

**The Timeliness of Processing Taxpayer  
Requests for Appeals Review of Collection  
Decisions Has Improved**

**September 2004**

**Reference Number: 2004-10-185**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 27, 2004

MEMORANDUM FOR CHIEF, APPEALS  
DEPUTY COMMISSIONER FOR SERVICES AND  
ENFORCEMENT

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Timeliness of Processing Taxpayer  
Requests for Appeals Review of Collection Decisions Has  
Improved (Audit # 200310038)

This report presents the results of our review of the processing of taxpayer requests for Office of Appeals (Appeals) review of collection decisions. The overall objective of this review was to evaluate the timeliness of processing taxpayer requests for Appeals review of collection decisions for Collection Due Process (CDP) and Offer in Compromise (OIC) cases. Cases involving collection decisions, such as CDP and OIC cases, are relatively new to Appeals and currently account for about one-half of the Appeals workload.

In summary, early results of the centralization of processing and the use of electronic transfer for Appeals OIC cases indicate an improvement in the timeliness of case transfer and assignment. However, the Internal Revenue Service (IRS) Collection functions delayed transferring CDP cases to Appeals to continue their own efforts to resolve the cases. In Fiscal Year (FY) 2003, delays averaged 112 calendar days after the taxpayers had requested an Appeals hearing.

To better track CDP hearing requests and provide management information to project workloads, the IRS implemented the Collection Due Process Tracking System (CDPTS) in March 2003. However, because the CDPTS is new, many cases were still not being recorded on it at the time of our review. For the last quarter of FY 2003, 29 percent of CDP cases completed by Appeals and recorded in the Appeals Centralized Database System (ACDS) were not recorded in the CDPTS. Although the percentage of cases missing from the CDPTS improved by January 2004 to 9 percent, there is still a risk of cases not being controlled on the CDPTS.

Appeals is taking actions to reduce the number of overage CDP cases being sent back to the Collection functions; however, we found collection activity was not resumed on some CDP cases after the Appeals process was completed. From a sample of 200 CDP cases completed by Appeals in the last quarter of FY 2003, 11 of the 42 cases returned to the Collection Field function (CFf) still had a hold or freeze on the taxpayers' accounts, making the information unreliable for timely resumption of collection enforcement action. These 11 taxpayer accounts had over \$2 million in tax liabilities.

Additionally, 11,555 records recorded on the ACDS between FY 1999 and February 2, 2004, contained unreliable information such as incomplete and incorrect dates for certain actions (e.g., when the taxpayer requested a CDP hearing or when Appeals received the request). Appeals advised us that certain additional automated data validations for the ACDS would be implemented to address some errors we found. However, Appeals did not propose an automated data validation to prevent or correct some blank fields because, for some (but not CDP) cases, it is acceptable to have certain fields remain blank.

We recommended the Deputy Commissioner for Services and Enforcement instruct Collection function employees to forward CDP cases timely to Appeals after taxpayers request a CDP hearing. In addition, the Deputy Commissioner for Services and Enforcement and the Chief, Appeals, should establish a process to reconcile CDP hearing requests in the CDPTS and the ACDS. We also recommended the Deputy Commissioner for Services and Enforcement develop and distribute a CDPTS management report to identify CDP cases that have been closed from Appeals but have not had collection action resumed timely. Further, the Chief, Appeals, should implement data validation steps to the ACDS which would prevent employees from leaving certain date fields blank for CDP cases.

Management's Response: In general, IRS management agreed with our recommendations. However, management's corrective action differed from our recommendation to instruct Collection function employees to forward a CDP case timely to Appeals after a taxpayer requests a CDP hearing without making extended attempts to resolve the case unless initiated by the taxpayer. Rather than requiring taxpayers to initiate discussions, IRS management will clarify procedures to emphasize the need to obtain a taxpayer's concurrence to continue discussion to resolve a case prior to its transfer to Appeals.

In its Appeals Quality Measurement System case reviews on CDP cases, Appeals will determine whether there is an indication the Compliance function inappropriately delayed forwarding a case to Appeals. Appeals will initiate programming to produce validation reports comparing the CDPTS data with the ACDS data. Appeals will also initiate validation reports that will identify a blank field as a potential error that needs to be researched and corrected if an entry is required. The Small Business/Self-Employed Division will develop and distribute a CDPTS management report to identify CDP cases that have been closed by Appeals but have not had the collection suspension reversed.

Because management believes discussion with a taxpayer before his or her case is transferred to Appeals can facilitate resolution once the case reaches Appeals, management did not agree 23,500 cases would benefit from immediate transfer. Furthermore, management stated that the CFf maintains control over cases with a freeze or hold; therefore, they do not believe the cases we identified with \$2 million outstanding were not being pursued for payment. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: While we believe the alternate corrective action to our first recommendation may help reduce delays in transferring CDP cases, we remain concerned that transfer of these cases to Appeals will be unnecessarily delayed while a Collection function attempts to obtain taxpayer concurrence to continue discussions to resolve these cases. While we still believe our recommendation is worthwhile, we do not intend to elevate our concern over this matter to the Department of the Treasury for resolution.

We also believe our outcome measures are valid. The 23,500 taxpayers we identified would have had their hearing requests sent to Appeals much sooner if the IRS had followed our recommendation. Management was unable to demonstrate whether further attempts to discuss the collection matters with the taxpayers provided a significant benefit to the resolution of these cases in Appeals. Regarding the cases we identified with a freeze or hold, the purpose of such a freeze or hold is to prevent collection enforcement action, regardless of whether the case is controlled in the CFf. The \$2 million we cited was not being pursued. Therefore, we disagree with management's assertions related to our outcome measures.

