires discloses that 71 percent were of the opinion that the production of the examining and enforcement personnel of the Service was being materially hampered by unnecessary management and supervisory controls and insufficient stenographic and clerical assistance. And 61 percent were of the opinion that the revenue-producing activities of the Service were being interrupted by unnecessary supervisory work, statistical reporting, and other nonproductive work.

Among other causes hampering production of the examining and enforcement personnel of the Internal Revenue Service, respondents submitted a variety of factors, which include the following more important points:

(1) Inadequate office space and equipment, such as adding and calculating machines, reproduction equipment and telephone facilities, and inadequate reference material, such as tax services and court decisions.

(2) Nonproductive work, particularly in the case of revenue agents. This factor was described variously as—

(a) Requirements that agents submit reports showing the amount of time spent on various assignments.

(b) The taxpayer's assistance program which resulted in qualified revenue agents being removed from their primary function of auditing returns in order to assist taxpayers in preparing relatively simple personal income tax returns.

(c) Requirements that revenue agents submit detailed statistics concerning the number of case-years audited and additional revenue assessed.

(d) The "package audit" under which a single agent now audits all the taxpayer's Federal tax returns at the same time. It is felt that compelling a revenue agent to spend a great deal of time away from his chief duty, that of auditing difficult income tax returns, results in an inefficient use of manpower and materially reduces the amount of revenue properly collectible. It is pointed out that in many instances clerks are capable of disposing of excise and miscellaneous tax problems at a savings in cost, as well as freeing the revenue agent for more productive work.

(3) Production quotas: Correspondents point out that this procedure results in inferior examinations, as agents are frequently not provided enough time in which to make a careful analysis of all issues. It is stated that many cases are settled for only a fraction of the potential additional liability because agents fear that to prolong their investigation, would prevent fulfillment of their quotas.

(4) Restricted travel allowances, which results in a decreased number of audits as revenue agents find it impossible to investigate defective returns except in their immediate locality. In addition, the practice, by which agents follow up on various leads in seeking cases of unreported income, is seriously affected by the lack of adequate travel allowances. This condition has become more apparent follow-

ing the practice adopted in the reorganization of closing many small, local agent-in-charge offices.

(5) Insufficient and inadequately trained revenue agents: This condition was created by the large number of resignations and retirements of career employees following the reorganization, and by the difficulty of providing qualified replacements. Thus, production suffers, particularly among the more difficult cases, since newly recruited revenue agents often lack the experience necessary to cope with problems that may arise in auditing such returns, and may pass over points which a more experienced auditor would press and which frequently result in collection of large amounts of additional revenues. In addition, compensation offered prospective agents is often inadequate to attract capable applicants to a career in the Internal Revenue Service.

In addition to these factors, unnecessary supervision and the lack of sufficient stenographic, typing, and clerical assistance, various sundry points were raised which may hamper production locally. For instance, some respondents felt that interference from the Inspection Service affected the work of the examining and enforcement personnel of the Internal Revenue Service. Others submitted the view that the reorganization itself was accompanied by a decline in production of the enforcement personnel. It was felt that the uncertainty and insecurity of Service employees created by job reclassification and reassignment of duties, which often involved a transfer of personnel to other districts, brought about a decline in morale which frequently manifested itself in decreased output. Additional points included undue emphasis on fraud cases, complexity of laws and regulations, the consolidation of collection and audit function, the abolishment of the conference section and the Commissioner's policy of nonacquiescence in certain court decisions.

Question 2 which inquired as to whether or not the existence of the 9 regional commissioners' offices between the 64 district directors' offices and the national headquarters results in more or less efficiency. The opinions expressed are as follows: More, 67.4 percent; and less, 32.6 percent.

Although the majority of respondents appeared to believe that the existence of the 9 regional commissioners' offices resulted in more efficiency it was pointed out that in identical items, different determinations will result due to what was described as over decentralization. Statements were submitted which support the theme of over-decentralization, such as rulings have no central guidance and therefore will vary as to interpretation and administrative results. Instructions are issued both by the regional commissioners' offices and the national office.

With respect to question 4, "Have you observed whether or not the taxpayer assistance program unduly interferes with the audit of returns, and if so how?" the results were: Yes, 55.7 percent; no, 44.3 percent. It was pointed out that in past years the taxpayer assistance program materially affected the audit program due to the fact that many deputy collectors and agents are assigned to do this work. In many cases collectors and directors require all personnel capable of preparing returns to make them out in full which consumes a great deal of time. The Commissioner revised this system so that now a few employees answer questions for the taxpayers who then

must prepare their own returns. This has alleviated this problem to some extent.

The results of question 5, "Have you had any opportunity to observe whether there is now greater or less uniformity in the settlement of cases as between different districts than before reorganization?" are: Yes, 21.8 percent; no, 78.2 percent.

In this question our evaluation can merely deal with the replies received from the 21.8 percent. A summary of their statements indicate that the various group supervisors are not able to practice the same uniformity as was done under the old conference group. It was pointed out that under the reorganization there are so many supervisors that cases are closed without following a uniform practice. Question 6 is answered by the preceding digest of responses.

The results of question 7, "In your opinion is there a proper balance between management and supervisory work as compared to examining and collection work?": Yes, 51 percent; No, 49 percent.

Although 51 percent of the respondents felt that a proper balance between management and supervisory work did exist, a digest of the responses indicated that with respect to the examining and collection work it did not. Time and time again the response of "too many Indian chiefs and not enough Indians" was encountered. This question appeared to cause some confusion among the respondents as to what was required.

The results of question 8, "In your opinion are the revenue-producing activities of the Service being interrupted by unnecessary supervisory work, statistical and other unproductive work?" is: Yes, 60.9 percent; No, 39.1 percent.

A digest of responses indicate that there are too many reports, meetings, memos, statistical work and that the overseeing and collating of functions impair the productive efforts.

With respect to question 9 which inquired whether or not experienced high-grade career employees are leaving the Service the response was: Yes, 58.3 percent; No, 41.7 percent.

An examination of the responses received from the 58.3 percent reveals that the reason most often advanced as to why career employees are leaving the Service is the inadequate compensation of Revenue Service employees. Many correspondents point out that pay scales within the Service are not commensurate with those outside the Service for work of a similar nature. In addition to inadequate compensation, the view was frequently expressed that agents particularly were leaving because of the poor morale situation resulting from the consolidation of the deputy collectors' offices with the revenue agents in charge offices. In some cases career employees left the Service following the reorganization because they hesitated to move their families from established homes to new posts of duty elsewhere in the district or, in many cases, to other districts. This situation was the result of the closing of many small agents in charge offices and the consolidation of personnel in larger centralized offices. Other causes included improper promotion policies, quota system of production by which agents were graded according to the number of cases closed, uncertainty and job insecurity, and harassment of Revenue Service employees by the Inspection Service. The following quotations appear to be representative of the reasons submitted by respondents to the staff questionnaire as to why experienced, high-grade employees are leaving the Service before retirement:

Many of the experienced high-grade career employees who were field agents or members of the technical staff in this area left the Internal Revenue Service because of the combined factors of low salaries and of being passed over in the reorganization. In this area, at least, the key positions went to collector's personnel and not to field agents or technical staff personnel. The damage has already been done in this respect and probably little can be done to remedy the situation other than to rebuild an experienced group of men from among the younger men now in the Service.

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The Audit Division in which I worked has lost three C. P. A.'s and three attorneys in the past couple of years mainly due to lack of promotions and poor working conditions.

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One reason seems to be the mixing up and consolidation of the agents' and collectors' offices; another is the pronounced reduction in the dignity, prestige, and freedom of operation of the agents' offices; another is the obvious inability, due to interference and pressures from other offices between it and Washington, to exercise independent and authoritative control and management by the division heads.

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In my experience I was grade 9 for 41 months. The work assigned and responsibility involved appear to call for a higher grade. It was and still is my opinion that the opportunity offered there is not equivalent to the opportunity outside of the Service.

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Morale factors such as unsatisfactory promotional opportunities; positions graded too low to compensate for the pressure of the job, in agents' division.

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We have experienced many experienced employees leaving the Service for private employment. It did not appear they were leaving because of conditions in the IRS but rather because outside legal work or private employment promised greater rewards for the use of their training and talents. Many agents get their law training while employed by the IRS and after they receive their degrees and pass the bar exams they go into law practice.

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Lack of proper grade increases commensurate with experience and ability; too much redtape; too many conflicting directives from Washington.

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I would not have left the Service but I couldn't see any future. I was at the top of my grade for several years and was bypassed so often that I lost the incentive to stay on. Otherwise I would have stayed on longer or at least until I was 60 years of age. I lost money on my retirement by leaving early.

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The cause, I believe, lies in what I have stressed throughout: General disgust with the confusion and uncertainty in the Service and with inordinate and petty criticism from above. Many who are not leaving the Service are simply coasting along with indifference and nonchalance, or a feeling of impotent helplessness, without dignity or courage or confidence.

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Again the answers to the other questions are pretty much the answer to this question. The morale of the employees is so low that their interest in their work is not there, and most good employees will not put up with this type of an operation. Some that I know stayed quite a while thinking that this would straighten out, but it didn't; consequently the Service lost good, hard-working employees who were liked by the taxpayer as well as their supervisors.

Ruling out the phrase "high-grade career employees" we know of cases where examining agents have resigned for what they consider unsatisfactory conditions. One such condition was ranking them by the number of deficiencies in tax reported, whether well-founded or not. We have heard that some near retirement would retire except for their years of service, the cause being that they do not feel secure in their positions.

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Several long-time employees have confided in me. Their reasons were the balled-up condition of the Service and internal politics.

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(a) No recognition of services rendered either by way of remuneration or "a slap on the back." (b) The failure on the part of administration to realize the tax dollars lost by placing the agents on menial tasks. (c) Lack of direction and management and the general confused conditions.

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Their self-respect is no longer considered. They are being subjected to undignified supervision and "snooping." The good men are leaving—the stupid ones stay—so the agent reasons "I must be one of the stupid ones, if I stay." If the examining agent's self-respect is not restored soon, the Department is going to be a sorry mess.

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Agents with whom I have had contact have indicated morale is low—too much supervision, lack of support from those higher up, insistence on production quotas, too critical reviewers, and inability to secure prompt decisions on questions confronting them.

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Undemocratic and discriminatory attitude toward former collector's employees. A "holier than thou" attitude of former IR agents groups and supervisors toward former deputy collectors. My opinion is that this is the policy that was created right at the top in the national office and it has been carried out in an almost ruthless manner, by American standards.

I myself had planned to make the Service a career but was driven out after giving it 10 years of service. I know of several more who have been driven out, and many more who want to leave in the worst way. I know of very few who are staying because they are happy about anything about their work.

It is time that those who have destroyed the functioning of the Department should be driven from their posts. The tremendous loss of revenue in the past 2 years is too great to let them continue and to fiddle away more billions of the country's much needed revenue.

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Serious slowing down of grade increases. Some had been eyeing commercial jobs and the reorganizational upsets provided the final straw. The resentment of the audit group at the influx resulted in a loss of incentive on their part. Perhaps there was a corresponding improvement in the morale of collection personnel.

## PART V. RECOMMENDATIONS

Recognizing that the reorganization of the Internal Revenue Service under Plan No. 1 is an accomplished fact, the advisory group is of the opinion that it is not practical at this late date to suggest a return to the old system. Moreover, it is believed that some of the changes accomplished under the new system have been an improvement. It is the opinion of the advisory group, however, that changes can be made in the present organization of the Service which will materially improve the revenue situation and the morale and administration of the Service.

Our recommendations for improving the Service are as follows:

(1) That a study be made under the direction of the Joint Committee on Internal Revenue Taxation to determine whether the offices of regional commissioner represent an unnecessary superstructure which should be abolished. From information presently available, it appears that these offices may be unnecessary.

(2) The supervision of the two functions of tax determination and tax collection should be placed in a single administrator above the district director level. Either the determination or the collection function should be reassigned to another official coordinate with the district director and responsible to a higher level.

(3) A centralized post-audit review should be established in the national office in order to provide greater uniformity in the administration of tax laws and regulations but with no authority to reopen cases in the absence of fraud or misrepresentation of material facts.

(4) The role of the Inspection Service in the Internal Revenue Service should be confined to investigating wrongful conduct by Service employees and to the systematic verification of audit accounts and financial transactions. It should be the stated policy of the national office to make clear at all times that its function is limited to these duties. It should not be permitted to reopen and review determinations and settlements on the merits.

(5) Performance of agents should not be judged on the basis of production quotas. There should be a return to the system which places more reliance in the judgment of the group supervisor in determining what type of case ought to be handled by agents under his control and the time to be allotted to a particular agent to make an examination. Agents should not be compelled to make a hurried and ineffectual examination through a production quota.

(6) There should be assembled in the national office groups of specialists capable of giving advice to the field on particular technical subjects. It is believed essential that specialized problems should be passed upon by an experienced group of technicians and not entrusted to the judgment of individual agents. This is particularly true with respect to such matters as engineering problems, exempt organizations, corporate distributions and adjustments, pension and profit-sharing trusts, insurance, and interest computations.

(7) The Chief Counsel should be restored to his former position as a statutory officer appointed by the President and confirmed by the Senate.

(8) So long as the Chief Counsel remains under the authority of the General Counsel for the Department of the Treasury the budgetary control of the Chief Counsel's Office should be vested in the General Counsel and not subject to the budgetary control of the Commissioner. Some adjustments should be made in the salary scale of the Chief Counsel's Office so that top positions of comparable responsibility in the Commissioner's Office will not be above those of equal responsibility in the Chief Counsel's Office.

(9) A study should be conducted under the direction of the Joint Committee on Internal Revenue taxation to determine whether a separate conference section should be established in the district director's office. From information available it appears that the new informal conference procedure is not working satisfactorily in all regions and that the overburdening and conflicting administrative and

technical duties of the group supervisor make it impossible for one man to adequately perform such duties.

(10) The voluminous reports now required from the field should be curtailed. There should be a lessening of requirements from the field for statistical reports and data. The compilation and furnishing of statistical information which the field offices are now required to submit seriously interfere with the main function of determining and collecting taxes.

(11) Adequate clerical and stenographic assistance should be provided for revenue agents and others engaged in making tax determinations. This is a problem which has existed for some years but recently has become more acute.

(12) This report sets forth certain comments of the present operation of the Internal Revenue Service under the reorganization. The advisory group is of the opinion that the report should be released for public examination and analysis and that public hearings be held for discussing the advisory group's recommendations.

## A P P E N D I X

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- I. Letter from the Commissioner of Internal Revenue in which he discusses various changes he has made which he believes have been beneficial to the Service.
- II. Questionnaire
  - A. Form
  - B. Example of reply to the questionnaire.
  - C. Data and statements from the staff questionnaire as to morale in the Internal Revenue Service.
- III. Internal Revenue Service Memorandums and Directives.

## I. LETTER FROM THE COMMISSIONER OF INTERNAL REVENUE IN WHICH HE DISCUSSES VARIOUS CHANGES HE HAS MADE WHICH HE BELIEVES HAVE BEEN BENEFICIAL TO THE SERVICE

The following is a letter from the Commissioner of Internal Revenue setting forth a list of what he regards as the more important improvements made in the Internal Revenue Service since he became Commissioner. While some of the changes made by the Commissioner have undoubtedly improved the Service, others have been criticized in the report, particularly decentralization of postaudit review and certain other functions which have been transferred to the field. The too rapid decentralization has caused the field to receive a multitude of duties before it was in a position to handle all such duties. While the Commissioner in reducing the regional commissioners from 17 to 9 has improved the situation to some extent, there is a real question as to whether the system of regional commissioners should be continued.

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UNITED STATES TREASURY DEPARTMENT,  
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,  
*Washington 25, July 7, 1955.*

MR. COLIN F. STAM,  
*Chief of Staff, Joint Committee on Internal Revenue Taxation,  
Room 1011, House Office Building, Washington 25, D. C.*

DEAR MR. STAM: In response to your letter of June 17, 1955, I am happy to submit a list of the more important improvements made in the Internal Revenue Service since I came into office as Commissioner. The order of presentation of the items is not intended to indicate the magnitude of their significance.

I trust this material will be of help to you. If you should wish additional information along this line we shall be glad to hear from you further.

Sincerely yours,

T. COLEMAN ANDREWS,  
*Commissioner.*

### MAJOR INTERNAL REVENUE SERVICE ACCOMPLISHMENTS UNDER THE DIRECTION OF COMMISSIONER ANDREWS

#### ORGANIZATION

1. Appraised the status of reorganization begun by the past administration under the Reorganization Plan No. 1 of 1952 and made the following modifications:

(a) Achieved a better balance between management and supervision and operations by reducing the number of regional offices from 17 to 9.

(b) Strengthened top management in the National Office by establishing the following new positions—

1. Deputy Commissioner.

2. Assistant Commissioner, Administration.

3. Assistant Commissioner, Planning.

(c) Decentralized operating functions by delegating broad management authority from the National Office to regional and district offices.

(d) Centralized in regional commissioners' offices alcohol and tobacco tax operations which had previously been fragmented by an attempt to place them in district offices.

2. Transformed the organization from an "on paper" basis to an effective operating organization with responsible officials fully informed of their authority and discharging their responsibilities.

(a) Delegated authority to field officials commensurate with their responsibilities. For example—

1. District Directors were given authority to—

- (a) Certify assessment lists;
- (b) Adjust employment tax claims;
- (c) Make assessments on employment tax returns prepared for delinquent taxpayers, and assess fraud and 100 percent penalties in employment tax cases;
- (d) Handle estate tax claims under the same rules applicable to income tax claims;
- (e) Schedule for abatement, credit, or refund tentative allowances in any amount;
- (f) Accept as final offers in compromise involving liabilities of less than \$500 (except offers in cases in which court proceedings or criminal prosecution are involved or cases which involve alcohol or tobacco taxes). Also, to reject any such offers;
- (g) With some limitations, to determine the status of organizations claiming exemptions under section 501 (c) of the Internal Revenue Code;
- (h) Make final decisions, with the legal advice of the regional counsel, with respect to the release of Federal tax liens and discharges of property from the effect of such liens.

2. Final authority was delegated to each of the Excess Profits Tax Council advisers stationed in regional offices to make settlements on behalf of the Commissioner within certain monetary limitations.

3. Regional commissioners were delegated authority to issue notices authorizing additional inspection of taxpayers' books and records.

4. Regional counsel were directed to furnish legal advice to the district directors on their collection problems.

2. (b) Other actions taken in furtherance of the policy of decentralizing all operational activities and restricting the National Office role to policymaking, planning, and programing:

(1) Housing of corporate returns for 1949 and subsequent years transferred to district directors' offices.

(2) Discontinued practice of transmitting examined cases to the National Office for post review and established at the regional office level a group charged with the responsibility of post reviewing a representative sample of such cases and on-the-spot appraisal of audit operations in the district offices.

(3) Transferred from the National Office to district directors the processing of bankruptcy and receivership cases and informers' claims for rewards.

(4) The processing of certain applications for inspection of returns and related documents was transferred to the district directors' offices.

(5) Decentralized scheduling of refunds not in excess of \$100,000.

(6) Decentralized computation of interest in cases involving restricted interest adjustments.

(7) Decentralized functions relating to alcohol and tobacco tax claims.

(8) Decentralized approval of personnel actions and the maintenance of personnel records.

2. (c) Realined the functional responsibilities of the Audit and Collection Divisions to assure that the Audit Division is responsible only for audit activities and is not concerned with the collection of delinquent accounts. Conversely, charged the Collection Division with the full responsibility for all collection matters, ranging from the initial assessment and billing operations through the levy, lien, and seizure operations.

3. Vitalized a management program in which—

(a) Ideas flow smoothly from all levels;

(b) Prompt action is taken on the ideas—evaluation, investigation, adoption or rejection;

(c) Continued review is made of the effectiveness of the operating program; and

(d) There is leadership and a follow-through at all levels from the Commissioner on down.

4. A program for the realignment of local office locations is nearing completion. This realignment will result in equalization of service to taxpayers as between regions and districts and will permit more effective supervision of Internal Revenue Service personnel.

## IMPROVED PUBLIC RELATIONS

1. Greater emphasis has been placed upon improving public understanding of Federal tax laws and the policies and procedures as to their application.
2. Increased the volume of rulings published in the Internal Revenue Bulletin.
3. Earlier responses have been made to requests of taxpayers for rulings.
4. The taxpayer has been given the maximum opportunity to settle his disputes at the level of his local internal revenue office.
5. Instructions have been issued which require that especially careful considerations be given to complaints from the public that regulations are not consistent with the intent of Congress.
6. Obtained the services and active cooperation of an Advisory Committee, composed of outstanding representatives of professional associations.

## TAXPAYER ASSISTANCE

1. Revamped the taxpayer assistance program to carry out continued service with a minimum diversion of technical manpower from normal activities. "Group assistance" methods are being employed in the preparation of taxpayers' returns. These methods have the advantage of lower initial cost and are conducted in such a way as to maximize the educational aspects with the view that many of these taxpayers will be able to prepare their own returns in the future.
2. Encouraged and extended the use of telephone service in connection with taxpayer assistance.
3. Made survey to determine characteristics and needs of taxpayers requesting assistance. The results of the survey will be used in improving the return forms for 1955 and realining the taxpayer assistance program for 1956.

## COLLECTION ACTIVITIES

1. Installed new revenue accounting and reporting system which provides —
  - (a) Integration with Treasury revenue accounts;
  - (b) Built in internal controls;
  - (c) Classification of accounts by type of tax and taxable year;
  - (d) Accounting control of property seized or otherwise acquired;
  - (e) Prompt and accurate recording of all tax collections, including depository receipts;
  - (f) A complete and effective accounting manual.
2. Streamlined procedures for issuing and recording special occupational tax stamps. Four inexpensive printed stamps have been substituted for over 70 different varieties of engraved stamps.
3. Established a tighter collection policy by—
  - (a) Placing delinquent accounts in hands of collection officers on a current basis;
  - (b) Providing safeguards against the tolling of statutes on unpaid accounts;
  - (c) Making greater use of the seizure, levy, and lien procedures in flagrant cases.
4. Mathematically verified the tax computations on all returns. Developed a tax table for this purpose.
5. Demonstrated by pilot operation at Kansas City the feasibility of mechanical processing of returns in a central location serving several districts.
6. Established standards of performance and introduced production controls in processing operations.
7. Made a substantial reduction in the utilization of technical personnel in clerical operations.
8. Initiated a program to eliminate correspondence backlogs. These procedures have—
  - (a) Assured the taxpayers prompt and courteous replies; and
  - (b) Significantly reduced costs of letter writing and correspondence filing.
9. Extended package mailing for income-tax forms, including declaration of estimated tax, and forms resorted by towns and cities before delivery to Post Office Department, in order to reduce mailing costs.

## AUDIT

1. Developed a regional audit management program to insure uniformity in the application of the tax laws and administrative operating policies.
2. Brought audit examinations to current status.

3. Applied the same principles in connection with the consideration of claims, offers in compromise, etc., as are applied to the selection of returns for examination.
4. Simplified and standardized audit forms.
5. Introduced simultaneous examination of corporation returns and individual returns of corporate officers and employees.
6. Expanded the program of examining individual income-tax returns prior to making refunds. This field was found so productive that the number of examinations of this type has been greatly increased and a means for selecting the most productive returns was devised.
7. Developed a procedure for partial allowances of refunds or credits in cases where complete agreement has not been reached. Partial allowances are made in such instances to provide the taxpayer with earlier use of the funds and to reduce the Government's interest obligations.
8. Developed better methods of selection of returns for examination.
9. Increased the number of revenue agents.
10. Increased production per agent by—
  - (a) Closer supervision, and
  - (b) Streamlining examiners' reports.
11. Provided opportunity to resolve issues at the earliest possible stage by emphasizing the informal conference procedure whereby a taxpayer may discuss disputed issues with group chief (revenue agent's immediate superior) prior to completion of agent's report.

#### APPELLATE

1. Reduced substantially the backlogs of both nondocketed and docketed cases. Factors contributing to this reduction included the assignment of additional conferees, training and improved supervision, wider delegation of final settlement authority, and the establishment of additional field offices.
2. Developed means of reducing petitions to the Tax Court. Small cases involving questions of fact in which conference was requested after issuance of statutory notice by the district director are being returned to district directors for reinvestigation and further efforts to close in 90 days.

#### INTELLIGENCE

1. Increased investigation of tax fraud cases to an alltime high.
2. Increased number of criminal prosecution recommendations to an alltime high. Number of successful prosecutions has also reached an alltime high.
3. Secured Justice Department approval to arrangements permitting direct referral from regional counsel to United States attorneys of all excise-tax cases, thus expediting trial.
4. Developed a plan for the regular examination of the income-tax returns of the top racketeers in the country.

#### ADMINISTRATION

1. Established a training school of graduate college level at the University of Michigan for revenue agents and certain other employees for the purpose of progressively raising the level of technical competence of personnel in the Service.
2. Extended and improved other types of in-service training courses.
3. Improved the program under which high-school students are given instructions as to how to prepare tax returns.
4. Established a well-rounded, balanced program for the evaluation of organization, management, and performance.
5. Developed and published promotion policies in region and district offices. Under these policies, qualified employees are considered for promotion before recruiting from the outside and promotion opportunities are not limited to the immediate office where vacancies exist.
6. Converted a sadly lagging classification program to a current status, thereby insuring equitable pay and facilitating all phases of personnel administration.
7. Secured more adequate office space in field offices and embarked on a program of consolidating in a single building all internal revenue offices located in the same city.

#### INSPECTION

The Inspection organization was thoroughly overhauled and streamlined in order to place the appropriate emphasis on the organization's two broad functions—internal audit and internal security.

## STATISTICS

1. Increased the timeliness of Statistics of Income and other statistical releases.
2. Greatly expanded the number of special tabulations tailored to the needs of the various operating divisions.
3. Secured high-speed electronic data processing equipment which should operate to increase the capacity of the Statistics Division and permit further improvements in the timeliness of statistical releases.

