



*Better Management of Some Procedures for  
Sales of Seized Property Is Needed*

**July 30, 2008**

**Reference Number: 2008-30-144**

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



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

July 30, 2008

**MEMORANDUM FOR** COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION

*Michael R. Phillips*

**FROM:**

Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Better Management of Some Procedures for Sales  
of Seized Property Is Needed (Audit #200730014)

This report presents the results of our review of the Internal Revenue Service's (IRS) sales of seized property. The overall objective of this review was to determine whether the IRS properly followed procedures for sales of seized property and whether controls were effective to safeguard assets and protect taxpayer rights. This audit was conducted as part of our Fiscal Year 2008 Annual Audit Plan.

*Impact on the Taxpayer*

When a taxpayer owes delinquent tax and thorough consideration has been given to all case factors and alternative collection methods,<sup>1</sup> the IRS can seize taxpayer property for payment of the tax. Seized property can be sold by public auction or by public sale under sealed bids, with the proceeds applied to the delinquent tax. Although employees effectively followed many procedures for sales of seized property, Collection function management did not ensure that all procedures were followed and that seized properties stored in IRS facilities were adequately controlled. If procedures are not followed, theft, vandalism, and violations of taxpayer rights can occur, although we did not find any such instances in this review.

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<sup>1</sup> See Appendix V for a Glossary of Terms.



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### Synopsis

The numbers of seizures and sales made by the IRS have generally increased over the last 7 fiscal years, resulting in more dollars collected and more assets sold. In Fiscal Year 2001, 75 (32 percent) of the 234 seizures went to sale. In comparison, 309 (46 percent) of the 676 Fiscal Year 2007 seizures went to sale. The proceeds from sales rose from \$2.6 million in Fiscal Year 2001 to \$20.7 million in Fiscal Year 2007.<sup>2</sup>

Our review of a judgmental sample of 32 closed (completed) sales of seized property showed that prior to each seizure, the Property Appraisal Liquidation Specialist (PALS) properly discussed the moving and storage plans with the revenue officer(s) and estimated expenses of the sale. Each PALS also took the necessary case actions to prepare for and advertise the sale, prepare the required memoranda, and obtain supervisor approvals. Our observations at three public auctions showed that during each sale, the PALS used appropriate assisting employees,<sup>3</sup> answered questions and registered potential bidders, announced conditions of the sale as required, and adjourned the sale as needed. After each sale, the PALS obtained payment from and issued appropriate documentation to successful bidders in a timely manner, deposited and submitted proceeds to the appropriate IRS campus in a timely manner, and prepared closing file documents properly.

However, our review of the 32 closed sales determined that PALS management needs to provide better oversight to ensure that employees follow procedures related to these issues:

- 16 cases did not have appropriate explanations documented for the reductions taken when the minimum bid prices were established.
- 5 cases did not include a decision, at least 1 day in advance of the sale, about whether to bid-in for the Federal Government<sup>4</sup> if the minimum bid was not reached, and 9 other cases did not include documentation of the reasons for the decisions.
- 4 cases did not include a proper history of mail-in bids.
- Seizure logs were sometimes incomplete or inaccurate. (A corrective action by Collection Policy function management has already been implemented.)

Although case files showed that PALS managers reviewed and signed off on the Minimum Bid Worksheets (Form 4585) and the Records of Seizure and Sale (Record 21), there was no evidence that these reviews identified the errors in these issues. Failure to follow procedures can

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<sup>2</sup> Because we relied on information accumulated by the IRS in established reports, we did not verify the accuracy of the data.

<sup>3</sup> Employees other than revenue officers are allowed to assist during the sales.

<sup>4</sup> The Federal Government may purchase property that can be sold if it is in the Government's best interest. The Federal Government pays the minimum bid price in these instances.



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result in miscalculation of minimum bid prices that could prevent the PALSs from obtaining the highest value for the properties and missed opportunities for the IRS to bid-in for the Federal Government when appropriate. If the seizure logs are not completed, inaccurate information could be used by Collection function management in managing the PALS program.

In addition, Collection function management did not ensure that employees followed all procedures for storing seized properties in their IRS facilities. Our verification of property acquired from eight seizures and stored in IRS facilities showed that seven seizures did not have required custodial memoranda prepared until we requested them. Also, employees did not use consistent procedures for logs to track and control access into and out of IRS storage facilities. Although we accounted for the properties in our sample, two inventory lists from seizures containing multiple items had inaccurate counts and descriptions of the properties.

