

**Improvements Are Needed in Resolving
In-Business Trust Fund Delinquencies to
Prevent Tax Liabilities from Pyramiding**

August 2000

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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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 3, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Improvements Are Needed in Resolving
In-Business Trust Fund Delinquencies to Prevent Tax Liabilities
from Pyramiding

This report presents the results of our review of in-business trust fund accounts worked by the Collection Field function. In summary, we found that revenue officers were using certain collection tools effectively. However, in many instances, case assignments were not made timely or additional tools could have been used more effectively to potentially prevent taxpayers from pyramiding liabilities. We made six recommendations related to these issues.

Management's response was due on July 14, 2000. As of July 28, 2000, management had not responded to this draft report.

Copies of this report are also being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

Improvements Are Needed in Resolving In-Business Trust Fund Delinquencies to Prevent Tax Liabilities from Pyramiding

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Executive Summary

Trust fund taxes include those taxes withheld from employees' wages. Employers use the Employer's Quarterly Federal Tax Return (Form 941) to file and establish the tax liability for these trust fund taxes. Employees who have taxes withheld from their wages expect the withheld funds to be properly deposited and credited to their accounts, and employers expect their competitors to also pay their trust fund taxes.

In-business trust fund taxpayer cases with liabilities over a specified amount are one of the highest priorities in a revenue officer's inventory in the Internal Revenue Service (IRS) Collection Field function (CFf) for Fiscal Year (FY) 2000. Revenue officers in the CFf are responsible for collecting delinquent accounts. Timely and effective collection of these accounts is necessary because these taxpayers are in-business employers and can continue to accrue (pyramid) liabilities every 3 months. Approximately 39 percent of delinquent trust fund account taxpayers had at least 5 delinquent accounts in the CFf inventory, which illustrates how quickly these liabilities can pyramid.

The objective of our review was to determine whether the CFf is effectively using all the tools available to help in-business trust fund account taxpayers comply with their tax payment requirements.

Results

We reviewed 116 delinquent in-business trust fund taxpayer cases where liabilities had pyramided. Although revenue officers collected \$4,927,537 while working these cases, a greater amount in additional tax liabilities (\$4,990,176) accrued for these taxpayers while the cases were open in the CFf. In fact, there was an aggregate outstanding liability of \$10,911,009 still remaining on those cases at the time of our review.

Our case review showed that revenue officers were using certain collection tools effectively. However, in many instances, actions on cases were not taken timely or additional collection tools could have been used more effectively to potentially prevent taxpayers from pyramiding liabilities.

The Collection Field Function Did Not Always Timely Assign Cases

Even though in-business trust fund accounts are a very high priority, CFf procedures do not establish due dates that adequately emphasize this priority. Guidelines state that unassigned group inventory should be limited to the cases that managers expect to assign within 30 days. However, Collection management advised us that unassigned inventory can be held longer than those 30 days depending on the available resources and on

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inventory levels for revenue officers. Once cases are assigned, guidelines allow revenue officers another 45 days to contact taxpayers. Therefore, the CFf can meet its timeliness goals, but in many cases, an additional quarter of taxes is due from taxpayers before revenue officers contact them.

As a result of the delays in assignment of cases identified during our case review, in 39 (34 percent) of the 116 cases, taxpayers accrued \$1,022,855 from the time the CFf received the accounts until the revenue officers first contacted the taxpayers. Not only were the taxpayers allowed to accrue additional liabilities, but the chance of collecting taxes diminished the longer the collection process took.

Revenue Officers Did Not Always Take Effective Collection Actions

Depending on the amount of the quarterly liability, Federal Tax Deposit (FTD) payments are required once, twice, four times, or eight times a month. A revenue officer's first priority on a delinquent in-business trust fund account is to bring the taxpayer into compliance with requirements for making these FTD payments, thereby preventing the taxpayer from pyramiding liabilities. However, revenue officers did not verify or monitor that FTD payments were made on 40 (34 percent) of the 116 cases reviewed.

If a taxpayer does not make satisfactory arrangements to stay current with FTD payments and pay the delinquent taxes, revenue officers have several tools to help protect the Government's interest. Some of these tools are considered enforcement actions, such as filing federal tax liens to record the Government's interest in the taxpayer's property, levying on assets such as bank accounts, or seizing the taxpayer's real or personal property for payment of the tax. Our review showed that in 37 (32 percent) of the 116 cases, the revenue officers did not either file a lien, levy on taxpayers' assets, issue a summons, or seize property when appropriate. Only 1 seizure was made in the 116 cases. Seizures were considered in 2 other cases but were not initiated. We did not attempt to determine whether a seizure was appropriate in all 116 cases reviewed.