## OTHER ACHIEVEMENTS

1. Extended tax enforcement to citizens residing abroad by—
  - (a) Preparation and distribution of an income tax guide for United States citizens abroad;
  - (b) Assigning, during the filing period, a small number of revenue agents to various places throughout the world where a relatively large number of American citizens are concentrated;
  - (c) Negotiated tax treaties with additional countries for avoidance of double taxation and the prevention of fiscal evasion.
2. Developed in cooperation with Department of Health, Education, and Welfare a plan for improved administration of payroll taxes. Essentially, the plan is based upon combined reporting of wages and taxes for income-tax withholding, and old-age and survivors insurance purposes.
3. Formed a committee, which has worked closely with industry advisory groups, to streamline and modernize the supervision of the legal alcohol and tobacco tax system. Proposed system will (a) reduce the cost of supervision and at the same time allow producers to utilize all facilities in a flexible manner, and (b) substitute a return system for collecting tax in lieu of stamps. The saving in manpower will permit the addition of investigators for enforcement purposes.

## II. QUESTIONNAIRE

### A. Form

*to Whom It May Concern:*

The successful operation of the Internal Revenue Service vitally affects the taxpayer as well as the Government.

There has been considerable discussion of the merits and demerits of the reorganization of the Internal Revenue Service over the last 2½ years. The Joint Committee on Internal Revenue Taxation is interested in learning as much as possible about the effects of such reorganization and the present operation of the Internal Revenue Service, and has instructed its staff to investigate the matter.

It is believed that representatives of taxpayer groups and others who are in daily contact with the Internal Revenue Service at the various levels afford one of the best sources of information on the operation of the Service. While it is recognized that experience will vary between different individuals and between different sections of the country, it is felt that a composite of the views of a number of persons from every section will afford a fair picture of the effects of the reorganization and the present operations of the Service.

You will be rendering a public service if you will submit on a confidential basis any information developed from your knowledge or experience which may cast light on these matters. The source will not be disclosed without the author's written permission. The information should be mailed to the Joint Committee on Internal Revenue Taxation, room 1011, New House Office Building, Washington, D. C., as promptly as possible, and if practicable by January 31, 1955.

The attached questionnaire lists some of the more important questions upon which we would like to have your views. These questions are merely illustrative and if you have information relating to other matters not herein listed your views would be appreciated.

Sincerely yours,

COLIN F. STAM, *Chief of Staff.*

#### MORALE OF THE SERVICE

(Please underscore the words which express your opinion)

1. What is the present morale of the Service in your district?  
Good                      Fair                      Poor
  2. How does morale at present compare with the morale in 1951?  
Same                      Better                      Worse
  3. How does morale at present compare with morale at the end of 1953?  
Same                      Better                      Worse
  4. Is the morale now:  
Constant?                      Improving?                      Declining?
  5. To what do you attribute any changes in morale indicated above (such as reorganization, personnel practices, standards of recruitment and promotion)?
- 

#### ENFORCEMENT

(Please underscore the words which express your opinion)

1. As compared with the calendar year 1951, do you feel that agents are making more or less effective investigations, both as to number and quality?

More

Less

Same

2. If your answer is that they are making less effective investigations, what in your opinion is the cause? Is it due to the agent's desire to meet production quotas,

the work of the inspection service, the regional analysts (local post audit review), the consolidation of audit and collection offices, or some other reason?

-----  
 3. If your answer is that they are making more effective investigations, what in your opinion is the cause? Is it due to more effective supervision, to improvement in prior methods of review, or to some other reason?  
 -----

4. Does your observation indicate that there has been any tendency on the part of the examining agents to investigate the easy cases for production purposes and leave uninvestigated the more difficult cases?

Yes

No

Reasons: -----

5. Has the abolishment of the old Conference Section in the agent's office and the substitution of the group chief procedure resulted in more or less cases being settled prior to reference to the Appellate Division (corresponding to the old technical staff)?

Same

More

Less

6. In your opinion is there now more or less chance of arriving at fair settlements promptly than under the old procedure?

Same

More

Less

7. If there is any difference indicated by your above answer, to what do you attribute the difference?  
 -----

8. Which procedure do you prefer?

Old

New

Reasons: -----

## ADMINISTRATIVE

(Please underscore the words which express your opinion)

1. In your opinion is the production of the examining and enforcement personnel of the Service being materially hampered by any of the following:

Unnecessary supervision

Lack of sufficient stenographic, typing and clerical assistance.

Other causes: -----

2. In your opinion does the existence of the 9 regional commissioners' offices between the 64 district directors' offices and the national headquarters result in more or less efficiency?

More

Less

3. Excluding your dealings with the Appellate Division, in what matters have you had dealings with the regional commissioner's office?  
 -----

4. Have you observed whether or not the taxpayer assistance program unduly interferes with the audit of returns, and if so how?

Yes

No

Comments: -----

5. Have you had any opportunity to observe whether there is now greater or less uniformity in the settlement of cases as between different districts than before reorganization?

Yes

No

6. If so, do you feel that the uniformity is:

Greater

Less

Same

7. In your opinion is there a proper balance between management and supervisory work as compared to examining and collection work?

Yes

No

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8. In your opinion are the revenue-producing activities of the Service being interrupted by unnecessary supervisory work, statistical and other unproductive work?

Yes

No

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9. Do you have any information as to whether or not experienced high-grade career employees are leaving the Service before retirement because of unsatisfactory conditions?

Yes

No

If your answer is in the affirmative, have you any information as to the cause?

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## B. Example of Reply to the Questionnaire

### MORALE OF SERVICE

1. "What is the present morale of the Service in your district?"
 

Good	Fair	<u>Poor</u>
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2. "How does morale at present compare with the morale in 1951?"
 

Same	Better	<u>Worse</u>
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3. "How does morale at present compare with morale at end of 1953?"
 

Same	Better	<u>Worse</u>
------	--------	--------------
4. "Is the morale now?"
 

Constant	Improving	<u>Declining</u>
----------	-----------	------------------
5. "To what do you attribute any change in morale indicated above (such as reorganization, personnel practices, standards of recruitment and promotion)?"
 

(a) I would attribute the changes in morale indicated above to all of the items mentioned in question 5. Some, of course, to a larger degree than others, but all of them have had effect on the employees' morale.

(b) The impact of reorganization as set up was such a radical change the employees were quite disturbed over whether they would be retained in their present positions or be classified in lower grades, or, possibly, be transferred to positions in what may be called the old collector's office. At the time of reorganization the appropriations by Congress had been lowered for adjustment of salaries and traveling expenses prior thereto which had affected a large percentage of employees in all agencies that went into the consolidation forming the reorganization. However, the old collectors, revenue agents in charge, and heads of other agencies had been successful in maintaining a high morale. The incentive to produce and double up on the work required was apparent, but still there was a feeling throughout the Service that positions on the outside had a better future and a large percentage of the employees did resign to take these positions. The impact of the reorganization with less money for advancement, due to the excessive cost of reorganizing, had a very decided and obvious effect on the personnel. There were many excellent employees who left the Service because they could not see any future by staying with the Government.

(c) There was very little discretion used in selecting the proper personnel for the various positions. Some career employees were demoted and others promoted to positions which they were not qualified for and that situation was a very disturbing factor. In the first place, the men selected from outside departments and agencies as head of Personnel Division were not qualified, but their actions were influenced somewhat by the Directors of Internal Revenue who, themselves, were politicians and in many instances did not meet the qualifications under the rules of appointment. The actions taken by the head of personnel and administrative sections were most discouraging to all employees both in the old collector's office and the old revenue agent in charge office. In a great many instances the head Administrative Division and personnel sections were former employees of the then liquidating Office of Price Administration, with limited experience, notwithstanding there were excellent employees in the Revenue Service then who could qualify for these positions. One could continue on in detail but it is obvious that the directing heads of Personnel and Administrative Divisions have had a demoralizing effect on the morale of all employees.

(d) The standards of recruitment and promotion, I feel, have had the greatest effect on morale and from information obtained by discussion in general with the employees in the Service it seems that people from the outside agencies and the so-called civil-service appointments are given some of the best positions, while those who have made the Service their career for many years and were entitled to consideration because of their ability, experience, and qualifications required for the position have not been considered. One can readily see that such action not only affected many old employees that were qualified and who were in the Service for years, but also other employees who observed the actions taken. In a great many instances Directors were appointed even though they did not strictly meet

the qualifications required. This is also true as to the heads of various departments in the regional commissioner's office, and most apparent in the office of Directors of Internal Revenue Service. A cursory examination of the personnel in most any office would disclose the foregoing facts.

#### ENFORCEMENT

1. "As compared with the calendar year 1951, do you feel that agents are making more or less effective investigations, both as to number and quality?"

More

Less

Same

2. "If your answer is that they are making less effective investigations, what in your opinion is the cause? Is it due to the agent's desire to meet the production quotas, the work of the inspection service, the regional analysts (local postaudit review), the consolidation of audit and collection offices, or some other reason?"

Each and every suggestion in above question has a decided effect on why there is less production today than in 1951.

(a) The regional offices are calling for such a volume of statistical data from the examining officers they tell me it takes nearly a third of their time to compile the data. I have been told about some of these reports and have tried to analyze same as to whether it benefits the Service in the enforcement of the laws or otherwise. I will have to admit that it appears superfluous as the main statistical reports were sufficient to cover everything. The regional commissioner has set a quota for field agents, and the agents are trying to meet that quota, which results in inferior examinations and reports. The accountants and tax lawyers have often asked why the taxpayers have quit protesting examinations made by agents since the reorganization in comparison to protests filed prior thereto. I think the real fact as to why protests have decreased is because no examinations made at present are as thorough as those made in 1951 and in prior years. This condition is partly due to the lack of experienced men in the field since the reorganization. The Director's office in each State, and particularly the regional offices, have been flooded with new positions and so me of the more experienced agents have been given these new positions. Thus the men left to make the field examinations, with few exceptions, were the average men and deputy collectors, with very little or no experience, who were transferred to the Audit Section. This condition is, in my opinion, generally true throughout the country. In addition the reorganization created much overhead in the Director's office, such as group chiefs, supervisory group chiefs, and Head of Audit Section, and this is true in the regional office but to a greater extent.

(d) I am informed that the inspection service has from 1 to 3 men checking the Director's office approximately 75 percent of the time, thereby consuming the time of the employees who should be devoting same to their respective duties. These inspectors, I am told by friends in the Service, are making criticisms of little technical things that mean nothing to the efficiency of the Director's office. When the inspectors make their reports through regular channels to the regional commissioners then the directors receive a critical letter about these technical points and said letters are passed down the line to the employees who may be responsible for answers to the inspector's letters. This action consumes considerable time which could be more profitably applied to production and other duties.

(e) It is my considered opinion that the consolidation of the revenue agent in charge with the Collection Division was one of the greatest mistakes in the reorganization. The directors took control and transferred some deputy collectors to Audit Division who did not have the proper experience to make real examinations of taxpayers' records. Thus no change cases were submitted or a very small deficiency to which the taxpayer readily agreed. Also the more experienced revenue agents were promoted to nonessential supervisory positions, leaving only average agents for production, with few exceptions. It appears the Commissioner and Director promoted the latter's employees wherever possible and gave the employees of old agents offices lower positions in the Collection Division. I think you will find this condition true, more or less, throughout the country. These actions were most disturbing to the morale of all employees, and continues to be so. I am confident that the record will show that the offices of the revenue agents in charge were the most efficient of any agency in the Internal Revenue Service. What was true with the Alcohol and Tobacco Tax Division, which readily was ascertained could not function under the consolidated system and was immediately divorced and now continues as a separate unit, is also true with respect to the enforcement of the income, estate, and gift taxes. There is no workable connec-

tion with collections division and the enforcement division. The old revenue agents have been browbeaten until they are so "cowtowed" they are afraid to take the initiative and settle cases according to the law and regulations. However, the group chiefs are required to supervise a number of field agents, and in addition hold all informal conferences arising from investigations made by his group. These informal conferences are not satisfactory to either the Government's interest or that of the taxpayer. It is for these reasons cases are being closed without due consideration of merits of the case, whether it involves major or minor issues.

(f) I am of the opinion that if the Audit Division (now so called) is divorced from the influence of the Director you would see a material increase in production and efficiency in disposing of cases, and also an increase in revenue over the present system would be very much improved. I cannot conceive of a better system than restoring the office of agent in charge to its original position in the Service. I would further suggest that all field and office audit examinations of income, excess profits, office audits, estate and gift tax be placed under the head of "Agent in Charge" or some other suitable name if necessary. It is believed advisable to place all special agents under the agent in charge and thus increase their production and cooperation. They work independently and lose a great deal of time.

3. "If your answer is that they are making more effective investigations, what in your opinion is the cause?" "Is it due to more effective supervision, to improvement in prior methods of review, or to some other reason?"

(a) My answer to question 2 above practically answers this question because I still say less effective examinations are being made. I think that some of the real causes of less effective examinations in the reorganization has been entirely too much overhead compared to the manpower in production and is thus "top-heavy," both in the regional office and the Director's office. I believe that the examining offices should have some supervision, and I believe that a permanent conference section should be reestablished. The taxpayers do not get a full hearing and consideration of their cases in informal conferences.

4. "Does your observation indicate that there has been any tendency on the part of the examining agents to investigate the easy cases for production purposes and leave uninvestigated the more difficult cases?"

(a) It has been my observation that the more difficult cases are not assigned to the examining officers apparently because of the standard for the number of examinations set by regional offices are attempted to be complied with regardless of the revenue that might be produced by working some of the more difficult cases, which ordinarily take more time.

5. "Has the abolishment of the old Conference Section in the agent's office and the substitution of the group chief procedure resulted in more or less cases being settled prior to reference to the Appellate Division (corresponding to the old technical staff)?"

Same

More

Less

(a) I am confident and have observed that more cases have been settled, but they have not been settled on their real merits because it is impossible for the group chief to give real consideration to cases warranting same on account of other pressing duties that he must perform. I am thoroughly convinced that the Government loses much revenue by such a system. While I believe in the group chief procedure, I do not think he should be called upon to attempt to settle all questions that may arise in an informal conference. It is true that some small adjustment may be settled satisfactorily by the group chief. However, I think that the old Conference Section should be reestablished to see that the Government's and taxpayer's interest are both protected. In the old system we closed in a most satisfactory manner, with the old Conference Section functioning, and eliminated many cases that are now going to the Appellate Staff. The proof of this statement is borne out by the fact that the Appellate Staff personnel has practically been doubled since the reorganization, and that increase in personnel has been recruited from the old revenue agents in the Conference Section, and field examining officers. Thus the effectiveness of the field production forces has been impaired.

6. "In your opinion is there now more or less chance of arriving at fair settlements promptly than under the old procedure?"

Same

MoreLess

It is definitely a less chance of arriving at fair settlements promptly than the old procedure.

7. "If there is any difference indicated by your above answer, to what do you attribute the difference?"

I do not believe there is any difference in my answers above, because I believe in the highly technical system used before reorganization. Such system was built up over a number of years of experience, and was functioning in a highly efficient manner at a cost far less than the present system. The reorganization in retrospect is nothing but an experimental proposition which has cost the Government an immense amount of money. I believe the reorganization has proved a failure compared to the old system.

8. "Which procedure do you prefer?"

Old

New

It is obvious from the foregoing that I prefer the old procedure. However, for many years I have advocated that all income, excess profits, estate and gift tax returns be examined by the field revenue agents. Thus there would be eliminated many duplications, and saving of time and revenue to the Government because the old field agents were highly trained to do this work, whereas, the old deputy collector was not required to attain the ability to audit any type of case. It is my belief that the old system would be a real savings in cost to the Government and much more satisfaction to the taxpayer, and, at the same time, have all types of statistics which could be furnished the Congress readily upon request.

ADMINISTRATIVE

1. "In your opinion is the production of the examining and enforcement personnel of the Service being materially hampered by any of the following?"

Unnecessary supervision

Lack of sufficient stenographic, typing, and clerical assistance

Other causes

(a) I fully believe that the unnecessary supervision is having effect on production of a great many employees. The answer to this question was obtained from several employees and each of them said others had expressed themselves accordingly.

(b) I do not know whether there is a lack of stenographic, typing, and clerical assistance at present or not. However, I do know that a number of such employees have been placed on the payroll since I retired.

(c) It is believed that other causes have been answered under the general subject "Enforcement" herein above.

2. "In your opinion does the existence of the 9 regional commissioners' offices between the 64 district directors' offices and the national headquarters result in more or less efficiency?"

More

Less

(a) I would say less efficiency because, as I understand, the regional commissioners' offices in addition to the national headquarters, have the authority to issue instructions covering their area. One can understand that there may be nine different instructions with none of them alike, which would prohibit a uniform system over the United States. I might state here that it is my considered opinion that the worst thing about the reorganization is the maintenance of nine regional offices. I cannot see the necessity for same. It would be my suggestion that these regional offices should be abolished as the first act of improving the Service. I have been told by those in the Service, who are well-informed, that when money is appropriated for each regional office, that office does out the money as is deemed necessary for operations to each director under his jurisdiction, regardless of the merits of the different offices. I firmly believe that if the direct supervision was placed back in the national headquarters at Washington, D. C., and regional offices abolished there would be a more uniform handling of all functions of the Internal Revenue Service. To maintain the 9 regional offices I would guess the cost to be at least 3 to 4 times as much as it would be to maintain the main directing heads in 1 central location. Furthermore, I understand that these regional offices maintain a roster of personnel almost twice as large as is needed. Uniformity, loyalty, cooperation, and efficiency constitute the key to a good service for the Revenue Department, its sub-offices and the public. Practically everyone with whom I have discussed the reorganization, both in the Service and on the outside, first state that they cannot understand the necessity for nine regional offices since all administration of the

laws and enforcement, etc., should emanate from the central office at Washington, D. C.—and I heartily agree with them. I am further told that some Director's offices have been discriminated against, especially in small funds to increase lower-grade salaries of some of the experienced employees, but I personally know some who have not had an increase since prior to the reorganization. It is not the fault of the Director as he has recommended some adjustments be made for examining officers and clerks but such recommendations were refused by the regional office.

3. "Excluding your dealings with the Appellate Division in what matters have you had dealings with the regional commissioner's office?"

The personnel in various divisions in the local office of the district director have made many remarks to me which indicate to me that they are somewhat dissatisfied with the voluminous amount of statistical data required by the regional office. Some of the heads of the division state that such data is a duplication in many instances and consumes much of their time. When a situation like this occurs throughout an office one can readily understand why production has been curtailed and revenue reduced. These conditions lead to an unhappy personnel and many of the career employees leave the Service.

6. "If so, do you feel that the uniformity is:"

Greater Less Same

7. "In your opinion is there a proper balance between management and supervisory work as compared to examining and collection work?"

Yes No

(a) The management and supervisory personnel is completely out of line with the examining and collection work. It is a common, everyday remark by those in the Service that the reorganization resulted in "Too many Indian chiefs and not enough Indians to do the work." I have also observed this condition existing since the reorganization. I am of the opinion this is true in all regional and Director's offices.

8. "In your opinion are the revenue producing activities of the Service being interrupted by unnecessary supervisory work, statistical and other unproductive work?"

Yes No

(a) The facts set forth above I believe will prove my answer to this question. Looking at the organization charts I think anyone would come to the same conclusion.

9. "Do you have any information as to whether or not experienced high grade career employees are leaving the Service before retirement because of unsatisfactory conditions?"

Yes No

In this district alone there have been many who have left the Service due to nonrecognition of their ability, no encouragement for their future, and the fact that some of their coworkers, with no greater ability, were promoted to some supervisory position with large increases in salary. The constant change of various employees from one position to another created a serious apprehension on their part as to what would become of them. Also some heads of Sections (so-called) in the old collector's office being transferred to supervisory positions without experience and the ability to properly do the work has caused an unsatisfactory condition among the career employees. This uneasiness on the part of many as to their future career service has made them feel it is better for them and their families to accept positions on the outside of the Service.

In closing it is my opinion that the supervisory work is entirely too heavy in personnel compared to these in production work. The old system had an excellent supervisory system, but the main thought was the proper examination of income-tax returns filed; whether they were easy, average or difficult. The various revenue agents in charge maintained a force well qualified to perform the duties in the field and in the home office and were equal to any occasion that might arise. With so many supervisors under the reorganized system it is difficult to maintain a smooth operation, and certainly it cannot ever reach the cooperation and good business procedure we had before reorganization.

## C. Data and Statements From the Staff Questionnaire as to Morale in the Internal Revenue Service

### 1. What is the present morale of the Service in your district?

[Percent]

Region	Good	Fair	Poor	Region	Good	Fair	Poor
Atlanta.....	39	10	51	Omaha.....	28	34	38
Boston.....	19	12	69	Philadelphia.....	31	24	45
Chicago.....	42	13	45	San Francisco.....	32	17	51
Cincinnati.....	35	13	52	Other.....	19	32	49
Dallas.....	36	22	42	Total.....	34	19	47
New York.....	38	28	34				

NOTE.—The above tabulation is made from 3,528 questionnaires and approximately 500 letters. It is estimated that 20,000 questionnaires were circulated by various groups. Of the 20,000 circulated approximately 3,561 replies were received. With respect to question 1, 869 questionnaires were not included in the tabulation. Many returns were rejected due to inconsistencies on the part of respondents between the text of their comments and the items checked in making answers. Many respondents failed to comment upon the morale situation but did comment upon other phases of the reorganization.

### 2. How does morale at present compare with the morale in 1951?

[Percent]

Region	Same	Better	Worse	Region	Same	Better	Worse
Atlanta.....	19	41	40	Omaha.....	17	27	55
Boston.....	15	15	70	Philadelphia.....	19	27	54
Chicago.....	25	45	30	San Francisco.....	14	37	49
Cincinnati.....	22	32	45	Other.....	21	21	58
Dallas.....	16	44	40	Total.....	19	35	46
New York.....	16	39	44				

### 3. How does morale at present compare with morale at the end of 1953?

[Percent]

Region	Same	Better	Worse	Region	Same	Better	Worse
Atlanta.....	41	35	24	Omaha.....	43	26	30
Boston.....	45	13	43	Philadelphia.....	47	25	28
Chicago.....	64	25	11	San Francisco.....	45	30	25
Cincinnati.....	44	29	27	Other.....	45	22	33
Dallas.....	41	40	19	Total.....	47	29	24
New York.....	45	32	24				

### 4. Is the morale now constant? improving? declining?

[Percent]

Region	Constant	Improv- ing	Declining	Region	Constant	Improv- ing	Declining
Atlanta.....	41	32	27	Omaha.....	42	26	32
Boston.....	43	15	42	Philadelphia.....	47	25	28
Chicago.....	59	26	14	San Francisco.....	44	28	28
Cincinnati.....	48	23	29	Other.....	43	22	35
Dallas.....	51	34	16	Total.....	47	27	26
New York.....	39	33	28				

With respect to question No. 5 which inquires into the attributing factors in changes of morale, it was felt that a mere tabulation of comments, such as some form of "keyword" system, would serve little purpose for the reason that the same phrases were used by respondents to describe both the merits and demerits of the reorganization. Therefore, the staff made a careful analysis of the attributing factors given by respondents.

Correspondents, in replying to the questionnaire, submitted a variety of factors which it was felt contributed to the present poor state of morale in the Internal Revenue Service. A summary of these factors follows:

- (1) Downgrading of career employees.
- (2) Poor promotion policies.
- (3) Consolidation of Audit and Collection Units.
- (4) Commensurate compensation.
- (5) Quota system of production.
- (6) Inspection Service activity.
- (7) Lack of incentive.
- (8) Excessive supervision.
- (9) Group chief procedure.
- (10) Inadequate recruitments.
- (11) Taxpayer's assistance program.
- (12) Nonproductive work.
- (13) Uncertainty and job insecurity.
- (14) Internal Revenue scandals of 1951-52.
- (15) Inadequate travel allowance for examining agents.
- (16) Reorganization generally.

No attempt has been made to arrange these factors in order of relative importance, nor are the causes of discontent and uncertainty which currently exist in the Service limited to these few points. Even a cursory examination of these factors will call to mind several additional matters which could be equally responsible for the adverse morale situation. A more thorough analysis would disclose that the number of possible causes of employee unrest is almost infinite, and the problem then becomes one of classification. In this connection, there follows a commentary on the above listed items in which the points are elaborated. Following this commentary are excerpts from selected letters and questionnaires in which taxpayers and practitioners have expressed their opinions with respect to morale.

*Downgrading of career employees.*—Downgrading has been employed to secure funds for the creation of additional jobs in regional offices. In some cases the consolidation of collectors and revenue agents in charge was accompanied by downgrading of personnel being transferred from one division to another.

*Poor promotion policies.*—Certain key positions were filled with personnel brought in from outside the Service. Experienced career personnel who felt they were qualified for these and other desirable positions were passed over and not given the promotions which, in many cases, were richly deserved. In other cases, competent career employees have been promoted to administrative positions in which their technical knowledge and experience is not required, rather than to more responsible positions where their background would be useful.

It is also stated that revenue agents are told that promotions are based on merit but with the condition precedent that the agent must

produce tax deficiencies as high, or higher, than any other agent in the same grade in his district.

*Consolidation of Audit and Collection Units.*—The promotion of deputy collectors to Internal Revenue agent status reduced the prestige of the latter since it was felt that in many cases deputy collectors were not qualified to perform the duties of revenue agents.

*Commensurate compensation.*—The pay scale in the Chief Counsel's office is out of line with pay scales in the Commissioner's office with respect to work of a similar nature. Compensation of revenue agents has been held back because of the upgrading of deputy collectors who have been transferred to the Audit Division upon consolidation of the functions of audit and collection.

*Quota system of production.*—Placing undue emphasis on number of returns examined hampers the quality of examinations and at the same time places an inequitable production pressure upon examiners with the result that agents are forced to close cases to meet quotas without regard to the merits of the case.

*Inspection Service activity.*—The reprehensible procedures of the Inspection Service in conducting its investigations of personnel ignore the fundamental rights of citizens.

*Lack of incentive.*—In situations where the review section overrules an agent on a point, an explanation should be made to the agent. Also, the agent should be given an opportunity to further explain his stand and not simply ordered to change his report.

*Excessive supervision.*—Regional and district heads often are not familiar with the problems connected with the function of collecting revenue since they are not, in all cases, long-time experienced employees of the IRS but are often brought in from outside the Service to perform management functions. Instead of permitting a wide degree of discretion on the part of supervisors, as was the case prior to the reorganization, the reorganized Service is inflexible; procedures are frozen in accordance with manuals, mimeographs, and Commissioner's letters. One example is the present treatment of taxpayers with respect to declaration of estimated tax. It is stated that agents no longer have any latitude in determining the reasonableness of an underestimated declaration or of cases in which declarations were due but not filed.