Collection function management informed us that some employees were not aware of the custodial memorandum requirement and that controls into and out of IRS storage facilities were inconsistent because local management makes the policy. Inventory lists were inaccurate due to 1) improper inventory planning such as estimating the time and number of employees required for the task, and 2) human error. If seized properties are not safeguarded and inventories are not accurate, fraud, theft, and possible violations of taxpayer rights could occur, although we did not find any such instances in this review.

### *Recommendations*

We recommended the Director, Collection, Small Business/Self-Employed Division, improve management oversight and clarify procedures related to explanations and documentation in case files, and monitor the recently implemented corrective action for seizure logs to ensure that the logs are accurate. The Director should also clarify procedures and provide additional guidance for storing and controlling property in IRS facilities and taking inventory of seized property, and ensure during the next physical inventory that inventory lists are checked for accuracy.

### *Response*

IRS management fully agreed with two of the three recommendations and is planning corrective actions. The IRS will use the seizure program review already in progress to determine the extent of documentation errors and issue guidance to clarify procedures, and will continue to review the seizure logs for accuracy and issue additional guidance if needed. IRS management also agreed to clarify the procedures for storing property and controlling access to Collection function storage facilities. However, IRS management advised that there are already 2 inventory verifications conducted on seized properties fewer than 90 days old and because there were no findings of loss, vandalism, or violations of taxpayer rights in this report, they will review the current inventory verification processes prior to adding a third process. We agree with the IRS



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decision to further evaluate the current inventory validation processes prior to implementing additional procedures for seizures with multiple properties fewer than 90 days old. However, we remind management that their two current inventory verifications did not detect the errors we identified in this report. Management's complete response is included as Appendix VI.

Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8510.



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*Abbreviations*

FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
PALS	Property Appraisal Liquidation Specialist



## Better Management of Some Procedures for Sales of Seized Property Is Needed

### Background

Internal Revenue Service (IRS) collection of unpaid tax begins with letters to the taxpayer, generally followed by telephone calls and personal contacts by an IRS employee and possible enforcement actions.<sup>1</sup> The employees who make personal contacts are referred to as revenue officers. They consider the taxpayer's ability to pay the tax and discuss alternatives, such as an installment agreement or offer in compromise. If these actions have been taken and the taxpayer has not fully paid the tax due, the revenue officer considers all alternatives and can take the taxpayer's property for the payment of taxes, commonly referred to as a "seizure." Seized property can be sold by public auction or by public sale under sealed bids.

To protect taxpayer rights, the IRS Restructuring and Reform Act of 1998<sup>2</sup> changed use of a seizure from a general enforcement tool to one that should be used only when thorough consideration has been given to all case factors and alternative collection methods. After this Act, the number of seizures made was drastically reduced. However, as shown in Figure 1, the numbers of seizures and sales have generally increased over the last 7 fiscal years, resulting in more dollars collected and more assets sold. In Fiscal Year (FY) 2001, 75 (32 percent) of the 234 seizures went to sale. In FY 2007, 309 (46 percent) of the 676 seizures went to sale. The proceeds from sales rose from \$2.6 million in FY 2001 to \$20.7 million in FY 2007.

**Figure 1: Increasing Seizures, Sales, and Sale Proceeds<sup>3</sup>**

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total Seizures	234	296	399	440	512	590	676
Sales	75	95	181	210	231	312	309
Sale Proceeds	\$2,611,714	\$4,154,388	\$11,265,363	\$15,461,487	\$20,514,841	\$18,321,356	\$20,682,732

Source: *Collection National Reports 5000-23 and 5000-33.*

With an increase in seized property, there is an increased risk of theft, vandalism, and violations of taxpayer rights. However, on this audit we did not find such instances.

<sup>1</sup> See Appendix V for glossary of terms.

<sup>2</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

<sup>3</sup> Because we relied on information accumulated by the IRS in established reports, we did not verify the accuracy of the data.





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To promote fairness and reduce the appearance of impropriety with sales of seized property, Section 3443<sup>4</sup> of the IRS Restructuring and Reform Act of 1998 required the IRS to 1) implement a uniform asset disposal mechanism for sales to remove any participation by revenue officers and 2) consider the use of outsourcing. As a result, the IRS created a new position, the Property Appraisal Liquidation Specialist (hereafter referred to as a PALS or Specialist), to take possession of and store property after seizure, verify the fair market value, determine the minimum bid price, and sell it through public auction or public sale under sealed bids. Although most public auctions/sales are conducted by the Specialists, the IRS is authorized to use alternative sources—such as a professional auctioneer—if doing so is appropriate for a specific case.

