Lien Determinations Were Untimely or Not Made Appropriately for Over $1.4 Billion in Delinquent Taxes

March 12, 2010

Reference Number: 2010-30-023

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information
2(c) = Tolerance

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 12, 2010

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Lien Determinations Were Untimely or Not Made Appropriately for Over $1.4 Billion in Delinquent Taxes (Audit #200930014)

This report presents the results of our review to determine whether Internal Revenue Service (IRS) policies and procedures for lien determinations protect the Government's interest and encourage compliance while ensuring fair and equitable treatment of taxpayers. This audit was a followup review to our report *The Internal Revenue Service Should Modify Its Federal Tax Lien Practices to Treat Taxpayers More Equitably and Better Protect the Government's Interest*.[1] This audit was included in our Fiscal Year 2009 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

The IRS protects its claims against taxpayers who owe delinquent taxes by filing Federal Tax Liens (liens), which establishes the IRS' priority among secured creditors for the taxpayers' equity. However, lien determinations were not appropriately made or were made late for more than $1.4 billion in delinquent taxes. Failure to protect the Government's interest on taxes that are owed creates an unfair burden on taxpayers who properly pay their taxes in full and on time.

[1] Reference Number 2002-30-106, dated June 5, 2002.

Synopsis

Liens should generally be filed on all balance due cases of ****2(c)******, and decisions not to file liens are limited to taxpayers in bankruptcy, defunct corporations, deceased taxpayers without assets, and some miscellaneous other categories. Revenue officers[2] (RO) are required to document a decision on whether a lien should be filed (called a lien determination) and include an explanation when liens are not filed.

We analyzed 386,866 taxpayer modules assigned to ROs as of April 2009 where no lien determination had been made. Of those modules, 44,226 (11 percent) had balances of ***2(c)*** **2(c)**, of which 12,210 (28 percent) were assigned for more than 90 days. The delinquent tax for the 12,210 taxpayer modules was $1.4 billion.

We judgmentally selected a sample of 124 of these modules (representing 61 taxpayers) from 2 Collection Field function (CFf) offices.[3] Our sample included 44 initial modules and 80 subsequent modules (cases in which the taxpayer already had a balance due from a prior period). For 16 (36 percent) of the 44 initial modules, lien determinations were either not made or not made timely. Further analysis indicated that a lien determination had not been made on 210 modules, representing a balance due of $6.4 million at these 2 CFf offices.

Because taxpayer contact is first made on the initial module, there are different criteria for subsequent modules. For subsequent modules involving employment taxes, interim guidance requires ROs to make a lien determination within 30 days after the module is assigned. The IRS did not have timeliness criteria for nonemployment tax subsequent modules. We identified 33 (61 percent) of 54 sampled employment tax modules for which a lien determination had not been made within 30 days of assignment. Similarly, although the IRS did not have criteria, we determined that 15 (58 percent) of 26 sampled nonemployment tax modules did not have a lien determination within 30 days.

Small Business/Self-Employed Division (SB/SE) group managers use the ENTITY Case Management System (Entity system) lien reports to identify modules without liens after the lien determination due date may have already expired, but the reports are not used proactively to ensure that lien determinations are made before the due date expires. In addition, while the Integrated Collection System (ICS) provides the RO with a lien determination reminder notice, there are no controls to ensure the RO acts on the reminder notice. Further, Internal Revenue Manual procedures are inconsistent for initial and subsequent modules.

IRS procedures require the RO to file a lien or notate a reason for not filing when closing a module as currently not collectible for modules with a balance due of ***2(c)***. For the period from October 2006 through December 2008, the IRS closed 7,379 modules as currently

[2] See Appendix V for a glossary of terms.
[3] CFf offices in Phoenix, Arizona, and Baltimore, Maryland.

not collectible with a balance due of ***2(c)****, but no liens were filed. We selected a statistically valid sample of 73 of these modules and determined that 27 (37 percent) did not have a valid reason recorded for not filing a lien. We estimate that 2,729 modules, with $72 million in delinquent taxes, were closed as currently not collectible without notating a valid reason. ROs appeared to use the same criteria for not making a lien determination as for closing a module as currently not collectible.

In 1999, the IRS authorized closing cases with a balance below a specified amount as excess inventory. Cases that are closed as excess inventory are commonly referred to as "shelved" cases. Since January 2002, the IRS shelved 163,553 cases with a balance due amount of **2(c)** **2(c)** without liens being filed. The total amount for these unprotected cases is more than $2.3 billion, and the number of shelved cases has increased from less than $200 million in Calendar Year 2005 to approximately $1.2 billion in Calendar Year 2008. The amount rose by more than 300 percent between Calendar Years 2007 and 2008.

A June 2006 IRS study[4] concluded that there was no discernable risk associated with not filing liens on cases meeting the criteria for excess inventory. As a result, these shelved cases were closed without liens and without taking normal investigative actions. However, the Study showed that after 1 year, cases with a balance between *****2(c)*******that had a lien filed had a balance due amount that was on average 28 percent lower than if no lien was filed. Our analysis showed that between Calendar Years 2002 and 2008, the IRS shelved, without filing liens, 145,840 modules representing 107,090 taxpayers and totaling approximately $1.4 billion in accounts that were within the *******2(c)******* criteria.

We estimate the IRS did not appropriately or timely protect a combined $1.47 billion ($6.4 million of sampled active cases, $72 million for cases closed as currently not collectible, and $1.4 billion shelved accounts within the *****2(c)***** criteria). The IRS' inability to continue collection efforts on the growing number of balance due cases closed as excess inventory, combined with not filing tax liens timely or not filing them at all, could result in billions of dollars going uncollected.

Recommendations

We recommended that the Director, Collection, SB/SE Division, 1) establish procedures for group managers to use the Entity system as a proactive tool in ensuring lien determinations are made timely; 2) request programming enhancements to enable the Entity system lien reports to identify subsequent modules; 3) request programming changes to the ICS to ensure action is taken in response to ICS lien determination reminder notifications; 4) ensure guidance and respective Internal Revenue Manual sections are consistent between employment tax and

[4] *Impact of the Federal Tax Lien on Cases Shelved by the Currently Not Collectible Filter* (dated June 2006).

nonemployment tax subsequent modules; 5) request programming changes to the ICS to ensure lien determination reminder notifications are sent to ROs for subsequent modules, in accordance with the guidance established in Recommendation 4; 6) ensure lien determinations are completed on the 210 modules with no lien determinations that we identified at the 2 CFf locations; and 7) remind ROs to use valid lien determination criteria when closing cases as currently not collectible. We also recommended that the Director, Collection Policy, SB/SE Division, consider assessing liens on those modules in the Queue with a balance due between ***2(c)**** ***2(c)*** that meet the Study criteria before shelving.