It is also stated that career employees are leaving the Service because they have no faith in leadership which expresses one policy and follows another.

*Group chief procedure.*—Group chiefs are unwilling to assume responsibility for making decisions generally, and specifically, decisions in favor of the taxpayer where (a) there are complicated questions of fact; or (b) there is some fear of disapproval of the taxpayer's occupation or methods of business.

*Inadequate recruitments.*—The same factors affecting morale which resulted in experienced personnel leaving the Service have also unduly hampered the recruitment of adequately qualified replacements. The practice of overlooking career employees when promotions are made deters many prospective career personnel from seeking employment with the IRS.

*The taxpayer's assistance program.*—The taxpayer's assistance program has resulted in the removal of talented agents from their work

examining difficult returns to assist taxpayers in preparing relatively simple individual returns. During this time not only is their work neglected and disrupted but also their morale is severely shaken because it is felt that much of the work performed in taxpayer's assistance could be efficiently performed by less experienced clerks.

*Nonproductive work.*—Under the reorganized plan of operation, agents find themselves preparing statistical tables, production sheets, and other reports which take them from their primary function of auditing returns. It is pointed out that much of this data is requested by the Inspection Service. Agents are often required to read, study, and understand directives which have little or no direct bearing on their particular work. In addition, employees are often compelled to forego normal examination and concentrate on special phases of the work, such as claims for refunds and informer awards.

In many instances it was pointed out that agents are required to prepare their own typewritten reports because of the lack of adequate stenographic assistance. It is felt that their time could be more efficiently spent on additional audit and thus, their morale situation would be materially improved.

*Uncertainty and job insecurity.*—This is in part the result of downgrading of career employees and poor promotion procedures, as well as the reassignment of personnel between district and regional offices. Many former career employees stated that their transfer from a district in which they had worked all their lives and in which they had brought up their families was the overriding factor which caused them to leave the Service and seek employment in other fields.

*Internal Revenue scandals of 1951-52.*—One of the widely publicized reasons for the reorganization was the uncovering of dishonesty in the Service, particularly at the policy level. It is felt that the stigma of the scandals remains, and that nothing has been done to correct this situation.

*Inadequate travel allowance for examining agents.*—Meager travel allowances often do not permit the agents to make the field audits necessary to produce the greatest amount of revenue. It is stated that agents frequently are compelled to confine their activities to so-called nuisance investigation of returns in their immediate vicinities rather than audit obviously defective returns in cases where it is necessary that a travel allowance be provided.

*Reorganization generally.*—Reorganization resulted in the creation of additional higher paid positions in regional offices without commensurate increases at the district level and also brought about the closing of many local offices and the transfer of the personnel who had manned those offices.

The "package-audit" method of examination, under which the agent is required to audit excise tax returns, employment tax statements, and other miscellaneous tax problems as well as income tax returns, has seriously affected the morale of revenue agents who feel that most of such problems could be handled efficiently by clerks. They feel that doing this work has lowered their stature and prestige, and has kept them from performing their primary function of auditing returns.

The following quotations were taken from questionnaires received from each of the regions.

## ATLANTA REGION

There are four factors tending to destroy the morale in the Atlanta region of the Internal Revenue Service:

- (1) Lack of pay raises.
  - (2) Harassment by Inspection Division.
  - (3) The appointment of heads of offices from headquarters and passing over competent personnel in a particular office.
  - (4) Too much brass, reorganization generally.
- 

The morale and effectiveness of agents in the Atlanta region have been materially reduced by the following:

Under the reorganization, former deputy collectors were converted into revenue agents. One of the primary duties of these former deputies, namely, that of preparing tax returns during the filing season, was consequently delegated to the agents' office. By so doing, the Service has taken from the field a highly skilled, highly paid (by Government standards) agent, and transformed him into a veritable clerk for 2½ months (under the 1954 Code, 3½ months).

The result of this action is (1) agents become extremely displeased with the sudden transfer in assignment amounting to a downgrading of duties; (2) cases on which the agent had worked prior to January 1 became cold in his mind in regard to facts and law; and (3) taxpayers (through their agents) are unable to schedule and hold conferences which tend to settle and dispose of pending tax matters effectively. Oftentimes the speedy disposition of a tax case is essential, since many decisions thus arrived at affect a taxpayer's status for subsequent years.

Present morale in the Atlanta region is fair. We believe that it is not quite as good as it was because of the uncertainty brought about by the change. It is our belief that it will improve as the organization gets more settled and accustomed to the new way of doing old things.

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The existing morale is very bad and we have seen no indications of trend toward improvement. There are several reasons for this, among which are:

- (1) The existing practice of internal checking upon the integrity of Service employees.
- (2) The so-called racket drive and disproportionate amount of time which agents were required to devote to this class of investigation.
- (3) The arbitrary and unrealistic methods which agents were frequently required to apply in setting up deficiencies in those racket cases.
- (4) The national publicity attendant to the discovery of graft and corruption of Internal Revenue employees.

With respect to the investigations of the Inspection Service, the writer heard an Appellate Division conferee express in confidence the thought that any settlement recommended by him might very easily result in an investigation of him personally in connection with his modifications.

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The poor state of morale is due partly to reorganization, but mainly to personnel practices and promotions. Some dissatisfaction is created by hiring people from outside the Service for jobs that could be filled by qualified people in the Service. Low pay also contributes to low morale.

Among the reasons for the low morale in the Atlanta region are:

(1) Certain taxpayers are still receiving special advice from Collection Division in paying delinquent taxes, while others have their salaries levied upon weekly in order to clear the accounts before they become a certain age.

(2) Rarity of grade promotions coupled with instructions on annual leave.

(3) The downgrading of many highly capable employees and the upgrading of employees not qualified to accept further responsibilities.

(4) An acute shortage of supplies.

(5) The practice within the Internal Revenue Service of requiring a net worth statement of employees and the examination of their personal income tax returns.

(6) The prohibition against internal revenue agents and auditors from having outside income while collection officers and the "boys" have many sources of outside income.

(7) The Administrative Division sees to it that unless a person is one of the "boys" he receives nothing but threats and is put on certain production quotas and told to produce a certain number of investigations each month.

Threats, pressure, and lack of promotions have resulted in the resignation of many highly capable and faithful revenue agents.

(1) Morale is terrible in both high and low places—good personnel leaving Service as fast as new jobs can be found.

(2) Reasons for most of the difficulty:

A. Conflict of authority between regional commissioner's office and directors' offices, resulting in interference in the audit function.

B. Inspection Service is equivalent to gun in the back of every examining agent, and also audit heads. Is a complete duplication of work of Audit Division analyst, and is a complete waste of money, which merely hampers service by creating fear, thus impairing efficiency and loss of good manpower.

C. Instructions from Washington are not intelligently directed. May apply to one region and are directed to all regions creating confusion.

D. Inspection Service conducts its investigations with an arrogant and distasteful manner and manufactures morale destroying criticism in an apparent attempt to justify its existence.

E. Washington never requests advice or suggestions from regional commissioner or his aides, who are in a position to advise on the basis of experience with the system.

The factors which created the low morale situation in the Atlanta region include:

(1) The impact of reorganization with such a radical change that employees were quite disturbed over whether they would be retained in their present positions or be classified in lower grades or possibly be transferred to positions in what may be called the old collector's office.

(2) At the time of reorganization appropriations by Congress had been lowered for adjustment of salaries and traveling expenses.

(3) There was little discretion used in selecting the proper personnel for various positions. Some career employees were demoted, and others were promoted to positions which they were not qualified to fill. In addition, there were many instances where former employees of other agencies, such as Office of Price Stabilization, with limited tax experience, were selected to fill various positions notwithstanding the fact that there were excellent employees within the Service who could qualify for these positions.

(4) The standards of recruitment and promotion have had the greatest effect on morale. People from other agencies and the so-called civil-service appointments are given some of the best positions while career employees with ability, experience, and qualifications required for various positions have not been considered.

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The poor state of morale in the Atlanta region results from the hounding, harassment, and persecution by the Inspection Service. The writer refers to a particular case in which a 6-month investigation of a career employee with more than 20 years' service resulted from receipt of an anonymous complaint by the Bureau. The defendant in this case was given a hearing by the Inspection Service but was refused a copy of the transcribed testimony. Later a 90-day warning notice was issued which stated that defendant should improve his performance standards or separation action would become necessary. A second hearing by the Inspection Service was held and defendant was again denied a copy of the testimony. During this hearing defendant was informed upon asking the inspector the purpose of the hearing that it was "to prove mental instability." Still later the 90-day warning notice was canceled because the defendant had improved his performance sufficiently to warrant such cancellation. In early 1955, defendant received a letter from the district director of the Jacksonville office advising him that he was soon to be removed from his position as a grade 11 agent. The writer points out that experienced, high-grade career employees are being forced to resign from the Service by the harassment and persecution of the Inspection Service.

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#### BOSTON REGION

One correspondent enclosed with his questionnaire a clipping taken from the Boston Post, Wednesday, February 16, 1955, which reported that the regional commissioner is pointing out surveys have shown that nonperformance and misconduct of Department employees, along with instances where actual payments were not turned in, were hampering the Department. The correspondent pointed out that statements such as this were doing a great deal of harm to morale in the Boston region.

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Another factor tending to create a poor state of morale in the Boston region is the recent program of transferring agents to posts of duty elsewhere. This factor is particularly disturbing to those agents who have established homes and families for many years in a certain locality.

One correspondent feels that decentralization is commendable, but high state of morale is lacking. Three suggestions are offered to improve this condition:

(1) That public announcement be made that each auditor has been given instructions that his job does not depend upon the amount of deficiency tax he can obtain from the taxpayer.

(2) That the auditors be given an increase in their salary to more nearly reflect the importance of their work.

(3) That field auditors make appointments for audits rather than attempt an audit without the cooperation of the attorney or accountant.

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The consensus of opinion of a group in the Boston region is that morale is not good because of the following reasons:

(1) Improper delegation of authority by the Washington office.

(2) Topheavy regional office which results in the local director's office being harassed from above with directives, memoranda, etc.

(3) The Inspection Service with a lack of tact and understanding on the part of those administering it. Further, the Inspection Service is going into the merits of settlements made by agents and conferees.

(4) The blanket inclusion of political appointees into a civil-service status.

(5) The production schedules set for revenue agents are unrealistic and are causing a decline in revenue because of lack of time adequate to go into assigned cases. In some cases agents have made determinations before all the facts have been submitted in order that production quotas may be met. In one instance an agent spent 1½ months on a single case and determined a deficiency of approximately \$1,500,000. Subsequently he received a warning notice for having failed to meet his production quota.

(6) Inadequate compensation and the lack of a sense of the importance of their work on the part of revenue agents result in few of them regarding themselves as having a career with any real future.

Another group in the Boston region has pointed out that the morale has been affected by the following factors:

(1) The blanket inclusion of political appointees into civil-service status, resulting in a great many political appointees being given permanent status in the collection offices. To bring about a change in this respect the quota system of production was set up.

(2) Publication by the Commissioner of the fact that of all offices in the Bureau, the office in New England was the worst.

(3) The selection of top executives, such as directors, assistant directors, regional commissioners, and assistant regional commissioners from outside the Service but under the protection of civil service. Thus career employees are often bypassed when executive vacancies are to be filled.

This group has indicated that the suggestions made by the Special Advisory Committee of the Joint Committee on Internal Revenue

Taxation should be followed in correcting the many faults with present reorganization. Particular emphasis is placed upon the principle of dual control; that is, the separation of audit and collections.

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#### MAJOR CAUSES FOR LOW MORALE

Autocratic top-level management, not filling top-level positions (or even of the level above chief of audit) with career employees or with the most capable people, but rather taking in outsiders who have the sponsorship of politicians or even people from within the Service who have political influence. The Gestapo methods of Inspection Service (guilty until proven innocent). An anonymous complaint gets a full-scale investigation which does little good to the subject thereof, even though the subject be innocent. The large increase in non-productive paperwork (statistical reports, new rulings and mimeos to be followed, etc.), the great increase in detail assignments such as review, classification of returns, taxpayer-assistance programs, special surveys or research, the package audit, special training schools or courses, and many others, to the point where there is little time left to make audits, and last but not least, the biggest injustice to the mass of small taxpayers: The production requirements.

Apparently the Commissioner is the new administration's new broom. He is out to make a record for the party. With an economy-minded Congress, he must do it without additional funds and without the funds to hire additional help; he can't improve on the quality of the previous management so he is out to get numbers. It also could be that production requirements are also designed to pay off big business for its financial support in getting the present administration into office by setting the standards at such a level that audit of big returns will have to be bypassed in order to meet the requirements. Also by loading down the audit forces with detail work and the package audit, less audits will be made and then mostly of the poor little guy. If the civil-service job descriptions are followed, the required production is not conducive to a quality audit. As a matter of fact, most of the men are not doing the type of audits as described in the civil-service job descriptions and when the time of the year comes around for certification that the employees are performing the duties as per such job descriptions, who wants to be one of those that will have to so certify? For example, grade 11 is supposed to do difficult corporations with a volume of \$2,500,000 to \$7,500,000; grade 12, \$7,500,000 to \$15,000,000; grade 13, above \$15,000,000. The grade 11 man should do 6 corporations per month. Just imagine trying to make an intelligent package audit of 6 tax years of companies with an average sales volume of \$4,000,000 within an average work month of 21 work days and maintain that average through the work year. Better still, imagine a grade 13 auditing 2 tax years a month of returns of over \$15,000,000.

Of course, the whole theory of the present organizational setup is subject to criticism for inefficiency, overlapping authority, and duties, or, in short, too many chiefs and not enough Indians. Certainly the cost must be way above the cost of the previous setup.

Years 1953 and 1954 must certainly show a tremendous drop in additional taxes assessed by examining agents over 1951 and 1952. Must run at least \$200 million.

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The lessened morale in Washington as well as in the Massachusetts district stems from the fact that the Commissioner has surrounded himself with a few associates who refuse to discuss any matter with the various department heads. In fact, the failure of reorganization to accomplish the results it was intended to accomplish appears to be due mainly to the attitude of the Commissioner and most of the various regional commissioners. Thus it is largely a personnel problem, for with the proper officials in charge of the program there is no reason why the reorganization should not result in a more efficient service.

## CHICAGO REGION

In a newspaper article appearing in the Chicago Daily Tribune, Wednesday, May 11, 1955, it is pointed out that poor morale among district workers in the Chicago region was due to the many experienced workers being downgraded and many new workers upgraded to responsible positions following the tax scandals in 1951. In some instances keyworkers were reportedly transferred quickly from office to office until they consented to resign. Another factor contributing to low morale is the inability to obtain decisions from key executives. Agents who have completed an investigation have been unable to obtain regional approval, with the result that most tax cases remain unclosed from 6 to 12 months after work is completed.

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The morale situation in the Chicago region is due in part to the consolidation of the collection and audit divisions. Prior to reorganization these groups were separate. The deputy collector's office handled more routine matters but from time to time appeared to be subject to some political influence, while the revenue agent's office seemed never to be subject to such influence. The consolidation has reduced the prestige of the revenue agents, particularly when they are called upon to assist in preparing returns under the taxpayer assistance program.

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One correspondent points out that the morale of the Internal Revenue Service had degenerated to an all-time low in 1953. Reason is the violation of trust by many high officials which resulted in many respectable and honest employees leaving the Service.

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The following quotation is taken from a letter submitted by a former agent in the Chicago region:

I have never in 30 years known of a governmental service where the morale of the employees is at such a low point. It is pitiful when you see men by the dozens who were excellent producers now relegated to minor work such as collections, stumbling along in disgust because they are not permitted under the new policy and system of doing a lot of work that is productive and which they are experienced and qualified to do and which they see every day, yet they can't touch it and the investigators that can do this work, can't even make a dent in it as they have so much to do, consequently it goes by the statute of limitation and serves as an incentive for the taxpayer to try again to get away with the same tactics.

Nothing gets a revenueur down more than to see a taxpayer getting away without paying his just taxes when he is not permitted because of his classification to work on and collect that tax or because he has so much work to do that he can't hope to work the case. That is the condition today as I see and hear of it.

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A correspondent writing from Chicago reports that in the last few years morale has rapidly disintegrated, and today few persons within the Service are willing to make final decisions. The one major element that permeates the Service today is fear—fear of criticism from the Inspection Service, post-audit and congressional committees. He notes further that it would be difficult for the Bureau to attract

ambitious personnel today simply because the Bureau is no longer a great attraction, and that if the caliber of agents declines much further pretty soon the public will be dealing with a group of grocery clerks. This correspondent points out that several agents have told him that it is apparent by now that reforms will not be forthcoming from within the Service, but they express the hope that Congress will dictate the reforms necessary to restore morale at the agent's level.

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In a letter received from the State of Wisconsin in the Chicago region, it is pointed out that the causes of the poor morale situation are:

- (1) Haphazard salary action by Congress coupled with an inequity of raises and promotions held up because of a lack of funds.
- (2) Poor training program.
- (3) The reorganization itself which seems to have caused nothing but disorganization.

#### CINCINNATI REGION

An accountant from Toledo points out that the morale is poor and declining and attributes the change to the reorganization and the methods used in accomplishing the reorganization.

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Another writer points out that during the last 2½ years morale has deteriorated to the point where the majority of the career employees are expressing a desire to resign and new replacements are expressing their sorrow in having resigned their previous positions to accept jobs as revenue agents. It is pointed out that inadequate compensation and a poor promotion policy are responsible to a large extent for this situation. As an example, this writer notes that recently a local newspaper carried an article on the recruitment of 50 revenue agents. Their starting salary was approximately \$300 per month and the article stated that promotions could be had to the extent of salary amounting to over \$8,000 a year. Most of the persons who accept these positions usually do so at a financial sacrifice and with the expectations that they will receive substantial increases shortly after completion of their training. When these increases do not materialize morale suffers.

The recent congressional investigations of the Internal Revenue Service also had an effect on morale.

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The following quotation was taken from a letter submitted by a practitioner in the Cincinnati region:

Soon after the "reorganization" the morale of the agents fell to an all-time low for the simple reason that the dignity, respect, prestige, etc., that attached to their positions had disappeared. The agents were brought down to the level of the former deputy collectors of internal revenue, whose duties required no technical knowledge of the law and regulations to any extent and whose appointments in many instances were secured through political sponsorships. Their duties and responsibilities were such that they did not require the training and experience demanded of an agent assigned to examine complex returns of individuals, partnerships, fiduciaries, and corporations.

Another correspondent writes that the primary cause for poor morale in the Cincinnati region stems from the lack of leadership and supervision.

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A practitioner from Indiana submitted a newspaper clipping, the contents he felt contributed to the poor state of morale in the Cincinnati region. Excerpts from this clipping which appeared in the Indianapolis Times, Tuesday, December 14, 1954, follow:

Wilbur Plummer, deputy collector of the Indiana office of the United States Internal Revenue Service, has been an outstanding employee of the tax department here for 21 years.

His "reward" for faithful and efficient service is transfer against his will to the "sticks," in this case Parkersburg, W. Va.

In announcing the forthcoming transfer, Gary Campbell, internal revenue director here, declined to say why he was ousting Mr. Plummer. He didn't, for example, say West Virginia needed a highly qualified deputy director like Mr. Plummer.

We've heard no convincing reason so far why he should be transferred to a less desirable job.

Similar complaints were received from correspondents in other parts of Indiana.

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"Morale is not as good at present as it was in earlier years," writes an accountant from Cincinnati. He notes that job insecurity is the prime factor contributing to the present state of morale.

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A questionnaire received from the Cincinnati region contained the view that poor morale in that region is caused by a number of factors, including the recent congressional investigations, job reclassification, and inadequate compensation. The writer continues:

Stupid economy programs also have an unfavorable effect upon morale. In 1953, for most of that year, Congress had failed to appropriate sufficient travel funds, as a result of which the investigative personnel limited their activities to their own immediate areas and did not investigate cases in other cities. When travel funds became available, the returns which had not been examined were classified as prior years' returns and were sent back to the file section without audit. Such procedure has as much merit as a contractor who hires 50 additional laborers and then becomes economy-minded and saves money by not buying picks and shovels. At the same time, he maintains the laborers on the payroll. Contrary to the impression of Congress and the public, the revenue personnel resent such waste and such inefficiency but they are prevented from doing anything about such a situation.

The periodic "get current" programs are also most detrimental to morale. Usually the cases for which extension waivers are necessary are those cases which warrant extensive investigation. However, when some Congressman considers he needs a little publicity in his home district, it is always a good idea to tell business people that the Bureau of Internal Revenue should be current and should not be requesting extensions. As a result, these returns are washed out without an extensive examination and the internal revenue agent then is assigned some small insignificant returns with squeal letters telling about some mother who may work a couple of days per week or month at wall washing, etc., in order to buy her children a few pieces of clothing or some item denied to them because of the high cost of living. The average internal revenue employee has his own individual problems resulting from grossly inadequate compensation and has no sympathy with such enforcement and discrimination in tax investigations.

In a communication received from the Cincinnati region, it was pointed out that the promotion policies presently followed in the IRS are responsible for the prevailing conditions of employee discontent.

We are daily losing well-qualified revenue agents who have tried to support their families on their salaries in hopes of receiving a promotion. With the promotions not coming through, several of these men through necessity left Internal Revenue Service in search of more lucrative positions. This practice tends to leave Internal Revenue Service staffed with the less qualified, less conscientious, and/or inexperienced employees in a great many cases. In September an examining officer (GS-11) resigned to go into the automobile business. Several examining officers have resigned since January 1 for similar reasons. Internal Revenue Service cannot hope to keep C. P. A.'s and graduate attorneys admitted to the bar employed and contented on a GS-7 salary.

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### DALLAS REGION

An attorney writes that the factors creating a poor morale include:

(1) Current personnel practices which result in agents being overburdened with instructions, etc., and with reports and statistics he is required to submit.

(2) The delegation of technical authority by supervisors who have worked their way up through the ranks in order that they may devote more time to administrative functions.

(3) Practice of filling executive vacancies from sources outside the Service. This results in leadership by men not qualified either by experience or temperament to meet the requirements of this position.

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Another writer notes that morale in the Dallas region is poor and points out that the consolidation of the audit and collection divisions is primarily responsible. In addition, the standards of promotion which resulted in grade 12 agents being passed over in selecting group chiefs in favor of grade 9 and 11 agents has also contributed to the loss of morale.

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Another correspondent comments on the morale situation in the Dallas region as follows:

I believe that taxpayer morale, employee morale, and even the very integrity of the Internal Revenue Service are being sacrificed on the altar of "production statistics." This is being done to cover up the failures of the reorganization, and to make the reorganizers "look good." Other statistics could be compiled which would make them look bad. "Production at any price" is still the policy in effect despite recent pronouncements to the contrary.

Another practitioner writes:

The continuing deterioration of the effectiveness of the Internal Revenue Service over recent years is a very distressing matter. It is bad from the standpoint of faithful personnel remaining in the organization. It is bad from the standpoint of tax practitioners whose services have value in direct relation to the efficiency of enforcement activities. And it is bad, especially, from the standpoint of loss of public respect for the quality of enforcement effort.

A practitioner from Arkansas writes that the present morale of the Internal Revenue Service in this district is poor and attributes the change to a number of factors evidenced by the following:

When the announcement of the reorganization came out there was a great deal of apprehension that the organization would be disrupted by the reorganization factors. The announcement of the plans of the reorganization with the announcement of the number of appointments to administrative positions also tendered great discouragement to many career employees because it was found that many of those who had been politically active were favored when the new positions were created. The morale declined steadily during the years of 1952, 1953, and 1954 due to the changes proposed and/or put into effect in that there were many cases of degrading of the employed career employees. The creation of new positions in the new reorganization service were made without regard to the abilities of many career employees.

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A former revenue agent points out that the promotion policies of the IRS have seriously affected morale:

I believe most of the trouble was due to failure to promote qualified personnel to existing vacancies as they occurred. For example, a GS-11 position might remain open, unfilled for a year or more, leaving all qualified GS-9's to grouse about that, while all qualified 7's groused about the 9's not being promoted. Transfer in grade from the collection divisions to the agents division also appeared unfair and caused much criticism. For example, a GS-9 agent took a GS-11 supervisory job in the collectors division; a r. i. f. cut out the collector's job and he transferred back as a GS-11 agent when he was incapable of auditing a case of GS-11 difficulty. It appears that in this case, r. i. f. procedures should have caused the agent to use his retreat rights to the GS-9 agent level.

There was also considerable grumbling about the increased number of statistical reports the agent was required to submit to the district office and zone office each month; however, in view of my experience in other agencies these requirements were very reasonable.

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An attorney from Texas comments as follows on effect of reorganization on employee morale:

The revision of administrative plan, in relation to personnel, while promising much, did not succeed in doing anything in my judgment except to disturb, agitate, and demoralize the men in the department. A general complaint among the agents was that nobody knew his position or his authority or to whom he should ultimately report or how permanent he might be in a given post. It was also felt there were executives in Washington acting as "hatchet men" and that agents could be singled out for discipline, reduction in rank, or dismissal for trivial and personal reasons. Morale is an intangible but potent force and a feeling of personal dignity and security is likewise a powerful factor in motivating the conduct of men in the discharging of their duties. Something happened that destroyed to a large extent the morale of the agent and his personal dignity.

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An accountant from Oklahoma charged the congressional investigations of the IRS and production policies of the Service with responsibility for the present morale situation:

The Service has been so thoroughly discredited by the actions of the "top brass" that the public has lost a lot of its confidence in the integrity of the Internal Revenue Service and the attitude of the public toward the agents in the field reflects this. The agents tell us this. The Service has lost so many of their more capable men that the quality of the examination they are making is not as thorough as formerly. The agents tell us now that they are constantly prodded for production and are graded on the number of cases rather than the quality of their work or the amount of tax they produce.

An accountant from Arkansas submitted the following views with respect to morale in that area:

I am unfamiliar with the results of the reorganization on a national scale, but have observed the results in Arkansas from a local level.

During the preceding 2 years, it would appear that many good changes have taken place, but as usual, whenever drastic changes are instituted, many fail in their purpose. For example, during the past 2 years, many of the agents have had a travel allowance of \$10 to \$20 a month. This means they are able to travel about 1 or 2 days a month. Since the bulk of the productive work is usually away from metropolitan areas, this means that they have been unable to work any cases on which errors which are obvious on the face of the return cannot be corrected. It goes without saying, this results in a tremendous loss of revenue.