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

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## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

### Background

The Internal Revenue Service (IRS) Office of Appeals (Appeals) provides taxpayers with an independent review, after an examination is completed or collection action is proposed, to settle disputes without litigation. Disputes involving the collection of taxes account for about one-half of the Appeals workload. The majority of collection cases for which taxpayers request an Appeals hearing are in the following two categories:

- **Collection Due Process (CDP)** – When taxpayers are notified of an IRS lien or intent to levy, they have the right to request a CDP hearing with Appeals.
- **Offer in Compromise (OIC)** – An OIC is an offer by a taxpayer to the IRS to settle a tax debt for less than the full amount. A taxpayer has the right to an Appeals hearing if the IRS rejects the taxpayer’s offer.

Taxpayer appeal rights for both of these categories were established in the IRS Restructuring and Reform Act of 1998 (RRA 98).<sup>1</sup> Since the RRA 98 was enacted, the number of collection-related cases in Appeals has increased significantly. Table 1 shows, for Fiscal Year (FY) 2003, the number of these two types of cases received by Appeals, the number closed, the number still in process at the end of the year, and the average time it took for Appeals to process the cases.

**Table 1: Appeals Processing of Collection Cases for FY 2003**

Case Type	Receipts	Closures	Ending Inventory	Time to Process in Calendar Days
Collection Due Process	31,848	27,467	21,412	253
Offer in Compromise	16,861	13,462	11,385	313
<b>Total</b>	48,709	40,929	32,797	

*Source: The Office of Appeals Business Performance Review, November 2003.*

<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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In most instances, when a taxpayer requests an Appeals hearing for a case involving the collection of taxes, the IRS suspends further collection action until Appeals has made a determination on the case. As such, it is important that the IRS maintain proper control over the cases throughout the Appeals process. Timely transmittal of the cases to and from Appeals is important to allow for prompt resumption of collection and enforcement action once the Appeals determination is made.

To help expedite Appeals case transfer and processing, in February 2003, Appeals reorganized its Records and Processing functions into one function called the Appeals Processing Service (APS) that controls the case processing and technical services for Appeals. The IRS Collection and Examination functions send a taxpayer's request for an Appeals review to the APS function, which inputs the case information on the computer inventory system called the Appeals Centralized Database System (ACDS) and then forwards the case for assignment to an Appeals officer. Once the Appeals officer makes a decision, the case is sent back to the APS function for closing, which includes completing the information on the ACDS, issuing appropriate closing letters, making applicable adjustments to the taxpayer's tax account for examination decisions, and sending the case with applicable instructions back to the appropriate IRS function.

Further, Appeals has realigned or plans to realign case processing and technical services and plans to modernize its process by gaining direct access to IRS computer systems and receiving case information electronically. Because the IRS Collection functions centralized OIC case processing at the Memphis and Brookhaven Campuses,<sup>2</sup> Appeals also centralized its OIC case processing in October 2003 at the Brookhaven Campus. Similarly, there are plans to centralize processing of Appeals CDP cases in campuses by the first quarter of FY 2005. These campuses contain the

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<sup>2</sup> The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

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Automated Collection System (ACS) function,<sup>3</sup> which is the source for a significant portion of taxpayer requests for Appeals CDP hearings. The remaining source of Appeals CDP hearing receipts is from the Collection Field function (CFf)<sup>4</sup> located in local IRS offices across the nation.

This review was performed at the Appeals APS function offices located in Brookhaven and Hempstead, New York; Denver, Colorado; Ft. Lauderdale, Florida; and Hartford, Connecticut. It included discussions with Appeals, Small Business/Self-Employed (SB/SE) Division, and Wage and Investment Division officials during the period February through June 2004. 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.

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### The New Process for Transferring Offer in Compromise Cases Has Improved Timeliness

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During October 2003, Appeals centralized its OIC case processing to align with the IRS Centralized OIC function. All taxpayer OICs are forwarded to the Centralized OIC function so this function can evaluate each OIC to determine whether it can be processed and who should investigate the case. Either the Centralized OIC function or a field Compliance function employee investigates the offer to determine if it will be accepted or rejected. If an OIC is rejected and the taxpayer requests a review by Appeals, the Centralized OIC function or field Compliance function will forward the case to the centralized APS function in the Brookhaven Campus. The APS function will establish the taxpayer request on the ACDS using “e-Case”<sup>5</sup> to electronically transfer case information from the Automated Offer in Compromise System (AOIC). The APS function will then forward the case for assignment to an Appeals officer. Once the Appeals officer’s decision is approved, the case is returned to the APS function, which closes the

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<sup>3</sup> The ACS is a telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers that have not complied with previous notices.

<sup>4</sup> The CFf consists of revenue officers that deal directly with both individual and business taxpayers to resolve tax liabilities.

<sup>5</sup> The ability to electronically transfer data from one system of records to another is referred to by Appeals as “e-Case.”



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case on its inventory system and returns it with instructions to the originating function.

Early results of the centralization of processing and use of electronic transfer of case data indicate an improvement in the timeliness of case transfer and assignment. The average time between the date on which a taxpayer requests an Appeals hearing of a rejected OIC and the date on which the case is assigned to an Appeals officer decreased from 61 to 48 calendar days.<sup>6</sup> Appeals expects this time period to decrease as the process is further refined. The average time for the APS function to return a completed Appeals OIC case to the Centralized OIC function decreased from 14 days to 1 day. In addition, we reviewed a statistical sample of 50 of the 1,248 OIC cases closed by Appeals in January 2004.<sup>7</sup> We found that all of them were returned to the Centralized OIC function and actions taken to resume any necessary collection actions were timely.

