



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 19, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM:

(for) Pamela J. Gardiner  
Deputy Inspector General for Audit

A handwritten signature in cursive script, reading "Scott E. Wilson".

SUBJECT:

Office of Audit Comments Concerning Management's  
Response to the Audit Report, "The Internal Revenue  
Service Can Improve the Estate Tax Collection Process"

This memorandum presents our concerns with Internal Revenue Service (IRS) management's response to the audit report, "The Internal Revenue Service Can Improve the Estate Tax Collection Process" (Reference Number 2000-30-059). The response to this report was received after the final report was released. While management agreed to the findings in the report, the corrective actions management proposed for some of the issues are significantly different than the corrective actions recommended in the report. Some of the corrective actions proposed will not effectively address the problems identified.

Each area of concern is listed below in the order presented in the final report. Our greatest concern is with the corrective actions proposed to recommendations five and nine because of the effect on taxpayer rights, collection of revenue, and reliability of IRS financial records. All of these concerns were discussed with IRS Collection Division officials prior to receiving management's formal response.

**Recommendation (1):** Collection and service center management should assign the responsibility for determining whether a bond or tax lien should be secured to the service center employees who process the installment agreements, instead of to the district offices. Management should also ensure that procedures require the determination and the securing of bonds or liens before installment agreements are accepted.

Management Response: District Examination personnel make the determination regarding the installment agreement election under Internal Revenue Code (IRC) Section 6166. Collection and Examination will coordinate with Chief Counsel to

develop new procedures that will address the determination and the securing of bonds or tax liens for IRC Section 6166 cases.

Office of Audit Comment: Management's response indicates that the responsibility to make the bond or tax lien determination will continue to be with the district office Examination function. This is inconsistent with the centralization of estate tax processing proposed by the IRS. Our recommendation to assign the bond or tax lien determination to the service center employees who process the installment agreement requests would help centralize responsibility and eliminate the transferring of cases back and forth with the districts.

**Recommendation (5)**: Collection management should instruct managers and employees to conduct a 100 percent review of all current estate cases to ensure active tax liens are input to the Automated Lien System (ALS), tax liens and lien fees are properly reflected on the taxpayer accounts, and all tax liens are released on accounts that have no tax obligation.

Management Response: Collection Division will explore the feasibility of performing a match between records on the ALS and the Masterfile. A memorandum will be issued to advise that lien fees should be charged to estate accounts when tax liens are filed. A memorandum will also be issued to advise that general liens (Form 668-Y) should be processed on the ALS and that estate tax liens on closely held businesses (Form 668-J) and estate tax liens on farms (Form 668-H) should not be processed through the ALS. Collection will coordinate with Examination to automate estate tax liens on the ALS.

Office of Audit Comment: Management's response did not address the most important aspect of this recommendation, which is to conduct a 100 percent review. This review is necessary to ensure that estate tax liens are properly recorded on ALS and taxpayer accounts, and to ensure that tax liens are released on accounts that have been fully paid.

Performing a match between the ALS and the Masterfile may help identify what is recorded on one system but not the other. It will not help identify liens that were not recorded on either system. As noted in the report, from a sample taken in four district offices, we found 168 tax liens that were not recorded on the Masterfile or the ALS.

Management's response is not clear on what action will be taken to identify liens that need to be released. Estate tax liens must be manually released. As noted in the report, IRS computer files indicate that 1,270 estates still had tax liens in effect an average of 3.6 years after the tax balance had been paid. These liens are long overdue for release. We continue to believe that the only way to ensure overdue liens are identified and released is to conduct a 100 percent review of estate tax cases.

Allowing these liens to remain on taxpayers' assets until taxpayers identify the problem and ask the IRS to remove the liens will cause additional taxpayer burden and is a violation of the IRC provision that a lien must be released not later than 30 days after the liability is satisfied.<sup>1</sup> The IRC also specifies that if any officer or employee of the IRS knowingly, or by reason of negligence, fails to release a lien, the taxpayer may bring a civil action for damages.<sup>2</sup> During our review, we found instances of taxpayers requesting the IRS to release tax liens that were long overdue for release.

**Recommendation (6):** Collection and Information Systems (IS) management should develop procedures to periodically reconcile tax liens on the ALS with information shown on the taxpayer accounts.

Management Response: Collection will submit a Request for Information Services (RIS) requesting that tax lien information on the Masterfile accounts be reconciled with information shown on the ALS. The RIS is subject to approval by Information Systems.