Not long ago, additional agents were appointed to take the place of experienced agents transferred to clerical assignments of a nonproductive nature although they did not have travel for the agents then in the office. The result has been, instead of the agents working productive cases, they have had to confine their activities more or less to nuisance checks of returns in the metropolitan area. This serves no purpose other than to keep the men occupied, but produces relatively little revenue.

The present policy is to work as many cases as possible. This means that in many cases revenue is lost by the agent in not taking enough time to work the case properly.

In some instances, there have been cases where agents have attempted to audit the records of 3 different businesses in different cities all in 1 day, due to the fact he had only 1 day's travel for that month. Needless to say, the examination made was sketchy, which only encourages the taxpayer not to comply with the regulations.

In other cases, agents have requested the returns of individuals who they have grounds to believe have received income upon which they have not paid tax; however, they are unable to obtain these returns. This practice is termed "bird dogging" by the agents and from past experience usually results in the best cases. In one case of the sort, in prior years, it resulted in deficiencies amounting to approximately \$600,000; in another instance \$35,000; and in many other instances, tax deficiencies amounting to hundreds of thousands of dollars.

Mr. Andrews no doubt has attempted to conscientiously do a thorough job; however, it would appear that the Bureau is more interested in statistics than in tax. Examiners from the regional offices, who it would appear serve no practical purpose have unlimited travel which results in no revenue, while revenue-producing agents are allowed only 1 or 2 days' travel a month. The balance of their time is spent in either computing statistics or waiting for the next month's allotment.

While Mr. Andrews' figures as to the number of returns examined and the revenues produced sounds encouraging, it is suggested that the revenues produced during the preceding year be compared with any of the years 1948 through 1951, keeping in mind the fact that there is a much larger number of examining agents now than in the preceding years. I believe you will find that on a per capita basis the agents produced far more revenue per man than is produced by the present force.

I believe steps should be taken to reduce the amount of statistical work which the agents are required to prepare. Instead of hiring new agents the money should be used for travel and per diem so that the present force can work the returns which need the attention. The agents should be given enough time to examine a return properly and when they know of a taxpayer who needs investigation, they should have authority to requisition the return.

It is my personal observation that the field employees would prefer to do the job properly, and work the returns they know need working. The majority of the men are capable, but under the present system cannot make any sort of a thorough investigation. If the local offices were allowed to make up their own budgets as to how much should be available for salaries and subsistence, this would mean the agents could be better utilized.

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Another practitioner from Arkansas states:

It would appear that the many reorganizations of duties have seriously affected the morale. It seems that many conflicting memorandums are received from the regional office. One day instructions are received that all cases are to be thoroughly investigated, regardless of the time element, and immediately following

this another memorandum is received to the effect that not enough cases are being worked, production is behind, and steps must be taken to increase the workload. This together with fact that a travel allowance of only \$10 or \$15 a month is allowed makes it impossible to work the cases assigned.

The cases pulled for investigation are those which an agent can work without travel, regardless of whether the investigation is warranted or not, resulting in numerous nuisance investigations without producing revenue.

Technical men from the ranks should be promoted to fill top spots instead of taking administrative personnel from other branches who are unfamiliar with the work.

Agents are not allowed to work cases when they have information as to possible income tax deficiencies, but must take the cases that are assigned to them.

Among other factors, a writer from Louisiana attributes the decline in employee morale to the following:

Drive for production. Apparently without knowing that the real reason for drop in production is the result of reorganization taking the better agents off production and loading them with supervisory and administrative details, the Bureau is driving away for production and for larger number of closed cases. The number of cases closed is the poorest way in the world to judge the results of an agent's work. There are no 2 cases alike and no 2 require the same time. An agent should be free to use good judgment. In fact, it should be insisted upon that he do just that in determining when to terminate an examination quickly and when to extend one. A competent reviewer can accurately appraise the results.

The "package audit"—that is, examining all Federal taxes on one visit—is a failure. It has damaged morale and has accomplished nothing. Income tax is complicated enough for one man to learn, stay posted on, and at the same time do the volume of work required of a revenue agent. The other taxes—social security, admissions, excises, etc.—he will use so rarely he will not keep posted on them. He is out to produce revenue. This is a fact; regardless of how much they preach that all they want is a good audit, he is judged to a large extent by how much revenue he produces and he knows it, so he is going to concentrate on the tax that produces the larger deficiencies and that is income tax and the other taxes will be neglected if not completely ignored. Yet, in order to satisfy the reviewer and other powers that be, he must spend a great deal of time studying these "nuisance taxes" and it usually is just for the purpose of satisfying the reviewer and getting his reports accepted.

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### NEW YORK REGION

"The present state of morale is good," writes a correspondent, who notes:

The reason for our feeling that morale and enforcement in Buffalo district have not changed materially in recent years is that it has seemed to us that these aspects have always been particularly good in this district. The administration, the Internal Revenue Service, and the Bureau of Internal Revenue in the Buffalo district has been good for a long time and we have felt that the morale of the revenue agents and other Bureau employees with whom we have come in contact has been a high level.

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Reasons for the poor morale in the New York region appear to be lack of job security and increased office administration in spite of the lack of stenographic and clerical help.

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The present state of morale in the Syracuse district in the New York region is poor but is presently improving. This situation was created by the lack of a director of internal revenue for a period of approximately 1 year.

Another writer notes that the poor morale situation in the Syracuse district is caused by direction of a district director who is not a career employee.

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Another correspondent from the New York region charges congressional investigations with responsibility for present low morale.

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A group in the New York region are convinced that the recent reorganization was political and not inspired for reasons of efficient service. This has resulted in a feeling of insecurity. In spite of this feeling, the group notes that morale at present is good.

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### OMAHA REGION

The reason morale in the Omaha region is not good is that the delay in completing the reorganization and the manner in which it was accomplished, together with the uncertainty as to how it might affect the individual employee, had a bad effect. Morale has become even worse, however, because of the operations of the Inspection Service and the unnecessary supervision which indicated the lack of respect for the ordinary employee and doubt of his honesty and ability.

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The shifting and reshifting of personnel and the way some things were done—forcing shifts and retirements—has resulted in poor morale in the Omaha region.

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A practitioner from Missouri points out that the procedures followed by the Internal Revenue Service in connection with fraud cases have caused numerous agents to rebel and leave the Service. He continues:

Another practice within the Service that has caused revenue agents to rebel and which has lowered the morale of the Service is the practice, let us say, of a group chief in instructing a revenue agent to treat certain matters in the taxpayer's return in a fashion which could properly be regarded not only as unscrupulous but as a fraud on the taxpayer, and if the report of the revenue agent backfires, letting the revenue agent take the responsibility for the action.

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Another writer in the Omaha region makes the following suggestions which he feels would improve the morale situation:

Give the employees that are doing the productive work the advancements in both position and grade. Likewise the Commissioner and staff should come up through the ranks. Take new employees off the rolls as they come to the top, not as to their politics. This would strengthen the civil-service system. Employees would no longer have the fear of losing their jobs just because the administration changed. The way it is now no one is sure how long they will hold their position. Many of your employees are trying to make a career of their work and rightfully so. Experience is a great asset in the Internal Revenue Department and an injustice is being done the public by firing and changing good employees as well the injustice done to the employee himself.

The following comments were submitted by a practitioner from Denver, Colo.:

The morale situation in Denver was adversely affected by the move of the regional office to Omaha. A number of top personnel here just refused to move away. Denver is a pleasant climate—Omaha is a lousy one. Some left the Service, others are not happy with the secondary positions.

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Job insecurity is responsible for the unnecessarily poor morale in the Omaha region—insecurity of not necessarily being dismissed from the Service but often a fear of being downgraded from present positions.

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### PHILADELPHIA REGION

A group of practitioners from the Philadelphia region submitted their views relating to morale in that area.

The reorganization program changed many things. Practice of assigning men from higher civil-service groups and older men in Bureau to assist during filing of tax return period results in their being taken away from more important work.

Same criticism during subsequent periods when returns are sorted and classified.

To improve recruitment program, higher base pay and increases with greater regularity should be provided.

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A correspondent from Maryland notes that morale of the entire Service has been badly affected by the conduct of the Inspection Service. He continues:

There is a feeling that this Service acts upon hearsay, rumors, etc., and that its rules of procedure do not insure a completely fair and impartial hearing.

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Another group from the Philadelphia region points to the following list of factors which they feel have affected morale:

The declining morale appears occasioned primarily by—

- (a) Lack of appropriations for additional personnel and pay increases for existing personnel;
- (b) Failure of agents to receive promotions within the usual length of time;
- (c) Increased pressure from their superiors; and
- (d) Increase in the number of collateral reports and statistical information required of them.

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Another writer comments on the morale situation as follows:

Feeling on part of agents that undue emphasis is placed upon production, that they are subject to too many unnecessary rules and regulations of no importance, i. e., that desk tops must be kept clear at all times, and that their activities, both business and personal, are subject to unwarranted checking by local headquarters.

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A correspondent from Delaware writes that the consolidation of the Audit and Collection Division has attributed greatly to the adverse conditions of morale. He writes:

The esprit de corps of the highly efficient internal revenue agents in charge divisions was completely destroyed by the reorganization when the examining officers were merged into the political hodge-podge of the collectors' offices.

Relatively little time is now spent examining returns; increasing time is spent in myriad clerical functions, assisting at filing time, etc.

An accountant from the Philadelphia region writes that according to revenue agents with whom he discussed the problem, low morale seems to be due to the pressure for production of audits and to continued investigation of the agents themselves.

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Another accountant points out that morale has been affected by too much pressure being placed on agents to close cases, leading to their passing over what might have been a controversial item. He feels that too much importance has been given to the number of cases handled rather than to amount of potential tax involved.

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A practitioner from New Jersey writes that uncertainty as to what reorganization will mean to individual agents has affected their morale. He points out that on one day a certain policy or program is adopted which is subsequently changed or an assignment is made which is changed before the agent involved has had an opportunity to perform the function assigned. He also attributes responsibility for the adverse morale situation to pressure for production placed upon the agents.

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Another writer commented on the present state of morale:

Feeling on the part of personnel that undue emphasis is placed on production without regard to difficulties of audit, unfair promotion policies, and feeling that their actions (both at work and away from work) are subject to too much investigation and checking [has affected morale in the Philadelphia region].

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### SAN FRANCISCO REGION

An accountant from Washington State comments on morale in that area as follows:

It is my personal opinion that there is considerable unhappiness among the employees of the Internal Revenue due to the change that has taken place. Please understand that none of them have actually complained to me in any way, but in talking to them generally you just can't help realize that there isn't the same enthusiasm that did exist and I really believe that the way the offices are split now is resulting in personal jealousy here and there. In plain words, I don't believe the Internal Revenue employees are as happy as they used to be.

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A correspondent from Los Angeles notes that morale in 1953 was good, but if morale in 1954 is to be maintained at the same high level, the following suggestions should be followed:

(1) More help to keep the work current and to prevent the accumulation of discouraging backlogs.

(2) Recognition of ability and efficiency in those employees who are doing an outstanding job by upgrading commensurate with their responsibility and value to the Service.

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A practitioner from Phoenix observes:

The general comment of the employees in this district director's office, Phoenix, Ariz., would indicate that the morale is at a new low. One employee stated that

in his opinion there were not more than two people in the district director's office that were happy. This situation is unnecessary, and over a period of years has not existed. I am of the opinion that it may be necessary to make certain changes in order to strengthen the morale of the office. It would also be my opinion that these changes would be beneficial to the public and to the Government.

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In another letter it was pointed out that the tragic decline in morale is due in no small measure to the constant inquisition and surveillance these people must expose themselves to in the vigilant process of ferreting out the disloyal few. The activities of the Inspection Service indicate too much emphasis has been placed upon a mechanical cost accounting approach in the disposition of personnel problems and efficient administration of the Internal Revenue Service.

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In reply to the question, "What is the present morale of the Service in your district?" the correspondent from Los Angeles writes:

There is no such thing as morale. No matter who you talk to, the answer is always the same: "I am thoroughly disgusted and I don't care what happens."

The so-called reorganization was nothing but a political move to put certain men in high places. It was a colossal blunder insofar as reorganization was concerned, and everyone knew politics was behind this reorganization. As long as the Service is controlled by politics we will never have a decent organization.

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An attorney commenting from Los Angeles notes:

The Bureau of Internal Revenue, in my opinion, has been greatly harmed, both with respect to internal administration, dissatisfaction and low morale on the part of employees, and the confidence of the public, by the revelations within the past few years of wrongdoing on the part of high officials of the Bureau, both in Washington and in the field, and I believe the unrest among Bureau personnel still persists and, to a certain extent at least, because of the reorganizations through which the Bureau has recently passed and the apprehension that there may be other reorganizations to follow. There seems to be a feeling of distinct uncertainty as to what the future may hold for a number of the employees of the Bureau and in some instances a feeling of resentment at certain of the changes that have been made.

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Another attorney points out that the low morale in the San Francisco region finds its source in the decreasing importance of the revenue agent himself. This results in the loss of pride on the part of the agent and more conferences at the group supervisor and appellate level on the part of the taxpayer.

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In another letter it is pointed out that morale in the San Francisco region is bad, worse than it was in 1951 or at the end of 1953, and it is still declining. The writer continues:

A number of younger agents I know have resigned apparently for dissatisfaction with conditions. They seem reluctant, or unable, to give specific reasons. It does not seem that the question of salary is the cause, for some of them, I feel sure, cannot do as well on that score in private employment.

An accountant submits the following comments which he feels are responsible in part for the present state of morale in the San Francisco region:

Mr. X has been the sole agent working estate tax matters for the entire State and while always overworked did an admirable job in reviewing and passing on the voluminous work required in his capacity as estate tax reviewer.

We understand that Mr. X explained to one taxpayer the reason why he couldn't examine his problem sooner (because he was only one man) and that the taxpayer made inquiry of the department why only one agent was supposed to handle such a load and that the department took immediate steps to assign two addition agents to Mr. X's department but that Mr. X was put under the supervision of the men assigned to help him out. You, of course, realize this will put an end to this man's career, if this report is true, and in talking with other agents, whom we cannot identify, they express the opinion that if the department will do this to X they can expect the same treatment.

In a letter received from a practitioner in Washington State, it is pointed out that morale is poor, worse than in 1951, worse than at the end of 1953 and declining. Causes include:

(1) Incompetent and fumbling supervision.

(2) Reorganization in this district, consisting primarily of piecemeal removal of office and staff from Tacoma to Seattle. To emphasize this point the correspondent enclosed with his letter a clipping taken from the Tacoma Sun News Tribune and Ledger, December 5, 1954, which reads in part:

The suicide of Carl Hugo Carlson, 59, of 530 South 52d Street, can be traced directly to the wholesale move of Internal Revenue Service employees from Tacoma to Seattle last year, Dr. Frank James, Pierce County coroner, said Saturday.

Carlson, an accountant, was one of 90 Tacoma employees whose jobs were transferred to Seattle in July 1953. He had been commuting.

(3) Favoritism appears to have taken the place of merit and seniority in promotions and job assignments.

(4) Downgrading of personnel, particularly in the case of those employees who support retention of the office in Tacoma.

An accountant from Arizona comments on morale in that area as follows:

How can morale be good under the following conditions?

1. Taxpayer and his agent are always wrong.
2. Additional tax is levied on arbitrary basis.
3. The majority of tax increases are too small to warrant proper recourse by taxpayer.
4. Agent must know that in many cases his interpretation results in unwarranted payment by taxpayer, which is no better than petty thievery.

Another writer from Arizona comments as follows:

*Reorganization.*—In many districts the district director was apparently hurriedly appointed from a small group of applicants from outside of the Internal Revenue Service and for that reason the person directing the internal revenue activities in many districts is technically and administratively incompetent and unable to

provide leadership necessary to efficient operation. The character assassination now being encouraged by the present administration and the use of a wholly inefficient Inspection Service has placed a premium upon the employees who make as few decisions and do as little work as possible. It is becoming increasingly difficult for tax consultants and the taxpaying public to obtain decisions from district directors' offices. Some employees have even stated that they are passing their decisions to higher levels in order to avoid the possibility of future criticisms.

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An attorney from Arizona in commenting on the effects of Inspection Service on morale in that region states:

The primary complaint, generally, seems to be with personnel practices and promotions, coupled with dissatisfaction with the new Inspection Service. The Inspection Service, comprised, as it apparently is in large measure, of persons having little or no knowledge of the functioning of the Internal Revenue Service and the type of work done in various job classifications is a farce. To illustrate, there have been numerous instances in which inspectors have spent days interrogating personnel with reference to the duties of their job by reason of their ignorance thereof, and additional days attempting to find out whether the particular individual is performing the duties assigned to him. In addition, there have been, to my knowledge, instances in which inspectors checking into the handling of specific cases of a technical nature in which the inspector has not the slightest conception of the ramifications involved, has seen fit to condemn the particular employee for his handling of the case. I have had the opportunity to go over charges which have been preferred against several career employees in the past month and, in my mind, no right-thinking person could base charges on such technical violations, if they are violations at all. The Inspection Service, of course, must justify its existence but to permit it, as presently constituted, to do so at the expense of the Service generally is to permit the parasite to devour the host.

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An attorney writing from the San Francisco region notes:

I feel that the overall decline in the morale of the Service is attributable to all of the factors mentioned, viz: Reorganization, personnel practices, standards of recruitment and promotion. The reorganization has contributed largely to the decline in the morale of the Service and of the taxpayers and of their representatives in the disposition of tax controversies. Placing responsibility for tax negotiations in the hands of group chiefs is unfortunate in that the group chief finds it difficult to disagree in a controversial field with the examining officers who work under him. The old procedure of having the protest assigned to the internal revenue agent in charge for disposition provided an area for more independent and objective approach to conferences. The elevation of deputy collectors to the equivalent status of internal revenue agents has been demoralizing to the agents who have had pride in the several service qualifications to their jobs. The subordination of the chief counsel's office and of the position played by lawyers at the old technical staff level to the accounting divisions has contributed to the decline in the morale of attorneys who felt they had basic responsibility for legal decisions. We have an outstanding group chief here in Fresno, but he is given so many administrative responsibilities it is difficult for him to be available at all times on advice to examining officers and in disposing of informal protests.

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A correspondent blames the present morale situation in the San Francisco region on the practice of filling vacancies with personnel from outside the Service. He contends further:

Personnel practices growing out of reorganization—inexperienced and incompetent individuals who have been promoted to positions beyond their capacity

A writer from Washington State points to several factors which he feels have contributed to the present poor state of morale in that area:

Too many reorganizations; too much shifting of assignments, sometimes at great personal expense; too many countermanding directives. The prevailing opinion that the Commissioner responds to newspaper demands too readily without first explaining the Service's position—e. g., the "spot check" drive which required agents to set aside substantial audits for minor examinations and the large manpower given to fraud cases at the sacrifice of routine, necessary audits. The financial statements required by agents was an insult and was a cause of great dissatisfaction. The number of early retirements makes younger men uneasy and causes many of them to believe that if the older men are leaving, perhaps they better leave, too, while they have a chance. Inadequate training of new men.

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An attorney from Idaho lists several factors which he feels are responsible for the poor morale situation in that area:

Employees are having difficulty in adjusting themselves to the reorganization due to the uncertainty created by having the authority in the regional commissioner's office. The employee is not sure of continuing at his present post of duty and also not sure what his duties are to be. Often the employee receives instructions on procedure only to have them withdrawn later. The administration is top-heavy and as result funds have not been available to do the essential work of tax collecting and verification. Employees have not been allowed to travel in order to complete cases due to lack of funds. Some of the civil-service rules tend to spoil some people when it comes to getting work done in the required time.

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#### OTHER

A law firm in Washington, D. C., submitted a report in which it is noted that the morale of the Internal Revenue Service is only fair. Two reasons were given as to why morale was not good. They are:

(1) The reorganization initiated March 15, 1952, with its redistribution of the duties and functions of the Service (some elements of which had been under study in the Treasury from about 1947), would have had some effect on morale in any event, as did the decentralization of 1938. The effect of this reorganization on morale was intensified because it was initiated during, and as a consequence of, an investigation of the Service on account of the wrongdoing of a few that developed into widescale suspicion in the public mind of widespread maladministration and misfeasance in the Service as a whole. The installation as a part of this reorganization of a broader check on the performance of officers and employees, coming as it did at such a time, became overemphasized to the personnel as importing something in the nature of an extended probe, and it caused them to become overcautious and disposed to avoid any responsibility for decisions favorable to taxpayers.

(2) The installation of the reorganization was a time-consuming job which involved a reshuffling and redistribution of personnel. Their uncertainty as to what awaited them on this account, on top of a feeling of being under suspicion, served to deepen their uneasiness. The reorganization was still in process when the change of administration in 1953 occurred and the prospect of a further reshuffling of personnel, coupled with a reduction of force, continued the feeling of uneasiness especially as to the personnel in Washington.

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A former employee of the Service, who stated that he left for reasons other than reduction in force, submitted the view that the worst morale destroyer was the manner in which the reduction in force program was put into effect. He calls attention to several cases in which reduction in force notices were distributed to personnel and

then rescinded at the last moment. In certain instances this procedure was repeated several times, with the result that the employees involved usually left the Service rather than continue under a system in which there was no security.

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An association submitted the views that the poor morale situation could be attributed to several factors, among which are included:

(1) Inspection Service.

(2) Inadequate compensation and benefits coupled with a poor promotion policy which results in a failure to fill vacancies as they occur in order that the funds may be used to hire more lower grade employees and in failure to pay overtime. Also included is the practice of assigning work of a higher grade without reclassifying the worker to a higher grade and the practice of raising grades of collection officers and keeping agents at the same level.

(3) Personnel practices created as the result of the operation of the Inspection Service, the main purpose of which appears to be to "fire" Revenue Service employees in order that it may justify its existence has tended to contribute to the low state of morale.

(4) The reorganization itself which resulted in—

(a) Consolidation of units and functions which often required moving the staffs and equipment, to the detriment of the staff's esprit;

(b) The addition of nonproductive work being placed on an already overworked staff; and

(c) The complete and sudden uprooting of tried, tested, and customary ways and the substitution of an untried and unfamiliar procedure without preliminary test runs or pilot plants as tryout periods created unnecessary mental and physical tension in the period of conversion.

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An attorney from Washington, D. C., places responsibility for the decline in morale of IRS personnel upon the activities of the Inspection Service and to inadequate travel allowance.

Topheavy reorganization and inspection. I have been in practice before the Service since 1919. I have never seen the morale of the employees lower. The inspection program is highly insulting to them. There was a time when men of good character were employed and were trusted to do their duties. A few years ago some bad characters were employed and were caught stealing. Instead of reverting to the old practice of trusting the men in the Service, an attempt was made to correct the situation with a topheavy reorganization and an inspection program.

The employees know that inspectors talk with their neighbors and friends about their home life and other personal matters. Such snooping causes neighbors and friends to become suspicious that they might have a crook among them. If not, why are the many personal questions being asked by the inspection program?

In my opinion the reorganization has weakened the Service. It is possible to bring into a central point many complicated tax problems to be considered by a few skilled and learned specialists, but it is impossible to take the skilled and learned specialists to the location of the many complicated tax problems.

A group in the District of Columbia lists the following reasons that morale in that area is not good:

- Consolidation of revenue agents' offices and collectors' offices.
- Use of revenue agents for routine jobs.
- Lowered standard for revenue agents, brought about by use of former deputy collectors as examiners.
- Transfers.
- Failure to recognize professional qualifications.
- Demotion and discharge of highly qualified employees.
- Bypassing of personnel over 45 years of age for responsible positions in favor of younger, less experienced men.
- Unreasonable interference with the private affairs of personnel by the Inspection Service.

A correspondent from Washington, D. C., writes:

The most important to me is the one that a person who is at least 50 (and that is putting the age high) does not have a chance of promotion. That is also true regardless of age if the employee is a woman. Young men who do not really know the work are pushed ahead of the people who have had years of experience. Then again a knowledge of law appears to be essential to the interpretation of a law. A number of key jobs are held by people who do not have a legal background.

### ENFORCEMENT

1. *As compared with the calendar year 1951, do you feel that agents are making more or less effective investigations, both as to number and quality?*

[Percent]

Region	More	Less	Same	Region	More	Less	Same
Atlanta.....	30	58	12	Omaha.....	22	54	24
Boston.....	17	63	20	Philadelphia.....	30	47	23
Chicago.....	25	53	22	San Francisco.....	36	44	20
Cincinnati.....	25	60	15	Other.....	22	54	25
Dallas.....	31	58	11				
New York.....	31	26	42	Total.....	28	51	21

NOTE.—The above percentages are based upon approximately 3,528 questionnaires and some 500 letters received from all parts of the country.

### III. INTERNAL REVENUE SERVICE MEMORANDUMS AND DIRECTIVES

UNITED STATES TREASURY DEPARTMENT,  
COMMISSIONER OF INTERNAL REVENUE,  
Washington, D. C., October 27, 1954.

*To All Field Employees:*

As a result of recent meetings with field employees, singly and in groups and conventions, I have been impressed and seriously disturbed by the very evident signs of discontent and worry among field personnel. The fact that so much of the worry is unjustified, being based either on false information or on misapprehension, increases my concern. The situation clearly reveals the magnitude of the Internal Revenue Service problem of keeping almost 50,000 field employees informed of national office thinking.

This letter to you can be only a poor substitute to the approach I would much prefer—to talk about these matters in person with you, to reach a mutual understanding of where we stand and where we are headed. Since this is impossible, what I will try to do in this message is to give you my thinking on a few main topics, so that everyone will have a better understanding of what we in the national office are seeking and what my philosophy of tax administration is.

The deepest anxiety seems to prevail about production quotas and performance standards. Gross exaggerations and distortions have been spread about case quotas for collection officers, office auditors, and revenue agents. I am afraid that what was with us a very small bubble has in the course of passage throughout the Service become a very greatly swollen balloon. It needs puncturing at once.

What has really happened is this: For some time we in the national office have been disturbed by (1) the fact that the total number of individual cases handled by the Service is not consistent with the total number of employees and (2) the fact that there are some excessively wide variations in total case production among the 64 district offices. I can assure you the figures are not explainable by such factors as differences in case type, population density, number of employees, and the like.