In addition, in 59 cases, documentation in the case histories indicated that revenue officers did not perform timely follow-ups on deadlines or taxpayer promises. In particular, in 21 of these cases the revenue officers did not timely follow up on warnings to the taxpayers that they planned to take enforcement actions.

Based on discussions with management and our review of cases, we determined that revenue officers were very aware of the customer service goals of the IRS and worked with taxpayers to try to get voluntary payment from them. However, the revenue officers were reluctant to take enforcement actions. This condition existed because revenue officers and group managers were reacting to adverse publicity from Senate hearings and subsequent legislation. In 1997, the IRS was criticized at Senate hearings when several taxpayers testified that they had been harassed and mistreated. Then, the IRS

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Restructuring and Reform Act of 1998 (RRA 98)¹ was passed to give taxpayers more rights and protection. The RRA 98 requires revenue officers to perform additional steps when taking certain collection actions; and removal from employment could result from not meeting the Act's provisions. For example, the willful failure by a revenue officer to obtain required approval signatures on documents authorizing a seizure could result in his/her removal.

Summary of Recommendations

We recommend that Collection management adopt quicker time frames for assigning delinquent in-business trust fund cases, re-emphasize the use of all available enforcement tools from both the group and executive management levels, identify a better way to monitor FTD payments and ensure taxpayers stay current with FTD payments, and gather information on trends for taxpayers who will not comply.

Management's Response: Management's response was due on July 14, 2000. As of July 28, 2000, management had not responded to this draft report.

¹ Pub. L. No. 105-206, 112 Stat. 685.

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Objective and Scope

Our objective was to determine whether the CFf is effectively using all the tools available to help in-business trust fund account taxpayers comply with their tax payment requirements.

The objective of our review was to determine whether the Internal Revenue Service (IRS) Collection Field Function (CFf) is effectively using all the tools available to help in-business trust fund account taxpayers comply with their tax payment requirements.

To accomplish our objective, we:

- Judgmentally selected 116 in-business trust fund tax cases in the CFf where pyramiding had occurred and reviewed actions taken by revenue officers and managers on the cases.
- Discussed procedures and guidelines with Collection function managers.
- Reviewed available management information for the in-business trust fund program.

We conducted audit tests in the Illinois, Rocky Mountain, and Virginia-West Virginia IRS district offices and the National Office between December 1999 and April 2000. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

The collecting mission of the IRS is to promptly collect the proper amount of federal tax from all persons who have not filed returns and/or paid tax as required by law and to encourage future compliance with the law. If a taxpayer does not pay the proper amount of tax due, the IRS collection process starts with a letter to the taxpayer requesting the balance due (tax delinquency). If the taxpayer still does not pay, the IRS attempts to contact the taxpayer by telephone to resolve the delinquency. If

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it remains unresolved, the case is assigned to the CFf in the IRS district offices where a revenue officer may make field contacts with the taxpayer.

The Collection function has four Principles related to Taxpayer Rights, Customer Service and Assistance, Compliance, and Enforcement.¹ These Principles are used as a guide when making decisions about collecting actions. The Principle related to Compliance states that:

“The public trust requires us to ensure that all taxpayers promptly file their returns and pay the proper amount of tax, regardless of the amount owed. The public as a whole are our customers, not just delinquent taxpayers. Our customers expect us to promote voluntary compliance by ensuring that everyone promptly pays their fair share. Employees should help taxpayers meet all their filing and paying requirements, not only the delinquency at hand, and quickly follow up when a problem arises. Taxpayers in business who fail to pay over trust fund taxes (taxes withheld from employees’ wages) must pay both current and delinquent taxes to be considered compliant.”

Employers use the Employer’s Quarterly Federal Tax Return (Form 941) to file and establish the tax liability for these trust fund taxes. Payments made for these taxes are called Federal Tax Deposits (FTD). Employees who have taxes withheld from their wages expect the withheld funds to be properly deposited and credited to their accounts, and employers expect their competitors to also pay their trust fund taxes. The IRS conducts educational outreach programs for practitioners and employers to inform them of requirements.