Response

IRS management agreed with our recommendations. The IRS has requested enhancements to the Entity system report that will improve managers' ability to identify those cases without a lien filing, ensure lien determinations are timely, and identify subsequent modules. They have also published updated guidance to ensure its consistency between employment tax and nonemployment tax subsequent modules. The IRS agreed with the premise to request programming changes to the ICS to ensure action is taken in response to ICS lien determination reminder notifications. The IRS also believes the corrective action to enhance the Entity system will address this condition because it will provide additional oversight and followup by the manager, which would be more effective. In addition, IRS management implemented a change to the ICS to ensure lien determination reminder notifications are sent to ROs for subsequent modules. They will monitor the followup actions at the operational level to ensure lien determinations are completed on the 210 modules with no lien determinations that we identified. The IRS will issue a memorandum to field ROs reminding them to use valid lien determination criteria when closing cases as currently not collectible. Lastly, the IRS has requested a study from the SB/SE Division Research function on the effectiveness of filing Notices of Federal Tax Lien on cases awaiting assignment to ACS and field collection operations. Upon receipt of the results, the IRS will determine whether this approach would be advisable and notify the Treasury Inspector General for Tax Administration of the decision.

Management's complete response to the draft report is included as Appendix VI.

Office of Audit Comment

In their response, the IRS disagreed with the computation we used for the outcome measure, stating that we did not account for the average $16 cost of filing a lien or the possibility that the IRS would need to respond to additional taxpayer inquiries as a result of the lien filing. The IRS believes these costs could be significant. The outcome measure was based on lien filings for 176,315 taxpayers with a balance due of ******2(c)*****. Using the IRS' average cost of $16 for each lien, the total lien filing cost would be about $2.8 million, or less than one-half of

1 percent of the $658 million outcome measure we reported. Responding to taxpayer inquiries about these lien filings is a normal cost of doing business.

Our outcome measure was based on the IRS' own Study which showed a benefit for filing liens in the ****2(c)**** range. That study did not attempt to reduce the benefit by the lien filing cost or the associated collection costs.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

Table of Contents

Abbreviations

ACS	Automated Collection System
CFf	Collection Field function
ICS	Integrated Collection System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
RO	Revenue Officer
SB/SE	Small Business/Self-Employed
TIGTA	Treasury Inspector General for Tax Administration

Background

When initial contact between the Internal Revenue Service (IRS) and a taxpayer does not result in the successful collection of an unpaid tax, the IRS has the authority to make a determination to protect the Government's interests by attaching a claim to the taxpayer's assets for the amount of unpaid tax.[1] This claim is referred to as a Notice of Federal Tax Lien, and the following must occur for a lien notice to be filed:

- An assessment must have been made.
- A demand for payment must have been made.
- The taxpayer must have neglected or refused to pay.

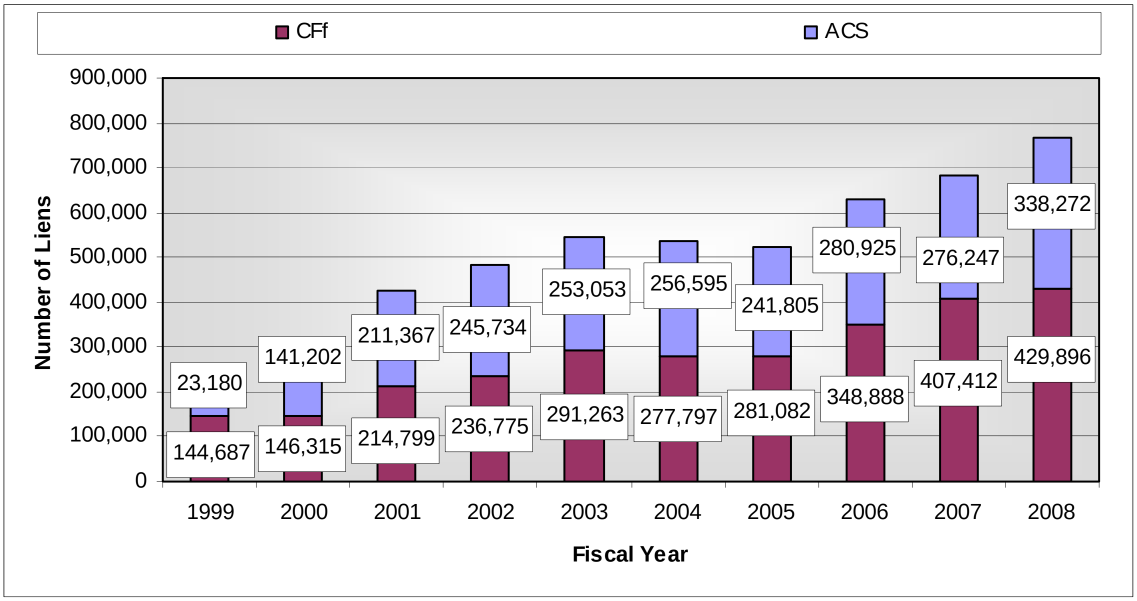
The decision to file a lien notice is not an enforcement action because it does not authorize the IRS to take possession of any assets or deprive the taxpayer of the use of the assets. A lien simply protects the Government's interest by publicly recording the debt owed by the taxpayer as a notice to possible future creditors. The lien attaches to property currently owned and to property the taxpayer may acquire in the future. Therefore, a lien may be filed even though specific assets have not been identified. A lien notice may prevent taxpayers from selling assets with clear title or obtaining additional financing without payment of their tax debts.

A lien protects the Government's interest and establishes its priority among other secured creditors.

The IRS has been increasing the number of Federal Tax Liens (liens) it files to protect the Government's interest over the last several years. Figure 1 shows the total number of liens increased through Fiscal Year 2003, decreased slightly in Fiscal Years 2004 and 2005, and increased each subsequent year. From Fiscal Year 2002 to Fiscal Year 2008, the number of liens filed originating in the Collection Field function[2] (CFf) increased from 236,775 to 429,896 (82 percent) and in the Automated Collection System (ACS) from 245,734 to 338,272 (38 percent).

[1] Internal Revenue Code Section 6321 (1994).
[2] See Appendix V for a glossary of terms.

Figure 1: Number of Liens Filed From Fiscal Years 1999 to 2008



Source: Prior Treasury Inspector General for Tax Administration (TIGTA) report.[3]

Depending on the type and amount of tax liability, some delinquent taxpayer accounts are assigned to the ACS, where contact is generally initiated by the taxpayer and where employees do not maintain a personal inventory of cases. Cases that are not resolved by or assigned to the ACS are sent to the CFf for contact by revenue officers (RO). ROs generally maintain a caseload of assigned cases and initiate contact with taxpayers. Both ACS and CFf employees have the authority to make a determination of whether or not to file a lien notice.

