



*Fiscal Year 2006 Statutory Review of
Compliance With Lien Due Process
Procedures*

June 2006

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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.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 21, 2006

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

David R. Phillips

FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2006 Statutory Review of Compliance
With Lien Due Process Procedures (Audit # 200530024)

This report presents the results of our review of the Internal Revenue Service's (IRS) Lien Due Process Procedures. The overall objective of this review was to determine whether Notices of Federal Tax Lien (NFTL) issued by the IRS comply with legal guidelines set forth in Internal Revenue Code Section (I.R.C. §) 6320.¹

Synopsis

The Treasury Inspector General for Tax Administration is required to determine annually whether NFTLs filed by the IRS comply with the legal guidelines in I.R.C. § 6320.² This is our eighth annual audit to determine the IRS' compliance with the law, and its own related internal guidelines, when filing NFTLs.

The IRS did not completely comply with the law. Our review of a statistically valid sample of 150 NFTLs identified 7 NFTLs (4.67 percent) for which the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely as required by I.R.C. § 6320. In addition, for another 2 NFTLs (1.33 percent), we could not determine if the IRS complied with the law because the IRS could not provide proof of timely mailing. In June 2004, the IRS began printing the NFTLs at the National Print Sites to increase the timeliness of mailing the lien notices; however, this process showed no improvement in mailing lien notices more timely.

¹ I.R.C. § 6320 (Supp. V 1999).

² I.R.C. § 7803(d)(1)(A)(iii) (Supp. V 1999).



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

In addition, the IRS did not follow its own internal guidelines when issuing lien notices, including the guidelines for notifying taxpayer representatives and resending lien notices when they are returned as undeliverable. In 34 (75.6 percent) of 45 NFTLs for which the taxpayer had a representative, the IRS did not notify the taxpayer representatives of the filing of the lien. In addition, undelivered lien notices were not timely controlled on the Automated Lien System.³

Recommendations

We recommended the Director, Collection, Small Business/Self-Employed (SB/SE) Division, consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit. Also, we recommended the Director, Collection, SB/SE Division, and the Director, Campus Compliance Services, SB/SE Division, consider revising the proposed program enhancements to systemically update the power of attorney information from the Centralized Authorization File⁴ to the Automated Lien System, thus eliminating the manual process. Also, the Director, Collection, SB/SE Division, and the Director, Campus Compliance Services, SB/SE Division, should develop an alternate solution if the program enhancements are not implemented.

Response

SB/SE Division Management agreed with our recommendations and already implemented one of the corrective actions. SB/SE Division management consulted with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations. In addition, they will establish procedures addressing emailing power of attorney information to the Centralized Lien Unit. SB/SE Division management also plans to discuss the feasibility of using the Centralized Authorization File to update the Automated Lien System with power of attorney information.

Copies of this report are also being sent to IRS officials affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-8500.

³ A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

⁴ Employees can research this File to identify the type of authorization that taxpayers have given their representatives.



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

Table of Contents

Background	Page 1
Results of Review	Page 4
Lien Notices Were Not Always Mailed Timely	Page 4
<u>Recommendation 1:</u>	Page 5
Internal Guidelines for Notifying Taxpayer Representatives Were Not Being Followed.....	Page 5
<u>Recommendations 2 and 3:</u>	Page 7
Undelivered Lien Notices Were Not Timely Controlled on the Automated Lien System	Page 7
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 9
Appendix II – Major Contributors to This Report	Page 11
Appendix III – Report Distribution List	Page 12
Appendix IV – Outcome Measure	Page 13
Appendix V – Synopsis of the Internal Revenue Service Collection and Lien Filing Processes	Page 14
Appendix VI – Internal Revenue Service Computer Systems Used in the Filing of Notices of Federal Tax Lien.....	Page 16
Appendix VII – Management’s Response to the Draft Report	Page 17



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

Background

The Internal Revenue Service (IRS) attempts to collect Federal taxes due from taxpayers by sending letters, making telephone calls, and meeting face to face with taxpayers. When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim to the taxpayer's assets for the amount of unpaid tax liabilities.¹ This claim is referred to as a Federal Tax Lien. The IRS files a Notice of Federal Tax Lien (NFTL),² which notifies people that a lien exists.