As a consequence, during 1954 we have been encouraging regional and district offices to establish specific office standards of production, so that both supervisors and employees know what is considered normal.

Now, to my dismay, I have learned that in some areas employees have the impression that "production comes first." Nothing could be farther from our desire. Certainly our volume of production is important, but the tax laws are not going to be enforced if we become more interested in the number of cases we handle than what we do with those cases. The quality of our work must remain our first and foremost consideration.

Some employees have alleged to me that they have been given to understand that quotas cannot be changed and that they must be observed regardless of leave situations and the like. This is nonsense. There is nothing special about quotas; they should be goals set for normal conditions. If they are wrong, they should be promptly corrected; if they cannot be met for a time because of unusual circumstances, allowance must be made.

I am sure that most employees agree that we must have production standards, but they also believe, as do we in the national office, that they must be reasonable, that is, attainable without sacrificing the necessary standards of tax enforcement or "putting our people under the gun." Ideally they should be arrived at by joint agreement of the employee and his supervisor. I realize that setting performance standards is one of the most difficult areas of supervision, and perhaps the national office has been delinquent in not publishing more detailed guides. Consequently, I have requested that a down-to-earth statement be prepared to give supervisors our whole thinking on the subject. I hope this statement will be ready for release in a very short time. If it fills the bill, it will do two big jobs: First, it will make it

possible for every employee to know more concretely what is expected of him; second, it will help protect those who want to do a day's work for a day's pay from the dragging effect of shirkers.

I want to be perfectly frank with you about the problem of shirkers. Even though they are few enough in number, we have our share, like every other organization; and they are a problem. It's the old problem of "one bad apple spoiling a barrel." You and I know there are a few individuals who want to be "free riders"—the sort who have so little self-respect they are actually proud to do as little work as they think they can get away with. You would be as shocked as I have been to see the facts revealed about some of these individuals, and it would help you to understand why we have to have production standards. It is not fair to you, any more than it is to the Government, to permit a few drones to blacken the reputation of thousands of conscientious public servants whose intelligence and zeal can match any group anywhere.

While we are on the general subject of work standards I want to clear up one other misunderstanding that has been reported to me.

I have been told that in some areas the idea prevails that my attitude toward our job is "the customer is always right"; in other words, that compromises and settlements are always preferable to contested cases. This simply is not true. As long ago as last April I wrote the regional commissioners and district directors about this matter, and since the message apparently did not reach all concerned, I am attaching a copy for your personal information. Of course, I believe in good public relations, and in efficiency, but never at the cost of proper tax enforcement.

I realize that a major cause of worry for more than 2 years lies in the reorganizations and all the resulting personnel changes. I know this feeling and I sympathize with it.

Actually, Reorganization Plan No. 1 of 1952, which started action, was the result of studies that had begun several years before. For over 2 years now we have all been involved in the huge task of reshaping the whole Service to make it a more efficient instrument of government. But greater efficiency was not the only goal. We had to take action to meet criticisms of our setup from the public and to cut down the waste and delays resulting from overcentralization of work and authority in Washington. The overlapping of functions between audit and collections had to be straightened out.

I know that some of the changes that we made have been hard to take. It is never easy to accept new supervisors, new assignments, new work methods. But in every way possible we have attempted to lessen the hardships involved, sometimes by deliberately slowing down the rate of change and always seeking out every possibility of finding new assignments to protect those displaced. For thousands of our employees new assignments have brought promotions. For thousands more new promotional opportunities were opened up. Where downgrading could not be avoided we have followed the principle of saving previous salary rates to the greatest extent possible.

It has been a matter of regret to me that so many of the changes have seemed to indicate a reduction in the importance of the collection program. Actually what we are seeking is a strengthening of both collection and audit by a more logical arrangement of the work. While the total number of collection officers is being reduced, the generally higher collection grades given them recently reflect the increasing importance of their work. Step by step we are creating collection and audit organizations that are shaped for maximum efficiency and for maximum promotional opportunity.

Since there is evidence that the audit and collection changes are not as thoroughly understood as they should be, I have requested that the two national office divisions prepare comprehensive explanations of the changes made and contemplated. It is my desire to have these statements get into the hands of every interested field employee, so that present misunderstandings can be cleared up.

I have been told, too, that there is fear in the field offices that in its zeal for training and education, the Internal Revenue Service will begin to look down upon experience. It is true that we are striving to attract to the Service young persons with the highest potential for development, and this includes emphasis on demonstrated ability to learn. Further, concrete steps are being taken to broaden our internal training programs—technical, supervisory, and executive. The advanced training center is but one example.

This whole training program is motivated with two goals in mind: first, to help as many employees as possible do a better job in their present assignment; second, to assist employees everywhere in forging ahead within the Service. But I want to assure you that in the final analysis, promotions in the Service are going to continue to be made on the basis of demonstrated abilities on the job, not on degrees or training courses. We in the national office are firm believers in the value of education and training, but we do not intend to let them outweigh proven ability to do a job. If you stop to think of the backgrounds of the people who have been selected in the last 2 years to fill new, key Internal Revenue Service positions, you will see that this philosophy of promotion based on demonstrated merit has prevailed.

We in the national office deeply sympathize with the problems our field employees and field officials have had to face in the last 2 years. Further, we recognize that many of the upsetting situations have been the result of the continuance of change and inadequate explanations of national office decisions. But, increasingly, the benefits of reorganization are appearing. We are getting to know each other better, and it is being more widely recognized that the reorganized Revenue Service is completely devoted to the principle of a career system based on merit and fairness—fairness to taxpayers, to the Government, and to employees.

We each face the challenge of helping to make the Internal Revenue Service an outstanding example of successful tax enforcement in a democracy. If you have any ideas to contribute toward our goal of progress through cooperation, pass them on to your supervisor, your personnel officer, or to one of us in Washington. Working together we can make the Internal Revenue Service a source of pride to ourselves and to the American public. That I am sure is your aim, and it most certainly is mine.

T. COLEMAN ANDREWS, *Commissioner.*

TREASURY DEPARTMENT,  
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,  
*Washington 25, February 18, 1955.*

Memorandum for Hon. George M. Humphrey, Secretary of the Treasury.

This month marks the second anniversary of my service as Commissioner of Internal Revenue, and it has occurred to me that this is an appropriate time to bring you up to date on some of the highlights of our operation.

Two years ago the initial stages of the reorganization of the Internal Revenue Service had been completed. However, the big job of realigning functions, defining responsibilities, modernizing procedures, and instituting proper controls remained to be done.

We took the first 6 months to appraise the plan, concluded that it was basically sound, and, with your concurrence, decided to continue it with some necessary changes. For example, a topheavy administrative organization was avoided by reducing the number of regional offices from 17 to 9.

The tedious task of making the reorganization work was completed about July 1954, and the bare blueprint that we inherited became a dynamic, effective organization.

Now, then, how are we doing?

To answer that, we must look at the enforcement figures. The vast majority of Americans play fair with our system of voluntary self-assessment. However, this willingness to do so is affected by our diligence in dealing with those who, intentionally or unintentionally, fail to carry their share of the load.

In the last 6 months of calendar year 1954 the Service audited 10 percent more returns than in the same period in 1953. At the same time, additional taxes produced by audit and other enforcement work increased from \$644 million in the last half of 1953 to \$766 million in the last 6 months of 1954. This is a stepup of over \$120 million.

I am citing these figures on a 6-month basis because we do not have strictly comparable figures as to the number of audits for prior years. This is so because the audit figures reported for prior periods include numerous examinations which were merely checks of the mathematical accuracy of the returns. These are not "audits" as we conceive the term today.

Also, not all returns for prior years were mathematically verified. Today mathematical verification is required in all cases. Some mistakes, of course, favor the taxpayer; others favor the Government. Last year, on balance, we collected nearly \$48 million in extra taxes from this work on 1953 returns.

We also are giving increased attention to individual income-tax returns that call for refunds. In 1954, our prerefund audits weeded out over \$40 million of improper claims.

In the fraud area, we are catching up with more tax evaders. In calendar year 1954, 1,417 evaders were successfully prosecuted for criminal violations of the tax laws. This was a 27-percent increase over 1953.

In our enforcement work, we have concentrated pretty largely on our audit and tax-fraud programs. There is another aspect of our enforcement activity, however, that is important. That is the problem of the slow-paying taxpayers. Here we needed a new approach.

We started out by overhauling our accounting system so that we would have better information on our past-due accounts. We worked on this new system during most of 1954, and its installation was completed by the first of this year.

Under the old system we measured delinquencies only when they reached the distress stage. Now we pick them up immediately after the due date. On December 31, 1954, our delinquent accounts totaled \$1,614 million. This large balance must be reduced and we are taking vigorous steps to do just that.

That, in brief, is the enforcement picture. Now let's look at some other important activities.

One essential of a good tax administration is prompt settlement of disputes. Taxpayers must have this service so they can budget their funds and make related business decisions. Here we have made what I regard as outstanding progress.

On January 1, 1953, there were 21,490 disputed cases pending before our appellate people for decision. On December 31, 1954, this number had been reduced to 9,213, a decrease of 57 percent.

Even when a taxpayer does not agree with the Appellate Division and files a petition with the Tax Court of the United States he may still return before trial of the case and reopen negotiations. In fact, most cases are being settled before trial. In turn, this has resulted in exceptional progress in reducing the docketed cases. The number of docketed cases pending on January 1, 1953, was 10,214. On December 31, 1954, the number had been reduced to 8,044, a decrease of 21 percent.

On the side of better service, we have taken steps this year to provide greater facilities for helping taxpayers fill out their own returns. We also introduced this year a new, small card-type tax return for wage earners with incomes of less than \$5,000. This return, which has only 14 lines, will be used by millions of taxpayers. As in the past, for those who use this return the Service will compute their tax and send them a check, bill, or "even" notice. All our tax forms are under continuous study in an effort to make them more simple and understandable.

I think it is significant to note that while the total personnel of the Service was reduced from 51,292 to 50,234 during the calendar year 1954, the number of revenue agents was increased from 7,994 to 10,992. Most of these additional agents, all of whom were required to pass qualifying civil-service examinations, came from the Collection Division where they had been doing audit work before all audit responsibility was consolidated in the Audit Division.

The overall drop in Service personnel results largely from steps taken to increase efficiency and improve methods in our nonenforcement activities.

We are, as you know, faced this year with the necessity for informing millions of taxpayers about the requirements of the new Internal Revenue Code. This means not only that we must take time out of our regular activities to train our people in the provisions of the new law but also that we are going to have to give much more assistance to taxpayers than ever before.

These drains on our manpower may possibly result in some leveling off, or even decline, in our enforcement work during the next 2 or 3 months. Under the circumstances this is unavoidable. We will, of course, do everything within our power to minimize the effect of the drain.

There are many other things I could tell you that the able and loyal people in our Service have accomplished during the past 2 years but I hope I have said enough to convince you, as I am convinced, that we are now on a firm and effective operating basis and have a solid foundation for an Internal Revenue Service of the very highest standards of efficiency and integrity.

T. COLEMAN ANDREWS, *Commissioner*.

IR-Mimeograph No. 6  
Reo. No. 6  
Aud. No. 2

UNITED STATES TREASURY DEPARTMENT,  
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,  
Washington 25, D. C., May 15, 1952.

ESTABLISHMENT OF PROCEDURE FOR INFORMAL CONFERENCES UNDER REORGANIZATION PLAN NO. 1 OF 1952

*Officers and Employees of the Internal Revenue Service and Others Concerned:*

1. *Purpose.*—The purpose of this mimeograph is to describe informal conference procedure which will be applicable in the office of the Director of Internal Revenue on and after the date Reorganization Plan No. 1 of 1952 is put into effect in each district.

2. *Objectives of informal conference procedure.*—The objective of the informal conference procedure is to give taxpayers greater opportunity to reach an early agreement with respect to disputed items arising from examinations made by internal-revenue agents through the use of an informal procedure by means of which such issues may be resolved prior to the preparation of the internal-revenue agent's final report. Through this means, the disposition of disputed cases will be brought closer to the taxpayer, improved coordination and supervision of the activities of field examiners will be achieved, and the closing of cases by agreement without the necessity of the taxpayer filing a formal protest will be increased.

3. *Organization of field groups.*—The original examination of income, profits, estate, gift, excise, and employment tax liability will be the primary function of internal-revenue agents assigned as examining officers in the audit branch of the office of each Director of Internal Revenue. Such internal-revenue agents will be organized in groups, each of which will be under the immediate supervision of a group chief, designated by the Director. The present groups will be reduced in size and additional groups created so that, in addition to his general supervisory responsibilities, each group chief may act in the capacity of conferee in conformity with the informal conference procedure described in this mimeograph.

4. *Examination procedure.*—At the conclusion of his examination, the internal-revenue agent will discuss his findings with the taxpayer and will afford the taxpayer an opportunity to agree and to execute Form 870, or other appropriate agreement form. In the event that the taxpayer does not agree, or does not wish to execute an agreement form, the internal-revenue agent will inform the taxpayer of his right to an informal conference. The examining officer then will furnish the taxpayer a brief statement identifying the proposed adjustments, substantially similar to the exhibit A attached, as the basis for requesting an informal conference, if desired. A copy will be furnished promptly to the group chief. Such informal conference will be conducted by the group chief, or by such other qualified employee as may be designated, with the examining officer present, and will afford the taxpayer an opportunity to discuss orally the proposed adjustments.

5. *Attorneys and agents.*—If the taxpayer does not attend the conference but is represented by an attorney or agent, the rules with respect to their recognition, the filing of powers of attorney, and the filing of fee statements will be applicable.

6. *Reports and review.*—A simple, short, informal conference report will be prepared by the group chief, or other designated officer, with respect to each case on which an informal conference was held. Such conference report will show the date of the conference, the names and titles of the persons present, and will set forth briefly and concisely the facts and the conclusions reached with respect to each issue. The conference report will then be given to the examining officer who will, in preparing the examination report, give effect to the conference decisions. The examination report, the conference report, and all other data relating to the case will be subjected to review in order that uniformity in the application of the provisions of the Internal Revenue Code, the regulations and rulings, as well as general Bureau policy, may be assured.

7. *Duties of conferee.*—In the conduct of informal conferences it will be the duty of the group chief, or other officer who may be acting as conferee, to conduct the conference in accordance with the objectives of the informal conference procedure and to—

(a) Provide the taxpayer a fair and courteous hearing at which he may present his statement of the facts and his view on the issues;

- (b) Make certain that all pertinent facts are included in the record and are considered in arriving at the proposed recommendation;
- (c) Make certain that the appropriate provisions of the Internal Revenue Code are applied in arriving at the proposed recommendation;
- (d) Make certain that the proposed recommendation is in accord with Bureau interpretations as expressed in regulations and rulings; and
- (e) Explain fully to the taxpayer the conclusions reached and the reasons therefor.

8. *Procedure after conference.*—In the event that an agreement is reached at the informal conference, the case will be processed in accordance with established procedure. In the event that the taxpayer does not agree with the decision reached at the informal conference, the examination report will be prepared and a copy furnished the taxpayer, together with a 30-day letter affording the taxpayer the privilege of filing a formal protest, under oath, with the Director of Internal Revenue. Such 30-day letter also will afford the taxpayer an opportunity to agree to the proposed determination. If no such protest or agreement is received by the Director within the 30-day period, the case will be processed for issuance of the statutory notice of deficiency, or other appropriate action. If a timely protest is received, the case will be transmitted to the Appellate Division.

9. *Definitions.*—(a) The term “income, profits, estate, and gift tax,” as used in this mimeograph, will be construed to include any tax over which the Tax Court of the United States has jurisdiction.

(b) The term “excise tax,” as used in this mimeograph, will be construed to include any Federal excise tax, except: (1) any tax imposed by chapter 8, 9, 15, 23, 26, or 27A; (2) any tax imposed by subchapter B of chapter 25; (3) any tax imposed by part V, part VI, part VII, or part VIII of subchapter A of chapter 27; and (4) any tax imposed by subchapter B of chapter 28, insofar as it relates to liquor and tobacco.

(c) The term “employment tax,” as used in this mimeograph, will be construed to include any tax imposed by chapter 9.

10. *Jeopardy, fraud, and other special cases.*—Nothing contained in this mimeograph shall be construed to preclude the taking of appropriate action where the assessment or the collection of the tax is in jeopardy. The procedure described in this mimeograph will not apply in any case in which criminal prosecution is under consideration or in any case in which, in the discretion of the Director of Internal Revenue, the Government’s interest would be prejudiced thereby.

11. *Prior instructions superseded.*—The instructions contained in this mimeograph supersede prior instructions to the extent that such prior instructions are inconsistent herewith.

JOHN B. DUNLAP, *Commissioner.*

(Attachment: Exhibit A.)

EXHIBIT A

REVENUE AGENT’S PROPOSED ADJUSTMENTS AFFECTING TAX LIABILITY

Name \_\_\_\_\_

At the time the proposed adjustments affecting your tax liability were discussed you did not agree to the items marked (\*) listed below.

You are advised that you may present your objections to the proposed changes at an informal conference which may be requested within the next 10 days by telephoning or writing to the address set out below:

Group Chief [Supervisor] \_\_\_\_\_ Telephone No. \_\_\_\_\_  
 Ext. \_\_\_\_\_ Address \_\_\_\_\_

If you decide to accept the findings as set out below, please advise. If no informal conference is requested, an examination report will be mailed to you by the Director of Internal Revenue.

Net income per return _____	Year ending ----	\$ _____
Proposed unallowable deductions and additional income:		
(a) _____	\$ _____	
( ) _____	_____	
( ) _____	_____	
Total _____	_____	_____

Proposed nontaxable income and additional deductions:

( )		\$	
-----	--	----	--

( )		\$	
-----	--	----	--

Proposed corrected net income

Other proposed adjustments affecting tax liability:

( )			
-----	--	--	--

Internal Revenue Agent

Date

## EXHIBIT D-7—ORGANIZATION CHART (REV. 1-5-53)

## INDIVIDUAL AND CORPORATION TAX OFFICE AUDIT SECTION

Section divided into the required number of groups under group chiefs, who will be under immediate supervision of Head, Office Audit Branch: Conducts office or correspondence audit of income-tax returns and claims; prepares complete and factual reports supported by explanations, citations, and authority on cases where adjustments are made; prepares short-form reports in no-change cases and information reports when required. Conducts correspondence audit of income-tax returns and claims filed by aliens, nonresident citizens, foreign corporations, and domestic corporations whose books and records are located in a foreign country; prepares complete and factual reports on all examinations made. Furnishes assistance to the public in preparing and filing tax returns or claims, and assists persons who seek information on tax laws and regulations. Proposes jeopardy assessments. Operates as a pool for special detail assignments, primarily during filing period and subsequent processing of returns filed. Maintains statistical and production reports. Group chiefs assume full responsibility for supervising, planning, and achieving their assigned portion of the office audit program; hold informal conferences with taxpayers or their representatives and prepare conference reports directing action to be taken by examining officers; orally explain the provision of the law and regulations to taxpayers and others concerned which affect their cases.

UNITED STATES TREASURY DEPARTMENT,  
INTERNAL REVENUE SERVICE,IR-Mimeograph No. 55-77  
Aud. No. 25

Washington 25, D. C., June 23, 1955.

## SUPERVISION OF AUDIT ACTIVITY

*Section 1. Purpose*

The purpose of this Mimeograph is to prescribe certain methods and procedures in furtherance of the policy of improving operations in audit activities at the group level.

*Section 2. Background*

Studies for the improvement of operations in the audit area indicate that our present program of field supervision at the group supervisor level fails to provide an established on-the-job review of the field examiners' audit techniques and performance. In addition, there is evidence to support the conclusion that failure to rotate group supervisors and technical personnel of field and office audit groups has, in some instances, resulted in substandard performance by the supervisor and personnel of his group. This may be difficult to correct under existing policies and procedures. Consequently, the methods and procedures indicated hereafter have been designed to increase the efficiency of examining officers and the effectiveness of group supervisors.

*Section 3. Visitation Program*

.01 Each group supervisor of a field group will visit at irregular intervals the agents in his group while they are on the job at the taxpayer's place of business to review the agent's work on the case, both completed and anticipated, provide such guidance and assistance as found necessary, and evaluate the work performance of the agent. Where pertinent and relevant, the progress of the audit may be discussed with the taxpayer or his representative.

.02 The number and frequency of a group supervisor's visits to any individual agent should be flexible and dependent, to a degree, on the grade and experience of the examiner, the class of taxpayers examined, and other relevant factors. The frequency and duration of visits to agents on the job should be such as will provide adequate knowledge of the capabilities and characteristics of each agent in the group, but in no event should an agent be visited less than twice each year. The visits to agents on the job should ordinarily be made by the group supervisor and not by a senior agent as it is felt that the examining officer will more readily accept, and give greater weight to, a visit by a group supervisor than one by his delegate. Visitation by the group supervisor will enable him to become much better informed on the abilities of the agents under his supervision. Group supervisors will keep in their offices appropriate records of the results of their visits. These records should be utilized by the Chiefs of Branches and the Chief, Audit Division, to determine the effectiveness with which group supervisors administer the visitation program.

.03 It is anticipated that the visitation program will require approximately 20 percent of the group supervisor's time. Therefore, it will become necessary to designate, either on a permanent or rotating basis, a senior agent in each group to assist the group supervisor in his administrative duties. It should also be the policy that a group supervisor will not personally conduct an informal conference with a taxpayer or his representative where he has made an on-the-job visit.

#### *Section 4. Rotation of Group Supervisors and Internal Revenue Agents*

.01 As a matter of policy internal revenue agents should not receive all of their training under one group supervisor and in furtherance of this policy all internal revenue agents within a group should be rotated among other groups every 4 years. This may best be accomplished by reassigning each year 25 percent of the agents in a group to a different group or groups.

.02 Because of geographical conditions existing in some districts, zones have been established to simplify the administrative and travel problems of group supervisors who have revenue agents under their jurisdiction stationed at outlying posts of duty. As it may not be feasible to rotate revenue agents in those districts, group supervisors should, wherever practicable, be reassigned to a different group every 4 years provided it does not involve a change in post of duty.

.03 The rotation of agents or group supervisors will not be applicable to excise and estate and gift tax groups unless there is more than one group of like specialists within the district.

.04 In districts having more than one office audit group, consideration should be given to the rotation of auditors or group supervisors in the same manner as field audit groups.

.05 The annual reassignment of technical personnel should be managed so that the GS grade structure in the various groups will not be impaired.

.06 It is not intended that group supervisors and internal revenue agents should be rotated between districts or posts of duty pursuant to the foregoing; neither are the provisions of this Mimeograph to be construed as affecting the existing authority of District Directors and Regional Commissioners to reassign personnel whenever it is in the best interest of the Service.

#### *Section 5. Rotation of Examiners on Cases*

.01 Paragraph 4217, Part IV of the Internal Revenue Manual, states the general policy with respect to the rotation of examining officers. Appropriate measures must be taken to assure that, to the greatest extent possible, no examining officer will examine the same taxpayer's return consecutively. This should not be construed as meaning that an agent cannot examine several years' returns of a taxpayer at the same time. Nor does it mean that examining officers assigned to cases involving complicated accounting or technical determinations may not make consecutive examinations if it would be in the interest of the most efficient case management to continue their assignments, as, for example, in the case of the larger corporations.

.02 Where the agent's personal transactions with the taxpayer have been or are significant in relation to the agent's or the taxpayer's financial position, such as: (1) prior or current direct or indirect indebtedness to the taxpayer; or (2) a direct or indirect financial interest or investment in the taxpayer's business, it will always be in the best interest of the Service to have the return examined by another agent. In any instance where the business or social relationship with

the taxpayer is of a nature that might impair the agent's impartiality and independence, it will be his duty to return the case to his group supervisor with an appropriate explanation. Doubtful situations should be resolved in favor of returning the case.

.03 Agents should be instructed to return to their group supervisors for reassignment the return of any taxpayer, on hand or subsequently received, the examination of which would be inconsistent with the above policy.

#### *Section 6. Effect on Other Documents*

Any internal management documents, the provisions of which are inconsistent or in conflict with the provisions of this Mimeograph, are hereby amended or superseded accordingly.

#### *Section 7. Effective Date*

This Mimeograph is effective June 23, 1955.

PAUL K. WEBSTER,  
*Assistant Commissioner (Operations).*

Address correspondence to Audit Division (O:A:PPI).

### I. R.—MIMEOGRAPH NO. 78, SUPPLEMENT 4, OCTOBER 15, 1953

\* \* \* \* \*

#### "SECTION 3. USE OF MANAGEMENT INFORMATION REPORTS

“.01 *For general planning purposes* the management information report system will provide a cross section of the results of actual examinations which will permit the study and evaluation of the existing methods of selecting returns for examination and of the existing examination practices and procedures. The results will be separately tabulated in the national office for the 9 regions and will be made available to the 9 regional commissioners. These tabulations or pictures of the overall examination results will provide a basic framework of objective information around which the field managers of the audit programs and examining officers can weave their personal experiences to develop improved audit planning and programing. They will permit interregional comparisons of the general examination practices and policies actually followed in the various regions, their strength and weaknesses and possible methods of improvement.

\* \* \* \* \*

“With the foregoing kinds of overall audit tabulations available to supplement the experience and ‘know-how’ of the field audit personnel, especially the assistant regional commissioner (audit), improved methods of tax enforcement can be more quickly and successfully attained by programing and audit planning, and by appropriate followup procedures. Stated another way, it is the search for tax returns with highly concentrated amounts of tax error that strains the abilities and ‘know-how’ of the examining officers and their supervisors and managers. The nature of this search is indicated by asking the following question: What readily visible factors or combination of factors found on different tax returns are sure to indicate a high chance that the selection and examination of certain types of tax returns will prove, after examination, that these were the returns most urgently in need of examination and resulted in attaining the largest amount of tax change possible with the available audit machinery?

“Moreover, what byproducts of reliable information have these examinations produced upon which evaluations of existing programs may be based and improvements for the future derived? These byproducts are the management information reports.”

## U. S. TREASURY DEPARTMENT

## INTERNAL REVENUE SERVICE

Office of the Regional Commissioner

Boston 8, Mass.

Amendment No. 1 to  
RC-BOS-Memorandum No. 54-12  
P. No. 54-7

Issued April 6, 1954

## MAINTENANCE OF DISCIPLINE

*Section 1. Purpose*

.01 To correct typographical errors on pages 3, 9, 12 (exhibit B), and to delete or otherwise change information on pages 9, 15 (exhibit E), and 17 (exhibit G), and to identify the responsibility of Regional Commissioner.