All cases assigned to the CFf are controlled on the Integrated Collection System (ICS). Upon assignment of the case in the ICS, the system automatically calculates a due date for initial contact. The ICS also generates a lien determination due date at this time. If the RO has not recorded a lien determination by this due date or has not extended the determination date, the ICS gives the RO a lien determination reminder notice. The ICS case summary screen for each taxpayer account also displays the status of the lien determination for each module, showing whether a lien has been filed or requested, the determination date was extended, a nonfiling determination was made, or no action has been taken regarding a lien determination.

CFf group managers use the ENTITY Case Management System (Entity system) to ensure that lien determinations are being made properly. The Entity system is a versatile tool that allows managers to extract and organize information about case activity and casework quality. The

[3] *Trends in Compliance Activities Through Fiscal Year 2008* (Reference Number 2009-30-082, dated June 10, 2009).

information in the Entity system comes both from day to day recordation of employees' activities and from Integrated Data Retrieval System account information channeled through the ICS. The system offers both pre-established and customizable queries, several sort options, and preprogrammed reports. These tools allow the user a great deal of flexibility in requesting data from the system.

This audit was a followup review to our report *The Internal Revenue Service Should Modify Its Federal Tax Lien Practices to Treat Taxpayers More Equitably and Better Protect the Government's Interest*.[4] The prior report determined that liens were being filed to protect the Government's interest in a large portion of the CFf cases that meet the criteria, but were not always filed in accordance with procedures. In addition, CFf managers were not using the Entity system to monitor lien determinations on open cases assigned to ROs. The audit also determined that the IRS was not filing liens against a substantial number of delinquent accounts closed as excess inventory (shelved).

The review was performed at the Philadelphia ACS call site located at the Philadelphia, Pennsylvania, Campus, the CFf groups located in Phoenix, Arizona, and Baltimore, Maryland, and at the Small Business/Self-Employed (SB/SE) Division Headquarters in New Carrollton, Maryland, during the period April 2009 through November 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

[4] Reference Number 2002-30-106, dated June 5, 2002.

Results of Review

Adequate Corrective Actions Were Taken in Response to Our Prior Report

In 2002, the TIGTA reported that SB/SE Division ROs were not always filing liens or making timely lien determinations. The report recommended that SB/SE Division management clarify and ensure the consistency of the Internal Revenue Manual (IRM) sections regarding lien filings when no taxpayer assets are identified and lien filings on accounts closed currently not collectible by the ACS and CFf. The prior report also recommended sending messages to all CFf and ACS employees and managers reminding them about lien filing criteria and directing them to discuss current lien guidelines in group meetings and subsequent Continuing Professional Education sessions. In addition, the report recommended educating SB/SE Division managers on how to find and use the Entity system standard query/report capabilities to identify cases without liens and directing them to discuss or share the lists with the assigned ROs.

The SB/SE Division revised the appropriate ACS IRM sections to be consistent with the lien handbook and CFf procedures for currently not collectible accounts. In March 2003, the Director, Payment Compliance, SB/SE Division, also sent a memorandum to CFf and ACS employees and managers advising them to review lien filing criteria. The memorandum suggested that the managers discuss lien filing criteria and guidelines with their employees. Further, this memorandum included instructions on how to use the Entity system reports to monitor open cases in their inventories with no lien determinations. The instructions contained information on running a "canned" query to identify cases with no lien determination but a balance due of ***2(c)*** and assigned to an RO for more than 45 days.

While the implementation of these recommendations provided clarification on lien determination and filing procedures, additional controls are needed to ensure ROs are filing liens timely and making lien determinations.

The Automated Collection System Made Lien Determinations in Accordance With Established Procedures

The ACS process differs from that of the CFf because ACS employees do not maintain an inventory and contact with the taxpayer is generally initiated by the taxpayer. The IRS has detailed procedures specific to the actions of the ACS for making lien determinations. These procedures have been amended since our prior review, and the current ACS procedures are consistent with those used by the CFf, with the exception of a timeliness requirement.

We interviewed Philadelphia ACS managers and employees and completed a case review of 60 open cases from the Philadelphia Campus ACS site. Our case review included a random sample of 60 cases without liens that had been in ACS status at least 90 days with a total balance due of ***2(c)***. We determined that ACS employees evaluated cases based on the IRM lien criteria and made lien determinations when appropriate. In addition, for ACS cases not resolved on initial contact, the ACS employee establishes a followup date and a reminder notice is sent to the taxpayer warning of a possible lien filing. If the followup date expires and the case remains unresolved, ACS controls ensure a lien is systemically filed on those cases meeting established criteria.

Revenue Officers Did Not Always Make Lien Determinations Timely

A Study Report[5] issued by the SB/SE Division concluded that liens should be filed as early as possible in the collection process. Filing liens earlier against individual taxpayers can significantly increase the number of cases that are resolved favorably. Also, emphasizing the need to make lien determinations earlier in the collection process for business taxpayer cases increases the success of liens filed in bankruptcy and currently not collectible cases.

The timely filing of liens provides an incentive for taxpayers to arrange to pay their outstanding tax liabilities by preventing the taxpayers from selling assets prior to satisfying those liabilities. If ROs do not timely consider and use tax liens as a collection tool, the IRS is not protecting the Government's right of priority against other creditors and the taxpayers may dispose of assets without providing for payment of their Government debts. Usually the IRS is not the only creditor to whom the taxpayers owe money. This is especially true now during the "worst economic recession in a generation,"[6] when taxpayers are more likely to have several creditors.

The IRM requires the RO to attempt initial contact with the taxpayer or taxpayer's representative within 45 days after he or she is assigned the case. Within 10 days after the initial contact, the RO should make a determination about whether a lien should be filed. Liens should generally be filed on all balance due cases of ***2(c)****. Decisions not to file liens are limited to taxpayers in bankruptcy, defunct corporations, deceased taxpayers without assets, and some miscellaneous other categories. ROs also have discretion to not file liens if it would hamper collection of the taxes owed, there is doubt as to the liability, or forthcoming information could lead to either of the above. The ICS case history is to be documented by the RO with an explanation as to why liens were not filed.

Although the IRS made improvements based on the prior TIGTA report, additional controls are needed to ensure the Government's interest is protected when making lien determinations. Specifically, ROs did not always follow procedures for making timely lien determinations on

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5 *Estimating the Impact of Federal Tax Lien Filing on Accounts Receivable* (dated December 2002).
6 Journal of Commerce – June 2009, New York Times – March 3, 2009.

active initial and subsequent modules. In addition, interim guidance for timely lien determinations was established for the treatment of employment tax cases, but it was not established for nonemployment tax cases. Regardless, the interim guidance does not appear to have been effective in ensuring that lien determinations were made timely. In addition, the IRM was inconsistent in its treatment of subsequent modules processed by the ACS compared with those worked by the CFf.