Since January 19, 1999, Internal Revenue Code Section (I.R.C. §) 6320³ has required the IRS to notify taxpayers in writing within 5 business days of the filing of an NFTL. The IRS is required to notify taxpayers the first time an NFTL is filed for each tax period. The Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320⁴ (lien notice) is used for this purpose and advises taxpayers that they have 30 calendar days, after that 5-day period, to request a hearing with the IRS Appeals office. The lien notice indicates the date this 30-day period expires.

The law also requires that the lien notice explain, in simple terms, the amount of unpaid tax, administrative appeals available to the taxpayer, and the provisions of the law and procedures relating to the release of liens on property. The lien notice must be given in person, left at the taxpayer's home or business, or sent certified or registered mail to the taxpayer's last known address.

The lien processing operation has been centralized at the Cincinnati, Ohio, Campus,⁵ except for printing and mailing lien notices. The centralization began in August 2004 and took most of Fiscal Year (FY) 2005 to be implemented. The National Print Sites (NPS) in Detroit, Michigan, and Ogden, Utah, have been responsible for the printing and mailing of lien notices since June 2004.

A synopsis of the IRS collection and lien filing processes is included in Appendix V. A description of IRS computer systems used in the filing of liens is included in Appendix VI.

The IRS has been relatively consistent in the number of NFTL filings to protect the Federal Government's interest. The number of NFTLs filed increased by 118,150 from FY 2001 to

¹ Internal Revenue Code § 6321 (1994).

² Notice of Federal Tax Lien (Form 668(Y) (c); (Rev. 10-1999)), Cat. No. 60025X.

³ I.R.C. § 6320 (Supp. V 1999).

⁴ Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320 (Letter 3172 (Rev. 11-2004), Cat. No. 26767I).

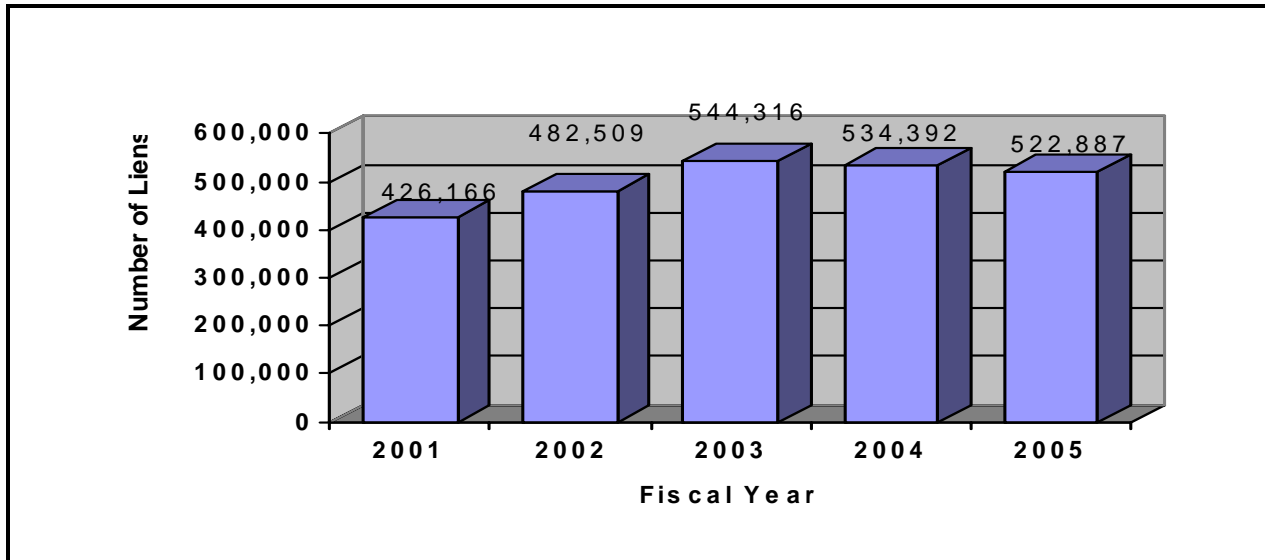
⁵ A campus is the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

FY 2003, then dropped slightly in FYs 2004 and 2005. Figure 1 shows the number of NFTLs filed in the last 5 fiscal years.