*Section 2. Amendments*

.01 Wherever reference is made to District or District Director, requirements of this memorandum shall be equally applicable to Regional office employees and the Regional Commissioner.

.02 Section 4.012 (1), page 3, now reads in part: "\* \* \* based upon satisfactory duty performance." This should be corrected to read as follows: "\* \* \* based upon *unsatisfactory* duty performance."

.03 Section 10.013, page 9, reads in part: "\* \* \* is to appeal the proposed adverse action." This is corrected to read: "\* \* \* is to *cancel* the proposed adverse action." Section 10.013b, page 9, states in part: "\* \* \* should specifically admit or point the reply so far as practicable." This should be changed to read: "\* \* \* should *not refute the employees statements.*"

.04 On page 12, exhibit B, under "Note": Par. 3, reads in part: "\* \* \* with a return, restricted receipt." This should be changed to read: "\* \* \* *with return receipt requested.*" Par. 4, reads in part: "\* \* \* Signature must be that of 1st line Supervisor." This should be corrected to read: "\* \* \* Signature must be that of *Supervisor bringing the charges.*"

.05 On page 15, exhibit E, add the following note at foot of page:

NOTE: Do not include the second and third sentences of paragraph 3 above commencing with "As a veteran preference eligible \* \* \*," if adverse action is a suspension of 30 days or less. Veterans suspended for 30 days or less do not have the right to appeal to the Civil Service Commission.

.06 On page 17, exhibit G, delete the first part of the second sample paragraph containing the statement "\* \* \* for failure to qualify during trial period \* \* \*," and add the note as stated in section 2.05 above at foot of the page:

*Section 3. Effective Date*

.01 This amendment is effective as of February 24, 1954.

D. O. HAYS,  
*Assistant Regional Commissioner, Administration.*

Intermediate distribution.

## U. S. TREASURY DEPARTMENT

## INTERNAL REVENUE SERVICE

Office of the Regional Commissioner

Boston 8, Mass.

RC-BOS-Memorandum No. 54-12  
P. No. 54-7

Issued February 24, 1954

## MAINTENANCE OF DISCIPLINE

## Section

1. Purpose
2. Authority
3. Policy
4. Definition
5. Responsibility
6. Table of Penalties
7. Procedure
8. Sample Letters
9. Recommendation To District Director
10. Summary
11. Revocation
12. Effective Date

### *Section 1. Purpose*

.01 The purpose of discipline is to promote the best interests of the service by just enforcement of the standards of conduct for all employees.

### *Section 2. Authority*

.01 This policy and procedure is prepared in accordance with part 9 of the Federal Personnel Manual and Treasury Department Memorandum dated October 27, 1953.

### *Section 3. Policy*

.01 Management is responsible for promulgating standards of conduct, for recognizing and rewarding good conduct, and for disciplining employees for misconduct. Since responsibility for discipline is a part of the large responsibility for employee evaluation, a balanced personnel program will emphasize the importance, not only of discipline, but also of appropriate recognition of above-average performance and exemplary conduct.

.02 It is not the intent of the Boston Region, Internal Revenue Service, that high morale and efficiency be brought about through discipline. On the contrary, it is recognized that the most agreeable part of a supervisor's job is praising the employee for good work or a job well done. The least appreciable part is reprimanding or disciplining him when necessary. These two responsibilities are inseparable in the daily job of every supervisor.

.03 "Going easy" on employees may mean just shirking responsibility. Employees respect, even prefer, a supervisor who is firm, yet fair in all his dealings with them. Discipline, when administered in a just, prompt, and consistent way, is a morale booster.

.04 In chronic or difficult cases, supervisors may find it desirable to consult with the appropriate personnel office whose acquaintance with problems of individual employees may serve advantageously to supplement the supervisor's experience.

.05 It is therefore the policy of the Boston Region that discipline must be fair and just; like penalties must be given for like offenses, with due consideration for mitigating or aggravating circumstances in each case.

.06 The decision as to what disciplinary action should be taken in each case must be based on a careful evaluation of the nature of the misconduct, the effect on the Service, and the effect on the individual employee.

.07 Discipline, in order to be fully effective, must be timely. The effect on the individual and on the Service is diminished in proportion to the time allowed to lapse between the misconduct and the discipline. Promptness of action is an essential requirement at every step in the disciplinary procedure.

.08 The action must be designed to promote the efficiency of the Service. In many cases, an admonition or reprimand may be sufficient to remedy the situation.

.09 The repetition of the same offense after short intervals will be considered in assessing any penalty, since such repetition indicates a deliberate disrespect for authority. It is important that all employees be disabused of the prevalent idea that it is almost impossible to separate permanent status employees for failing to perform their duties in a satisfactory manner.

.10 Demotion to lower grade positions will not be employed as a disciplinary action.

.11 Disciplinary action will not be influenced by race, color, national origin, creed, religion, sex, marital status, nor will it be influenced by political opinions and/or affiliations (except those which are prohibited by law).

.12 Action will not be taken as reprisal for petitions or testimony under the grievance procedure of this Region and appeals to the Civil Service Commission.

.13 Disciplinary actions must be well supported factually because in the event of an appeal action, under certain conditions, the activity could be required to restore the employee to duty retroactively. Restoration to duty retroactively may be ordered by the Civil Service Commission if it is shown that the suspension or removal was unjustified or unwarranted. The employee then must be paid for the entire period he was off the payroll. (See RC-BOS-Memorandum No. 54-10, P. No. 54-5, Grievance Procedure, sec. 7.)

### *Section 4. Definition*

.01 The terms as used in this Memorandum shall have the following meaning:

1. *Separation.*—(1) Abandonment of position: This is a separation occasioned by an employee's action in quitting his post of duty, failing to return to duty after the expiration of authorized leave, or failing to return from furlough when called. (Action should be initiated when employee is absent

from duty for a period of five consecutive calendar days under such circumstances.)

2. *Inefficiency*.—(1) Separation of any employee, serving under other than a temporary appointment who has completed his trial or probationary period, based upon satisfactory duty performance.

3. *Disqualification*.—(1) Separation of employees serving probationary periods, or trial periods, for unsatisfactory duty performance or other attributes which indicate unsuitability for Federal employment.

4. *Termination*.—(1) Is the action to be utilized in separating any employee serving under a temporary or temporary indefinite appointment who is not more appropriately separated by "Removal" or other term.

5. *Removal*.—(1) Is the action used in separating an employee on charges of delinquency or misconduct.

### *Section 5. Responsibility*

.01 Employees are expected to put in a full day's work, comply with instructions from their superiors, and follow safe working practices. All employees are servants of the people and because of this, their conduct is, in many instances, subject to more restrictions and to higher standards than may be the case in private employment. They are expected to conduct themselves, both on and off duty, in a manner which will reflect favorably upon them and the Internal Revenue Service. They are expected to be honest, reliable, trustworthy, of good character and reputation, and loyal to the Government and to the Internal Revenue Service.

.02 The responsibilities of supervisors include the maintenance of discipline. All disciplinary actions begin with the supervisor, except those that may result from Inspection Service investigation. Supervisors will recommend the admonishment or reprimand employees and, when necessary, promptly seek the application of more severe penalties.

.03 The District Directors are responsible for the administration of discipline throughout their District. Responsibility for the discipline of employees under their supervision must be shared by all operating officials and supervisors. Supervisors must by precept and example, provide the leadership which will encourage acceptable conduct and satisfactory performance of duties on the part of the employees working under their direction.

.04 When an employee's conduct is such as to require investigation, a full statement of the facts pertinent to the case and such evidence as is available shall be presented to the Regional Inspector's office through the Regional Office.

### *Section 6. Table of Penalties*

.01 Attached hereto are two tables of penalties designated as exhibit J and exhibit K. These tables should be used as guides in imposing penalties. Exhibit J covers the more common on-the-job offenses, while exhibit K indicates the administration of fines and imprisonment for some offenses. In this connection, it is pointed out that the disciplinary powers of this Region do not extend beyond the removal of an employee from his position. Violation of laws providing punishment in addition to removal, will be reported to the Inspection Service by the Regional Office. That office will investigate and report the matter, if justified, to the appropriate civil authorities for prosecution of the offender.

### *Section 7. Procedure*

.01 Supervisors are authorized to admonish and reprimand employees orally and in writing. Written admonishments or reprimands will close with a statement informing the recipient that he may reply in writing within a reasonable period (not less than 3 days). A copy of the admonishment or reprimand and any reply thereto will be sent to the Personnel Office for filing in the employee's personnel folder.

.02 When a more severe penalty is called for, the supervisor will forward through his division chief, to the personnel office, Standard Form 52, Request for Personnel Action, requesting the application of a more severe penalty and attach thereto a statement of supporting details. An appropriate letter of charges, based on the evidence submitted, will be prepared in the Personnel Office for the signature of the supervisor bringing the charge. The employee's copy (original) of the letter of proposed disciplinary action will be delivered to the employee by his supervisor. Since disciplinary and separation actions are subject to rigid legal requirements, the letter of proposed action must be delivered to the accused employee *on or before the date thereof*. In no case will the date of the letter to the employee be adjusted without the approval of the Personnel Office.

.03 The Personnel Officer or Administrative Officer responsible for personnel matters will consider the employee's reply, if any, to the letter of proposed disciplinary action, and forward the case with his recommendations to the District Director for decision. Upon receipt of a decision, the Personnel Officer or the Administrative Officer will write another letter to the employee informing him of the decision, and if the decision is adverse, prepare Standard Form 50, Notification of Personnel Action, effecting the employee's suspension or removal. This second letter to the employee and the original of the Standard Form 50 will be delivered to the employee by his supervisor prior to the effective date.

#### *Section 8. Sample Letters*

.01 For use in administering discipline, the sample letters may be used as guides. (See exhibits A, B, C, D, E, F, and G.) It should especially be noted that the letters are specific as to the offense, the time of the offense, and the specific proposed adverse action. It is not enough to state that the agency proposes to take "suitable action" or "corrective action" or "disciplinary action." Indefinite statements of the proposed actions may prejudice the employee in the exercising of his right to answer in the light of all the facts and circumstances. If he is misled into believing that no drastic action is contemplated, he may disregard the notice altogether, or submit only a cursory or informal answer.

#### *Section 9. Recommendation to District Director*

##### .01 Recommendation to District Director:

1. After a reply to the letter of charges is obtained and after an investigation is made into all of the facts surrounding the case, a recommendation must be made to the District Director through the Personnel Officer.

2. The recommendation should be written on Inter-Office Memorandum and should contain an evaluation of the charge, reply, and proposed penalty. All of the facts should be weighed prior to such an evaluation. All supporting evidence such as sworn statements, photographs, if any, and reports should accompany the recommendation.

3. The memorandum will be made in triplicate and should be submitted in the following form:

- (1) Original and first copy—District Director.
- (2) Second copy will remain with case until final disposition of same.
- (3) SF-52: Should be marked Tab A.
- (4) Letter of Charges: Should be marked with Tab B.
- (5) Reply to Charges: Should be marked with Tab C.
- (6) Supporting Documents: Should be marked with Tab D-E-F, etc.

4. See exhibits H and I.

#### *Section 10. Summary*

.01 The following procedures must be observed in processing any disciplinary action. The provisions of the requirement column apply to all employees without regard to type or tenure of appointment and without regard to veterans' preference, except as modified in the adjacent column.

Requirement	Explanation or modification
1. The employee must receive written advance notice identifying the proposed adverse action.	1. It is not sufficient to state that it is proposed to take "suitable" or "corrective" action since indefinite statements may prejudice the employee's rights. Since the appointing officer may not rely upon the employee's knowledge of the situation, the charges, and the proposed action should be clearly identified. Although advance notices are desirable in all instances, they are not mandatory in cases of furlough because of unforeseen circumstances such as sudden breakdown in equipment, acts of God, or similar emergencies requiring immediate curtailment of activities, nor in cases of suspension for less than 30 days affecting employees serving a trial or probational period or serving under temporary or excepted appointments. The advance notice will be in the form of a separate letter to employee concerned, except that in "Termination" actions required by expiration of appointment or completion of job, a Form 50 may be used for this purpose.
(a) The advance notice must state any and all reasons specifically and in detail, for taking the adverse action.	(a) The reasons must be stated in such fashion that the employee may clearly understand the basis for the proposed action and why he has been selected for the action where the reasons are not personal to him. He will thus be in a position to submit a defense, or reasons why the action should not be taken. So far as practicable, specific incidents and dates should be cited.
(b) The advance notice must state the date when it is planned to make the proposed adverse action effective.	(b) Periods of advance notice must be sufficient to permit an employee a reasonable time to prepare and submit his defense. Periods of advance notice will, in addition, conform to the following: (1) Veteran preference eligibles who are serving under war service appointments, completion of probational or trial period, must receive notice of any proposed adverse action except suspension for 30 days or less, at least 30 days in advance of the proposed effective date. (2) So far as practicable, 30-day advance notices will be given to all employees for all adverse actions except suspensions. When such 30-day advance notices would prejudice the Department's interest, however, the period of advance notice may be fixed to cover not less than 14 calendar days for all adverse actions, other than suspensions, when applied to employees not entitled to a 30-day advance notice as provided in (1) above. (3) In emergency cases requiring prompt suspension of 30 days or less, the advance notice period may be fixed at not less than 24 hours. As a general rule, not more than 3 days should be provided as advance notice for suspensions of 30 days or less.
(c) The advance notice must state that the employee has a right to reply personally and in writing, that the reply will be considered, the time within which reply must be made.	(c) The advance notice will specifically indicate the name and the address of the person to whom the reply may be made. The time for making reply will be fixed to include that portion of the advance notice period as will give the employee a reasonable time to prepare an answer and secure supporting affidavits. Whenever the advance notice period is 14 days or more, at least one-half of the period should be provided for the employee to make reply. In emergency cases requiring suspension for 30 days or less, a minimum period of 24 hours must be provided for making reply.
(d) The advance notice must specify the employee's status during the advance notice period.	(d) The employee must be permitted to remain in his position in a work status during the advance notice period except where such status might result in damage to Government property, be injurious to the employee or others, or otherwise be detrimental to the Government's interest. In such exceptional cases, the employee may be detailed to a position where the condition would not exist, or be placed on enforced annual leave, or be placed on leave without pay with his consent. He may not otherwise be involuntarily placed in a leave without pay status during the advance notice period without instituting a separate suspension action.
(e) The advance notice must be dated and signed.	(e) See paragraph for discussion of responsibilities in preparation of advance notice.
2. There must be a decision made as to what action will be taken.	2. Following consideration of any reply by the employee and/or any further information independently obtained during the period of advance notice, the Personnel Officer must determine what, if any, adverse action is warranted. In this connection— (a) If it is determined that a more severe action is required or if it is determined that any adverse action is, in fact, based upon reasons other than those stated in the original advance notice, a new advance notice must be issued and a new notice period must be established to permit the employee an opportunity to reply to the revised charges. (b) The adverse action originally proposed may be reduced without a new advance notice so long as the employee has had opportunity to reply to the reasons for the reduced adverse action. The adverse action originally proposed may also be withdrawn or postponed when it is determined that such action would promote the efficiency of the service.

Requirement	Explanation or modification
<p>3. The employee will receive a written notice of the District Director's decision.</p> <p>(a) Notice of decision must be dated and signed by the District Director, and state the date when any adverse action will become effective.</p> <p>(b) The notice of decision must state the basis for the decision.</p> <p>(c) Any notice of decision involving an adverse action must advise the employee of his appeal rights.</p>	<p>3. A written notice of decision is required in all cases of adverse action, and even though the employee may have failed to reply to an advance notice. Further written notice will be given if the decision is to appeal the proposed adverse action. This notice must reach the employee on or before the effective date of any adverse action.</p> <p>(a) In instances when the employee did not reply to the advance notice, any adverse decision may be in the form of a Standard Form 50 effecting the adverse action at a prospective date. If the employee replies to the advance notice, the decision will be in the form of a separate letter which will transmit the Form 50 when an adverse action is involved.</p> <p>(b) In instances when an employee has replied to an advance notice, the notice of decision should specifically admit or point the reply so far as practicable. As a minimum, the notice of decision will state in general terms the basis for the decision reached. Decisions may not be based upon matters which were not covered in an advance notice unless an advance notice was not required.</p> <p>(c) All employees subject to an adverse action will be advised of their right to utilize the grievance procedure established in RC-BOS-Memorandum No. 54-10, P. No. 54-5. In addition, employees eligible for veteran's preference who are serving under war service appointments, or under competitive or excepted appointments of unlimited tenure after completion of probational or trial period, will be advised of their further right to appeal to the Civil Service Commission under Section 14 of the Veteran's Preference Act. (See ch. S1-FPM.) The address of the office to which a grievance or appeal may be directed will be provided in the notice of decision.</p>

### Section 11. Revocation

.01 Any other memorandum or parts of memorandums inconsistent or in conflict with the provisions of this memorandum are hereby superseded or amended accordingly.

### Section 12. Effective Date

.01 This memorandum is effective immediately.

D. O. HAYS,

*Assistant Regional Commissioner, Administration.*

Intermediate distribution.

## EXHIBIT A

### SAMPLE SUSPENSION LETTER

DEAR MR. ———: 1. This is to advise you that it is proposed to suspend you for three days without pay on June 10, 11, 12, 1953, for being absent without proper authority.

2. The specific charge set forth below is made against you in support of the above proposed action:

(a) You were absent without proper authority on June 1, 2, and 3, 1953.

You made no arrangements to be absent for these days as required by Internal Revenue Policy on Leave, outlined in RC-BOS-Memorandum No. 68, P. No. 17.

3. You may answer this notice of proposed adverse action in writing and/or orally, and may submit any evidence you desire within three (3) working days after receipt of this notice. If you do not reply within the specified period, the Personnel Officer will have no alternative but to assume that you are responsible as charged and to administer the proposed penalty. The Personnel Office will make such pertinent regulations and records available as you may require for preparation of your reply to the charge. If you so desire, you may obtain assistance in preparing your reply from Mr. \_\_\_\_\_, of the Personnel Office.

4. Careful consideration will be given to your reply, and you will be furnished a written notice of final decision.

Very truly yours,

ROBERT ROE, *Examining Officer.*

## NOTE

Par. 1: Specific days of suspension must be shown. Penalty may be reduced or canceled, but *cannot* be increased without a new letter of charges.

Par. 2: Charges must be specific so as to leave no doubt in employee's mind of the offense he committed.

Par. 3: Reply must be made within three (3) working days after delivery of letter. Date of receipt is not counted. If the letter cannot be delivered personally, send by Registered Mail, Return Receipt Requested. Reply will then be expected 3 days after the date he signed for the Registered letter.

Par. 4: If the employee replies either orally or in writing a separate letter must be furnished him. If he does not reply, appropriate remarks must be placed on the Form 50 which informs him of the final decision.

Signature must be that of Supervisor who brings the charges.

## EXHIBIT B

## SAMPLE REMOVAL LETTER

DEAR MR. ———: 1. This is to advise you that it is proposed to effect your removal from the Government service at the close of business, July 4, 1953, for insubordination.

2. The specific charge set forth below is made against you in support of the above proposed action:

(a) On June 1, 1953, you refused to perform your assigned duties. You were ordered to sort and staple together extra copies of printed matter, but you refused to carry out the order. Your excuse was that this was not part of your assigned duty.

(b) This is your second offense on record. There is a letter in your official file dated May 5, 1953, reprimanding you for a similar offense.

3. You may answer this notice of proposed adverse action in writing and/or orally, and may submit any evidence you wish within three (3) working days after receipt of this notice. If you do not reply within the specified period, the Personnel Officer will have no alternative but to assume that you are responsible as charged and to administer the proposed penalty. The Personnel Office will make such pertinent regulations and records available which you may require for preparation of your reply to the charge. If you so desire, you may obtain assistance in preparing your reply from Mr. \_\_\_\_\_, of the Personnel office.

4. Careful consideration will be given to your reply, and you will be furnished a written notice of final decision.

5. You will be continued in a work status in your present position during the period fixed by this notice.

Very truly yours,

JACK SMITH,  
Assistant Chief, Operating Facilities Branch.

## NOTE

Par. 1: Specific date of removal must be shown. Allow a full 30 days from date of receipt of notice. *Do not count the day of delivery as a day of receipt.*

Par. 2: Specifically state charges. Remind employee of previous offenses.

Par. 3: Reply must be made within 3 working days after delivery of letter. If the letter cannot be delivered personally, send by Registered Mail with a return, restricted receipt. Reply will then be expected three days from the date he signed for the letter.

Par. 4: If the employee replies either orally or in writing, a separate letter must be furnished him. If he does not reply, appropriate remarks must be placed on the Form 50, which informs him of the final decision.

Signature must be that of First Line Supervisor.

## EXHIBIT C

## SAMPLE ABANDONMENT OF POSITION LETTER

DEAR MR. ———: Records of this office indicate that you have not reported for duty since May 1, 1953.

Please reply within three working days after receipt of this letter as to whether or not you intend to return to duty. If you have not reported for duty by May 14, 1953, or your reply is considered unsatisfactory, you will be separated from the Government service at the close of business, May 1, 1953, for "Abandonment of Position."

Please address your reply to District Director, Internal Revenue Service, 227 Essex Street, Arlington, Mass., attention: Personnel Office. If you require assistance in preparing your reply, you may contact Mr. -----, of the Personnel Office.

Very truly yours,

JOHN P. SMITH, *Personnel Officer.*

## NOTE

Action to notify person who has failed to return to duty upon expiration of approved leave or who fails to report for duty, will be taken on the fifth workday if the employee fails to advise his activity or fails to report for duty. The notice will advise that he is to be separated for abandonment of his position (effective date—first day of absence) unless he reports or contacts his superior. (See Table 2, S-1-14 FPM, for procedure, should employee return during notice period.)

Par. 2: If it is not possible to contact the employee otherwise, a registered letter with return receipt should be dispatched to his last known address after not more than 5 working days of unauthorized absence. When within the 14 calendar day period, the employee returns to duty or advises of his intention to return to duty, no further action will be taken to process the separation for abandonment of position. Failing a satisfactory explanation for the unauthorized absence, the appointing officer may take any necessary disciplinary action such as Charges for Absence Without Authority, etc.

Effective date of separation will be the close of business of the last day the employee was present for duty, or the last day of authorized absence on leave or furlough, as appropriate. Signature will be that of Personnel Officer.

## EXHIBIT D

## SAMPLE ADVERSE DECISION TO A NONVETERAN OR VETERAN SERVING TRIAL OR PROBATIONARY PERIOD

DEAR MR. ———: 1. Receipt is acknowledged of your letter of January 9, 1953, submitted in reply to the charges contained in the notice of proposed adverse action dated January 8, 1953; or

1. Reference is made to letter, this office, dated January 8, 1953, concerning a proposal to suspend you for 5 days for being absent without proper authority.

2. This matter has been carefully considered on the basis of an interview held with you on January 11, 1953, and personal investigation into the matter. It has been decided that you will be suspended on the 24th, 25th, and 26th of January 1953; or

2. This matter has been carefully considered on the basis of your reply and personal investigation into the matter. It has been, etc.

3. You may appeal this decision to the District Director, Internal Revenue Service, Hartford, Conn., if you desire, under the Grievance Procedure as outlined in RC-BOS-Memorandum No. 54-10, P. No. 54-5, within 15 days, details of which may be obtained from your supervisor.

Very truly yours,

JOHN P. SMITH, *Personnel Officer.*

## NOTE

Do not refute statements of employee.

Signature by Personnel Officer.

This type of letter to be furnished employee if he replies to letter of charges.

## EXHIBIT E

## SAMPLE ADVERSE DECISION TO VETERAN PREFERENCE ELIGIBLE WHO HAS COMPLETED HIS TRIAL OR PROBATIONARY PERIOD

DEAR MR. ———: 1. Receipt is acknowledged of your letter of January 9, 1953, submitted in reply to the charges contained in the notice of proposed adverse action dated January 8, 1953; or

1. Reference is made to letter, this office, dated January 8, 1953, concerning a proposal to suspend you for 5 days for being absent without proper authority.

2. This matter has been carefully considered on the basis of an interview held with you on January 11, 1953, and personal investigation into the matter. It has been decided that you will be suspended on the 24th, 25th, and 26th of January 1953; or

2. This matter has been carefully considered on the basis of your reply and personal investigation into the matter. It has been, etc.

3. You may appeal this decision to the District Director, Internal Revenue Service, 148 State Street, Bangor, Maine, if you desire, under the grievance procedure, within 15 days, details of which may be obtained from your supervisor. As a veteran preference eligible, you have the further right to appeal this action to the Director, First United States Civil Service Region, Post Office and Court-house Building, Boston, Mass., within 10 calendar days after the effective date of your suspension. If you decide to appeal under the Internal Revenue grievance procedure, such appeal should be made prior to appeal to the Civil Service Commission, and will not abridge your right to appeal later to the Civil Service Commission under section 14 of the Veterans' Preference Act.

Very truly yours,

JOHN P. SMITH, *Personnel Officer.*

## EXHIBIT F

## SAMPLE ADVERSE DECISION TO NONVETERAN OR VETERAN STILL SERVING TRIAL PERIOD WHO FAILS TO REPLY TO LETTER OF CHARGES,

## REMARKS TO BE PLACED ON WD FORM 50

Inasmuch as you failed to reply to the letter of charges issued you on April 5, 1953, your case has been considered on the basis of the charges furnished and investigation into the matter.

Decision has been reached to effect your separation for failure to qualify during trial period (Insubordination and a. w. o. l.); or

Decision has been reached to suspend you for 2 working days for being absent without authority on April 2 and 3, 1953.

You may appeal this decision to the District Director, 148 State Street, Bangor, Maine, if you desire, under the grievance procedure, as outlined in RC-BOS-Memorandum No. 54-10, P. No. 54-5, within 15 days, details of which may be obtained from your supervisor.

## EXHIBIT G

## SAMPLE ADVERSE DECISION TO VETERAN WHO HAS SERVED HIS TRIAL PERIOD WHO FAILS TO REPLY TO LETTER OF CHARGES

## REMARKS TO BE PLACED ON WD FORM 50

Inasmuch as you failed to reply to the letter of charges issued you on April 5, 1953, your case has been considered on the basis of the charges furnished and investigation into the matter.