Initial modules

We analyzed 386,866 taxpayer modules assigned to ROs as of April 2009 where no lien determination had been made. Of those modules, 44,226 (11 percent) had balances of ***2(c)*** **2(c)**, of which 12,210 (28 percent) were assigned for more than 90 days. The delinquent tax for the 12,210 taxpayer modules was $1.4 billion.

We judgmentally selected a sample of 90 balance due modules of ***2(c)*** that had been open for more than 90 days but did not have liens filed. The 90 modules were selected equally from 2 CFf offices[7] and represented 61 taxpayers. To ensure that the IRS was timely making lien determinations on all of a taxpayer's balance due modules, we also selected the initial module when our sample included only the subsequent module. This provided us with a total judgmental sample of 124 active modules assigned to the 2 CFf offices.

Initial modules are a taxpayer's first tax case assigned to an RO's inventory. Our sample of initial modules represented 44 taxpayers for which a lien determination was necessary.[8] For 16 (36 percent) of 44 taxpayers, lien determinations were not made in accordance with IRM requirements. Specifically:

- In 12 cases, a lien determination was not made within 10 days of initial or attempted taxpayer contact.
- ****1** ***.
- ****1** **********************.

We also analyzed the Entity system lien reports for the two CFf groups. These reports showed individual and business balance due tax modules that had been assigned for more than 45 days without lien determinations as of June 26, 2009. Our analysis indicated that a lien determination had not been made on 210 modules, representing a balance due total of $6.4 million.

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[7] CFf offices in Phoenix, Arizona, and Baltimore, Maryland.

[8] Lien determinations are not necessary for every kind of case. For example, cases involving a taxpayer delinquency investigation do not require a lien determination.

Subsequent modules

Subsequent modules are tax cases assigned to an RO for a taxpayer already in the IRS inventory. In response to a Government Accountability Office report issued in July 2008,[9] the IRS issued interim guidance in December 2008 to address lien determinations on subsequent employment tax cases. The Government Accountability Office found that over one-third of all employment tax cases (as of September 2007) had no lien filed and recommended the IRS develop and implement procedures to expeditiously file a lien as soon as possible after unpaid employment tax is identified. The guidance the IRS issued requires ROs to make lien determinations or request to file a lien on subsequent employment tax modules within 30 days of assignment or the next calendared touch[10] on the module after assignment, whichever is sooner. The guidance also was intended to improve the accuracy of nonfiling lien determinations by increasing the managerial oversight of nonfiling determinations. While our review did not include analyzing the accuracy of nonfiling lien determinations, the IRS is scheduled to assess the effectiveness of the guidance during Fiscal Year 2010 area operational reviews. At the time of our review, this guidance only applied to employment tax cases.

Our results indicate that the guidance issued in response to the Government Accountability Office report did not ensure lien determinations were made timely. Our sample of 90 balance due modules included 80 subsequent modules; 54 of these were employment tax. One-half of the 54 employment tax modules were assigned to the RO prior to the implementation of the interim guidance and one-half were assigned after the interim guidance was implemented. In both subsets of sampled modules, lien determinations were not made within 30 days of assignment in more than one-half of the cases. Specifically,

- 17 (63 percent) of the 27 modules assigned before implementation of the interim guidance did not have lien determinations made within 30 days of assignment. The average number of days for making a lien determination was 87 days after assignment for 15 of the 17 modules. ********************1*****************************
1*********.
- 16 (59 percent) of the 27 modules assigned after implementation of the interim guidance did not have lien determinations made within 30 days of assignment.
  - In 7 (44 percent) of the 16 cases, no lien determination was made by the time of our review.
  - In 9 (56 percent) of the 16 cases, the lien determinations were made in an average of 66 days after assignment.

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[9] *Businesses Owe Billions in Federal Payroll Taxes* (GAS-08-617, dated July 2008).
[10] Calendared touch refers to the next time the RO documents work performed on the specified case within the ICS.

The IRS did not issue interim guidance for nonemployment tax subsequent modules. However, for the 26 subsequent nonemployment tax modules in our sample, we determined that a lien determination was not made within 30 days of assignment in 15 (58 percent) cases. The average number of days for making a lien determination for these cases was 70 days after assignment.

Management reports and guidance

In response to our prior report, the SB/SE Division established procedures requiring group managers to use the Entity system reports to identify those tax cases for which ROs have not made timely lien determinations in cases meeting lien filing criteria. These reports[11] are used to identify cases which have balances of ***2(c)****, have been assigned to an RO longer than 45 days, and have had no lien determination. While SB/SE Division group managers are using the Entity system lien reports and lien query, they are identifying cases for which the lien determination due date may have already expired. This does not ensure that lien determinations are made timely. Managers do have the ability to adjust the report criteria to identify cases assigned for any period of time, including the number of days that have elapsed since initial contact with the taxpayer was attempted. However, managers need to compare the module assignment dates on the lien report to distinguish between an initial or subsequent module, and the lien query does not provide information to allow managers to distinguish between the two types of modules.

The ICS provides ROs with a lien determination reminder notice; one of many types of reminder notices the ICS provides. The lien determination reminder notices are intended to assist the ROs when prioritizing their work, but there are no controls in place to ensure the ROs act on the reminder notices.

IRM procedures are inconsistent for initial and subsequent modules and for CFf and ACS employees. The IRM generally used by CFf employees such as ROs (*Federal Tax Liens Handbook*) does not address lien determinations for subsequent modules. In addition, the interim guidance issued to the CFf in December 2008 only addresses lien determinations for employment tax modules and does not apply to nonemployment tax subsequent modules.[12] However, the IRM generally used by ACS employees (*Liability Collection, Enforcement Action*) provides that if a lien has been filed and there are subsequent modules, a lien should be filed on the subsequent modules when the balance is ***2(c)*****.

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[11] ENTITY Modular lien reports identify open business and individual taxpayer accounts where a lien has not yet been filed on at least one module. The ENTITY Business Master File lien query indicates employment tax modules where a lien has not been filed or requested. Both the Modular lien report and the Business Master File lien query also indicate those taxpayer modules where lien determination dates have been extended, or if a determination was made to not file a lien.

[12] At the time of this report, we were advised that the interim guidance would be expanded to include nonemployment subsequent cases when the guidance is incorporated into the planned updates of IRM 5.12.2.4(2).

Recommendations

The Director, Collection, SB/SE Division, should:

Recommendation 1**:** Establish procedures for group managers to use the Entity system as a proactive tool in ensuring lien determinations are made timely. For example, managers could produce reports that show how many days have elapsed since initial contact with the taxpayer was attempted.

> ***Management's Response*****:** The IRS agreed with this recommendation and has requested enhancements to the Entity system lien report that will improve managers' ability to identify those cases without a lien filing and ensure lien determinations are timely.