***The IRS Restructuring and Reform Act of 1998 called for implementation of a uniform asset disposal mechanism for sales. The IRS created the PALS position to conduct sales of seized property.***

Currently, there are 4 PALS groups, with 28 Specialists, located throughout the country. The Specialists are organizationally placed in the Small Business/Self-Employed Division under the Collection function Office of Advisory, Insolvency, and Quality. One goal stated in the Office of Advisory, Insolvency, and Quality FY 2007 Program Letter was to protect the Federal Government's (hereafter referred to as the Government) interest by conducting sales in such a manner as to promote the maximum benefit for the taxpayer and the Government.

As technical authorities, Specialists work with revenue officers to help determine the value of the property, estimate sales expenses, and determine the minimum bid price. In addition, they make plans with the revenue officers for taking possession of and storing the property as soon as practicable after the seizures. Once a seizure takes place, the PALS is fully responsible for planning, marketing, and coordinating the sale of the property in accordance with IRS procedures and guidelines. Normally, one Specialist is responsible for each sale.

Prior to creation of the PALS position, revenue officers conducted the sales of seized properties, in addition to performing many other collection duties. Because the Specialists are trained as appraisers and auctioneers, they have the expertise to capitalize on the available equity in seized properties.

This review was performed at the Small Business/Self-Employed Division National Headquarters in New Carrollton, Maryland, and in the Collection function in Plantation, Florida; Kansas City, Missouri; and, Los Angeles, California, during the period June 2007 through February 2008. 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

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<sup>4</sup> Section 3443 required the IRS to implement a uniform asset disposal mechanism by July 22, 2000, for sales of seized property under Internal Revenue Code Section 6335. This mechanism was designed to remove revenue officers from participating in the sales of seized assets.



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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.

This audit did not duplicate audit work that is performed during the annual mandatory Treasury Inspector General for Tax Administration review of the IRS' compliance with legal provisions of the Internal Revenue Code and internal guidelines for seizures, although some audit tests may appear similar. This audit focused primarily on IRS sales procedures and related internal controls for safeguarding and selling seized property. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

### ***Procedures and Controls for Conducting Public Sale Auctions Are Effective***

PALSs are responsible for all aspects of the public sale of most seized properties and must follow procedures in the Internal Revenue Manual (IRM) to protect the Government's interest and the taxpayer's rights before, during, and after the sale. During FY 2007, most sales of seized property were conducted by public auction. When conducting a public auction, the Specialists identify assistance needed at the sale, register and answer bidders' questions, announce conditions of the sale, tabulate bids, collect, count, and deposit money, and issue proper documents to successful bidders and taxpayers. Appendix IV presents these procedures in more detail.

Our observations of three public sale auctions showed that employees properly followed the sales procedures for public auctions and deposited all proceeds. For example, the PALSs conducting the sales used appropriate assisting employees,<sup>5</sup> answered questions and registered potential bidders prior to the sales, used appropriate language to announce the conditions of sale and winning bidders, followed appropriate procedures for one or more methods of sale,<sup>6</sup> and adjourned the sales when needed. In addition, the Specialists obtained payment from and issued appropriate documentation to successful bidders in a timely manner, deposited and submitted proceeds to the correct IRS campus in a timely manner, and used necessary precautions to safeguard sale proceeds.

### ***Management Needs to Improve Oversight of Sales of Seized Property to Ensure That All Procedures Are Properly Followed***

Our review of a judgmental sample of 32 closed (completed) sales showed that although employees properly followed many of the sales procedures, Collection function management did not ensure that employees followed procedures related to:

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<sup>5</sup> Employees other than revenue officers are allowed to assist with sales.

<sup>6</sup> The PALS can choose to offer seized property for sale by only one method (i.e., in the aggregate or by individual items/lots) or by both methods.



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- Supporting minimum bid reduction calculations.
- Deciding on whether to bid-in for the Government.<sup>7</sup>
- Maintaining proper histories of mail-in bids.
- Completing seizure logs accurately and in a timely manner.

Although case files showed PALS managers reviewed and signed off on all Minimum Bid Worksheets (Form 4585) and Records of Seizure and Sale (Record 21), there was no evidence that these reviews identified the errors we noted.

PALSs are involved as technical authorities to assist revenue officers with appraising properties, estimating sale expenses, suggesting towing and/or storage facilities, and planning for custody transfers. After a seizure, they are required to verify the seized inventory and take custody of the property as soon as possible, re-verify liens and property values, set the minimum bid price, plan and advertise the sale, and deliver required sale documentation to the taxpayer. The Specialists are also responsible for all aspects of the sale of seized property through auctions or sealed bids. After a sale, they must ensure that proceeds are collected and deposited in a timely manner, sale expenses are paid, net proceeds are properly applied to taxpayer liabilities, and closing documents are accurately prepared and submitted in a timely manner.