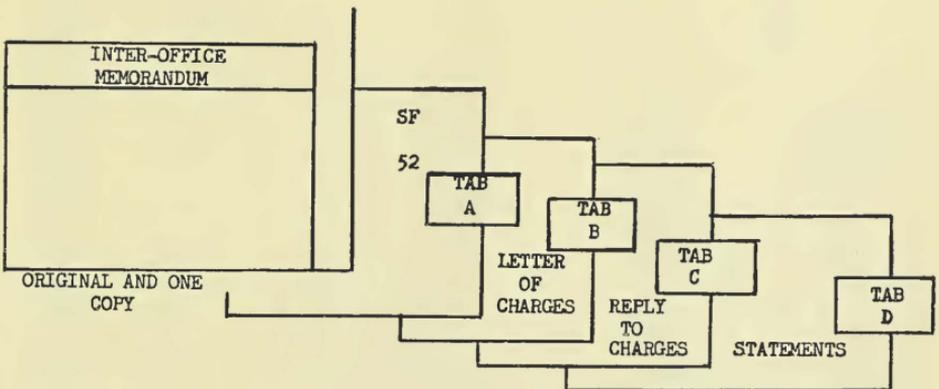
Decision has been reached to effect your separation for failure to qualify during trial period (insubordination and a. w. o. l.); or

Decision has been reached to suspend you for 2 working days for being absent without authority on April 2 and 3, 1953.

You may appeal this decision to the District Director, 148 State Street, Bangor, Maine, if you desire, under the grievance procedure, within 15 days, details of which may be obtained from your supervisor. As a veteran preference eligible, you have the further right to appeal this action to the Director, First United States Civil Service Region, Post Office and Courthouse Building, Boston, Mass., within 10 calendar days after the effective date of your (suspension) (removal). If you decide to appeal under the Internal Revenue grievance procedure, such appeal should be made prior to appeal to the Civil Service Commission and will not abridge your right to appeal later to the Civil Service Commission under section 14 of the Veterans' Preference Act.

RC-BOS-Memorandum No. 54-12  
P. No. 54-7  
Effective Immediately  
Page No. 18

EXHIBIT H



## EXHIBIT I

## SAMPLE OF INTEROFFICE MEMORANDUM OF RECOMMENDATION TO DISTRICT DIRECTOR

To: District Director, Internal Revenue Service, Burlington, Vt.  
From: Personnel Officer.  
Subject: Disciplinary Action.

## FINDINGS

Attached hereto are charges preferred against Mr. Joseph Young, clerk-typist, GS-3, \$2,750 per annum. Mr. Young is a nonveteran, 26 years of age, and an employee of the Collection Division, Accounting Branch, Bills and Warrants Section.

1. Mr. Young is charged with leaving work without authority on the 22d of April 1953, at 4:45 p. m., 15 minutes in advance of the regular quitting time.

2. This is Mr. Young's first offense in 5 years of employment with the Internal Revenue Service.

3. Mr. Young did not reply officially in writing to the charges. I interviewed him personally, however, concerning this matter. Mr. Young stated that he had on several occasions in the past requested permission to leave work a few minutes early because of pressing personal matters that required his departure a few minutes ahead of schedule. Permission has always been granted. In the instance of April 22, 1953, Mr. Young again had occasion to attend to personal business which necessitated making contact with a business firm before closing time. His supervisor, Mr. Doe, was out of the office at the time, and so he presumed that he would depart early with the sanction of Mr. Doe.

4. Inasmuch as this is Mr. Young's first offense in 5 years of service, it is felt that this offense is not serious enough to warrant a suspension as proposed on attached Form 52, Tab A.

## RECOMMENDATION

Recommended Mr. Young receive an official letter of reprimand and instructions as to the manner in which he will request permission to depart from his duties ahead of schedule in the absence of Mr. Doe. He should also be informed that any further offense will warrant more serious disciplinary action in the form of a suspension from duty.

JOHN P. SMITH, *Personnel Officer.*

## Attachments:

Tab A: SF-52 Request for Personnel Action.

Tab B: Letter of Charges.

EXHIBIT J

Schedule of certain disciplinary offenses and penalties for civilian employees in the Internal Revenue Service

Type of offenses	Range of penalties (warnings, suspensions, discharges)						Reckoning period	Remarks
	1st infraction		2d infraction		3d infraction			
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum		
<b>ATTENDANCE</b>								
1. Unauthorized absence: Unexcused or unauthorized absence on any scheduled day of work.	Warning	1 day for each day absent.	Warning	10 days	Warning	Removal	1 year	Suspensions are in addition to non-pay status for days absent.
2. Excessive emergency absence (does not apply to leave approved in advance).	do	Warning	do	Removal	do	do	3 years	
3. Leaving work without authority:								
(a) Leaving job to which assigned, or leaving Treasury premises at any time during working hours without proper permission.	do	4 days	do	10 days	5 days	do	1 year	
(b) Deserting post of duty or leaving post without proper relief.	do	Removal	10 days	Removal	30 days	do	do	
4. Unexcused tardiness	do	Warning	Warning	Warning	Warning	2 days	6 months	
5. Falsifying muster or attendance record: Making a false entry for oneself or for another employee.	do	Removal	15 days	Removal	Removal		No limit	
6. Unexcused failure to ring clock or sign attendance record or otherwise check in.	do	1 day	1 day	5 days	5 days	15 days	6 months	
<b>SAFETY AND SECURITY</b>								
7. Failure to report personal injury or accident	do	do	do	do	do	do	1 year	
8. Carelessness endangering the safety of personnel or equipment.	do	20 days	10 days	Removal	15 days	Removal	No limit	
9. Failure to observe precautions for personal safety: Failure to observe written regulations, posted rules or signs, or oral instructions; or failure to use protective clothing or equipment.	do	1 day	1 day	3 days	5 days	15 days	1 year	
10. Smoking in unauthorized places: Any form of smoking in places or areas where smoking is not permitted, especially in the vicinity of flammable material.	do	Removal	15 days	Removal	Removal		2 years	

Type of offenses	Range of penalties (warnings, suspensions, discharges)						Reckoning period	Remarks
	1st infraction		2d infraction		3d infraction			
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum		
<b>SAFETY AND SECURITY—continued</b>								
11. Failure to carry proper identification where required:								
(a) Loss or misplacement of identification badge, or pocket commission.	Warning..	1 day.....	Warning..	5 days.....	5 days.....	15 days....	1 year....	
(b) Failure to wear badge properly while on Treasury premises.	..do.....	Warning..	..do.....	1 day.....	..do.....	10 days....	..do.....	
<b>ATTENTION TO DUTY—PRODUCTION</b>								
12. Loafing: Willful idleness, wasting of time, or deliberate failure to be at work on the task assigned.	..do.....	5 days.....	3 days.....	10 days....	10 days....	Removal..	..do.....	
13. Failure to make inspections (customs)	5 days.....	30 days....	15 days....	Removal..	30 days....	..do.....	No limit..	
14. Sleeping during working hours	Warning..	..do.....	10 days....	..do.....	15 days....	..do.....	1 year....	
15. Careless workmanship: Such as carelessness or negligence in workmanship resulting in serious inaccuracies or an excessive spoilage or waste of materials, or delay in production.	..do.....	5 days.....	Warning..	10 days....	Warning..	..do.....	..do.....	
16. Failure to carry out orders: Failure or excessive delay in carrying out work assignments or instructions of superiors.	..do.....	..do.....	3 days.....	..do.....	10 days....	..do.....	..do.....	
17. Careless loss or damage to Government records, property, tools, or equipment.	..do.....	..do.....	..do.....	..do.....	..do.....	..do.....	..do.....	
18. Malicious damage or destruction to Government records, property, tools, or equipment, or to the property of others.	..do.....	Removal..	15 days....	Removal..	Removal..	..do.....	No limit..	
19. "Covering-up" defective work: Attempting to conceal defective work, or removing or destroying defective work without permission.	..do.....	10 days....	10 days....	..do.....	15 days....	Removal..	2 years....	
<b>PERSONAL CONDUCT</b>								
20. Acceptance of bribes: Acceptance of money or a thing of value for the purpose of influencing official action.	Removal..	..do.....	..do.....	..do.....	..do.....	..do.....	No limit..	
21. Acceptance of gratuities: Including acceptance or solicitation of money or other things.	Warning..	Removal..	30 days....	Removal..	Removal..	..do.....	No limit..	

Whether employee has attempted concealment should enter into determination of the penalty.  
Demote in lieu of removal where appropriate.

Demote in lieu of removal where appropriate.

22. Outside employment:								
(a) Engaging in permitted outside employment without approval.	do	Warning	Warning	30 days	Warning	60 days	2 years	
(b) Engaging in prohibited employment.	do	Removal	Removal				No limit	
23. Automobiles:								
(a) Willful use of Government automobiles for nonofficial purposes. <sup>1</sup>	30 days	30 days	40 days	60 days	Removal		do	
(b) Driving a car on official business while under the influence of liquor.	10 days	Removal	30 days	Removal	do		do	
(c) Negligence in operation of official car resulting in damage to property or injury to persons.	Warning	30 days	Warning	do	10 days	Removal	do	
(d) Failure to report accident.	1 day	10 days	5 days	30 days	do	30 days	do	
24. Commission of a crime for which a sentence of imprisonment may be imposed.	Warning	Removal	Warning	Removal	Removal		do	Loss of time at work must be charged to leave without pay.
25. Embezzlement.	Removal						do	
26. Extortion.	do						do	
27. Falsehood: Intentional misstatement or concealment of material fact in connection with work, or employment; or in any record, report, investigation or other proceeding.	Warning	Removal	15 days	Removal	Removal		do	
28. Fighting: Fighting, threatening, attempting or inflicting bodily injury on another; engaging in dangerous horseplay or resisting competent authority; disorderly conduct.	do	10 days	10 days	do	15 days	Removal	2 years	The use of a dangerous weapon might warrant removal on 1st offense.
29. Gambling: Betting or gambling, or promotion thereof on Treasury premises.	do	Removal	do	do	do	do	No limit	
30. Improper, immoral, or indecent conduct: Any improper conduct which violates common decency or morality or brings discredit upon the Department; or use of obscene language.	do	do	15 days	do	Removal		do	
31. Improper financial dealings: Improper use of official information or records.	do	do	30 days	do	do		do	
32. Collusion against the interest of the Government.	Removal						do	
33. Insubordination: Intentional disobedience, threatening, assaulting or resisting authority; disrespect, or use of insulting or abusive language to anyone in authority.	Warning	Removal	15 days	Removal	Removal		2 years	
34. Intoxication: Reporting for duty or being on duty under the influence of intoxicating liquors; selling or drinking intoxicants in Treasury Department buildings.	do	10 days	5 days	do	15 days	Removal	do	
35. Mistreatment of persons on public contacts or of individuals taken into custody.	do	Removal	30 days	do	Removal		No limit	
36. Theft: Actual or attempted theft of Government property, tools, or equipment, or the property of others, or property in Government custody.	do	do	15 days	do	do		do	
37. Unauthorized use of firearms.	5 days	30 days	30 days	do	do		2 years	
38. Failure to report known violations of any criminal law enforced by the Treasury Department.	Warning	Removal	5 days	do	do		No limit	
39. Improper recommendation of accountant, lawyer, or other representative to a person who has an action by or against him pending in the Department.	do	do	do	do	do		do	
40. Failure to safeguard classified matter.	do	do	15 days	do	do		do	

See footnotes at end of table, p. 98.

Type of offenses	Range of penalties (warnings, suspensions, discharges)						Reckoning period	Remarks
	1st infraction		2d infraction		3d infraction			
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum		
<b>PERSONAL CONDUCT—continued</b>								
41. Constant quarreling, wrangling, provoking or interfering with another in work, involving morale.	Warning..	5 days.....	Warning..	10 days....	10 days....	30 days....	2 years....	
42. False charges: Making false or unfounded charges or statements which slander or defame other employees, supervisors or officials, or which reflect unfavorably on their honesty, integrity, motives or efficiency.	...do.....	Removal..	15 days....	Removal..	Removal..	.....	...do.....	
43. Failure to pay just debts.....	.....	.....	.....	.....	.....	.....	.....	(See Treasury Department Order No. 116, dated June 16, 1949.)

<sup>1</sup> Penalties given above are based on workdays, except the penalty prescribed in item 23a. This minimum penalty is statutory and is based on calendar days (5 U. S. C. 78 (c)).

**NOTES**

Warning must be in writing, and a copy placed in the employee's personnel folder. Penalties for disciplinary offenses will, in general, fall within the range indicated. In unusual or exceptional circumstances depending on the gravity of the infraction and the past record of the employee, greater penalties than those indicated above may be invoked. However, where an employee's past record is being considered with a view to applying a more severe penalty than the offense warrants under the schedule, the letter of charges must cite the previous infractions.

Where charges include several offenses for which no previous punishment has been meted out, the maximum penalty imposed may be greater than the maximum provided in the chart for any single offense.

If the maximum penalty is not imposed for a third infraction, such maximum should generally be imposed for any subsequent infraction.

The above list of offenses does not cover every possible type of disciplinary infraction. Penalties for offenses not listed above will be recommended by supervisors, consistent with the penalties for comparable offenses listed above.

Written charges must be presented in all suspension cases and the period of notice must conform to the applicable law or regulation.

## EXHIBIT K

## TABLE OF MISCELLANEOUS OFFENSES

NOTE.—In addition to those mentioned earlier in this section, there are certain offenses for which, under express provisions of law or regulation, employees may be punished by removal or even by fine or imprisonment. In some cases the penalty is authorized, in other cases it is prescribed. It is impossible to spell out all these offenses, but a considerable number are listed in this table.

Nature of offense	Law	Maximum penalty
Fraud in examination or appointment..... Intentionally making a false statement as to any material fact, or practicing any deception or fraud in securing examination, registration, certification, or appointment.	Civil Service Rule V.	Removal.
Inducing withdrawals..... Attempting, directly or indirectly, to persuade, induce, or coerce any prospective applicant, or eligible to withhold filing application or to withdraw from competition or eligibility for positions in the classified civil service, for the purpose of either improving or injuring the prospects or chances of any such applicant or eligible.	Civil Service Rule I, sec. 4.	Such disciplinary action as Civil Service Commission may direct.
Improper activity with respect to examination ratings. Willfully, corruptly, and falsely marking, grading, estimating, or reporting upon the examination or proper standing of any person examined under the Civil Service Act, or aiding in so doing. Willfully and corruptly making any false representations concerning the examination or proper standing of any person examined under the Civil Service Act, or concerning the person examined.	Sec. 5, Civil Service Act; 5 U. S. C. 637.	\$1,000 fine; 1 year imprisonment; or both.
Improperly furnishing information relating to examinations. Willfully and corruptly furnishing to any person any special or secret information for the purpose of either improving or injuring the prospects or chances for appointment, employment, or promotion, of any person examined or to be examined under the Civil Service Act.	Sec. 5, Civil Service Act; 5 U. S. C. 637.	\$1,000 fine; 1 year imprisonment; or both.
Impersonating Federal officer or employee..... Falsely assuming or pretending to be officer or employee acting under the authority of the United States, with intent to defraud either the United States or any person.	Sec. 32, Criminal Code, as amended; 18 U. S. C. 76.	\$1,000 fine; 3 years imprisonment; or both.
Gifts to official superiors..... Soliciting contributions from other Government officers or employees for a gift or present to those in a superior official position. Accepting gifts or presents offered or presented as a contribution from persons in Government employ receiving a lower salary. Making donation as a gift or present to official superior.	Sec. 1784, Revised Statutes; 5 U. S. C. 113.	Removal (mandatory) after notice in writing.
Fraudulent use of official envelopes..... Using official envelope, label, or endorsement authorized by law, to avoid payment of postage or registry fee on private letter, package, or other matter in the mail.	Sec. 227, Criminal Code; 18 U. S. C. 357.	\$300 fine.
Interest in claims against the United States..... Aiding and assisting in prosecution of claim against the United States, or receiving any gratuity or any share of or interest in claim from any claimant otherwise than in discharge of proper official duties.	Sec. 109, Criminal Code; 18 U. S. C. 198.	\$5,000 fine; 1 year imprisonment; or both.
Abuse of Government documents or records..... Concealing, removing, mutilating, obliterating, or destroying records or documents.	Secs. 128, 129, Criminal Code; 18 U. S. C. 234, 235.	\$2,000 fine; 3 years imprisonment; or both. If the guilty person was in charge of the records or documents and actually concealed, removed, mutilated, obliterated, or destroyed them, \$2,000 fine, 3 years imprisonment, or both, plus removal and perpetual disqualification for Federal office.

TABLE OF MISCELLANEOUS OFFENSES—Continued

Nature of offense	Law	Maximum penalty
<p>Abuse of Government documents or records—Con.            Attempting to conceal, remove, mutilate, obliterate, or destroy records or documents, taking or carrying away records or documents, with intent to conceal, remove, mutilate, obliterate, destroy, or steal them.            Taking and carrying away, without authority from place where filed or kept, any document or file, intended to be used or presented to procure payment of money from or by the United States; presenting, using, or attempting to use any such document or paper, in order to procure the payment of any money from or by the United States.</p>	<p>Sec. 40, Criminal Code; 18 U. S. C. 92.</p>	<p>\$5,000 fine; 10 years imprisonment; or both.</p>
<p>Strikes-----            Participating in any strike against the Government of the United States.             Accepting salary or compensation after engaging in a strike against the Government of the United States or while holding membership in an organization of Government employees that asserts the right to strike against the Government of the United States.</p>	<p>Sec. 305, Public Law 101, 80th Cong., 1st sess.             Appropriation acts.</p>	<p>Immediate removal; forfeiting civil-service status; ineligibility for reemployment for 3 years by the United States or any agency thereof.            \$1,000 fine; 1 year imprisonment; or both.</p>

## MEMORANDUM TO REGIONAL COMMISSIONERS

The attached summary of the basic principles underlying desired relationships between people at the various levels within our organization embodies the main elements of your jobs as Regional Commissioners.

I hope you will embrace these principles and practice them and that you will in turn insure their practice by District Directors. It is my firm belief that if you will, our objectives will much more speedily be achieved.

T. COLEMAN ANDREWS,  
*Commissioner.*

## THE MANAGEMENT JOB OF A REGIONAL COMMISSIONER

Your job as Regional Commissioner can rightly be viewed as a complex one. Fundamentally, however, it revolves around one simple objective: getting things done through people. The complexity comes in the relationships existing between the people and is magnified if the relationships are not mutually understood.

In the following pages, then, your job of management will be looked at from the standpoint of your relationships—with the Commissioner and his staff, with your own staff, with your District Directors and their staffs, and with the public.

Notice that the words "Washington" and "field" are not used. Those two labels, loosely applied throughout the Government, have a seriously adverse effect on relationships by promoting misunderstanding—and even competition. "Washington" will never quite understand the "field" and the "field" will never quite understand "Washington" so long as each thinks of the other in those terms. Understanding will come only when we begin to speak and think in terms which clearly indicate who and what we are talking about and which reflect pursuit of the objectives of the Internal Revenue Service—not just those labeled "Washington" or "field."

What is a relationship as used here? It is the position of one person with respect to another—the function each has, the authority each has, the responsibility each has, the performance expected of each. Your relationships will be discussed in those terms, and methods of discharging responsibility will be given.

*Your relationship with the Commissioner and his staff*

You represent the Commissioner. In your region, you act for the Commissioner and are therefore ultimately responsible to him for all activity in your region. The discharge of your responsibility, however, is carried out largely in your relationships with members of the Commissioner's top staff and in relationships between their staffs and yours.

For very practical reasons, the Deputy Commissioner has the job of providing executive leadership throughout the organization. In that role, he directly supervises you. He is your principal point of contact, the principal one to whom you

make recommendations, the principal one who evaluates the quality of your work.

Each of the five Assistant Commissioners has the job, in his area of function, of developing nationwide policy for the Commissioner's approval, nationwide programs to carry out the policy, and nationwide measurements to insure effectiveness of the programs. These assistants, each of whom does a part of the Commissioner's job for him, do not issue orders to you, but the Commissioner expects them to give you a great deal of advice and guidance. To do their jobs properly, they in turn should take a great deal of both from you.

You should ordinarily address your own written communications to the Deputy or to the appropriate Assistant Commissioner. Matters which have broad policy implications or overlap two or more Assistant Commissioners' jurisdictional areas should be addressed to the Deputy Commissioner. If on occasion it seems more appropriate to address communications to persons other than these six the answer most probably is that you are doing something which a member of your staff should be doing for you.

Consider your relationship with the Assistant Commissioner for Administration, for example. It is in this area that you may be tempted to dip down deeper than the Commissioner expects you to. Entwined in the intricacies of civil-service regulations, space negotiations, fund allocations, and the like, you will not be able to discharge your larger responsibilities. Give your assistant in this area wide latitude and discretion. Give him authority to deal directly with the Assistant Commissioner for Administration and his Division Directors. Your dealings with the Assistant Commissioner for Administration will then be on matters meriting your attention and his.

Your relationship with the Assistant Commissioner for Operations has changed. Before, he had the backbreaking job of trying to supervise you with one hand and discharge his staff responsibility to the Commissioner with the other. Now, he can concentrate on the vitally important job of coordinating policy, programming and evaluating work incident to Audit, Collection, Intelligence, Appellate, and Alcohol and Tobacco Tax functions. Members of his staff, the Directors of his divisions, should deal directly with their counterparts on your staff. If a written communication in the Operations area deserves your attention, in that it laps two or more Operations' functions, it probably likewise should deserve the attention of the Deputy Commissioner or the Assistant Commissioner.

A matter does not necessarily deserve your attention merely because it has been presented to you, for example, by your Assistant for Collection. To the greatest extent possible, turn it back to him for handling directly with the Collection Division Director. Your dealings with the Assistant Commissioner for Operations will then be on matters meriting your attention and his.

Your relationship with the Assistant Commissioner for Planning is an indirect one. His is a job of basic research separate from day-to-day operational supervision and program planning. From these studies are derived recommendations as to overall directional guides which influence long-range operating and budgetary policies. Your communication with him will therefore be slight, except in connection with sampling procedures and techniques used for statistical purposes.

Your relationship with the Assistant Commissioner (Technical) is mostly advisory in nature. His is a job of interpretation, of formulating regulations and rulings, of giving advice on and helping to prepare legislation, forms and instructions. His staff will depend a great deal on your people for advice as to the practical application of rulings and regulations. Your people may in turn look to his staff for guidance on technical policies. On questions of major technical policy you yourself may have need for his guidance, and if so it should be freely sought and given on a personal basis.

That is not to say that the Assistant Commissioners (Technical and Planning) have little need for contact with you. To the contrary, they need to so arrange their affairs that they can spend a good portion of their time in Regional Commissioners' offices—a principle applicable to all five. Only through such consultation and firsthand observation can they pursue their own jobs with proper perspective and give you the caliber of guidance you deserve.

The Assistant Commissioner (Inspection) has a service role. His job is to see that the character of prospective employees is above reproach, to see that the conduct of employees already employed is likewise above reproach, and to assist in the appraisal of their work and the management under which it is conducted.

This function of appraisal will in the future be fully coordinated with your own supervisory function. Forthcoming operating instructions will reflect the principle that the job of appraisal of the work of employees in your region is

primarily yours. You will then be expected to develop a program to accomplish that job. Inspection activity will then be geared to your program.

Now as to your broad responsibilities to the Commissioner. First is your responsibility for policy and program execution and evaluation. The Commissioner looks to you to carry out his policies and to implement the programs developed for him by his Assistants. One of the most important aspects of this responsibility—and one too often overlooked—is that of constructively “sounding off.” If you carry out a policy to the letter while believing it to be wrong, you have discharged only half your responsibility if you fail to make your views known. In fact, one of your most important functions is to keep flowing to the Assistant Commissioners and to the Deputy Commissioner a stream of constructive criticism of policies and programs already established and of recommendations for new policies and programs to be launched. Simple logic prompts the reflection that it is difficult for an Assistant Commissioner to shape a program to your needs if you fail to say what your needs are.

Another of your major responsibilities is supervising—in the vernacular, “riding herd” on your own staff and your District Directors. This includes informing them of their responsibilities and following through to see they are carried out. In that process, you evaluate their effectiveness. At that point a contingent responsibility arises—to replace any person not doing his job competently. If out of benevolence or for other reasons you allow an incompetent person to remain in a job, you not only are failing to discharge your responsibility but you are doing yourself a disservice as well. Your people make you and the Commissioner and the Internal Revenue Service look good—or bad.

Your third major responsibility is initiating. The Commissioner expects you to “want to start something.” His policy is to delegate every possible action to you, and that broad authority carries with it the expectation that you will be constantly on the move to improve the procedures under which the delegated action is taken.

The Commissioner holds firmly to the principle that full authority be given you to carry out these responsibilities. You therefore shortly will be receiving a whole series of additional delegations. He does not expect you to hold on to them, however. To the contrary, he expects you to analyze them continuously toward the objective of making every possible redelegation to Directors. The basic concept supporting this principle is that each problem arising should be disposed of by the decision and action of the lowest level supervisor who is fully informed on the issue and who has the facts on which to base a decision. It is his business to assume responsibility and to act.

To illustrate the importance of this concept, one Federal agency several years ago abolished all its regional offices when it found them taking decentralized authority while simultaneously maintaining highly centralized control over subordinate offices. It was readily apparent that a high degree of centralization could be administered without the help of the regional offices. Regional administration in the Internal Revenue Service can be a success, or a failure, depending largely on the degree to which you carry out the Commissioner’s policy of decentralization.

#### *Relationships with your own staff*

It is in the relationships with your own staff that your major responsibilities to the Commissioner are discharged. Here is the primary point of coordination of all programs, the development and refinement of individual programs, the development of management ability of your staff members, and the development of good relationships between them.

In this relationship, you are the staff leader and your Assistant Regional Commissioners are your staff members. Each helps to make and serves to carry out your plans. The following summary of basic principles of staff relationships should not only guide you in working with your Assistants but should also guide them and District Directors, as leaders, in working with their staffs. You in fact have a responsibility to see to it that these relationships are understood and the basic principles followed.

As a staff leader, your job is to see that things are done, not to do them. You should spend your time largely in thinking, observing, analyzing, training, acquiring knowledge, planning, and organizing. In so doing, you direct the doing and through the use of curiosity, imagination, and judgment, improve the manner of doing.