Recommendation 2: Request programming changes to enable the Entity system lien reports to identify subsequent modules. For example, tying the lien report and lien query to taxpayer contact and the most recent calendared touch on a module may assist managers in proactively identifying situations where a lien determination has not been made.

> ***Management's Response*****:** IRS management agreed with this recommendation and an enhancement to the Entity system has been requested as described in their response to Recommendation 1.

Recommendation 3: Request programming changes to the ICS to ensure action is taken in response to the ICS lien determination reminder notifications.

> ***Management's Response*****:** IRS management agreed with the premise of this recommendation, but believes the Entity system enhancements that have been requested in response to Recommendation 1 will increase management oversight and followup, which will be more effective.

Recommendation 4: Ensure guidance and respective IRM sections are consistent between employment tax and nonemployment tax subsequent modules.

> ***Management's Response*****:** IRS management agreed with this recommendation and has published updated guidance in the IRM.

Recommendation 5: Request programming changes to the ICS to ensure lien determination reminder notifications are sent to ROs for subsequent modules, in accordance with the guidance established in Recommendation 4.

> ***Management's Response*****:** IRS management agreed with this recommendation and the change to the ICS has been implemented.

Recommendation 6: Ensure lien determinations are completed on the 210 modules with no lien determinations that we identified at the 2 CFf locations.

Management's Response: IRS management agreed with this recommendation and will monitor followup actions at the operational level.

Revenue Officers Did Not Always Make Lien Determinations When Closing Accounts As Uncollectible

The *Federal Tax Liens Handbook* and the *Currently Not Collectible Handbook* of the IRM both require a lien determination when an account with an assessed balance of ***2(c)**** is closed as currently not collectible (unable to locate, unable to contact, and unable to pay/hardship). In instances when a lien determination is made resulting in no lien being filed, the reason must be documented in the ICS history. We analyzed currently not collectible accounts extracted from the Taxpayer Service and Returns Processing Categorization for the period January 2002 through December 2008[13] to determine if ROs were making lien determinations before closing accounts as currently not collectible.

During this period, the CFf closed 18,328 modules with a balance of ****2(c)**** as currently not collectible (unable to locate, unable to contact, and unable to pay/hardship), without filing liens. In total, these modules represented more than $829 million in delinquent taxes. To determine why liens were not filed, we selected a random sample of 73 modules. In order to identify whether an actual lien determination was made, our review was limited to only those accounts with detailed case histories available on the ICS. This limited our review to the 7,379 modules which had been in currently not collectible status since October 1, 2006, because case histories are only readily available on the ICS for 3 years from the closing date. These modules represent $345 million in delinquent taxes.

Our review determined that for 27 (37 percent) of the 73 modules, the RO either did not document in the ICS histories why liens were not being filed or the reason did not support the decision to not file a lien. Specifically:

- In 13 cases, the ROs did not document in the ICS histories why the liens were not being filed.
    - In 5 cases, the histories provided no information on filing liens, so there was no way to determine if liens were even considered or why they were not filed in these cases.
    - In 8 cases, the histories said liens would not be filed but gave no reasons.
- In 14 cases, the ICS histories showed that liens were considered but were not filed as required:

[13] Extract period (January 1, 2002, through December 31, 2008); prior review completed December 2001.

- In 14 cases, the histories said that the RO was unable to locate the taxpayer or the taxpayer did not have the ability to pay. However, these are not valid reasons for not filing liens.

Based on our sample, we estimate the IRS closed 2,729 modules with $72 million in delinquent taxes as currently not collectible without documenting a valid reason for not filing a lien. For the sample modules we reviewed for which a determination was made but the documented reason did not support the decision, it appeared that the RO applied the same criteria for the lien determination as was used for closing the case as currently not collectible (for example, the taxpayer could not be located). However, there are different criteria for closing a case as currently not collectible, and these criteria should not be used when making a lien determination. Taxpayers who could not be contacted or whose assets were not located by the RO may at some time contact the IRS to settle their tax debts if the tax lien is affecting their ability to sell property or obtain credit. If liens are not filed when accounts are closed as currently not collectible, the probability of any future collection on the cases is reduced.

Recommendation

Recommendation 7: The Director, Collection, SB/SE Division, should remind ROs to use valid lien determination criteria when closing cases as currently not collectible.

> ***Management's Response*:** IRS management agreed with this recommendation and will issue a memorandum to field ROs reminding them of the requirements.

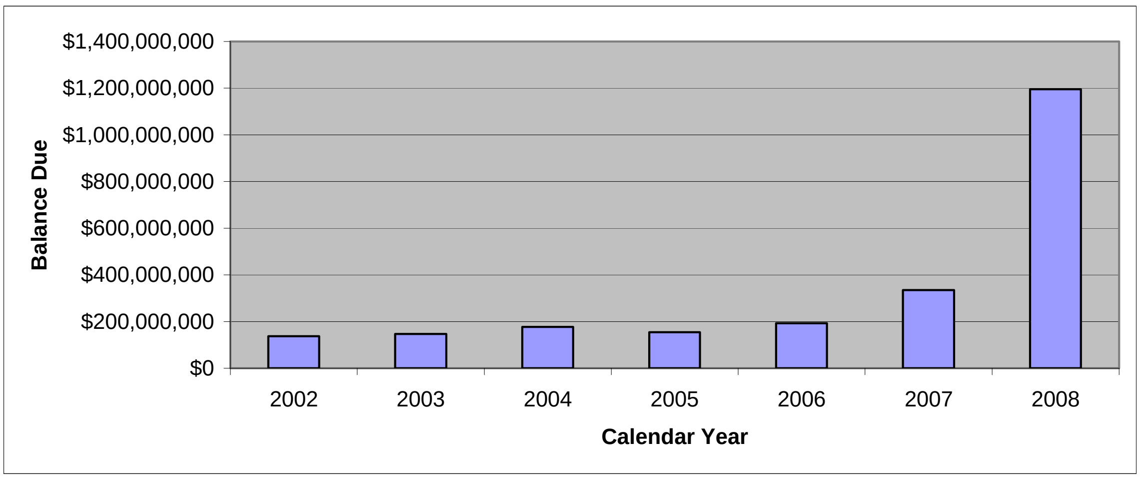
Liens Were Not Always Filed to Protect the Government's Interest on Cases That Were Not Actively Pursued

The IRS uses the Collection function Queue to hold cases for future assignment to ROs. Since the IRS does not have the resources to resolve all of the cases in the Queue, the collection potential of each case is prioritized automatically by computer analysis based on case type, balance due amount, and the skills required to work the case. Cases meeting certain criteria are immediately assigned to an RO, while other cases are assigned from the Queue to ROs as workload permits, based on their assigned priority.