Form 941 trust fund taxpayers represented approximately \$4.6 billion of the CFf’s delinquent account inventory as of January 2000.

In-business trust fund taxpayer cases with liabilities over a specified amount are one of the highest priorities in a CFf revenue officer’s inventory for Fiscal Year (FY) 2000. In-business trust fund taxpayers represented approximately \$4.6 billion (27 percent) of the CFf

¹ Internal Revenue Service Collecting Principles

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delinquent account inventory as of January 2000. Also, approximately 39 percent of delinquent trust fund taxpayers had at least 5 delinquent accounts in the CFf inventory, which illustrates how quickly these liabilities can accrue (pyramid).

Results

While \$4,927,537 was collected from the delinquent in-business trust fund cases we reviewed, a greater amount in additional tax liabilities (\$4,990,176) accrued on these cases.

We reviewed 116 delinquent in-business trust fund taxpayer cases where liabilities had pyramided. Although revenue officers collected \$4,927,537 while working these cases, a greater amount in additional tax liabilities (\$4,990,176) accrued for these taxpayers while the cases were open in the CFf. In fact, there was an aggregate outstanding liability of \$10,911,009 still remaining on those cases at the time of our review.

Our review showed that revenue officers were using certain collection tools effectively, such as conducting thorough initial contacts and meeting the current standard for timeliness of initial contacts, informing taxpayers of their rights, giving clear instructions to taxpayers, setting deadlines, and informing taxpayers of the potential consequences of not paying. Also, managerial reviews were performed in most cases.

However, in many instances, actions on cases were not taken timely or effectively to potentially prevent taxpayers from pyramiding liabilities. Specifically:

- The CFf did not always timely assign cases.
- Revenue officers did not always take the following actions effectively: monitoring FTD payments; taking all appropriate collection actions including enforcement actions; and following up timely on deadlines or taxpayer promises.

Various factors contributed to this. For example, cases may not have been worked timely due to the IRS time standards for assigning cases, which allow for cases to be held for potentially long periods until resources are available. Then, once the cases are assigned, revenue

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officers generally have an additional 45 days to contact taxpayers. Consequently, this allows for additional liabilities to accrue before the taxpayer is required to be contacted.

Also, all available collection tools may not have been used effectively due to the impact that the IRS Restructuring and Reform Act of 1998 (RRA 98)² had on how cases are being worked.

The Collection Field Function Did Not Always Timely Assign Cases

Untimely actions, such as the time it took from when cases were assigned to the CFf inventory until revenue officers contacted the taxpayers, resulted in pyramiding liabilities.

Our case review showed that once revenue officers were assigned cases, they made timely and thorough initial contacts. However, pyramiding occurred because there were delays in initially assigning cases to revenue officers. This led to a long period of time between receipt of the case in the CFf inventory (prior to assignment to a revenue officer) and the revenue officer's initial contact with the taxpayer.

Even though in-business trust fund accounts are among the highest priority cases, CFf procedures do not establish due dates that adequately emphasize this priority. Guidelines state that unassigned group inventory should be limited to the inventory that managers expect to assign within 30 days. However, Collection management advised us that unassigned inventory can be held longer than those 30 days depending on the available resources and on inventory levels for revenue officers. Once cases are assigned, guidelines allow revenue officers another 45 days to contact taxpayers. Therefore, the CFf can meet its timeliness goals, but in many cases, an additional quarter of taxes is due from taxpayers before revenue officers contact them. However, the CFf does not always meet its goals, as our case review showed.

² Pub L. No. 105-206, 112 Stat. 685.

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- Analysis of 87 of the 116 cases showed that 22 (25 percent) were not assigned to a revenue officer within 30 days of receipt in the CFf. Nine of the 22 were assigned between 31 and 60 days of receipt; the other 13 were assigned more than 60 days after receipt.
- Analysis of 94 of the 116 cases showed that for 26 cases (28 percent), over 75 days elapsed between assignment of the case to the CFf and initial contact by a revenue officer. In 24 of these cases, the elapsed time was over 90 days. Of the remaining 68 cases, 26 took between 31 and 75 days and 42 took 30 days or less from assignment to the CFf to first taxpayer contact.³

The time lapses between receiving a case in the CFf inventory and revenue officer contacts could be caused by the standards the IRS uses. These standards allow for group managers to hold a case for long periods before assigning it regardless of the priority of the case. Collection managers stated that assignment and delays occurred many times because insufficient resources were available when case assignments were needed. Delays also occur because revenue officers are only assigned a certain number of cases that fall within a specified range designated by Collection management.