To carry out your responsibilities to the Commissioner, you obviously cannot concern yourself with the numerous details which must first be studied and

worked out in order to render a prompt and clear-cut decision. Burdened with detail, you will find it difficult to look very far into the future and equally difficult to get around and test the effects of your leadership.

Full use must therefore be made of your staff. To achieve this full use, you give one primary thing to them—delegation—and receive one primary thing from them—completed staff action.

Delegation, with full authority to act, should be made to the lowest practicable supervisory level. If there is then tangible evidence that the work is being improperly done, the delegation should be temporarily withdrawn. Concurrently, there is demonstrated to you a need for prompt training or for an equally prompt change in personnel.

Each staff leader should see to it that each supervisor fully understands the following basic principle and should make it clear that the supervisor has the authority to carry it into practice: Each problem arising should be disposed of by the decision and action of the lowest level supervisor who is fully informed on the issue and who has the facts on which to base a decision. It is his business to assume responsibility and to act. That principle has been previously stated but it bears repeating. It assumes, too, that delegation is not delayed pending full proof of the individual's ability to discharge it. Best proof is to give it to him, watch what he does with it, and not interfere.

Completed staff action is the study of a problem and presentation of a solution, by a staff member, in such form that all that remains to be done by the staff leader is to indicate his approval or disapproval of the completed action. The words "completed action" are emphasized, because the more difficult the problem is, the more the staff member's tendency is to present the problem in piecemeal fashion. Your staff member works out the details. Although it is easy for him to ask you what to do, and it appears easy for you to answer, he must resist that impulse. He will succumb to it only if he does not know his job, or if you encourage him to consult you in the determination of details. It is his job to advise you what you ought to do, not to ask what he ought to do.

You should not be worried with long explanations and memoranda. Rarely does writing a memorandum to you constitute completed staff action, but writing one for you to send to someone else does. The views of a member of your staff should be placed before you in finished form so you can make them your views simply by signing your name. In most instances, completed staff action results in a single document prepared for your signature and without accompanying comments except in the case of lengthy documents which should be briefed. If the proper result is reached, you will usually recognize it at once. If you want comment or explanation, you can ask for it. A rough draft is not precluded, but the draft must be complete—not a half-baked idea used as an excuse for shifting to you the burden of formulating the action.

The final test a staff member should give himself is this: Would I be willing to sign the paper I have just prepared and stake my professional reputation on its being right?

A good staff member knows what you want, the way you want it, then spares no effort to give it to you that way. This does not mean he is to be a "yes" man. To the contrary, he should have the personal courage and integrity to present his best ideas and thoughts irrespective of the known opinion of others. Once a decision is made, however, he must stick to it as if the decision had been his own.

A staff member must keep you informed on all important matters affecting your responsibility. Your embarrassment can well be imagined when you discover from an outside source that something has been going on in your office for some time and a staff member has failed to inform you of it. Matters of this kind are a real test of the judgment and commonsense of the staff member.

At the same time, you must recognize that this is not a one-way street. You must keep your staff informed, both as to broad plans and as to individual actions affecting them. The embarrassment of one of your assistants can well be imagined when, directing an action to one of his people, he learns for the first time that you have already ordered it done differently. In this instance, not only should you have immediately informed your assistant of your order but his man should also have informed him of your order.

Closely connected with the principle that you should be informed of all important matters is another—an assistant should never trespass on your authority. One who attempts to do so will quickly find he has lost your faith—and his usefulness. He represents you, not himself, and your wishes on matters of policy must first be found out before policy is placed into effect.

In dealings with persons both within and outside the Service, a staff member should always clearly distinguish between the opinions he expresses from a personal viewpoint and those which are to be considered official. You are responsible for official statements of your staff. You are not responsible for their personal opinions and should not be subject to criticism because of their failure to make such a distinction.

Each of your staff members has a positive as well as a negative obligation to you. Not only should he protect you by proper conduct and by performing correctly the work assigned, but he should constantly use initiative to improve his value to you and to your office. He may not be criticized for attempting more than he is required to do, but he should be criticized for being content to perform only what he is given to do. Enterprise and imagination, tempered with tact and a realization of the problems of others, will greatly increase his usefulness.

Your responsibility is to stimulate him in this direction, to back him up, to encourage his use of initiative. In so doing, you will earn his loyalty and respect, neither of which you can command merely by virtue of your position.

Out of the so-called horizontal relationships between your staff members comes teamwork—or lack of it. One of the first essentials in these relationships is knowledge on the part of each assistant of each other assistant's function. Each has a responsibility to assure himself that any action he takes which affects another assistant's operations meets with the other's approval. Knowing what the other assistants do, how they do it, and why they do it, he is better able to see the implications before taking or proposing an action.

No assistant should ignore a problem on the grounds that it does not directly concern his function. The important consideration is that it concerns the office, and he therefore has a responsibility to stimulate a solution. To ignore the problem is to contribute to the evil of overspecialization and in so doing to obscure the purpose of being on the payroll in the first place—to help you.

Coordination comes out best in direct relations between staff members—assistants with assistants, division chiefs with division chiefs, branch chiefs with branch chiefs. If an assistant dips beneath another assistant to discuss a matter with one of his division chiefs without first telling him about it, he likely will put the marble machine on "tilt."

There is a tremendous cumulative effect in sound staff work. Assuming that authority to act has been delegated to the lowest practicable supervisory level, that each problem arising is disposed of by the decision and action of the lowest level supervisor, and that each staff member at each level fully discharges his staff responsibility, problems become progressively simpler at each upward level. The branch chief has more time and opportunity to be a leader. The division chief finds his branches running more smoothly and can concentrate more on providing executive leadership and furnishing staff recommendations upward. Each of your assistants then spends little time in untangling operational knots and is provided with a clear picture of the work and progress of his divisions. Each thus has more time to view the work of his divisions in perspective and is able to provide clear-cut information, advice, recommendations and assistance to you concerning his operations and plans.

#### *Relationships involving technical guidance and assistance*

Here without doubt is the toughest relationship problem in regional administration and therefore the biggest challenge to your ability as a Regional Commissioner.

The problem has been created largely out of widespread misunderstanding of the essential purpose of a staff. The purpose is to help, guide, counsel, and measure. It is when a staff gets the idea its purpose in life is to direct another staff that relationship problems begin to multiply.

For example, the Audit Division Director under the Assistant Commissioner (Operations) develops a broad, nationwide audit program for the approval of the Commissioner. When the program comes to you, it comes from the Commissioner and it is your responsibility to carry it out. You do so by having your Audit Assistant develop a regional program for you and you then give it to your District Directors whose responsibility is to put the program in operation with the assistance of their Audit Chiefs.

Then a relationship of guidance and counseling and measuring begins to work down through the three Audit staff levels. In direct relationships, the Audit Division Director helps your Audit Assistant and he in turn the District Director's Audit Chief in unraveling knotty technical problems. If the concept of service is followed, the relationships will not result in either you or the District Director

being caught in the middle, but if a concept of direction is followed, that result inevitably will occur.

It is the concept of direction from one staff to a staff at the next lower level that frequently stimulates the preparation of detailed operational procedures to be followed in strict uniformity throughout the country. A concept of service, however, will normally stimulate the preparation of broad programs and guidelines—what and why—with the expectation that you will take them from there, giving you the opportunity to use your staff in telling your District Directors how and when. This is regional administration in action.

If this concept of service could be embraced overnight by all staff members at all three levels, the tough problem of relationships would resolve itself. That result will not come overnight, however, or over any other short period of time. It will come only after intensive effort on the part of Assistant Commissioners and Regional Commissioners. Basic to the effort required on your part is your acceptance of your responsibility to give aggressive program direction to our staff members. If you fail to accept it, it is only natural for your staff members to seek line direction from their counterpart staff members above them.

In your relationships with them, you are not merely an administrative assistant providing them space, supplies, payroll service, and the like. You are in addition their program director, and as such your job is to see to it that each Assistant has a definite program, that his activity is conducted in accordance with it, and that its effectiveness is measured.

When you ask an assistant what his program is, you are asking these questions: What are your objectives—exactly what is it you propose to accomplish? What specific methods and procedures do you propose to use to accomplish the objectives and when do you propose to use them? What standards of performance have you established for the methods and procedures? How do you propose to measure the progress you are making toward accomplishment of the objectives?

If he cannot answer any one of those four questions, he does not have a real program. Your job is to see that he does and that in doing it he gets all the technical guidance and assistance he needs from his counterpart above him. If necessary guidance is missing, your job is to make that fact known to the appropriate Assistant Commissioner or to the Deputy Commissioner and simultaneously give recommendations. You will contribute to poor relationships if you are content to agree with an assistant that "Washington can't quite seem to make up its mind on what ought to be done." You will discharge your responsibility, however, if you work out a plan of action with your assistant and then send a clear-cut recommendation on what ought to be done.

It is well to remember that each assistant (appellate excepted) has two basic program responsibilities, one concerned with operations over which he has immediate line direction, and the other concerned with staff supervision over operations conducted in Directors' offices. Only through establishment and follow-through of programs for each can his responsibilities to you be effectively discharged.

Habits in the Bureau being deeply imbedded and this concept of administration being new to many key people, your job in smoothing the relationship is a tough one. In the meantime, this maxim may help clear the air in specific instances of difficulty: You have authority to give orders to your assistants; no one else has.

A somewhat different technical guidance and assistance relationship exists with the Regional Inspector. While he reports directly to the Assistant Commissioner (Inspection) and is therefore not under your immediate supervision, his function is one of service to you. He has no authority to give orders either to you or to any employee of your region, except in a rare circumstance dictating seizure of Federal property or funds because of actual or potential jeopardy.

He is expected to gear his inspection of offices to your own program of supervision. Specifically, this means he should never begin an inspection of an office's audit activity, for example, without first conferring with your audit assistant to reach an understanding on the scope and content of the inspection. Your audit assistant, in this example, should actively participate in the inspection, freely exchanging information with the inspectors and making sure that there is evidence of guidance and assistance being given. Forthcoming operating instructions will contain greater clarification of this relationship and will contain several changes in inspection technique. Among other things, individual employee evaluations will no longer be made, this function properly being one of regular supervision.

The technical guidance and assistance relationship with the regional counsel is also somewhat different. While he, too, is not under your immediate super-

vision, his function likewise is one of service to you. He is your legal adviser, and as such is expected to gear his activities to the regional programs you establish.

While the regional inspector and the regional counsel are not in a strict sense members of your staff, your relationships with them will be enhanced if you encourage them to participate in your staff discussions. Only in so doing will you be able to achieve the full degree of regional coordination for which you are held accountable.

#### *Your relationship with Directors*

Your relationships with and responsibilities to the Commissioner and his staff are almost exactly paralleled in the District Director's relationships with and responsibilities to you.

For example, the above discussion of your relationships with the Commissioner and his staff readily becomes a discussion of a District Director's relationship with you merely by substituting a word or two:

"You represent the Regional Commissioner. In your district, you act for the Regional Commissioner and are therefore responsible to him. The discharge of your responsibility, however, is carried out largely in relationships with members of the Regional Commissioner's staff.

"(The Regional Commissioner) directly supervises you. He is your principal point of contact, the principal one to whom you make recommendations, the principal one who evaluates the quality of your work.

"Each of the Assistant Regional Commissioners has the job, in his area of function, of developing regionwide policy for the Regional Commissioner's approval, regionwide programs to carry out the policy, and regionwide measurements to insure effectiveness of the programs. These assistants, each of whom does a part of the Regional Commissioner's job for him, do not issue orders to you but the Regional Commissioner expects them to give you a great deal of advice and guidance. To do their jobs properly, they in turn should take a great deal of both from you."

And so on. The District Director has the same responsibilities to you for his district as you have to the Commissioner for your region. The same principles of staff relationships as given for your staff apply with equal force to the District Director and his staff.

It is important that these principles be followed and these responsibilities fully discharged by District Directors and their staffs because it is here that the great bulk of the Bureau's work is done. In many respects the District Director's office is the most important in the Service. Every effort should therefore be directed toward service to it. You will err if you concentrate your efforts on controlling District Directors. You will prove your worth if you concentrate on serving them.

To serve them, you must spend time with them, both in their individual offices and in conferences with all of them in your office. You thus learn firsthand of their problems and of their recommendations for solving them. In considering their recommendations, you will find them developing more quickly under your leadership if you allow them widest possible discretion in the choice of methods to carry out the Commissioner's policies and accomplish his objectives. Each District Director is an individual. Each therefore goes about doing things differently. Let them. Overemphasis on strict uniformity of method will generate mediocrity and will stifle initiative.

In other words, give each District Director the opportunity to earn his pay. Give him policy and program guidance, let him know what you expect in the way of results, and then make it clear that you consider him the fountainhead of improvement in method. You may stimulate some eye-popping ideas by using this approach, but the important thing is that you will be stimulating.

#### *Your relationships with the public*

One accomplishment the Commissioner hopes to achieve as quickly as possible is restoration of public confidence in the Internal Revenue Service. He himself has made a material contribution, but the burden of responsibility is yours in seeing to it that every employee in your region reflects a sincere attitude of service to the taxpayer.

Telling an employee to be nice is not enough. Telling him he must recognize his public relations responsibilities is not enough either. The things that will do it are good leadership and good management on your part and on the part of District Directors. If you provide these two elements, contacts between employees and the public will take care of themselves beautifully. By giving an employee knowledge, showing him the importance of his job, and showing

him how his job fits into the workings of the entire office, you will give him the essential tools he needs. Then if he knows his job, if he is given recognition in doing it, and if he has respect not only for his supervisor but for the head of his office, service will be reflected in his daily contacts with the public because he will be imbued with satisfaction and pride. You can depend on it, too, that he will spread the word among his friends that his office is a crackerjack outfit.

This accomplishment is a particularly challenging one and one which must come out of adherence to the principles of sound human relations. You and your District Directors are of course expected to engage in many public relations activities, but the foundation of your approach should be recognition of the simple truth that your employees have far more contact with the public than you have. Sound staff work and sound staff relationships, coupled with supervision reflecting the principles of sound human relations, will much more quickly accomplish the Commissioner's objective than any frontal assault on the problem of employee public relations as such.

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INTERNAL REVENUE SERVICE  
Washington 25, D. C.

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I. S. No. 1

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AUDIT POLICY AND PROCEDURE WITH RESPECT TO INCOME-TAX RETURNS OF OFFICIALS  
AND CERTAIN EMPLOYEES OF THE INTERNAL REVENUE SERVICE

*Section 1. Purpose*

The purpose of this mimeograph is to restate and amplify the policy and procedure to be followed with respect to the audit of individual income-tax returns filed by officials and certain employees of the Internal Revenue Service.

*Section 2. Background*

.01 Com.-Mimeograph, Coll. No. 6692, dated October 1, 1951, and Suppl. 1, dated October 31, 1951, outlined the audit policy and procedure with respect to the examination of individual income-tax returns of officials and certain employees of the Internal Revenue Service, irrespective of whether or not the information on the return indicated that an examination was warranted, with respect to returns filed for the years 1948, 1949, and 1950. In some instances returns for later years have been examined.

.02 On February 2, 1953, a "Personal Attention" letter was addressed to each District Commissioner concerning the audit policy with respect to the examination of officials' and employees' returns and granted them permission to defer this program generally for the years ending subsequent to 1950, with the exception that if the return of an official or employee is selected for audit under the regular selection method applicable to all returns, such audit should be made without regard to the provisions of the foregoing mimeographs.

*Section 3. Scope*

The provisions of this mimeograph shall be applicable to all officials and employees of the Internal Revenue Service presently occupying or hereafter appointed to the following positions:

Inspectors (all types)	Technical Advisors
Investigators (all types)	Conferees
Special Agents	Reviewers
Internal Revenue Agents	Accountants and Auditors
Collection Officers	Office Auditors
Attorneys	Returns Examiners
Legal Advisors	Claims Clerks (all types)
Engineers	Storekeeper-Gaugers
Appraisers	Window Tellers
Chemists	Stamp Tellers

All other positions in GS-9 and above.

#### *Section 4. Extent of Audit Coverage*

.01 As a measure to insure the integrity of officials and employees, rather than as a conventional audit program, it will be the policy to regularly examine the income-tax returns of every currently employed official and employee occupying the positions outlined in section 3, irrespective of whether or not the information on the returns indicates that an examination is warranted. This program will include the returns filed for the years ending in 1951 and thereafter.

.02 The returns will be examined on either a 5-year or a 3-year cycle basis, depending on the grade of the official or employee concerned.

.03 Returns filed by officials and employees occupying positions in grade GS-12 and below will be examined on a 5-year cycle basis. Accordingly, each year the returns of approximately 20 percent of the personnel concerned in grade GS-12 and below will be selected for examination until the returns for all such officials and employees have been subjected to examination within each 5-year period.

.04 Returns filed by officials and employees occupying positions in grade GS-13 and above will be examined on a 3-year cycle basis. Therefore, each year the returns of approximately 33½ percent of the personnel in grade GS-13 and above will be selected for examination until the returns for all such officials and employees have been subjected to examination within each 3-year period.

.05 After the returns selected for examination have been withdrawn, the remaining returns of all Service officials and employees, regardless of position or grade will, each year, be subjected to the regular audit classification process and any such returns warranting examination will also be investigated.

.06 The returns of officials or employees subsequently appointed to any of the positions stated in section 3, as a result of original appointment, transfer from outside the Service or through promotion within the Service, will be examined as soon as practicable after such appointment or promotion.

.07 The date of the examination will be the governing factor as to the particular returns to be included in the examination. The returns filed for the 3 years immediately prior to such examination will be selected and audited concurrently. The necessity for requiring the officials and employees concerned to execute consent agreements on Form 872, waiving the statute of limitations on assessments, should be avoided as far as practicable. However, consent agreements should be procured for those returns where the statutory period for assessment is about to expire in every instance where such consents are considered necessary.

#### *Section 5. Employees' Financial Statements*

.01 Prior to starting an examination of the returns, the examining officer will require that an employee's financial statement be filed by the official or employee concerned. Upon receiving notification from the examining officer that such financial statement is required, the official or employee will prepare the statement as of the date he receives notification, on Form 1361-A and return it without delay to the examining officer.

.02 The employee's financial statement will remain in the file of the case during the course of the investigation and until such time as the correct tax liability is finally determined. After final determination of the tax and completion of all necessary administrative action in connection therewith, the financial statement will be detached from the case and forwarded to the Regional Inspector for filing, except that statements filed by officials and employees of the National Office will be forwarded to the Assistant Commissioner (Inspection). The financial statements, Form 1361, previously filed in accordance with the provisions of Com.-Mimeograph, Coll. No. 6701, dated October 19, 1951, and supplement thereto, presently on file in the National Office, will be forwarded to the various Regional Inspectors for association and filing with the financial statements subsequently received in their offices, except that the financial statements previously filed by officials and employees of the National Office will be retained in the Office of Assistant Commissioner (Inspection).

#### *Section 6. Examination Procedure*

.01 The general rules relating to examinations, proposed changes, appellate rights, special investigations, etc., will apply in the case of officials and employees to the same extent that they apply in the case of all other individual taxpayers, except that a survey after assignment report will not be acceptable in lieu of an audit of the return. If a return has been previously examined it need not be reopened if the record indicates that a satisfactory audit was made. In every

case involving amended returns, any changes made by such returns in the original liability will be reported in detail.

.02 Examinations will be made by the Audit Division in which the official or employee's post of duty is located unless it is more expedient to have the examination conducted by another division. Such examinations may be made in the office, by correspondence, or in the field depending upon the circumstances of each case, but contact must be made with the official or employee or his duly authorized representative in every case. A statement that the desired contact has been made must be prepared by the examining officer and be attached to the closed returns.

#### *Section 7. Other Income, Travel Expense, Etc.*

.01 In verifying the correctness of various items in the returns such as other income, dependency credits, itemized deductions and gains or losses from sales or exchanges of property, etc., the returns of officials and employees will be treated in the same manner as the returns of all other individual taxpayers insofar as the submission of substantiating evidence is concerned.

.02 Questions concerning travel expenses and per diem of officials and employees should be resolved in accordance with the position of the Service as stated in I. T. 4012, C. B. 1950-1, 33.

#### *Section 8. Reports of Examination*

.01 In general, the revised income tax audit forms prescribed in IR-Mimeograph No. 54-79, dated May 5, 1954, will be utilized by revenue agents in the preparation of reports relating to the audit of officials' and employees' returns.

.02 The prescribed procedures will be followed with respect to those cases where the audit of the returns results in deficiencies or over assessments.

#### *Section 9. Closing Letters*

Where the examination of the returns discloses that they should be accepted without change, the official or employee will be furnished with a closing letter on Form 850-C, as provided for in section 4421, part IV, Internal Revenue Manual and IR-Mimeograph No. 54-99, dated June 2, 1954.

#### *Section 10. Reports to be Furnished Regional Inspector or Assistant Commissioner (Inspection)*

.01 In any case resulting in a deficiency in tax of \$100 or more, regardless of the basis for the deficiency, a copy of the examining officer's report will be forwarded to the Regional Inspector after assessment of the deficiency and completion of all necessary administrative action in connection therewith. Similarly, a copy of the examination report will be prepared and transmitted to the Regional Inspector when facts are disclosed which indicate that an official or employee is, or has been, engaged in prohibited or unauthorized business activities or financial dealing of an irregular nature.

.02 If during an investigation of the returns of any official or employee the revenue agent discovers what he believes to be indications of fraud, he will immediately suspend his examination and follow the applicable procedures provided in section 4560, part IV, Internal Revenue Manual. Upon final determination of the tax liability and completion of all necessary audit and assessment action in connection therewith in fraud or suspected fraud cases, the entire file, including copies of the special agent's report, if any, will be immediately forwarded to the Regional Inspector for such further action as the circumstances warrant.

.03 In any case described in section 10.01 or 10.02 above, where the individual is an official or employee of the National Office, the report will be forwarded to the Assistant Commissioner (Inspection) rather than the Regional Inspector.

#### *Section 11. Records and Progress Reports*

.01 Each Audit Division must maintain such records and controls as are necessary to insure the desired audit of the returns of all officials and employees concerned within the 5-year or 3-year period and to indicate the progress of this audit program.

.02 A 3 x 5 card, "Record of Officials' and Employees' Returns," should be prepared immediately for each official and employee currently on duty in the positions described in section 3 of this mimeograph. The card should show the name and address of the official or employee, grade, position, and office to which attached. Promptly after the returns to be examined have been selected the record cards of the officials and employees involved will be withdrawn from the file and the open year returns for such personnel will be requisitioned from the

Collection Division. After receipt of the returns in the Audit Division and the procurement of the necessary employee's financial statement, the record card should be noted to indicate the year or years of the returns received for examination and the filing of the financial statement. After completion of the examination, the results of the audit should be stated on the record card, together with any further information respecting the case, including any comments as to the correctness of the financial statement that the examining officer considers should be noted thereon. After the case is closed and the financial statement forwarded to the Regional Inspector, the record card should be noted to indicate the disposition of the financial statement. Similar controls and records should be maintained with respect to officials and employees hereafter appointed or promoted to the positions described in section 3.

.03 The monthly report of examination of employees' returns (Reports Control Symbol No. I:IS:1), comparable to the report required to be filed by District Directors pursuant to Com.-Mimeograph, Coll. No. 6692, Suppl. 1, dated October 31, 1951, will be prepared with respect to returns examined for 1951 and subsequent years. The report will be addressed to the Commissioner, Attention I:IS and will be forwarded by each District Director within sufficient time to reach the National Office not later than the 10th work day of the month following the closing date of the report. There will be attached to the report a list of the cases completed during the month showing the name, address, and change in tax liability, if any, for each official and employee whose returns have been audited. The report prepared for 1951 and subsequent years will exclude therefrom data with respect to the examination of returns of applicants for Internal Revenue positions.

#### *Section 12. Effect on Other Documents*

This mimeograph supersedes Com.-Mimeograph, Coll. No. 6692, dated October 1, 1951, and Suppl. 1, dated October 31, 1951. Any other internal management documents or parts of such documents, the provisions of which are inconsistent or in conflict with the provisions of this mimeograph, are amended or superseded accordingly.

#### *Section 13. Effective Date*

This mimeograph is effective January 18, 1955.

T. COLEMAN ANDREWS,  
*Commissioner.*

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U. S. TREASURY DEPARTMENT,  
OFFICE OF COMMISSIONER OF INTERNAL REVENUE,  
*Washington 25, April 2, 1954.*

#### MEMORANDUM TO REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS

The urgent need for the prompt assessment and collection of every dollar of tax revenue due under the law has been emphasized in prior discussions and communications. Similarly, our policy to increase the number of agreements and to reduce to the minimum areas of controversy between taxpayers and the Service, especially in our audit and appellate work, has been repeatedly stated. It is vital that there be no misunderstanding of the interrelationship of these two ideas.

In a nutshell, it is our duty to see to it that to the greatest possible extent, considering the resources at our disposal, all taxpayers promptly pay the correct amount of their taxes with the least possible controversy.

By "correct amount of tax" we mean just what we say. To exact more from any taxpayer is to take property without due process of law, and we certainly do not intend to operate on that basis. Nor, looking at it from the other side, should we knowingly ever exact less from any taxpayer than we sincerely feel he owes, for to do so would be to discriminate in that taxpayer's favor to the detriment of all other taxpayers and make ourselves guilty of a serious breach of trust.

By "least possible controversy" we mean that our objective is to obtain the greatest possible number of agreements to our determinations without sacrificing the quality or integrity of those determinations. We believe that the number of agreements can and should be increased, but we do not expect, of course, that all cases can be closed by agreement either in Audit or Appellate.

Moreover, while we want to make absolutely sure that we approach every disagreement with a taxpayer in a spirit of conciliation, taxpayers as well as ourselves must realize that conciliation is not a one-way street, that taxpayers must be as willing to recognize the weight of argument when it is on our side as we are to recognize the weight of argument when it is on their side.

We do not wish to promote unnecessary controversy or engage in unnecessary litigation. At the same time, we should seek agreements only on a proper basis, never settlement at any cost. In short, the guide must be the rule of reason; carefully, intelligently, conscientiously, and fairly applied.

I urge you to take immediate steps to make certain that there is no misunderstanding of these matters in your region or district.

T. COLEMAN ANDREWS,  
*Commissioner.*