In 1999, the IRS authorized closing cases with a balance below a specified amount as excess inventory. In 2003, the IRS Collection function implemented computer filters that classify cases having certain characteristics as currently not collectible. Cases identified by the filters are removed from the collection workload stream after the notice process as if they are excess inventory, placed in a currently not collectible status, or "shelved," and no collection work is conducted. Cases that are not identified by the filters are sent to the Queue.

Since January 2002, the IRS shelved 163,553 modules with balance due amounts of ***2(c)*** **2(c)** without filing liens. The total amount for these unprotected cases is more than $2.3 billion, and Figure 2 shows how the number of unprotected shelved cases has increased over the past 2 years. In Calendar Year 2008, more than 15 percent of the modules were shelved after the notice process and more than 69 percent were shelved from the Queue.

Figure 2: Unprotected Balance Due Amounts on Shelved Taxpayer Cases ***2(c)***



Source: Our analysis of Taxpayer Service and Returns Processing Categorization "currently not collectible, closing code 39 – excess inventory" data from January 2002 to December 2008.

The amount of unprotected balance due accounts that were shelved in Calendar Year 2005 was less than $200 million, compared with $1.2 billion in Calendar Year 2008. The amount rose by more than 300 percent between Calendar Years 2007 and 2008. The significant increase in the number of shelved taxpayer cases without liens is due to the results and recommendation of a SB/SE Division Study Report[14] issued in June 2006. The purpose of this Study was to determine the level of risk to future collection potential associated with shelving cases after the notice process by the currently not collectible filters and how a lien may be able to reduce that risk.

Two of the findings reported in this Study were:

- Few of the cases being shelved by the currently not collectible filters are suitable for a lien.
- Filing a lien had no significant effect on individual tax return cases and employment tax return cases at the currently not collectible threshold used by the filters at that time.

Accordingly, the Study recommended that liens do not need to be filed on the filtered currently not collectible cases. However, the Study also determined that under the currently not collectible filter's prior threshold, filing a lien had some impact for cases with a balance between ***2(c)***

[14] *Impact of the Federal Tax Lien on Cases Shelved by the Currently Not Collectible Filter* (dated June 2006).

2(c). For cases meeting this criterion,[15] the Study's results showed that if liens had been filed, the cases would have a balance due amount 1 year later that was, on average, 28 percent lower than if no lien was filed. After the Study was completed, the currently not collectible filter threshold was raised so that cases meeting this criterion were no longer shelved after the notice process; they are instead sent to the Queue. However, given their relatively low ranking by the Taxpayer Delinquent Account filters, these cases are most likely not assigned to an RO and will eventually be shelved.

Our analysis showed that between Calendar Years 2002 and 2008, the IRS shelved, without filing liens, 145,840 modules representing 107,090 taxpayers and totaling approximately $1.4 billion in accounts that were within the ***2(c)***criteria. In Calendar Year 2008, balance due modules meeting this criteria were shelved from the Queue and without liens for 38,842 taxpayers. Notably, 35,263 of these taxpayers did not have liens filed on any prior balance due modules. The balance due modules for the 35,263 taxpayers was approximately $470 million. Since these modules matched the criteria used in the Study, their balances could potentially have been lowered by approximately $132 million if liens had been filed before the modules were shelved. Assuming the number of accounts shelved without liens will not continue to increase as it has since Calendar Year 2005, we estimate the IRS could potentially increase revenue by approximately $658 million over the next 5 years by filing liens on shelved taxpayer accounts with a balance due between ****2(c)****.

Recommendation

Recommendation 8: The Director, Collection Policy, SB/SE Division, should consider assessing liens on those modules in the Queue with a balance due between ***2(c)*** that meet the Study criteria before shelving.

> ***Management's Response*:** The IRS agreed with this recommendation and has requested a study from the SB/SE Division Research function on the effectiveness of filing Notices of Federal Tax Lien on cases awaiting assignment to ACS and field collection operations. Upon receipt of the results, the IRS will determine whether this approach would be advisable and notify the TIGTA of the decision. However, the IRS disagreed with the computation we used for the outcome measure, stating that we did not account for the average $16 cost of filing a lien or the possibility that it would need to respond to additional taxpayer inquiries as a result of the lien filing. The IRS believes these costs could be significant.

[15] The Study excluded taxpayers where liens were already filed on prior assessments that were less than 8 years old and the estimates reported in the SB/SE Division report are only applicable to cases where prior liens are not in place.

Office of Audit Comment: The outcome measure was based on lien filings for 176,315 modules with a balance due of ***2(c)***. Using the IRS' average cost of $16 for each lien, the total lien filing cost would be about $2.8 million, or less than one-half of 1 percent of the $658 million outcome measure we reported. Responding to taxpayer inquiries about these lien filings is a normal cost of doing business.

Our outcome measure was based on the IRS' own Study which showed a benefit for filing liens in the ***2(c)*** range. That study did not attempt to reduce the benefit by the lien filing cost or the associated collection costs.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether IRS policies and procedures for lien determinations protect the Government's interest and encourage compliance while ensuring fair and equitable treatment of taxpayers. This audit was a followup review to our report, *The Internal Revenue Service Should Modify Its Federal Tax Lien Practices to Treat Taxpayers More Equitably and Better Protect the Government's Interest.*[1] To accomplish our objective, we:

I. Evaluated IRS policies, procedures, goals, and monitoring of the lien program.

   A Reviewed revisions to IRM procedures and other guidance issued.

   B Assessed the IRS' corrective actions in response to the prior TIGTA report by reviewing Joint Audit Management Enterprise System documents and management responses to evaluate whether the corrective actions were timely and effectively implemented.

   C Determined the goals of the lien program and methods used to monitor the program based on a review of IRS lien filing documentation, lien cost data, and interviews of executives and analysts in the SB/SE Division Compliance function. We also:

      1. Analyzed Collection function reports to determine the number of liens filed by the CFf[2] and the ACS for Fiscal Years 2002 to 2008.

      2. Obtained IRS cost data from the Automated Financial System to determine annual expenditures for lien fees for Fiscal Years 2002 to 2008.

   D Contacted the IRS Office of Research Analysis and Statistics to discuss any studies performed of the lien program since our prior review and any current or planned lien studies.

II. Established the validity of the ICS, ACS, and Taxpayer Service and Returns Processing Categorization data being used in our review.

   A Established the completeness of ICS and ACS open case data by reconciling information from a selected number of cases to Integrated Data Retrieval System Master File data.

[1] Reference Number 2002-30-106, dated June 5, 2002.
[2] See Appendix V for a glossary of terms.

B Performed standard logic and strata queries of ICS and ACS open cases (by Taxpayer Identification Number, file source, and inventory status) to ensure the data are representative of the universe.

C Validated ICS, ACS, and Taxpayer Service and Returns Processing Categorization data by reconciling to totals maintained in IRS Collection 5000 series reports.