Figure 1: Liens Filed



Source: IRS Databooks 2004 and 2005.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether NFTLs filed by the IRS comply with the law.⁶ Our review included visits to the NPS in Detroit, Michigan, and the Centralized Case Processing (CCP) function located in Covington, Kentucky. We performed our audit work during the period September 2005 through February 2006.

The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of prior TIGTA reviews

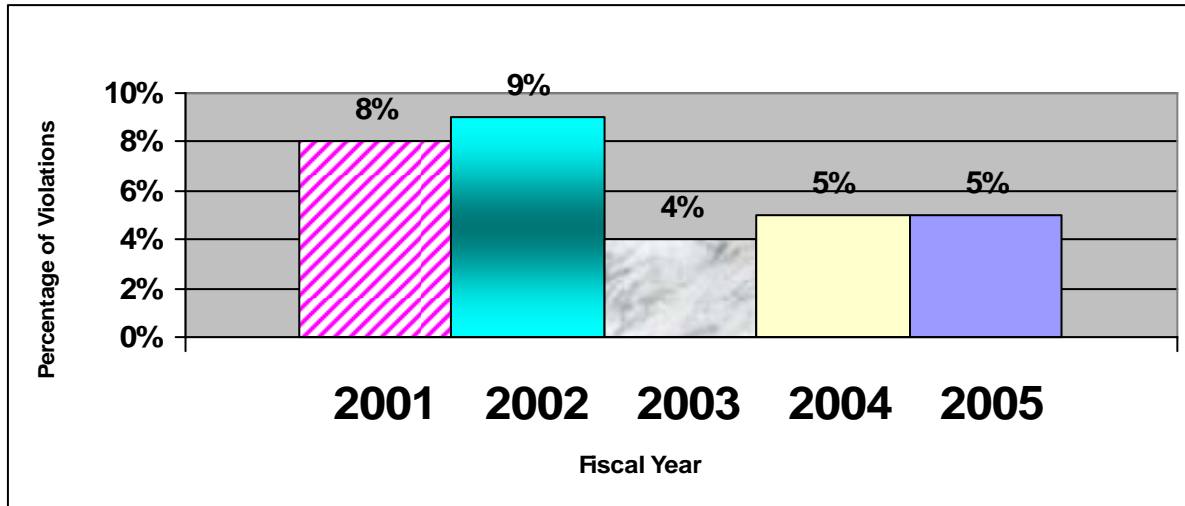
This is our eighth annual audit to determine if the IRS complied with the legal requirements of I.R.C. § 6320, and its own related internal guidelines, when filing NFTLs. In prior years, we reported the IRS had not yet achieved full compliance with the law and its own internal guidelines. Figure 2 shows the percentages of potential violations of taxpayer rights.

⁶ I.R.C. § 7803(d)(1)(A)(iii) (Supp. V 1999).



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

Figure 2: Potential Violations of Taxpayer Rights



Source: TIGTA mandatory lien reviews in FYs 2001 through 2005.



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

Results of Review

Lien Notices Were Not Always Mailed Timely

Our review of a statistically valid sample of 150 NFTLs identified 7 NFTLs (4.67 percent) for which the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely as required by I.R.C. § 6320. For the 7 NFTLs, lien notices were not mailed within 5 business days after the day of the filing of the liens. We estimate that 23,825 lien notices prepared from August 1, 2004, through July 31, 2005, could have been mailed late. See Appendix IV for details.

Using the NPSs in Detroit and Ogden for the printing and mailing of lien notices was a new procedure established to substantially reduce the number of untimely issued notices because these locations each have their own mail facility. However, we identified no improvement in the timeliness of mailing lien notices since our prior audit. This year's percentage of untimely mailed lien notices (4.67 percent) is the same as the percentage that we identified last year.

Although we could not identify the specific reasons for the delays, all of the untimely lien notice mailings occurred at the Detroit NPS. Management could not provide an explanation as to why the lien notices were not mailed timely. The in-house mail facility is located in the basement of the NPS where one United States Postal Service employee is responsible for date stamping the certified mail listings. The lien notices are carried to the mail unit where they are metered and prepared for shipment daily to the main post office for shipping. An IRS employee sends the certified mail listings to the CCP function via overnight mail.

Delays in mailing the lien notices can reduce the time a taxpayer has to request a hearing to less than the 30-day period allowed by the law. These errors could result in violations of taxpayers' rights should they appeal the filing of the lien notice and the IRS deny the request for appeal.