To ensure that Specialists are meeting these expectations, group managers conduct case reviews of both in-progress and closed cases to evaluate individual performance. The managers determine how well each case is progressing and whether the various requirements to advertise and prepare required paperwork are being met. They also review the level of communication the PALSs have with revenue officers; the Office of Advisory, Insolvency, and Quality; and the IRS Office of Chief Counsel.

### **The Specialists followed many sale procedures**

Our review of 32 closed sales of seized property showed that employees properly followed many of the sales procedures. For example, prior to the seizures, the PALSs discussed the moving and storage plans with the revenue officers and estimated the expenses of the sales as required. Specialists prepared detailed written sales plans for the cases. Sales plans included: the expected date, time and place of the sale; the marketing/advertising plan; the number of assisting employees needed; the methods of sale to be used; and plans for receiving and disbursing cash/checks after announcement of the winning bid.

Prior to the sales, the PALSs properly took the necessary case actions to prepare for and advertise the sales, delivered required sales documentation to the taxpayers, and obtained the required memoranda and supervisor approvals. After the sales, the Specialists issued required

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<sup>7</sup> The Government may purchase property that can be sold if it is in the Government's best interest. The Government pays the minimum bid price in these instances.



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documentation to the winning bidders, obtained and deposited sale proceeds in a timely manner, and accurately prepared closing file documents.

In addition, the success and effectiveness of the PALS program are measured by a number of different indicators. One indicator compares the difference between the minimum bid price and the winning bid. In 91 percent of our sample cases, the property was sold for more than the minimum bid price. In 69 percent, the property was sold for more than the forced sale value.

**Reductions used to calculate minimum bid prices were not adequately explained**

Prior to seizure, revenue officers must determine the property's equity to ensure that there will be net proceeds available after the sale to apply to the tax liability. This is accomplished by determining the property's fair market value and completing a draft minimum bid worksheet. The minimum bid prices for seized properties help to ensure that the Government does not sell assets at prices that are substantially less than their value.

The PALS is also involved at this point in helping the revenue officer estimate the expenses of the sale. When custody transfers to the PALS, the Specialist uses the fair market value from the draft minimum bid as a starting point to establish the property's final minimum bid price that will be used during the sale. Any changes to the fair market value must be explained by the PALS.

The minimum bid price is calculated by reducing the fair market value of the property to an amount that reflects the difficulties associated with a forced Government sale. Two reductions can be made. The first establishes the "forced sale value" and cannot exceed 25 percent of the fair market value. Some examples of reasons for taking this reduction include:

- The sale is not between a willing buyer and seller.
- No guarantee of clear title is given.
- No warranty is provided.

A second reduction, which cannot exceed 20 percent of the forced sale value, can then be taken to arrive at the "reduced forced sale value" when other factors that might adversely affect the property value are present, such as:

- The possibility that senior lien holders might foreclose.
- Buyers might have to renegotiate prior encumbrances.
- Conventional financing might not be available.

The reductions used should be based on the facts of each case and should not always be the maximum allowable percentages. PALSs are also required to document the basis for each reduction.



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In [REDACTED] of the 32 sales, it was possible to make a decision to reduce the fair market value by the maximum amounts. [REDACTED]

In [REDACTED] of the [REDACTED] applicable sales, employees used the maximum allowable reduction of 25 percent to set the forced sale value and the maximum allowable 20 percent to set the reduced forced sale value when establishing a minimum bid selling price for seized assets.

Although reductions are usually necessary due to problems inherent with selling seized property, case files should include documentation that sufficient analysis was given on a case-by-case basis to determine the appropriate amount of each reduction. In 16 of the 32 cases, employees used the wrong "generic reasons" that were listed in the IRM for each reduction. For example, in some cases, employees used the same reason for both reductions. This gives the appearance that sufficient analysis might not have been given to determine the reductions.

Without seeing the seized/sold property, we have no basis to conclude that the minimum bid was set inappropriately. However, the explanations used on the Form 4585 and in the case file for the reductions should be related to the specifics of each case. When minimum bid prices are not properly calculated, the IRS risks not securing the maximum proceeds at the sale or getting the highest value for the seized property.

During the audit, Collection function management could not provide an exact cause for the documentation errors but advised us that some employees might not be clear about there being different explanations for the "forced sale reduction" (up to 25 percent) and the "reduced forced sale reduction" (up to 20 percent). Management plans to perform a seizure program review including these topics later in FY 2008.