Further, the OIC cases were properly recorded on both the AOIC and the ACDS. For cases processed in Appeals in January 2004, after the APS function centralization of Appeals' OIC cases, we compared the information on these two inventory systems for cases in which taxpayers requested an Appeals hearing of a rejected OIC. The Appeals OIC cases were properly recorded on both inventory systems.

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### Collection Due Process Requests Are Not Sent to Appeals Timely

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To evaluate the case controls over CDP cases throughout the appeals process, we reviewed a judgmental sample of 84 CDP case files<sup>8</sup> from 4 APS function sites. For the cases in our sample, there were significant delays by the Collection functions in transferring the cases to the APS function—it took an average of 93 days before the APS function received the CDP hearing requests from the Collection functions. To further evaluate the length of time it was taking a CDP hearing request to be assigned to an

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<sup>6</sup> Centralization occurred in October 2003. We compared the first 4 months of FY 2003 to the first 4 months of FY 2004.

<sup>7</sup> We used a discovery sampling technique using a probability percentage of 90 percent and an estimated error rate of 5 percent.

<sup>8</sup> We selected approximately 20 cases to be reviewed at each site visited based on those that would most likely have open files available; we also reviewed some additional cases that were recently received at the sites.

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Appeals officer, we reviewed inventory information recorded on the ACDS during the period FY 1999 through February 2, 2004. The greatest amount of time occurred between the date on which a taxpayer requested a CDP hearing and the date on which the Appeals APS function received the request. Data from the ACDS indicate that, from the year 2000 forward, the Collection functions have been significantly delaying the transfer of CDP hearing requests. Table 2 shows the average time involved for a CDP hearing request to be assigned to an Appeals officer.

**Table 2: Average Time for CDP Hearing Requests to Be Assigned to Appeals Officers, FYs 1999 – 2004<sup>9</sup>**

Fiscal Year	Average Time in Calendar Days			Total Calendar Days for Request to Be Assigned to Appeals Officer
	Transfer to Appeals	Input Case to the ACDS	Assign to Appeals Officer	
1999	30	5	5	40
2000	63	5	8	76
2001	105	7	9	121
2002	108	7	8	123
2003	112	10	7	129
2004	83	5	5	93

*Source: Treasury Inspector General for Tax Administration (TIGTA) review of Appeals' inventory recorded on the ACDS from FY 1999 through February 2, 2004.*

If a taxpayer requests a CDP hearing with Appeals, IRS procedures state that the Collection function employee should work with the taxpayer to resolve the case before the Appeals hearing if the taxpayer is willing. If the taxpayer is willing to resolve the case, this should be documented in the collection case history. If the taxpayer indicates he or she does not want to withdraw the request for a CDP hearing or if discussions with the taxpayer reach an impasse, the Collection function employee should document the case history and forward the case to Appeals.<sup>10</sup>

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<sup>9</sup> As of February 2, 2004.

<sup>10</sup> Internal Revenue Manual sections 5.1.9.3.5 and 5.19.8.6.7.

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In the 84 CDP cases we sampled, there were no instances in which the taxpayers initiated contact with the Collection function to try to resolve the cases prior to their transfer to Appeals. Further, in 33 of the 84 cases, the taxpayers did not respond to attempts by the Collection function to contact them. In 6 of the 84 cases, the taxpayers stated, when contacted by the Collection function, that they wanted a CDP hearing.

Collection function personnel advised us that ACS function employees at the four campus sites are directed to resolve a CDP hearing request before sending it to Appeals.

Processing goals at the 4 different ACS sites ranged from 60 to 90 days to transfer a case to Appeals. In FY 2003, the 4 ACS campus sites processed 21,934 (73 percent) of the 30,073 CDP hearing requests<sup>11</sup> transferred to Appeals in an average of 128 days. In FY 2004 (as of February 2, 2004), they had processed 5,602 (74 percent) of the 7,528 CDP hearing requests transferred to Appeals in an average of 91 days.<sup>12</sup> We were advised that, if further resolution was not attempted, the CDP hearing requests would be ready to transfer to Appeals within 30 days.

### **Few CDP hearing requests are resolved by the Collection functions**

In the FY 2003 Annual Report to Congress,<sup>13</sup> the National Taxpayer Advocate expressed concern with delays in transferring CDP hearing requests to Appeals. The Chief, Appeals, responded that this process allows taxpayers to resolve collection disputes at the lowest possible level, with the least amount of delay; approximately 10 to 12 percent of the CDP hearing requests are resolved by the Collection functions.<sup>14</sup>

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<sup>11</sup> The 21,934 CDP hearing requests processed by the ACS function and the 30,073 total CDP hearing requests are from an ACDS computer extract less records found to have missing or inaccurate dates.

<sup>12</sup> The average 128 days in FY 2003 and the average 91 days in FY 2004 (as of February 2, 2004) are for the ACS function only. See Table 2 for the average days combined of both the ACS function and CFf.

<sup>13</sup> National Taxpayer Advocate, FY 2003 Annual Report to Congress, pages 38 to 59.

<sup>14</sup> National Taxpayer Advocate, FY 2003 Annual Report to Congress, page 55.