Controls over the processing of certified mail listings improved

We could not determine if the IRS complied with the law in another 2 of the 150 NFTLs (1.33 percent) because Small Business/Self-Employed (SB/SE) Division management could not provide proof of timely mailing the certified mail listings. This is a significant improvement from the previous 5 years, when the missing certified mail listings averaged 9.9 percent. The procedures management implemented over the processing of the certified mail listings seem to be working effectively. IRS procedures require the retention of the date-stamped copy of the certified mail listings for 10 years after the end of the processing year.



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

The IRS National Headquarters NFTL compliance review was postponed

Since 1999, the IRS has performed Compliance Lien Collection Due Process Reviews annually to ensure IRS procedures are being followed and taxpayers' rights are being protected. However, the Review was not performed during this audit period due to the centralization effort. The IRS will begin its next review in June 2006. The Review includes analyses to determine if the IRS timely notified taxpayers, business partners, spouses, and taxpayer representatives of the filing of an NFTL and timely processed undelivered mail.

Recommendation

Recommendation 1: The Director, Collection, SB/SE Division, should consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit.

Management's Response: SB/SE Division management agreed with our recommendation and consulted with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations.

Internal Guidelines for Notifying Taxpayer Representatives Were Not Being Followed

Taxpayer representative information is contained on the Centralized Authorization File (CAF) that is located on the Integrated Data Retrieval System (IDRS), a system that enables IRS employees to have access to certain taxpayer accounts. Using the IDRS, employees can research the CAF to identify the type of authorization that taxpayers have given their representatives. IRS employees responsible for making the lien filing determination are to ensure appropriate persons, such as those with a taxpayer's power of attorney (POA), receive a copy of the lien notice. Our review of IRS computer systems showed that, in 34 (75.6 percent) of 45 NFTLs for which the taxpayer had a representative, a copy of the lien notice was not sent to the representative as required by the IRS' internal guidelines. The IRS stated this happened because of various reasons, such as the employees did not forward the taxpayer representatives' information to the Automated Lien System (ALS) Unit or ALS Unit employees did not input the request for the notice although they had received the taxpayer representatives' information.

Another contributing factor was that the IRS was in the process of transitioning from 34 lien operations into 1 CCP function. Management did not have all of the procedures in place to effectively handle the volume of work to be processed at the CCP function. Initially, it appeared there were large volumes of POA requests and lien units were unable to control receipt and initiate processing. IRS employees who made the lien filing determinations were instructed to fax the taxpayer representatives' information to the ALS Unit. The ALS Unit uses 12 fax machines to receive requests for lien processing. A printer was not designated specifically for



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

taxpayer representative information. The fax machines may have run out of paper and memory without management's knowledge. Also, fax machines were not linked to each other so overflow went to another fax machine. As a means of establishing control and to alleviate this problem, employees began using secure email to send taxpayer representatives' information to the ALS Unit. However, management did not establish written procedures to ensure problems similar to the fax machines issues do not occur because email also has memory limitations.

IRS procedures require that a copy of the notice be sent to the taxpayer's representative no later than 5 business days after the notice is sent to the taxpayer when an NFTL is filed. IRS employees requesting the NFTL through the Automated Collection System (ACS) are responsible for electronically forwarding the taxpayer representative information to the ALS Unit, so a copy of the lien notice can be sent. Revenue officers using the Integrated Collection System (ICS) may choose to send taxpayer representative information to the ALS Unit by fax or email, or they may send the lien notice directly to the taxpayer's representative without using the ALS. The ALS Unit is responsible for preparing, printing, and mailing the lien notices to taxpayer representatives.

Of the 34 NFTLs for which taxpayer representatives did not receive a notice, 4 liens (11.8 percent) were initiated through the ACS. Although the ACS had taxpayer representative information for these four liens, the IRS did not send lien notices to the taxpayer representatives. The ACS has the ability to send an electronic file of taxpayer representative information directly to the ALS Unit, where it is printed and manually keyed in by ALS Unit personnel; therefore, there are few errors.

The other 30 of 34 NFTLs were initiated through the ICS. Revenue officers are required to document in the case history when they request a lien notice for a taxpayer's representative. Revenue officers' managers are also required to examine case files during the regular review process for this documentation. For 19 of these 30 cases, revenue officers using the ICS did not document that they had requested a lien notice be sent to the taxpayer representatives.