### ***The decision to bid-in for the Government was not always explained***

Sometimes, the minimum bid price is not reached by bidders at a seized property sale. Rather than adjourn and hold the sale again at a later date or release the property back to the taxpayer, the PALS may purchase the property for the Government at the minimum bid price. The taxpayer would then receive a credit on his or her account for the amount of the minimum bid price, less expenses of the levy and sale.

The IRM lists the factors to be used when determining whether it is in the best interest of the Government to buy the property, such as marketability of the property, cost of maintaining the property, and cost of repairing or restoring the property. The Specialist conducting the sale is required to make the bid-in decision at least 1 calendar day prior to the sale and to document it in the case history.

In 5 (16 percent) of the 32 sales in our sample, employees did not decide whether to bid-in for the Government or did not do so at least 1 calendar day prior to the sale as required. In nine other cases, employees did make the decision as required but did not explain the factors used for their decisions. There was no evidence in the case file documentation that Collection function



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management identified the errors. Failing to make the bid-in decision could result in not obtaining the property for future sale to help resolve the taxpayer's delinquent tax liability. Also, PALS management cannot determine if the decision was appropriate when the factors used as the basis for the decision are not listed.

### **Documentation for mail-in bids was missing**

Mail-in bids may be accepted for public auction sales and have certain documentation requirements. The IRM states that when a mail-in bid is received, the PALS is required to document the bidder's name, address, and date of bid on a mail-in bidder list. After the sale, for each unsuccessful mail-in bid, the Specialist should complete the appropriate section of the mail-in bid form and return it to the bidder by mail, along with any deposit checks received. Management informed us that copies of the mail-in bidder list and/or returned mail-in bid forms should be kept in the closed case file.

Fifteen of the 32 sales reviewed had mail-in bids. In 4 (27 percent) of the 15 cases, the PALS did not list the mail-in bids received on a bidder list, there were no copies of mail-in bids in the file, or copies were not properly completed to show they were returned to unsuccessful bidders. Without this documentation, PALS management cannot determine if all unsuccessful mail-in bidders had their bids and deposit checks returned as required.

### **Seizure logs were not maintained accurately**

The Collection Advisory function maintains seizure logs in each Area Office to assign and record seizure numbers and to update the disposition of seizures. To ensure that property is accounted for, these logs should accurately reflect seizure activity and property dispositions.

However, our review showed the Area Offices did not maintain consistent seizure logs, and some information in the logs was incomplete or inaccurate. The logs did not always include the dates of final disposition and included inaccurate information about how the properties were disposed of. For example, our population of 245 seizures from which we selected our sample was affected when we identified 28 seizures that were not in the population due to inaccurate or missing disposition information. Also, our sample was affected because we identified two cases that had inaccurate dispositions recorded in the log. However, because we relied on judgmental sampling methods<sup>8</sup> and did not project the results to the entire population, these issues did not adversely affect our review results.

Once identified during our review, IRS Collection Policy function management took action to address the problems by issuing a memorandum to Area Office managers giving detailed instructions on how to complete a new, standardized seizure log. The memorandum included

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<sup>8</sup> A sampling method in which every item does not have an equal chance of being selected.





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definitions for each field. Seizure logs should be maintained and updated as soon as the information for a seizure is available.

The logs we reviewed were inaccurate because employees had different interpretations of how to complete some of the information, and they did not make timely updates to the information on how property was disposed of. If the seizure logs are not completed, inaccurate information could be used by Collection function management in managing the PALS program.

### ***Recommendations***

The Director, Collection, Small Business/Self-Employed Division, should:

**Recommendation 1:** Improve management oversight by clarifying procedures related to documentation of minimum bid prices, mail-in bids, and Government bid-in decisions. A planned seizure program review could be used to follow up on these issues.

**Management's Response:** IRS management agreed with this recommendation and advised that they have already initiated a seizure program review. Once the reviews are completed, they will determine the extent of the documentation errors and issue guidance, as appropriate, to clarify the procedures.

**Recommendation 2:** Monitor the recently implemented corrective action for seizure logs to ensure that the criteria are interpreted consistently and the logs remain accurate.

**Management's Response:** IRS management agreed with this recommendation and advised that the seizure logs are being used to select cases for the seizure program review. The seizure logs will be reviewed for accuracy and additional guidance will be issued if needed.

### ***Procedures for Taking Inventory of and Storing Seized Property in Internal Revenue Service Facilities Were Not Always Followed***

The IRM requires that Government storage facilities (safes or rooms) be used to store moveable seized property whenever possible. Prior to storing seized property in an IRS storage facility, revenue officers or PALSs are required to prepare and submit a custodial memorandum to their group managers identifying the property, its value, and the approximate time it will need to be stored. When placing the property in the storage facility, the custodial employee and another IRS employee are required to sign the memorandum stating the name, number, and location of the property. Local IRS management at each storage facility is responsible for creation of procedures for controlling access to the facility. Collection function management is responsible for controlling access to storage facilities within its own function. The IRM requires a physical inventory verification every 6 months for property over 90 days old.