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Based on our analysis, the number of CDP hearing requests resolved by the Collection functions in FY 2003 was approximately 3,500, which represents about 10 percent of the cases. However, the Collection functions still took an average of 109 days to resolve this 10 percent and delayed the rest of the CDP hearing requests by 129 calendar days (4 months), even though there was no resolution prior to the case transfer. We identified 23,500 taxpayers that had their requests for a CDP hearing delayed by the Collection functions by more than 45 calendar days in FY 2003.<sup>15</sup> These taxpayers may not be aware that their CDP hearing requests have not been forwarded to Appeals timely.

### Recommendation

1. The Deputy Commissioner for Services and Enforcement should instruct Collection function employees to forward CDP cases timely to Appeals after taxpayers request a CDP hearing. While Collection function employees should contact taxpayers if necessary to ensure completeness of a CDP hearing request, no extended attempts should be made to resolve a CDP hearing request unless the taxpayer initiates the discussion to resolve the case prior to its transfer to Appeals. Procedures should be updated and clarified to reflect this instruction.

Management's Response: Although IRS management believes current procedures address this issue by stressing the need to forward CDP cases timely to Appeals, they will reemphasize and clarify CDP case processing time periods and procedures. However, rather than requiring taxpayers to initiate discussions, IRS management will clarify procedures to emphasize the need to obtain a taxpayer's concurrence to continue discussion to resolve the case prior to its transfer to Appeals. In its Appeals Quality Measurement System case reviews on CDP cases, Appeals will determine whether there is an indication the

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<sup>15</sup> The maximum of 45 calendar days we used includes time for the Collection functions to receive a taxpayer's CDP hearing request, ensure completeness of the request, obtain additional information if necessary, and transfer the request to Appeals.

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Compliance function inappropriately delayed forwarding a case to Appeals.

Because management believes discussion with a taxpayer before his or her case is transferred to Appeals can facilitate resolution once the case reaches Appeals, management did not agree 23,500 cases would benefit from immediate transfer.

Office of Audit Comment: While we believe the alternate corrective action to our recommendation may help reduce delays in transferring CDP cases, we remain concerned that transfer of these cases to Appeals will be unnecessarily delayed while the Collection function attempts to obtain taxpayer concurrence to continue discussions to resolve these cases.

We also believe our outcome measure is valid. The 23,500 taxpayers we identified would have had their hearing requests sent to Appeals much sooner if the IRS had followed our recommendation. Management was unable to demonstrate whether further attempts to discuss the collection matters with the taxpayers provided a significant benefit to the resolution of these cases in Appeals.

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### Appeals Recently Implemented the Collection Due Process Tracking System to Help Improve Control Over Cases

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To better track CDP hearing requests and provide management information to project workloads, the IRS implemented the Collection Due Process Tracking System (CDPTS) in March 2003. This system should track all CDP cases from taxpayer request through resolution and is used by both the Collection functions and Appeals. It also electronically updates some actions on a taxpayer's tax account.

Because the CDPTS is new, many cases were still not being recorded on it at the time of our review. For the last quarter of FY 2003, 2,240 (29 percent) of the 7,675 CDP cases completed by Appeals and recorded on the ACDS were not in the CDPTS. The percentage had improved by January 2004, when only 178 (9 percent) of the 1,928 CDP cases completed by Appeals and recorded on the ACDS were not in the CDPTS.

Currently, management reports are being designed for the CDPTS. When these reports are completed and distributed, the CDPTS should provide management information for the

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aging of cases, status of cases (including resolution), and other inventory statistics. The CDPTS will be less useful if it does not include all CDP hearing requests.

### Recommendation

2. The Deputy Commissioner for Services and Enforcement and the Chief, Appeals, should establish a process to reconcile CDP hearing requests in both the CDPTS and the ACDS.

Management's Response: Appeals will initiate programming to produce validation reports comparing the CDPTS data with the ACDS data.

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### Appeals Is Taking Actions to Reduce Overage Collection Due Process Cases

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If a taxpayer requests a CDP hearing with Appeals but not within a 30-day period, the taxpayer can still receive an Equivalent Hearing with Appeals. However, an Equivalent Hearing does not suspend collection action and does not provide the taxpayer the right to seek judicial review of the Appeals determination. If a taxpayer timely requests a CDP hearing, the taxpayer has the right to seek judicial review after the appeals process if the taxpayer does not agree with the Appeals decision. In such cases, Appeals will issue a determination letter explaining its decision and advising the taxpayer as to whether the Tax Court or the United States (U.S.) District Court has jurisdiction.

The taxpayer has 30 calendar days from the date of the determination letter to petition the appropriate Court. To provide time for the taxpayer to petition, Appeals will suspend the CDP case. If Appeals determines the taxpayer has not petitioned the Court after the suspension period, it will return the case to the appropriate Collection function for reinstatement of any necessary collection activity.

Historically, Appeals would suspend CDP cases with Tax Court jurisdiction 60 calendar days (30 calendar days past the letter expiration date) and suspend CDP cases with U.S. District Court jurisdiction 180 calendar days. Cases having U.S. District Court jurisdiction were taking longer for Appeals to confirm whether the taxpayer had filed; however, due to improved communications with the U.S. District Court, Appeals changed this suspension period in May 2004 from 180 to 60 calendar days.