Studies have shown that delays in the collection process reduce the chance of collecting accounts receivable.

As a result of the case assignment procedures, 39 taxpayers in our sample pyramided \$1,022,855 from the time the CFf received the cases until the revenue officers made first contact with the taxpayers. Not only were the taxpayers allowed to accrue additional liabilities, but the chance of collecting taxes diminished the longer the collection process took. Based on information from the IRS' FY 2000 Operations Plan, studies have shown that when a taxpayer does not pay the correct amount due, the sooner the issue is addressed, the lighter the burden

³ We could not determine the timeliness of contact for all 116 cases because the automated case inventory system did not always record the actual dates the cases were assigned to the CFf or to the original revenue officer.

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on the taxpayer and the greater the likelihood that payment will be received.

Recommendation

1. Collection function management should adopt quicker time frames for assigning in-business trust fund cases and contacting taxpayers. If the inventory of in-business trust fund taxpayers becomes too large to control, the larger dollar cases should receive higher priority for assignment and contact.

Management's Response: Management's response was due on July 14, 2000. As of July 28, 2000, management had not responded to this draft report.

Revenue Officers Did Not Always Take Effective Collection Actions

Revenue officers did not effectively monitor FTD payments, take enforcement actions, and perform timely follow ups.

Our case review showed that revenue officers were effectively informing taxpayers of their rights. However, in 66 (57 percent) of the 116 cases we reviewed, we also determined that additional collection tools could have been used more effectively, such as monitoring FTD payments; using all collection tools available, including taking enforcement actions when appropriate; and timely following up on deadlines. By not doing these things, additional tax liabilities accrued.

Various factors contributed to this. The RRA 98 has had an impact on how cases are worked, such as causing a reluctance to take enforcement actions and providing for additional steps that revenue officers must take to perform many collection actions. Also, resources are being applied to customer service activities.

Revenue officers did not monitor or verify required FTD payments

Taxpayers are required to make FTD payments once, twice, four times, or eight times a month, depending

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upon the amount of the quarterly liability. The taxpayer becomes liable for a penalty for each deposit not made timely. A revenue officer's first priority on a delinquent in-business trust fund account is to bring the taxpayer into compliance with requirements for FTD payments, thereby preventing the taxpayer from pyramiding liabilities.

We determined whether the revenue officers were monitoring the FTD payments on a regular basis and verifying with taxpayers that the FTD payments were made. Revenue officers can research an IRS computer system to determine if the deposit was made and can ask the taxpayer to send in the bank receipt for verification.

Our review of the 116 cases showed that revenue officers did not monitor or verify the FTD payments on 40 cases (34 percent).

For 40 (34 percent) of the 116 cases we reviewed, revenue officers did not monitor or verify the FTD payments (e.g., verifying payments with the banks or researching an IRS computer system), allowing additional aggregate liabilities of \$2,687,508 to accrue. In most of these cases (34), revenue officers should have taken additional actions, such as setting deadlines with the taxpayers, and following up on those deadlines, but did not. However, in six cases, although the revenue officers did not monitor or verify the FTD payments, they did take all other appropriate actions, but the taxpayers still did not comply with requirements and make payments.

Revenue officers did not use all collection tools available, including enforcement actions

Revenue officers should demand and verify full compliance with all filing and payment requirements, secure sufficient financial information to make a collection determination, secure asset information for possible enforcement action, and make a lien determination. If a taxpayer does not make satisfactory arrangements to stay current with FTD payments and pay the delinquent taxes, revenue officers have several tools to help protect the Government's interests. The various enforcement actions are liens filed to record the Government's interest in taxpayers' properties, levies on delinquent taxpayers' assets such as bank accounts and

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There were 56 instances of additional enforcement actions that could have been taken in 37 cases.

accounts receivable, summonses to legally obtain taxpayers' records, and seizures made of taxpayers' properties.

We evaluated whether these actions were being taken. In 37 (32 percent) of the 116 cases where additional collection tools could have been used more effectively, additional enforcement actions could have been taken. For these 37 cases, there were 56 instances where a levy (29), lien (16), summonses (9), or seizure (2)⁴ could have been initiated. Only 1 seizure was made in the 116 cases.

