



Treasury Inspector General for Tax Administration Office of Audit

PROCESSING AND MONITORING OF BALANCE DUE NOTICE CASES NEEDS IMPROVEMENT

Issued on March 1, 2010

Highlights

Highlights of Report Number: 2010-30-019 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

Taxpayers with outstanding tax liabilities receive balance due notices informing them of their outstanding liabilities. When the taxpayer responds to the balance due notices, the Internal Revenue Service (IRS) is not always properly and timely working the cases or effectively managing the inventory of cases. Taxpayers who contact the IRS may experience unnecessary delays or costs associated with their outstanding liabilities, including an estimated 6,217 taxpayers who were assisted by the two campuses during the weeks in which TIGTA selected its sample.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS effectively administers the Balance Due Notice Program. A balance due account occurs when the taxpayer has an outstanding liability for taxes, penalties, and/or interest. This audit was included in our Fiscal Year 2008 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

The work performed on balance due notice cases does not always comply with established procedures and goals, and IRS managers could not rely on workload inventory reports because they were inaccurate and inconsistent.

TIGTA reviewed a random sample of 60 Balance Due Notice Program cases from 2 IRS campuses where 57 (95 percent) of the 60 cases involved streamlined installment agreements. TIGTA's analysis showed that installment agreements were established without considering whether they were in the taxpayers' or the IRS' best interest. In 17 (30 percent) of the 57 cases, installment agreements were established when taxpayers may have had the ability to fully pay while other times it appeared the taxpayers did not have the income to support the payment amounts required by the terms of the installment agreement.

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IRS employees should document the case file to support all actions taken to resolve a taxpayer's case. However, 13 (22 percent) of the 60 sampled cases did not include proper documentation. Also, the IRS needs to provide taxpayers with a final response that addresses all taxpayer issues within 30 calendar days from the date received by the IRS. However, in 39 (65 percent) of 60 sampled cases, this practice did not occur. Management was not always aware of the issues that we identified because the results of the workload reviews for Balance Due Notice Program cases are combined with cases of other programs.

Management relies on various inventory reports to manage and monitor the Balance Due Notice Program. Case closures is a key measure that allows management to make staffing and resource decisions. TIGTA's analysis showed that the case closures on the inventory reports at one campus were inaccurate and inconsistent. TIGTA's physical count was 38 percent lower than the amount on the inventory report. In addition, the number of closed cases reported on the various inventory reports ranged from 534 to 2,740 for the same time period. Also, one campus did not count cases that are processed systemically, but another campus counted as closed over 4,000 such cases for an 8-month period.

The actions taken by tax examiners on balance due notice cases vary from relatively simple to complex and time-consuming processes. Regardless of the complexity or time spent on an action, the inventory reports capture it generically as a case closure. Our sample of 60 cases were reported as 525 separate closures. In addition, IRS managers can transfer newly received balance due notice cases to another campus to ensure the case is worked timely. TIGTA found evidence older cases were transferred.

WHAT TIGTA RECOMMENDED

TIGTA made several recommendations. For example, the IRS should consider revising the streamlined installment agreement procedures to ensure that the agreements are beneficial to both the IRS and the taxpayer; establishing workload review criteria to ensure Balance Due Notice Program cases are worked in compliance with Collection function policy; and establishing procedures to effectively reconcile inventory reports to the physical inventory. In their response to the report, IRS management agreed with most of our recommendations and is taking corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201030019fr.pdf>.

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