Office of Audit Comment: Management's response states a RIS will be submitted to reconcile liens that are not posted on both systems. The response does not address whether a manual review process will be needed to correct discrepancies. This process would determine whether liens should be removed or posted to one of the systems. If a periodic manual process is necessary, then the implementation date needs to reflect the time needed to develop this manual analysis and correction process.

**Recommendation (7):** Collection management should clarify procedures stating that all estate tax liens should be recorded on the ALS.

Management Response: Management's response refers to the corrective action for recommendation 5, which states a memorandum will be issued to advise that general liens (Form 668-Y) should be processed on the ALS and that estate tax liens on closely held businesses (Form 668-J) and on farms (Form 668-H) should not be processed through the ALS. Collection will coordinate with Examination to automate estate tax liens on the ALS.

Office of Audit Comment: The assessment of cause in management's response is incorrect. Management states that the ALS is not programmed to record the Form 668-J and Form 668-H liens. Based on discussions with IRS officials and transaction tests, the ALS is programmed and should be used to record all types of estate tax liens. Our recommendation is to clarify the procedures to ensure that employees record estate tax liens on ALS. Issuing a memorandum to advise

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<sup>1</sup> IRC § 6325(a)

<sup>2</sup> IRC § 7432

that estate tax liens should not be processed on the ALS is counter to the recommendation.

**Recommendation (9):** Collection management should ensure tax is properly reinstated, including recalculation of penalties and interest, for accounts abated prematurely [due to the incorrect computer calculation of the statute of limitations]. This will not only resume collection enforcement action, but it will also correct IRS financial accounts.

Management Response: Collection will explore the feasibility of reinstating high dollar estate tax cases. Collection will reinstate estate tax cases abated prematurely due to programming problems only where it will not have a negative impact on taxpayer relations, and a negative impact on the ability to work other high priority cases, such as delinquent trust fund taxpayers.

Office of Audit Comment: These abatements are computer errors; there is no need to determine the feasibility of reinstating the tax amounts owed. The only action needed is to reverse the erroneous transactions since these taxes were not legally abated. Allowing certain accounts to remain in this status prevents collection enforcement action and is not consistent with the IRS mission to apply the tax law with integrity and fairness. It also understates accounts receivable for financial reporting purposes.

**Recommendation (10):** Collection and service center management should ensure all estate tax accounts with collection statute abatements are manually reviewed to verify or correct Collection Statute Expiration Date (CSED) calculations.

Management Response: Management's response refers to the corrective action for recommendation 8, which states that Collection has submitted a RIS placeholder to request programming changes related to CSED calculations. The RIS placeholder states that after the programming changes are completed, the program should be run to correct the CSEDs for all open and closed Individual Masterfile (IMF) and Business Masterfile (BMF) accounts (except for cases in retention). A final RIS has been submitted by Collection and is subject to approval by Information Systems.

Office of Audit Comment: The corrective action above will not address the recommendation since it does not incorporate a manual review of abated tax amounts. The IRS already has a requirement to manually review tax abatements; however, this requirement was not followed due to other priorities. Following this requirement would not only identify systemic problems such as the erroneous abatement transactions that we identified, but would also identify whether the lack of proper collection enforcement action caused the tax amounts to go uncollected and be abated due to the expiration of the statute of limitations. If the IRS does not have the resources to review all tax abatements, then it

should implement procedures to review a sample of abatements to identify systemic and operational problems.

**Recommendation (11):** Collection and Information Systems management should coordinate to develop a procedure to identify accounts with multiple assessments and collection statute dates to ensure partial abatements occur when the earliest CSED is reached.

Management Response: Collection has submitted a RIS placeholder requesting the automation of this process. The RIS placeholder requests a program that performs partial adjustments on accounts with multiple assessments and collection statute dates. A final RIS has also been submitted by Collection. The RIS is subject to approval by Information Systems. Furthermore, Collection and Customer Service will send out memorandums reminding employees in these functions to follow current IRM procedures concerning adjusting accounts due to an expiration of the CSED.

Office of Audit Comment: Management's response does not address the manual process needed to abate accounts with multiple assessments. Discussions with Information Systems officials indicate that a programming change to the system can identify tax accounts with multiple assessments requiring a partial abatement. Once identified, these accounts will need to be manually reviewed for the proper amount to abate.

Copies of this memorandum are also being sent to the IRS managers who received a copy of the final report. 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.