In the remaining 11 cases, no ICS records were available. IRS management stated this happened because there is no archive of information in the ICS. Cases are closed, removed from the ICS, and ultimately shipped to the Federal Records Center in Dayton, Ohio.

Since 2003, the IRS has been in the process of designing a programming enhancement to the ICS and the ACS that will electronically update taxpayer representative information to the ALS. The scheduled completion date for this enhancement has been postponed several times and is currently planned for February 2008. However, a Request for Information Services (RIS) was submitted by IRS management on November 18, 2005. This is the first step in the process for requesting program changes. The initial RIS is considered an informal document that provides early notification to the Modernization and Information Technology Services function that a service or support request will be made, and it initiates precoordination. Once the requirements are fully defined and coordinated, the customer submits a formal RIS. The Modernization and



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

Information Technology Services function then prepares a formal RIS response, documenting the work that it has agreed to do. As of March 2, 2006, the requirements had not been fully defined and no formal RIS had been submitted. This program enhancement will likely be postponed again.

Recommendations

Recommendation 2: The Director, Collection, SB/SE Division, and the Director, Campus Compliance Services, SB/SE Division, should consider revising the proposed program enhancements to systemically update POA information from the CAF on the IDRS to the ALS, thereby eliminating the manual task of updating the POA information.

Management's Response: SB/SE Division management agreed with our recommendation and plans to discuss the feasibility of using the CAF to update the ALS with POA information.

Recommendation 3: The Director, Collection, SB/SE Division, and the Director, Campus Compliance Services, SB/SE Division, should develop an alternate solution if the program enhancements are not implemented, including establishing written guidelines for email procedures.

Management's Response: SB/SE Division management agreed with our recommendation and will establish procedures addressing emailing POA information to the Centralized Lien Unit.

Undelivered Lien Notices Were Not Timely Controlled on the Automated Lien System

IRS procedures require that an undelivered lien notice be sent to a different address if the initial mailing is returned because it could not be delivered and a different address is available and was known to the IRS prior to issuance of the lien notice. The ALS showed that only 8.67 percent (13 of 150) of the NFTLs were returned to the IRS as undeliverable. However, we believe the ALS information does not accurately reflect the volume of lien notices that were returned undelivered.

During the course of our review, management advised us that the undelivered mail rate within the CCP was approximately 50 percent. The undelivered mail issue has been an ongoing problem for several years. In FY 2004, the SB/SE Division Headquarters Compliance Lien Collection Due Process Reviews reported that the undelivered mail rate for lien notices was between 60 percent and 75 percent. In October 2005, the Director, Collection, SB/SE Division, expressed concern regarding the backlog of undelivered lien notices. Management information reports for the last quarter of FY 2005 and the first quarter of FY 2006 showed 108,764 lien



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

notices were returned undelivered. Based on these reports, we estimate approximately 43 percent (108,764/255,264)⁷ of the lien notices were undelivered, unclaimed, or refused. We also found no evidence that the ALS Unit worked the undelivered lien notices within 5 business days, as required by IRS guidelines.

The IRS developed guidelines requiring employees to research IRS computer systems to identify an updated address. When a notice is returned undeliverable and an updated address is available, the employee is responsible for certain actions. For a lien processed through the ICS, an employee in the ALS Unit researches the IRS computer system for a new address. If a new address exists, the ALS employee will resend the notice. If there is no new address available, the ALS employee forwards the notice to the revenue officer for his or her action. For a lien processed through the ACS, an ALS Unit employee researches to determine if a new address is available; if so, the ALS employee will send the notice to the new address. If the ALS employee cannot find a new address on the IRS computer system, he or she will shred the notice and close the lien case.

Since we identified an undelivered rate of only 8.67 percent for lien notices and management sources showed significantly higher volumes, we plan to evaluate this issue in a subsequent audit scheduled later in this fiscal year. We are making no recommendations at this time regarding undelivered mail guidelines.

⁷ These figures are defined as follows: 108,764 is the actual undelivered lien notice volume for the 6-month period July 1 to December 31, 2005; 510,529 is the actual lien notice total for the 12-month period August 1, 2004, to July 31, 2005; and 255,264 represents one-half of the 510,529 figure. Although the respective values are not from the same time period, we feel confident in our estimate (43 percent) of undelivered lien notices because this issue was prevalent throughout both time periods.



Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether Notices of Federal Tax Lien (NFTL) issued by the Internal Revenue Service (IRS) comply with legal guidelines set forth in Internal Revenue Code Section (I.R.C. §) 6320.¹ Specifically, we:

- I. Determined whether liens issued by the IRS complied with legal requirements set forth in I.R.C. § 6320 (a) and related internal guidelines.
 - A. Obtained from the IRS Automated Lien System (ALS)² Project Team an extract of liens prepared by the IRS nationwide from August 1, 2004, through July 31, 2005. The ALS extract contained 510,529 liens; it excluded refiled liens. We compared the total population for accuracy to the Collection Report of Liens for the same period. We validated the sample selected in Step I.B. by accessing the ALS database and verifying that the extract information was accurate. We also compared taxpayer data to the IRS Integrated Data Retrieval System.
 - B. Selected a statistically valid sample of 150 liens for review from an ALS extract of the 510,529 liens filed by the IRS nationwide from August 1, 2004, through July 31, 2005. We used a statistical sample because we wanted to project the number of errors. We used attribute sampling and the following formula to calculate the minimum sample size (n),³ which we rounded to 150:
$$n = (Z^2 p(1-p))/(A^2)$$

Z = Confidence Level:	90 percent (expressed as 1.65 standard deviation)
p = Expected Rate of Occurrence:	5 percent ⁴
A = Precision Rate:	±3 percent
 - C. Analyzed 150 liens using data from the ALS, Integrated Collection System, Automated Collection System, and Integrated Data Retrieval System to determine whether the IRS adhered to legal and internal guidelines.
 1. Obtained certified mail listings (CML) for 142 of the 150 liens (CMLs for 8 of the 150 sample liens were not available) and compared the lien-filed dates to the

¹ I.R.C. § 6320 (Supp. V 1999).

² A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

³ The formula $n = (Z^2 p(1-p))/(A^2)$ is from *Sawyer's Internal Auditing - The Practice of Modern Internal Auditing*, 4th Edition, pp. 462-464.

⁴ The actual error rate in our prior report was 4.67 percent.



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

postal dates on the CMLs to determine whether the lien notices were sent to taxpayers timely.

2. Determined whether taxpayers, spouses, partners, and taxpayer representatives received notices.
 3. Determined whether the lien notices were mailed to correct addresses and the undelivered notices were appropriately processed.
- D. Determined whether guidelines over the CMLs have been implemented at the Cincinnati, Ohio, Campus.⁵
- E. Determined whether using the National Print Sites has improved the timeliness of mailing the lien notices to taxpayers.
- F. Discussed all exception cases with Small Business/Self-Employed Division Compliance function management for agreement to potential violations and corrective action, if appropriate.
- II. Determined whether internal guidelines have been implemented or modified since our last review by discussing procedures and controls with appropriate IRS personnel in the Small Business/Self-Employed Division National Headquarters. We included any planned new quality review procedures and the potential centralization of the ALS Unit.
- III. Determined the status of the Integration Collection System and Automated Collection System enhancements as planned and any problems encountered.

⁵ A campus is 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.



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

Appendix II

Major Contributors to This Report

Curtis W. Hagan, Assistant Inspector General for Audit (Small Business and Corporate Programs)
Parker Pearson, Director
Edward Gorman, Audit Manager
Marcus Sloan, Lead Auditor
Todd Anderson, Senior Auditor



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

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, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
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 Management Controls OS:CFO:AR:M
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



Appendix IV

Outcome Measure

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:

- Taxpayer Rights and Entitlements – Potential; 23,825 Notices of Federal Tax Lien (NFTL) with legal violations of taxpayers' rights (see page 4).

Methodology Used to Measure the Reported Benefit:

From a nationwide statistically valid sample of 150 NFTLs,¹ we identified 7 NFTLs (4.67 percent) with potential legal violations of taxpayers' rights. The sample was selected based on a confidence level of 90 percent, a precision rate of ± 3 percent, and an expected rate of occurrence of 5 percent. We projected the findings to the total population provided by the Internal Revenue Service (IRS) of 510,529 NFTLs prepared by the Automated Lien System² from August 1, 2004, through July 31, 2005. We estimated that similar taxpayer rights could have been affected in 23,825 NFTLs ($7/150 \times 510,529$ population). We are 90 percent confident that the range of NFTLs affected by similar errors is between 23,110 and 24,539.