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Revenue officers must take detailed inventories of seized properties, which they normally do during the seizures. Prior to taking custody of any property, the Specialist must verify the detailed inventory and notify the revenue officer of any discrepancies so that corrected documents can be sent to the taxpayer. The IRM also requires that employees plan for taking inventories to ensure that the appropriate time is allotted, the right number of assisting employees is obtained, and the seized property is identified and described with reasonable certainty.

Our verification of property acquired through eight seizures and stored in three IRS storage facilities showed that the PALSs did not always follow procedures. Custodial memoranda for seven of the eight seizures were not prepared by the Specialists until we requested them. In addition, for the two Collection function storage areas,<sup>9</sup> managers at each location established procedures which were inconsistent. One kept a log to track and control access into and out of the facilities, but the other did not. We accounted for the properties in our sample; however, two inventory lists had inaccuracies in the counts and descriptions of the properties. These two seizures contained multiple properties.

Collection function management did not provide adequate instructions or oversight to ensure that employees effectively followed procedures regarding custodial memoranda and taking inventory and did not ensure within the Collection function that there were consistent procedures for controlling access to storage facilities. We were informed that some employees might not have known about the custodial memoranda for IRS storage facilities. Also, inventory counts and descriptions were inaccurate when inventory duties were rushed due to 1) improper planning, such as estimating how much assistance and time would be required for counting and identifying large lots, and 2) human error.

Security risks can result when procedures are not followed or controls are not consistent. Failure to secure, control access to, and take inventory of property could cause problems with locating seized property when needed and leave the IRS vulnerable to fraud, theft, vandalism, and/or violations of taxpayer rights, although we did not find any such instances in this review.

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<sup>9</sup> The third IRS storage facility was not within the Collection function.



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## **Recommendation**

**Recommendation 3:** The Director, Collection, Small Business/Self-Employed Division, should clarify procedures for storing property and controlling access to Collection function storage facilities and should provide additional guidance for taking inventory. Also, during the next physical inventory, Collection function management should include seizures containing multiple properties to ensure those inventory lists are checked for accuracy (not just those properties more than 90 days old).

**Management's Response:** IRS management agreed to clarify the procedures for storing property and controlling access to Collection function storage facilities. However, management advised that there are already 2 inventory verifications conducted on seized properties fewer than 90 days old and because there were no findings of loss, vandalism, or violations of taxpayer rights in this report, they will review the current inventory verification processes prior to adding a third process.

**Office of Audit Comment:** We agree with the IRS decision to further evaluate the current inventory validation processes prior to implementing additional procedures for seizures with multiple properties fewer than 90 days old. However, we remind management that the two current inventory verifications did not detect the errors we identified in the report.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether the IRS properly followed procedures for sales of seized property and whether controls were effective to safeguard assets and protect taxpayer rights. This audit did not duplicate audit work that is performed on the annual mandatory Treasury Inspector General for Tax Administration review of the IRS' compliance with legal provisions of the Internal Revenue Code and internal guidelines for seizures. This audit focused primarily on IRS sales procedures and related internal controls for safeguarding and selling seized property. To accomplish our objective, we:

- I. Determined whether IRS procedures and controls for sales of seized property were followed.
  - A. Identified IRS procedures, guidance, and controls for sales of seized property through research of IRMs and discussions with Collection function and PALS management.
  - B. Used the IRS web site<sup>1</sup> lists of future seized property auctions to judgmentally select a sample of three IRS sales of seized taxpayer property to observe and verify whether required sale procedures were followed. We used judgmental sampling because the population of property auctions changes from day to day and we selected auctions on different dates during our audit fieldwork period (June 2007 through February 2008). We did not have a specific population to work with.
  - C. Obtained seizure logs with sale dispositions for the period of October 1, 2006, through June 30, 2007, and identified a population of 245 seizures. Note: We also obtained seizure logs with all types of dispositions for the same period and later determined there were 28 seizures with inaccurate or missing dispositions that had been sold and were not included in our sample population of 245 seizures.
  - D. Selected a judgmental sample of 32 seizures/sales involving 29 taxpayers. We used judgmental sampling because we could not be sure of the accuracy of our population due to missing or inaccurate information on the seizure logs.
  - E. Reviewed the 32 cases selected in Step I.D. to determine whether the PALSs followed sales procedures involving:
    1. Preseizure requirements.
    2. Minimum bid calculations.