Also, Letter 903, another collection tool available, was generally not being used. Letter 903 is issued to inform taxpayers of the consequences of not depositing federal employment taxes. It states that the IRS may place the taxpayer on monthly filing requirements and then require special bank deposits of withholding taxes. If those deposits are not made, the taxpayer is subject to criminal prosecution. The first step needed for requiring special deposits is the issuance of Letter 903.

Discussions with CFf district management indicated that there is a reluctance to use this Letter as a tool. In the past, there have been very few cases that have proceeded to criminal prosecution and, generally, practitioners do not take it seriously. The IRS recently began the Trust Fund Compliance Initiative Pilot Program, which is intended to make greater use of certain administrative tools such as Letter 903, special deposits, and monthly filing requirements. The results will be tracked to determine the best approaches to improve compliance among repeatedly delinquent business taxpayers who have minimal equity in assets. Use of these procedures would apply in the most egregious cases and could result in compliance on the part of the taxpayer, civil injunctions, criminal prosecution, or other actions.

⁴ At one point in two cases, seizure was considered but not initiated. Based on current facts, seizure may no longer be warranted. We did not attempt to determine whether seizure was appropriate in all the cases reviewed.

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Based on the Law Enforcement Manual criteria for issuing Letter 903 and requiring monthly deposits, we determined that the Letter 903 could have been used in 19 cases to encourage the taxpayer to pay. These 19 cases could provide some additional information for this pilot in tracking characteristics of the taxpayers and how cases are worked.

Revenue officers did not take timely follow-up actions

The IRS' procedures require revenue officers to set a plan of action for each case and, if a taxpayer misses a specific deadline, to initiate follow-up action within 15 days. Using documentation in the case histories, we evaluated whether revenue officers were setting deadlines, informing taxpayers of the consequences of not meeting their tax obligations, and following up on deadlines.

In the 116 cases we reviewed, revenue officers properly set deadlines and informed taxpayers of the consequences of not paying. However, in 59 (89 percent) of the 66 cases where additional collection tools were not used effectively, documentation in the case histories indicated that revenue officers did not perform timely follow-ups on deadlines or taxpayer promises. In particular, in 21 (32 percent) of the 66 cases, the revenue officers did not timely follow up on warnings to taxpayers that they planned to take enforcement actions.

Consequences of these problems, and why they occurred

As a result of not taking effective collection actions – i.e., not monitoring FTD payments, not using all collection tools available, and not timely following up on deadlines – \$4,990,176 in tax liabilities accrued as follows:

- \$1,022,855 accrued between assignment of the cases to the CFf and initial contact between revenue officers and taxpayers.

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One reason dollars continued to pyramid may be that some taxpayers did not comply regardless of the actions taken by revenue officers.

- \$3,967,321 accrued after revenue officers contacted taxpayers.

Based on our review of cases and discussions with management, we identified several reasons that may have contributed to the amount of dollars that accrued. In some instances, the taxpayers did not comply regardless of the actions taken by the revenue officers. We identified 32 of the 116 cases where revenue officers took timely actions and used appropriate collection tools, but taxpayers did not comply with filing and payment requirements.

In other cases, the taxpayers' types of businesses hindered the actions that could be taken. For example, taxpayers in certain service industries may not have any assets on which to take enforcement actions. Our analysis showed that 39 of the 116 cases were in service industries. This was the general type of industry with the largest number of cases in our sample.

The management information available for delinquent in-business trust fund taxpayers at the national level is generally numbers and dollars of Forms 941 in inventory; the type of business is not captured. Also, the management information system does not show whether the taxpayer is still in business. These are examples of information that could be useful when trying to resolve cases involving taxpayers who are not complying.

Other reasons why dollars owed continued to pyramid include:

- *The perception of conflicting IRS goals for the Collection function.*
- *Resources being applied first to customer service priorities.*
- *Fall-out from the RRA 98 resulting in a reluctance to take enforcement actions.*

In other cases, we determined that some IRS staff considered the IRS' goals for the Collection function to be conflicting. For example, discussions with managers indicated that there is the perception that customer service is the primary goal, not compliance. Resources are applied first to priorities such as customer service and Offers in Compromise, reducing the number of revenue officers available to work delinquent in-business trust fund cases. When they do get to work the cases, there are frequently delays and the taxpayers are usually pyramiding.