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Using Appeals' inventory information on the ACDS as of February 2004, we determined CDP cases not requiring a determination letter took approximately 40 calendar days from the date of the Appeals decision to the date on which the case was returned to the Collection function. CDP cases requiring a determination letter took approximately 124 calendar days from the date of the Appeals decision to the date on which the case was returned to the Collection function. Since our analysis was conducted before Appeals changed the suspension period for CDP cases with U.S. District Court jurisdiction, we attempted to separate CDP cases between the different Court jurisdictions. However, we could not separate the cases because information on the ACDS did not adequately indicate which Court had jurisdiction or which suspension period was applied for each case.

To address overage inventories, Appeals periodically suspends APS function work and redirects its staff to reduce overage inventory, including CDP cases on which determination letters have been issued. This happened in March 2003 and again in February 2004.

Appeals plans to minimize future CDP overage inventories by centralizing its processing and obtaining more information for its inventory and staffing allocation. By the first quarter of FY 2005, Appeals plans to centralize its CDP case processing operations into campus sites. This centralization is expected to help alleviate processing backlogs within the current APS function field offices. In addition, Appeals plans to use a new computer inventory system for the APS function to help control cases. This inventory system is called the Processing Employees Automated System and is currently being tested, with implementation planned, at the time of our review, for late FY 2004. This new System will provide management information regarding inventory levels and staffing allocation to help identify APS function processing issues involving staffing needs and overage inventory.

Timely processing of CDP cases on which determination letters have been issued is important to protect the Federal Government's interest. Through quick reinstatement of any collection actions, lost revenues are minimized. Appeals is

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### Collection Activity Was Not Resumed on Some Collection Due Process Cases After the Appeals Process Was Completed

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addressing this risk by reducing the suspension period for issuing determination letters with U.S. District Court jurisdiction, centralizing its CDP case processing, and using a new computer inventory system to provide management with information regarding inventory levels and staffing allocation.

If a taxpayer requests a CDP hearing with Appeals within 30 days of notification of an IRS lien or intent to levy, a hold or freeze is placed on the taxpayer's account to prevent further collection action. When the CDP hearing process is completed due to an agreement with the taxpayer, a decision by Appeals, or a Court determination, the closing instructions are forwarded by the APS function to the appropriate Collection function. Collection action is resumed by releasing the hold or freeze placed on the taxpayer's account. If a taxpayer requested a CDP hearing with Appeals but not within a 30-day period, the taxpayer can still receive an Equivalent Hearing with Appeals. However, as previously stated, an Equivalent Hearing does not suspend collection action and does not provide the taxpayer the right to seek judicial review of the Appeals determination.

To determine if collection action was renewed after the completion of the CDP hearing process, we reviewed a statistical sample of 200 from the 7,675 CDP hearing requests completed by Appeals in the last quarter of FY 2003.<sup>16</sup> Of the 200 sample CDP hearing requests, 60 involved Equivalent Hearings that did not require a hold or freeze to be placed on the taxpayer's tax account. Of the 140 timely submitted CDP hearing requests, 98 were sent to Appeals from the ACS function and 42 from the Cff.

In April 2004, we reviewed the 140 CDP hearing requests completed by Appeals to determine if delays in removing the hold or freeze on the taxpayers' accounts prevented resumption of collection actions. Collection activity had been resumed on all of the 98 CDP hearing requests returned to the ACS function. However, 11 of the 42 CDP

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<sup>16</sup> Selecting a sample of cases from the last quarter of FY 2003 allowed time for current cases to reenter the collection process. See Appendix I for the process used to select the sample.



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hearing requests returned to the CFf still had a hold or freeze on the taxpayers' accounts more than 6 months after transfer from Appeals. The reasons are shown in Table 3.

**Table 3: CDP Hearing Requests Returned to the CFf That Still Had a Hold or Freeze on the Taxpayers' Accounts**

Reason Hold or Freeze Was Not Timely Removed From Taxpayer's Account	Number of Cases
Oversight by the revenue officer in the CFf in not releasing the hold or freeze.	6
Appeals had initially sent the closed CDP case file and instructions to the wrong collection function address, and there was a delay in sending it to the correct address.	2
Confusion as to whether Appeals or the CFf was responsible for releasing the hold or freeze.	1
Not enough information in the file to determine cause.	2
<b>Total</b>	<b>11</b>

*Source: TIGTA review, in April 2004, of 42 CDP hearing requests returned to the CFf during the last quarter of FY 2003.*

The potential for lost revenue varied in the 11 CDP hearing requests we identified in our sample. In two cases, the taxpayers had fully paid the balances due before Appeals returned the cases to the CFf. For the other 9 cases, the total dollar amount potentially not being pursued for at least 6 months was over \$2 million at the time of our review.<sup>17</sup> Overall, based on the results of our sample, we estimate that 1,612 of the 7,675 requests Appeals completed in the last quarter of FY 2003 were referred by the CFf and that 423 (26 percent) of the 1,612 have an inappropriate hold or freeze on the taxpayers' accounts, making the information unreliable for timely resumption of collection enforcement action.

IRS management stated they have started centralizing the points at which cases are returned to the CFf to help get these CDP hearing requests back to the correct locations for resumption of collection actions. Nonetheless, there is no notification to Collection function managers to alert them

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<sup>17</sup> These CDP cases were completed by Appeals in the last quarter of FY 2003 (July, August, and September) and our review of these cases occurred in April 2004.

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that an inappropriate hold or freeze remains on a CDP case that has been closed by Appeals. Information in the CDPTS could be used to alert Collection function managers about such cases.

### Recommendation

3. The Deputy Commissioner for Services and Enforcement should develop and distribute a CDPTS management report to identify CDP cases that have been closed by Appeals but have not had collection action resumed timely.