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<sup>1</sup> A public web site used by the IRS to list seized property sales.



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3. Federal Government bid-in decisions.
  4. Mail-in bids.
  5. Custody transfers.
  6. Auctions.
  7. Deposits.
- F. Identified those cases that were not worked properly and discussed the issues with Small Business/Self-Employed Division management for consensus and to determine reasons for any problems.
- II. Determined whether internal controls for safeguarding assets were effective to secure the assets and to protect taxpayer rights.
- A. Identified the internal controls for safeguarding seized property from the IRM and discussions with Collection function and PALS management.
  - B. Used the IRS web site listing of future seized property auctions to judgmentally select properties acquired through eight seizures that were stored in three IRS facilities during the months of July and November 2007. We used judgmental sampling because the population of IRS property auctions changes from day to day and we selected properties on different dates during our audit fieldwork period (June 2007 through February 2008). We conducted a physical inventory of the seized properties and evaluated whether the property was safeguarded.



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**Appendix II**

*Major Contributors to This Report*

Margaret E. Begg, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)  
Carl Aley, Director  
Lynn Wofchuck, Audit Manager  
Phyllis Heald London, Lead Auditor  
Darryl J. Roth, Senior Auditor



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**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, Advisory, Insolvency and Quality, Small Business/Self-Employed Division  
SE:S:C:AIQ  
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



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## **Appendix IV**

### *Internal Revenue Service Procedures for Conducting Public Auction Sales of Seized Property*

When conducting a public auction sale of seized property, the PALS is required to follow these IRS guidelines:

- Use one or more IRS employees to assist with normal sale activities. The employee(s) may not be a revenue officer(s).
- Answer questions and register potential bidders prior to the sale.
- Advise bidders of the taxpayer's 180-day redemption period for real property.
- Allow the taxpayer to explain the condition of his or her titles or liens on property.
- Use proper legal language when calling prospective bidders to order, announcing the conditions of sale, and naming successful bidders.
- Follow appropriate procedures when using one or more methods of sale.<sup>1</sup>
- Obtain timely payment from and issue appropriate documentation to successful bidders.
- Deposit and/or submit proceeds to the appropriate IRS campus in a timely manner.
- Use necessary precautions to safeguard sale proceeds.
- Adjourn the sale as needed, and announce the new sale date and time.

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<sup>1</sup> The PALS can choose to offer seized property for sale by only one method (i.e., in the aggregate or by individual items/lots) or by both methods.



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**Appendix V**

*Glossary of Terms*

<b>Term</b>	<b>Definition</b>
Alternative Collection Methods	The IRS is required to consider alternative methods of collection prior to seizure. Some examples of alternative tax collection methods include installment agreements, offers in compromise, and posting of bond by the taxpayer.
Area Office	A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.
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.
Enforcement Actions	Possible enforcement actions include putting a levy on the taxpayer's assets (e.g., bank accounts), filing a Federal Tax Lien(s), and serving a summons for financial records or testimony.
Fair Market Value	The fair market value reflects the condition of the property at a point in time and can be influenced by such factors as market conditions, age of the asset, zoning requirements, technology, demand, and fitness for use.
Installment Agreement	Arrangements whereby the IRS allows taxpayers to pay liabilities over time.
Internal Revenue Manual	A manual containing the procedures and controls for IRS employees to follow.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.





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<b>Term</b>	<b>Definition</b>
Minimum Bid	A minimum bid price is calculated on seized property assets prior to sale to ensure that the equity is maximized for the benefit of the taxpayer and the Federal Government.
Offer In Compromise	An agreement between a taxpayer and the IRS that resolves the taxpayer's tax debt. The IRS has the authority to settle or "compromise" Federal tax liabilities by accepting less than full payment under certain circumstances.
Revenue Officer	Employees who make personal contacts with taxpayers to collect unpaid taxes.
Senior Lien Holder	Those who have liens filed against a taxpayer's property prior to the date of a Federal Tax Lien.



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**Appendix VI**

*Management's Response to the Draft Report*



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

June 30, 2008



MEMORANDUM FOR MICHAEL R. PHILLIPS  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Kathy M. Petronchak  
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Better Management of Some Procedures for Sales of Seized Property is Needed (Audit No. 200730014)

We have reviewed your draft report, "Better Management of Some Procedures for Sales of Seized Property Is Needed," and agree that most of your recommendations would improve procedures and management oversight for sales and storage of seized property. In addition, we appreciate your acknowledgment that there were no instances in which a taxpayer was adversely affected by the deficiencies you identified.