Based on our case review and discussions with management, we believe revenue officers were very

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aware of the customer service goals of the IRS and worked with the taxpayers to try to get voluntary payment. Training has been conducted, and staffs are generally experienced revenue officers. However, they were reluctant to take enforcement actions even when taxpayers had some ability to pay and did not meet deadlines.

Based on discussions with Collection function management and our review of cases, we believe this condition exists because revenue officers and group managers are reacting to adverse publicity from Senate hearings and subsequent legislation. In 1997, the IRS was criticized at Senate hearings when several taxpayers testified that they had been harassed and mistreated. Then, the RRA 98 was passed to give taxpayers more rights and protection. The RRA 98 requires revenue officers to perform additional steps when taking certain collection actions; penalties, including firing, could result from not meeting the Act's provisions. For example, a revenue officer can be fired if he/she willfully fails to obtain the proper approval before seizing a taxpayer's property.

Recommendations

Collection function management should:

2. Use all collection tools, including enforcement tools and require the filing of monthly, rather than quarterly, returns. For example, re-emphasize the use of Letter 903.
3. Consider using paraprofessionals to help revenue officers perform less technical aspects of the job, such as monitoring FTD payments. If these resources are not available, re-emphasize the need for revenue officers to monitor these regularly.
4. Include in the planning process for modernizing the Collection computer systems, making programming changes to the CFf's automated case inventory system (Integrated Collection System [ICS]) to not

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allow cases to be closed unless the taxpayer is current with FTD payments.

5. Continue to emphasize, at the Commissioner and Executive level, use of enforcement actions when necessary and management's support for employees when actions are appropriate.
6. Gather information on delinquent in-business trust fund taxpayers, such as the types of industries, and identify trends to pinpoint industry groups for education efforts. Industry type and trending information could also help with resolution of cases involving those taxpayers who will not comply. Information that is available on the ICS for the type of business could be used. This type of information will be necessary as the CFf reorganizes into the Small Business/Self-Employed Operating Division.

Management's Response: Management's response was due on July 14, 2000. As of July 28, 2000, management had not responded to this draft report.

Conclusion

In-business trust fund taxpayers are high priority case work within the CFf, and the amount of dollars in inventory is large. Our review of 116 cases showed that a significant dollar amount pyramided as a result of not timely taking actions, not taking additional enforcement actions, or not monitoring FTD payments. Other priorities and new processes have adversely affected the way these cases are assigned and worked. Collection function management needs to re-emphasize the importance of timely assigning and resolving these cases.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to determine whether the Internal Revenue Service (IRS) Collection Field function (CFf) is effectively using all the tools available to help in-business trust fund account taxpayers comply with tax payment requirements. Our review concentrated solely on actions taken in the CFf.

Scope and Limitations of Case Review

We used a judgmental sample of 116 cases where pyramiding of tax liabilities occurred to perform our case review. As a result, although we could identify trends among the specific cases selected, we were limited in our ability to project the results and trends on a national level.

We used the Delinquent Inventory Account Listing (DIAL)¹ data available in August 1999 for the Illinois, Rocky Mountain, and Virginia-West Virginia districts, and the Integrated Collection System (ICS)² to select cases where there was an indication that pyramiding of tax liabilities occurred. The criteria we used were that the liability was greater than \$25,000 when we selected the initial sample and that from the best we could determine, the case had been assigned to CFf on January 1, 1998, or later. The populations for the 3 districts were Illinois (728 cases), Rocky Mountain (693), and Virginia-West Virginia (629), for a total of 2,050 cases.

We performed the following audit tests to accomplish our objective:

- I. Identified trends in the nationwide Collection inventory that could indicate ineffective collection actions and possible pyramiding of liabilities.
 - A. Obtained and evaluated general Collection statistics from the September 1999 Collection Activity Reports to identify any trends. Specifically, analyzed the following for trends:
 - 1) Number of Employer's Quarterly Federal Tax Return (Form 941) Trust Fund taxpayer cases.
 - 2) Number of Form 941 tax period modules.
 - 3) Large dollar cases.

¹ The DIAL is a computerized file which contains delinquent tax accounts in inventory in the CFf.

² The ICS is the automated case inventory system that the CFf uses to manage its inventory. Revenue officers use this system to work the delinquent tax account cases assigned and document the various collection tasks they perform.