Management's Response: The SB/SE Division will develop and distribute a CDPTS management report to identify CDP cases that have been closed by Appeals but have not had the collection suspension reversed.

Notwithstanding, management stated that the Cff maintains control over cases with a freeze or hold; therefore, they do not believe the cases we identified with \$2 million outstanding were not being pursued for payment.

Office of Audit Comment: The purpose of such a freeze or hold is to prevent collection enforcement action, regardless of whether the case is controlled in the Cff. The cases we identified with \$2 million outstanding were not being pursued for payment because of a freeze.

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### The Appeals Centralized Database System Contains Unreliable Information

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During our analysis of the timely processing of CDP cases discussed earlier in the report, we identified 11,555 records created on the ACDS between FY 1999 and February 2, 2004, that had unreliable dates recorded. Dates were missing for certain actions (e.g., there was no date to indicate when the taxpayer requested a CDP hearing on some records) or there were negative time periods between certain actions (e.g., the date recorded indicated Appeals received the CDP hearing request before the taxpayer had requested a CDP hearing). Some Appeals offices had a higher rate of not recording data or recording incorrect data. These records were not used in our time analysis of CDP cases previously discussed because of their unreliability.

Appeals management advised us that, over the last 2 years, they have created some processes and validation measures

## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

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to help improve the accuracy of data contained in the ACDS. These include a requirement for managers to sample new and closed cases to test for accuracy, informal reports to help identify errors and make corrections, ongoing monitoring and validation of data, and 21 automated data validation steps to improve accuracy. Moreover, as a result of our audit, Appeals management advised us that certain additional automated data validations would be implemented to address the types of errors we found. The planned actions should help resolve a number of the errors and improve the reliability of data in the ACDS. However, Appeals management did not propose an automated data validation to prevent or correct some blank fields because there are some types of cases (other than CDP cases) for which it is acceptable to have certain fields remain blank.

### **Recommendation**

4. The Chief, Appeals, should implement data validation steps to the ACDS which would prevent employees from leaving certain date fields blank for CDP cases.

Management's Response: Appeals will initiate validation reports that will identify a blank field as a potential error that needs to be researched and corrected if an entry is required.

## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

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### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the timeliness of processing taxpayer requests for Office of Appeals (Appeals) review of collection decisions for Collection Due Process (CDP) and Offer in Compromise (OIC) cases. To accomplish our objective, we:

- I. Determined whether the measures relating to reduction of inventory of CDP and OIC cases as outlined in the Appeals strategies have been implemented.
- II. Determined whether CDP and OIC appeals requests are timely forwarded to the Appeals Processing Service (APS) function sites and are then timely processed to the Appeals officers by the APS function sites.
  - A. Using the Appeals Centralized Database System (ACDS), analyzed the various steps of the APS function processing of CDP and OIC cases, from the date on which a taxpayer requested an Appeals review to the date on which the case was assigned to an Appeals officer. In addition, we identified records with missing or inaccurate dates on the ACDS.
  - B. Observed processing and interviewed managers at the Appeals APS function offices in Denver, Colorado; Ft. Lauderdale, Florida; Hartford, Connecticut; and Brookhaven and Hempstead, New York. We also reviewed a judgmental sample<sup>1</sup> of 84 recently received and recently closed CDP and OIC cases at 4 of these 5 locations to evaluate the ACDS data, current processing policies and procedures, and causes for any delays in processing activity.
- III. Evaluated whether the APS function processing of CDP and OIC cases closed from Appeals was timely.
  - A. Using the ACDS, analyzed the various steps of Appeals processing, from the date on which an Appeals officer made a final determination to the date on which the Collection function acknowledged receipt of the returned file. In addition, we identified records with missing or inaccurate dates on the ACDS.
  - B. Evaluated strategies for the reduction of case processing backlogs.
- IV. Evaluated whether collection enforcement actions were timely resumed when appropriate after CDP and OIC cases were closed by Appeals.

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<sup>1</sup> A judgmental sample of CDP and OIC cases was necessary because the APS function did not, at the time of our review, have an inventory system to track cases in its inventory. No determination could be made of the population of cases within the APS function.

## **The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved**

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- A. From a population of 7,675 CDP cases closed by Appeals during the fourth quarter of Fiscal Year 2003, selected a statistically valid random sample of 200 CDP cases (using a 95 percent confidence level, a 15 percent expected error rate, and a +/- 5 percent precision rate). We reviewed the closing documents used to transmit the cases between Appeals and the Collection functions, the Appeals case activity records, the Appeals case memoranda of closing instructions, and Integrated Data Retrieval System (IDRS)<sup>2</sup> information to determine whether the hold or freeze had been removed from the taxpayers' accounts.
  - B. From a population of 1,248 OIC cases closed by Appeals in January 2004, randomly selected a discovery sample of 50 OIC cases using a probability percentage of 90 percent and an estimated error rate of 5 percent. Due to the recent OIC centralization, we sampled the most current month available on the ACDS. We researched the Automated Offer in Compromise (AOIC) database and the IDRS to determine whether the hold or freeze had been removed from the taxpayers' accounts.
- V. Determined whether records of taxpayer CDP and OIC appeals requests were accounted for on Appeals and Collection function databases.
- A. Obtained a download of the Collection Due Process Tracking System (CDPTS), the ACDS, and the AOIC databases.
  - B. Matched CDPTS and AOIC computer records to those on the ACDS.
  - C. Requested Collection function and Appeals reports of reconciliations of the databases and discussed the status of database usage with Collection function and Appeals employees.
- VI. Determined whether the Collection functions were timely resolving CDP hearing requests by correspondence prior to forwarding them to Appeals.
- A. Requested management reports of the percentage of cases successfully resolved by the Collection functions after the date on which a taxpayer requested a hearing but before the case was sent to Appeals.
  - B. Analyzed the CDPTS to estimate the percentage of CDP cases closed by the Collection functions before forwarding to Appeals.
  - C. Researched policies and procedures for forwarding CDP cases to Appeals.
  - D. Reviewed a judgmental sample<sup>3</sup> of 84 CDP case files in 4 APS function sites to identify trends in case activity prior to the cases being received by Appeals.