In response to your first recommendation, we will use the results of our comprehensive seizure program review to clarify documentation requirements. We will also continue monitoring the accuracy of seizure logs and issue additional guidance if needed. In addition, we will clarify procedures for storing property and controlling access to Collection function storage facilities. As you noted in your report, we currently conduct two inventory verifications on property under seizure less than 90 days. We will review those processes to see if improvements are needed, and then, consider the merits of adding a third verification process.

Attached is a detailed response outlining our corrective actions.

If you have any questions, please contact me at (202) 622-0600 or Fred Schindler, Director, Collection Policy, Small Business/Self-Employed Division, at (202) 283-7650.

Attachment



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Attachment

**RECOMMENDATION 1:**

The Director, Collection, Small Business/Self-Employed (SB/SE) Division should improve management oversight by clarifying procedures related to documentation of minimum bid prices, mail-in bids, and Government bid-in decisions. A planned seizure program review could be used to follow up on these issues.

**CORRECTIVE ACTIONS:**

We agree with this recommendation and have already initiated a seizure program review. Once the reviews are completed, we will determine the extent of the documentation errors and issue guidance, as appropriate, to clarify the procedures.

**IMPLEMENTATION DATES:**

The seizure program review will be completed by November 15, 2008. The Director of Collection Policy and the Director of Advisory, Insolvency, and Quality will issue a joint memorandum clarifying the procedures by April 15, 2009.

**RESPONSIBLE OFFICIALS:**

Director, Collection Policy, Small Business/Self-Employed Division  
Director, Advisory, Insolvency, and Quality, Small Business/Self-Employed Division

**CORRECTIVE ACTION(S) MONITORING PLAN:**

The Director, Collection, Small Business/Self-Employed Division, will advise the SB/SE Commissioner of any delays in implementing these corrective actions.

**RECOMMENDATION 2:**

The Director, Collection, Small Business/Self-Employed Division should monitor the recently implemented corrective action for seizure logs to ensure the criteria is interpreted consistently and that the logs remain accurate.

**CORRECTIVE ACTIONS:**

We agree with this recommendation. The seizure logs are and will continue to be reviewed as part of the annual Advisory Operational review. In addition, the seizure logs are being utilized to select cases for the current seizure program review. The accuracy of the logs will be reviewed and additional guidance will be issued if needed.



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**IMPLEMENTATION DATE:**

The seizure program review will be completed by November 15, 2008 and, if necessary, guidance will be issued by February 15, 2009.

**RESPONSIBLE OFFICIAL:**

Director, Advisory, Insolvency, and Quality, Small Business/Self-Employed Division

**CORRECTIVE ACTION(S) MONITORING PLAN:**

The Director, Collection, Small Business/Self-Employed Division, will advise the SB/SE Commissioner of any delays in implementing this corrective action.

**RECOMMENDATION 3:**

The Director, Collection, Small Business/Self-Employed Division should clarify procedures for storing property and controlling access to Collection function storage facilities and should provide additional guidance for taking inventory. Also, during the next physical inventory, Collection function management should include seizures containing multiple properties to ensure those inventory lists are checked for accuracy (not just those properties over 90 days old).

**CORRECTIVE ACTIONS:**

We agree with the recommendation that procedures for storing property and controlling access to Collection function storage facilities should be clarified. Collection function management currently conducts physical inventory verification on a semi-annual basis (March and September) by matching the assets listed on Form 2433, Notice of Seizure, against stored assets. The managers also ensure that assets are secured, properly stored, and have not been tampered with since the seizure. Since there were no findings of loss, vandalism, or violation of taxpayer rights, we will review the current inventory verification processes to see what, if any, improvements are needed prior to considering the merits of adding a third verification process. There are already two inventory verifications conducted prior to the 90 days. The first is when the Revenue Officer conducts the seizure and prepares the Form 2433, Notice of Seizure. A second inventory match against the Form 2433 is completed when the Property Appraisal and Liquidation Specialists take custody of the asset(s), typically within 60 days of the seizure. Any discrepancies between the two forms are resolved and if needed, a supplemental Form 2433 is prepared and issued to the taxpayer.



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**IMPLEMENTATION DATE:**

A joint memorandum clarifying the procedures for storing property and controlling access to Collection function storage facilities will be issued by the Director, Collection Policy and the Director of Advisory, Insolvency, and Quality by February 15, 2009.

**RESPONSIBLE OFFICIALS:**

Director, Collection Policy, Small Business/Self-Employed Division  
Director, Advisory, Insolvency, and Quality, Small Business/Self-Employed Division

**CORRECTIVE ACTION(S) MONITORING PLAN:**

The Director, Collection Policy, Small Business/Self-Employed Division, will advise the SB/SE Commissioner of any delays in implementing this corrective action.