Taxpayer rights could be affected because the taxpayer not receiving a notice or receiving a late notice might not be aware of the right to appeal or have less than the 30-calendar day period allowed by the law to request a hearing. In addition, taxpayer rights could be affected when the taxpayer appeals the filing of the lien and the IRS denies the request for the appeal.

¹ One NFTL may require multiple lien notices because the Internal Revenue Service is required to separately notify taxpayers' spouses and business partners.

² A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.



Appendix V

Synopsis of the Internal Revenue Service Collection and Lien Filing Processes

The collection of unpaid tax begins with a series of letters (notices) sent to the taxpayer advising of the debt and asking for payment of the delinquent tax. The Internal Revenue Service (IRS) computer systems are programmed to mail these notices when certain criteria are met. If the taxpayer does not respond to these notices, the account is transferred for either personal or telephone contact. A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

- IRS employees who make personal (face-to-face) contact with taxpayers are called revenue officers and work in various IRS locations. The computer system used in most of these locations to track collection actions taken on taxpayer accounts is called the Integrated Collection System.
- IRS employees who make only telephone contact with taxpayers work in call sites in IRS Customer Service offices. The computer system used in the call sites to track collection actions taken on taxpayer accounts is called the Automated Collection System.

When these efforts have been taken and the taxpayer has not paid the tax liability, designated IRS employees are authorized to file a Notice of Federal Tax Lien (NFTL). Liens protect the Federal Government's interest by attaching a claim to the taxpayer's assets for the amount of unpaid tax liabilities. The right to file an NFTL is created by Internal Revenue Code Section 6321 (1994) when:

- The IRS has made an assessment and given the taxpayer notice of the assessment, stating the amount of the tax liability and demanding payment.
- The taxpayer has neglected or refused to pay the amount within 10 days after the notice and demand for payment.

When designated employees request the filing of an NFTL using either the Integrated Collection System or the Automated Collection System, the NFTL requests from both Systems are transferred to the Automated Lien System (ALS). All NFTLs are processed by the ALS unless there is an expedite situation, in which case the NFTL is manually prepared. Although they are manually prepared and not printed through the ALS, manual NFTLs are tracked and controlled on the ALS and the lien notice is processed through the ALS. The ALS maintains an electronic database of all open NFTLs and updates the IRS' primary computer records to indicate an NFTL has been filed.



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

Most lien notices are mailed to taxpayers by certified or registered mail rather than being delivered in person. To maintain a record of the notices, the IRS prepares a certified mail listing (United States Postal Service (USPS) Form 3877), which identifies each notice that is to be mailed. The notices and a copy of the certified mail listing are delivered to the USPS. A USPS employee ensures all notices are accounted for, then date stamps the listing and returns a copy to the IRS. The stamped certified mail listing is the only documentation the IRS has that certifies the date the notices were mailed. IRS guidelines require that the stamped certified mail listing be retained for 10 years after the end of the processing year.



Appendix VI

Internal Revenue Service Computer Systems Used in the Filing of Notices of Federal Tax Liens

The Automated Collection System (ACS) is a computerized call site inventory system that maintains balance-due accounts and return delinquency investigations. The ACS employees enter all of their case file information (online) on the ACS. Lien notices requested using the ACS are uploaded to the Automated Lien System, which generates the Notice of Federal Tax Lien (NFTL) and related lien notices and updates the Internal Revenue Service's (IRS) primary computer files to indicate an NFTL has been filed.

The Automated Lien System (ALS) is a comprehensive database that prints NFTLs and lien notices, stores taxpayer information, and documents all lien activity. Lien activities on both the ACS and the Integrated Collection System cases are controlled on the ALS by Technical Support or Case Processing functions at the Cincinnati, Ohio, Campus.¹ Employees at the Cincinnati Campus process NFTLs and lien notices and respond to taxpayer inquiries using the ALS.

The Integrated Collection System (ICS) is an 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. Lien requests made using the ICS are uploaded to the ALS. The ALS generates the NFTL and related lien notices and updates the IRS' primary computer files to indicate an NFTL has been filed.