III. Determined whether the CFf is complying with established procedures for lien determinations.

A Analyzed data from the universe of 1,202,763 open ICS modules maintained on the TIGTA Data Center Warehouse from an April 6, 2009, extract to determine the number of open CFf modules with and without liens in all CFf offices.

B Judgmentally selected 2 CFf offices, where we interviewed Territory managers, group managers, and ROs and reviewed a random sample of 90 CFf modules (45 from each of the 2 CFf offices) from a universe of 155 modules without liens that had been open at least 90 days as of April 6, 2009, (Step III.A.) with a total balance due of **2(c)*** **2(c)** to determine if lien determinations were made and recorded on the ICS in accordance with IRM procedures.

C Interviewed the group managers in each of the two CFf offices (Step III.B.) to determine their policies for lien determinations and practices in monitoring liens by ROs in their groups.

D Analyzed a Taxpayer Service and Returns Processing Categorization extract for the period January 2002 to December 2008 that identified taxpayer accounts closed with a currently not collectible closing code other than code 39 (code 39 is excess inventory).

1. Determined the total number of accounts and the unpaid balance for which liens were not filed.
2. Selected a statistically valid sample of 73 modules from a universe of 7,379 cases nationwide which had been closed currently not collectible without a lien filing between October 1, 2006, and December 31, 2008. We focused on this time period to ensure the ICS case history would be available and to project results reflecting IRS collection as a whole. We reviewed the ICS case histories to determine if lien determinations were made and documented in accordance with IRM procedures.

$n = (Z^2 p(1-p))/(A^2)$
Z = Confidence Level: 95 percent (expressed as 1.96 standard deviations)
p = Expected Rate of Occurrence: 5 percent
A = Precision Rate: ±5 percent

E Evaluated the effectiveness of CFf management's lien monitoring.

1. Analyzed 10 Entity system reports from the CFf groups in the 2 selected CFf offices (Step III.B.) for the period ending December 31, 2008, to identify the number of taxpayer accounts without liens on tax periods that had been assigned for more than 45 days with balances of ***2(c)***.

2. Reviewed the following Collection Quality Review reports:

   a. Embedded Quality Review System reports for the CFf offices identified in Step III.B. for the current fiscal year.

   b. National Quality Review System reports for selected CFf offices for the current fiscal year.

IV. Determined whether the ACS is complying with established procedures for lien determinations.

A Analyzed data maintained on the TIGTA Data Center Warehouse from a universe of 1,671,407 ACS SB/SE Division Taxpayer Delinquent Account status 22 cases from cycle 200900 (as of December 31, 2008) to determine those cases with and without liens in all ACS SB/SE Division sites.

B Judgmentally selected 1 ACS call site where we interviewed individuals from all levels of management, as well as quality assurance personnel, and reviewed a random sample of 60 cases (from a universe of 29,181 cases) without liens that had been in status 22 at least 90 days as of the cycle 200900 extract (Step IV.A.) with a total balance due of ***2(c)*** to determine if lien determinations were made and recorded on the ACS in accordance with IRM procedures.

C Based upon the site selection in Step IV.B., interviewed call site managers to determine their policies for lien determinations and practices in monitoring liens by tax examiners in their groups.

D Evaluated the effectiveness of ACS management's lien monitoring by reviewing local and national quality review reports for the selected ACS call site (Step IV.B.).

Internal controls methodology

Internal controls relate to the management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the SB/SE Division Collection function's policies, procedures, and practices for documenting lien determinations in ICS case histories and Collection function group managers' review of Entity system reports to identify when lien determinations have not been made timely. We evaluated these controls by interviewing management, reviewing Entity system reports, and reviewing a sample of the ICS case histories for open taxpayer modules from two CFf offices.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Timothy Greiner, Audit Manager
Curtis Kirschner, Lead Auditor
Michael Della Ripa, Auditor
Cristina Johnson, Auditor

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Collection Policy, Small Business/Self-Employed Division SE:S:C:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; approximately $658 million in increased revenue related to 176,315 taxpayers who had balance due modules between ***2(c)*** (see page 11).

Methodology Used to Measure the Reported Benefit:

The SB/SE Division Research Study Report[1] determined that cases with a balance due between ***2(c)*** for which liens had been filed would have, on average, a balance due 28 percent lower after 1 year than similar cases for which liens had not been filed. The Study excluded taxpayers where liens were already filed on prior assessments that were less than 8 years old and the estimates reported in the SB/SE Division report are only applicable to cases where prior liens are not in place. When the IRS raised the currently not collectible filter threshold, the cases that the Study concluded would benefit from a lien were sent to the Queue after the notice process where they likely would not be assigned to an RO given their relatively low ranking by the Taxpayer Delinquent Account filters.

We analyzed 1,167,085 shelved taxpayer modules on the Taxpayer Service and Returns Processing Categorization for the period January 2002 to December 2008. During 2008, the IRS shelved without liens 35,263 taxpayer modules that were in the Queue with balances between ***2(c)***for a total of $469,772,623. These taxpayers had no prior modules where liens had been filed. We calculated the potential increased revenue by taking 28 percent of $469,772,623, which is $131,536,334. We projected the 35,263 taxpayers and the $131,536,334 over 5 years, totaling $657,681,672 in potential increased revenue for 176,315 taxpayers.

[1] *Impact of the Federal Tax Lien on Cases Shelved by the Currently Not Collectible Filter* (dated June 2006).

Appendix V

Glossary of Terms

Automated Collection System - A computerized call site inventory system that maintains balance due accounts and return delinquency investigations. ACS function employees enter all of their case file information (online) on the ACS.

Campus - The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

Collection Field function - Units in the Area Offices consisting of ROs who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled tax returns.

Currently Not Collectible - Taxpayers who are unable to pay their balance due may have their accounts temporarily placed in a currently not collectible status until their financial conditions change. Penalties and interest continue to accrue until the balance is paid in full.

Data Center Warehouse - A TIGTA function responsible for obtaining, storing, and securing numerous IRS data files, as well as developing interfaces allowing users to access the data.

Entity Case Management System - A tool that allows SB/SE Division Collection function group managers to extract and organize information about case activity and casework quality. The system offers both preprogrammed and user programmable queries, several sort options, and preprogrammed reports. This allows the user a great deal of flexibility in requesting data from the system. The information in the Entity system comes both from the day to day recordation of employees' activities and from Integrated Data Retrieval System account information channeled through the ICS. This information, together with information routed to the system from the Integrated Data Retrieval System through the ICS, creates a unique database which combines employee casework activity, employee time, and taxpayer account information.

Integrated Collection System - The IRS computer system with applications designed around each of the main collection tasks, such as opening a case, assigning a case, building a case, performing collection activity, and closing a case. The ICS is designed to provide management information, create and maintain case histories, generate documents, and allow online approval of case actions.

Integrated Data Retrieval System - The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

Master File - The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

Module - Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.