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- 4) Cases with many multiple tax period modules, possibly indicating pyramiding.
 - 5) Overage cases.
- B. Obtained and evaluated data from the April through October 1999 Collection Quality Measurement System (CQMS) Monthly Trend Reports to identify trends where certain standards were not met by districts. Specifically, analyzed the following standards for trends:
- 1) Setting action dates.
 - 2) Lapses on cases exceeding the standard.
 - 3) Timely follow-up.
 - 4) Expense guidelines followed.
 - 5) Judgment on enforcement actions.
 - 6) Timely enforcement actions.
 - 7) Compliance addressed.
 - 8) Pyramiding.
 - 9) Days from revenue officer receipt of case to first contact.
 - 10) Days from revenue officer first contact to case closure.
- C. Requested data from the DIAL using criteria that indicated pyramiding over the period from August 1998 through August 1999 (or the latest DIAL data available). In addition to evaluating these statistics for trends among districts, we used this as the source to select cases for review because we experienced delays in accessing the ICS.
- D. Identified trends among all IRS districts by sorting the statistical data obtained in Tests I.A-C above.
- E. Selected district locations for review based on a combination of the following key statistical trends:
- 1) An error rate above the national average for “the pyramiding criteria” on the CQMS.
 - 2) A large number of multiple balance due tax period accounts for one taxpayer.
 - 3) A large number of tax period accounts with balances greater than \$25,000.
- II. Identified and reviewed instructions and guidelines issued to CFf personnel regarding in-business trust fund accounts.
- A. Discussed procedures and guidelines with National Office Collection function management and CQMS personnel.

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- B. Reviewed the Internal Revenue Manual (IRM), Law Enforcement Manual, and other guidance documents.
- C. Determined which districts were on the ICS.
- III. Determined the effectiveness of revenue officer and group manager actions on delinquent in-business trust fund balance due accounts by reviewing 116 cases from 3 districts. We reviewed open balance due cases as well as those cases which were open on the date of the DIAL we used to select the sample, but which later may have been closed after the revenue officer worked the case.
 - A. For the three districts in our review, identified the population of cases on the latest DIAL available as of August 1999 where liabilities had pyramided, the dollar amount of the aggregate taxpayer liability exceeded \$25,000, and the case was open between January 1, 1998, and the date of our review.
 - B. Randomly selected a judgmental sample from the population in each district.
 - C. Developed a case review sheet based on CQMS criteria and IRM guidelines that indicated whether revenue officers took timely and appropriate actions to help taxpayers comply with their filing and payment requirements.
 - D. Using the case review sheet, evaluated case documentation for the actions taken, such as:
 - 1) Timely contact and actions.
 - 2) Compliance checks.
 - 3) Verifying current Federal Tax Deposits.
 - 4) Setting deadlines and following up on a timely basis.
 - 5) Time lapses when working on the case.
 - 6) Consideration of enforcement actions.
 - 7) Group manager involvement.
- IV. Analyzed the results of the case review.
 - A. Identified exception cases with untimely and ineffective actions and categorized the procedural weaknesses or control breakdowns.
 - B. Identified common factors or trends among all cases (exception and non-exception cases).
 - C. Prepared case review summaries and discussed the cases with local district management.

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- V. Determined why the actions taken by revenue officers and managers were not effective by discussing the cases reviewed with local district management to obtain agreement to the results.
 - A. Identified the potential cause(s) for ineffective actions on exception cases.
 - B. Discussed any underlying cause or issues in the CFf such as changes due to the IRS Restructuring and Reform Act of 1998 (RRA 98).³
 - C. Identified the training and instructions provided to revenue officers and the emphasis placed locally on resolving/closing delinquent in-business trust fund accounts. Determined whether there was an emphasis placed on taking proactive actions to provide information to taxpayers about methods the IRS has available to help them file returns and keep current in payments, such as electronic filing or education seminars.

- VI. Reviewed the data on the nationwide Collection management information systems available for monitoring the in-business trust fund program.
 - A. Identified and summarized the management information available from Collection Activity Reports, the CQMS, and the ICS for delinquent in-business trust fund taxpayers.
 - B. Determined through discussions with district and National Office Collection management if additional or different information could be useful to management.

³ Pub. L. No. 105-206, 112 Stat. 685.

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Appendix II

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Appendix III

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