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<sup>2</sup> IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>3</sup> A judgmental sample was necessary because, at the time of our review, the APS function did not maintain an inventory system to track its inventory.

**The Timeliness of Processing Taxpayer Requests for  
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**Appendix II**

**Major Contributors to This Report**

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Michael E. McKenney, Director

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**The Timeliness of Processing Taxpayer Requests for  
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**Appendix III**

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Commissioner, Small Business/Self-Employed Division SE:S  
Commissioner, Wage and Investment Division SE:W  
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Director, Office of Legislative Affairs CL:LA  
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    Commissioner, Small Business/Self-Employed Division SE:S  
    Commissioner, Wage and Investment Division SE:W

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### Appendix IV

#### Outcome Measures

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

##### Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 23,500 taxpayers in Fiscal Year (FY) 2003 had their requests for a Collection Due Process (CDP) hearing delayed by the Collection functions (see page 4).

##### Methodology Used to Measure the Reported Benefit:

Using a computer extract from the Appeals Centralized Database System (ACDS), we determined 23,500 of the 30,073 taxpayer requests<sup>1</sup> in FY 2003 for a CDP hearing were not forwarded to the Office of Appeals (Appeals) from the Collection functions within 45 calendar days of the request received date. We used the date of the taxpayer CDP hearing request and the date the case was received by Appeals to determine the length of time. The maximum of 45 calendar days we used includes time for the Collection functions to receive the taxpayer's CDP hearing request, ensure completeness of the request, obtain additional information if necessary, and transfer the request to Appeals.

##### Type and Value of Outcome Measure:

- Increased Revenue – Potential; \$2 million as of April 2004 was inappropriately suspended from collection enforcement actions (see page 11).
- Increased Revenue – Potential; 423 taxpayer accounts closed by Appeals in the last quarter of FY 2003 have an inappropriate hold or freeze which prevented the resumption of collection enforcement action (see page 11).

##### Methodology Used to Measure the Reported Benefit:

Using a computer extract from the ACDS, we determined 7,675 CDP cases in the last quarter of FY 2003 had completed the Appeals process and were returned to the Collection functions. We selected a statistical sample of 200 and found 11 cases had inappropriate holds or freezes on the taxpayer accounts. These 11 cases had \$2 million in tax liabilities inappropriately suspended from collection enforcement actions. Based on our sample, we estimated 423 taxpayer accounts (using a 95 percent confidence level and a precision of +/- 3.1 percent) have an inappropriate hold or freeze which prevented the resumption of collection enforcement action. We did not

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<sup>1</sup> The 30,073 total CDP hearing requests are from an ACDS computer extract less records found to have missing or inaccurate dates.



## **The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved**

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estimate the amount of tax liabilities inappropriately suspended from collection enforcement actions for these 423 taxpayer accounts.

### Type and Value of Outcome Measure:

- Reliability of Data – Actual; 11,555 records created on the ACDS from FY 1999 through February 2, 2004, contained unreliable data for dates (see page 13).

### Methodology Used to Measure the Reported Benefit:

Using a computer extract from the ACDS for records created between FY 1999 and February 2, 2004, we identified 11,555 records with unreliable data for dates. Dates were missing for certain actions (e.g., there was no date to indicate when the taxpayer requested a CDP hearing on some records) or there were negative time periods between certain actions (e.g., the date recorded indicated that Appeals received the CDP hearing request before the taxpayer had requested a CDP hearing). As a result of our audit, Appeals advised us that certain additional automated data validations would be implemented to address the types of errors we found. However, Appeals did not propose an automated data validation to prevent or correct some blank fields because there are some types of cases (other than CDP cases) for which it is acceptable to have certain fields remain blank. These unreliable records were not used in any of our testing of CDP cases previously discussed in the report.

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Appendix VI

Management's Response to the Draft Report



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

RECEIVED  
SEP 21 2004

September 21, 2004

MEMORANDUM FOR GORDON C. MILBOURN III  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for Karen D. Commons*  
David B. Robison  
Chief, Appeals

SUBJECT: The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved (Audit # 200310038)

We appreciate the opportunity to respond to your audit findings, and we are pleased that the Internal Revenue Service's processing of Collection decisions has improved. This is a joint response with the Small Business/Self-Employed and the Wage and Investment Operating Divisions.

We agree that your recommendations will provide measurable benefits on tax administration. While we agree in general with all of your recommendations, we do have reservations regarding your first recommendation as discussed below.