Nonfiling lien determinations - A lien determination that results in no lien being filed.

Queue - An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.

Revenue Officer - Employees in the CFf who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.

Taxpayer Delinquent Account - A balance due account of a taxpayer. A separate Taxpayer Delinquent Account exists for each tax period.

Taxpayer Service and Returns Processing Categorization - A monthly extract from the IRS main computer files of all accounts with a balance due as of the date of the extract. Accounts are categorized for statistical analyses according to their current collection status.

Appendix VI

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

RECEIVED
FEB 19 2010

February 19, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: for Christopher Wagner /s/ Faris R. Fink
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Lien Determinations Were Untimely Or Not Made Appropriately for $1.4 Billion in Delinquent Taxes (Audit No. 200930014)

Thank you for the opportunity to review your draft report titled "Lien Determinations Were Untimely or Not Made Appropriately for $1.4 Billion in Delinquent Taxes."

We agree with the substance of the report and the recommendations. Timely and accurate filing of Notices of Federal Tax Lien (NFTL) is critical to IRS efforts to protect the public interest. The purpose of the NFTL is to protect the IRS' priority over other creditors. In filing an NFTL, the IRS is perfecting an existing lien interest, relative to other creditors, for unpaid Federal tax liabilities. Establishing and preserving this priority is especially critical when taxpayers' liabilities exceed their assets and not all debts can be satisfied.

In many instances, the individual circumstances of the specific taxpayer affect the decision to file the NFTL. Though a determination of the need for lien filing is required in virtually every case, the decision as to whether to file is subject to many considerations; the amount owed, age of liability, and current compliance status of the taxpayer all influence the final decision.

Based on external and internal reviews, IRS recognizes the need to improve the timeliness and effectiveness of its lien determination processes. Over the past twelve months, we identified several of the actions recommended in this report and have already taken steps to implement several corrective actions to improve performance in this area. A research study to evaluate the potential for filing NFTLs on cases prior to automated and individual collection efforts has been initiated. Additionally, in January 2009 we increased managerial oversight for cases with extensions of time to file and those with a determination not to file.

We enhanced the Collection Consultation process to ensure a managerial review is scheduled for any case with no lien determination. In addition, we have improved automated reports available to managers to identify instances of late or absent lien determinations and clarified Internal Revenue Manual procedures regarding lien determinations for tax periods received after the initial assignment.

We disagree with the computation of the outcome measures, as the monetary benefits calculation outlined in the report does not include the costs of filing the additional liens. For each NFTL filed, IRS must pay a recording fee to the office designated by state law. These recording fees vary, but average approximately $16 each. Depending on the number of modules in each case, this filing fee along with the increased staffing required to respond to any inquiries generated, may significantly affect the monetary benefits realized by the filing of the NFTL.

If you have any questions, please contact me, or a member of your staff may contact David Alito, Director, Collection at (202) 283-4941

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection, SB/SE Division should establish procedures for group managers to use the Entity system as a proactive tool in ensuring lien determinations are made timely. For example, managers could produce reports that show how many days have elapsed since initial contact with the taxpayer was attempted.

CORRECTIVE ACTION:
We agree with this recommendation. To increase proactive use of the ENTITY lien report, we have requested enhancements to the report that will improve managers' ability to identify those cases without a lien filing and ensure lien determinations are timely.

IMPLEMENTATION DATE:
October 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 2:
The Director, Collection, SB/SE Division should request programming changes to enable the Entity system lien reports to identify subsequent modules. For example, tying the lien report and lien query to taxpayer contact and the most recent calendared touch on a module may assist managers in proactively identifying situations where a lien determination has not been made.

CORRECTIVE ACTION:
We agree with this recommendation and an enhancement to ENTITY has been requested as described in Recommendation 1.

IMPLEMENTATION DATE:
October 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

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CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy, SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 3:
The Director, Collection, SB/SE Division should request programming changes to the ICS to ensure action is taken in response to the ICS lien determination reminder notifications.

CORRECTIVE ACTION:
We agree with the premise of this recommendation; however, as stated in the report, the Integrated Collection System (ICS) already contains a reminder for the Revenue Officer. Instead, we believe additional oversight and follow-up by the manager would be more effective. Therefore, we believe the ENTITY system enhancements described in the corrective action to Recommendation 1 will address this condition without further changes to the ICS.

IMPLEMENTATION DATE:
October 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy, SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 4:
The Director, Collection, SB/SE Division should ensure guidance and respective IRM sections are consistent between employment tax and non-employment tax subsequent modules.

CORRECTIVE ACTION:
We agree with this recommendation and published updated guidance in IRM 5.12.2.

IMPLEMENTATION DATE:
Completed October 30, 2009

RESPONSIBLE OFFICIAL:
NA

CORRECTIVE ACTION MONITORING PLAN:
NA

3

RECOMMENDATION 5:
The Director, Collection, SB/SE Division should request programming changes to the ICS to ensure lien determination reminder notifications are sent to ROs for subsequent modules, in accordance with the guidance established in Recommendation 4.

CORRECTIVE ACTION:
We agree with the recommendation and the change to the Integrated Collection System (ICS) has been implemented.

IMPLEMENTATION DATE:
Completed April 30, 2009

RESPONSIBLE OFFICIAL:
NA

CORRECTIVE ACTION MONITORING PLAN:
NA

RECOMMENDATION 6:
The Director, Collection, SB/SE Division should ensure lien determinations are completed on the 210 modules with no lien determinations that we identified at the two CFf locations.

CORRECTIVE ACTION:
We agree with this recommendation and will monitor follow-up actions at the operational level.

IMPLEMENTATION DATE:
August 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy, SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 7:
The Director, Collection, SB/SE Division should remind ROs to use valid lien determination criteria when closing cases as currently not collectible.

4

CORRECTIVE ACTION:
We agree with this recommendation and the Director, Collection, will issue a memorandum to field revenue officers reminding them of the requirements.

IMPLEMENTATION DATE:
July 15, 2010

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy, SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 8:
The Director, Collection Policy, SB/SE Division should consider assessing liens on those modules in the queue with a balance due between $5,000 and $25,000 that meet the Study criteria before shelving.

CORRECTIVE ACTION:
We agree with the recommendation to consider this change and have requested a study from SB/SE Research on the effectiveness of filing Notices of Federal Tax Lien (NFTLs) on cases awaiting assignment to Automated Collection System (ACS) and field collection operations. Upon receipt of the results we will determine whether this approach would be advisable and notify TIGTA of the decision.

IMPLEMENTATION DATE:
April 15, 2011

RESPONSIBLE OFFICIAL:
Director, Collection SB/SE

CORRECTIVE ACTION MONITORING PLAN:
The Director, Collection Policy, SB/SE will advise the Director, Collection SB/SE of any delays in implementing this corrective action.