The Integrated Data Retrieval System (IDRS) is an online data retrieval and data entry system that processes transactions entered from terminals located in both campuses and other IRS locations. The IDRS enables employees to perform such tasks as researching account information, requesting tax returns, entering collection information, and generating collection documents. The IDRS serves as a link from campuses and other IRS locations to the Master File for the IRS to maintain accurate records of activity on taxpayers' accounts.

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

¹ A campus is 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.



Fiscal Year 2006 Statutory Review of Compliance With Lien Due Process Procedures

Appendix VII

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

June 2, 2006

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin M. Brown *K. E. Stoffer*
Commissioner, Small Business/Self-Employed (SB/SE)
Division

SUBJECT: Draft Audit Report – Fiscal Year 2006 – Statutory Review
of Compliance with Lien Due Process Procedures
(Audit # 200530024)

We have reviewed the draft audit report and agree with your recommendations. We appreciate your acknowledgement that our controls over the processing of certified mail listings have improved. Our efforts to ensure timely issuance of lien collection due process notices continue.

We have completed the centralization of lien processing and made significant procedural changes. These changes include printing and mailing lien collection due process notices twice weekly from the Correspondence Production Services Branch (CPS) in Detroit and Ogden. When we identify potential legal violations we contact the Office of Chief Counsel to discuss corrective actions and we will continue to seek their guidance. After discussing the cases with Chief Counsel, we have taken all the necessary actions needed to correct any potential legal violations.

Your report noted two instances where the certified mail listings could not be located. To address this, we have added additional controls designed to prevent lost, misplaced and damaged certified mail listings. Certified mail listings are scanned to the computer on a daily basis and are uploaded to compact disks bi-weekly. The compact disks are maintained and retrieved based on the date of the certified mail listing.

As stated in your report, enhancements are needed to ensure that taxpayer's Power of Attorney (POA) are issued copies of collection due process notices. Employees are encouraged to use their contact with taxpayers to verify the accuracy of POA information so that lien notices reach the correct POA and to request authorization to update the taxpayer's POA file. While we have considered using the Centralized Authorization File (CAF), this file is only updated upon receipt of a written request from the taxpayer or a form completed by the POA and signed by the taxpayer. Current Internal Revenue Manual (IRM) procedures address faxing the POA's name and address to the centralized lien unit, and secure email procedures will be included in the next IRM revision.



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

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Page 3/4

2

Your report noted that undelivered lien notices were not timely controlled. Pursuant to discussions with your office, we continue to have questions with respect to the data source and projections relied upon by your staff. We look forward to resolve these issues in the future.

Our comments on your recommendations follow:

RECOMMENDATION 1

The Director, Collection, SB/SE Division, should consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit.

CORRECTIVE ACTION

Completed

IMPLEMENTATION DATE

May 2006

RESPONSIBLE OFFICIAL(S)

Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Director, Collection, SB/SE Division and the Director, Compliance Services, SB/SE Division should consider revising the proposed program enhancements to systematically update POA information from the Centralized Authorization File (CAF) on the Integrated Data Retrieval System (IDRS) to the ALS, thereby eliminating the manual task of updating the POA information.

CORRECTIVE ACTION

The Director, Collection, SB/SE Division and the Director, Compliance Services, SB/SE Division will discuss the feasibility of using CAF information to generate POA Collection Data Process (CDP) notices.

IMPLEMENTATION DATE

December 2006

RESPONSIBLE OFFICIAL(S)

Director, Collection, SB/SE Division and the Director, Compliance Services, SB/SE Division



*Fiscal Year 2006 Statutory Review of Compliance With Lien Due
Process Procedures*

3

CORRECTIVE ACTION MONITORING PLAN

Program Managers, Technical and Insolvency and Centralized Lien Unit will advise the Director, Collection Policy of any delays.

RECOMMENDATION 3

The Director, Collection, SB/SE Division and the Director, Compliance Services, SB/SE Division should develop an alternate solution if the program enhancements are not implemented, including establishing written guidelines for email procedures.

CORRECTIVE ACTION

Completed

IMPLEMENTATION DATE

June 2005

RESPONSIBLE OFFICIAL(S)

Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN

N/A

If you have any questions, please contact me at (202) 622-0600, or Brenda Dial, Director, Compliance Services, Small Business/Self-Employed Division, at (202) 283-4862.