- With respect to your first recommendation to reduce delays in forwarding Collection Due Process (CDP) requests to Appeals, we agree with the principle of this recommendation. However, our concern is the requirement that the taxpayer has to initiate discussions in order to resolve the issue with Collection. The Service's current procedures provide, when there is an indication that resolution can be reached, that we reach out to the taxpayer and offer to work with them to resolve the issue. If the taxpayer does not wish to work with collection, the case is transferred to Appeals. Our efforts to contact the taxpayer are not meant to delay Appeals consideration but rather to facilitate early case resolution. In some instances, resolution is reached and both the Service and the taxpayer benefit. In other instances, even where resolution has not been reached, our discussions with the taxpayer can facilitate resolution once the case reaches Appeals, which is why we do not agree that 23,500 cases would benefit from immediate transfer to Appeals. While we believe our current procedures address the concern, we will add emphasis for the need to secure taxpayer concurrence when continuing discussions with the taxpayer. We will also work to ensure that we adhere to our current guidelines.
- We agree that it is important to timely remove the hold on the taxpayer accounts once Appeals completes the hearing. In response to concerns the Service had

## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

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regarding this issue, we implemented new procedures in November 2003 to have the Collection Field function responsible for requesting reversal of the hold. The newness of the procedure may account for the oversight by the revenue officer in not releasing the freeze cited in the report. Our procedures also require that the field maintain a control on the account, so even if a hold is present, collection activity when warranted can continue. This would apply to cases that are returned from Appeals, which is why we don't agree that potentially over \$2M was not being pursued. However, there will be benefits to the revenue collected if we eliminate all inappropriate holds or freezes after the Appeals process had been completed. (The third benefit cited in your cover memorandum).

### **RECOMMENDATION 1**

The Deputy Commissioner, Services and Enforcement should instruct Collection function employees to forward CDP cases timely to Appeals after taxpayers request a CDP hearing. While Collection function employees should contact taxpayers if necessary to ensure completeness of a CDP hearing request, no extended attempts should be made to resolve a CDP hearing request unless the taxpayer initiates the discussion to resolve the case prior to its transfer to Appeals. Procedures should be updated and clarified to reflect this instruction.

### **CORRECTIVE ACTION(S)**

Current procedures address this issue, stressing the need to forward CDP cases timely to Appeals. Nonetheless, we will re-emphasize and clarify timely CDP processing timeframes and procedures. Rather than requiring the taxpayer to initiate discussions, current procedures allow us reach out to the taxpayer and offer to assist them in resolving the issue. Additionally, we will clarify procedures emphasizing the need to obtain taxpayer concurrence to continue discussions to resolve the case prior to transferring to Appeals.

Appeals will include in its AQMS case reviews on CDP cases whether there is an indication Compliance inappropriately delayed in forwarding the case to Appeals.

### **IMPLEMENTATION DATE**

September 30, 2005.

### **RESPONSIBLE OFFICIAL(S)**

Director, Payment Compliance Policy, Small Business/Self-Employed Division and the Director, IRS Wage and Investment Filing and Payment Compliance (regarding prompt movement of cases not benefiting from remaining in Compliance into Appeals).

Chief, Appeals (regarding new AQMS review criteria).

## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

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### **CORRECTIVE ACTION MONITORING PLAN**

The Program Manager, General Payment Processes and Analysis, will advise the Director, Payment Compliance Policy of any delays.

### **RECOMMENDATION 2**

The Deputy Commissioner, Services and Enforcement and the Chief, Appeals, should establish a process to reconcile CDP hearing requests in both the Collection Due Process Tracking System (CDPTS) and the Appeals Centralized Database System (ACDS).

### **CORRECTIVE ACTION(S)**

Appeals will initiate programming to produce validation reports comparing the CDPTS data with the ACDS data.

### **IMPLEMENTATION DATE**

September 30, 2005.

### **RESPONSIBLE OFFICIAL(S)**

Chief, Appeals.

### **CORRECTIVE ACTION MONITORING PLAN**

Director, Appeals Technical Services will advise the Chief, Appeals on the progress in developing a prototype of the validation report and then final programming and implementation.

### **RECOMMENDATION 3**

The Deputy Commissioner, Services and Enforcement should develop and distribute a CDPTS management report to identify CDP cases that have been closed by Appeals but have not had collection action resumed timely.

### **CORRECTIVE ACTIONS**

Director, Collection Policy of the Small Business/Self Employed Division will develop and distribute a CDPTS management report to identify CDP cases that have been closed by Appeals but the collection suspension has not been reversed.

### **IMPLEMENTATION DATE**

January 31, 2007.

## The Timeliness of Processing Taxpayer Requests for Appeals Review of Collection Decisions Has Improved

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### **RESPONSIBLE OFFICIAL(S)**

Director, Payment Compliance Policy, Small Business/Self-Employed Division.

### **CORRECTIVE ACTION MONITORING PLAN**

The Program Manager, General Payment Processes and Analysis, will advise the Director, Payment Compliance Policy of any delays.

### **RECOMMENDATION 4**

The Chief, Appeals, should implement data validation steps to the ACDS which would prevent employees from leaving certain date fields blank for CDP cases.

### **CORRECTIVE ACTIONS**

Appeals will initiate validation reports that will identify blank fields as a potential error that needs to be researched and corrected if an entry is required.

### **IMPLEMENTATION DATE**

September 30, 2005.

### **RESPONSIBLE OFFICIAL(S)**

Chief, Appeals.

### **CORRECTIVE ACTION MONITORING PLAN**

Director, Appeals Technical Services will advise the Chief, Appeals on the progress in developing a prototype of the validation report and then final programming and implementation.

If you have any questions, please have a member of your staff contact Jeff Allison, Director, Tax Policy & Procedures at (973) 468-3217 or Cheryl Revier, Program Analyst, at (202) 435-5619, or Wiley Davis at 602-207-8193.