



*Enforcement Actions Were Not Always
Timely Initiated When Taxpayers Did Not
Respond to Contact Attempts or Missed
Deadlines*

June 10, 2009

Reference Number: 2009-30-081

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.

Redaction Legend:

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 10, 2009

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Enforcement Actions Were Not Always Timely
Initiated When Taxpayers Did Not Respond to Contact Attempts or
Missed Deadlines (Audit # 200830006)

This report presents the results of our review to determine whether revenue officers¹ are adhering to case resolution guidelines by taking appropriate enforcement actions (liens,² levies, or seizures³) when warranted to resolve balance due accounts. This audit was included as part of our Fiscal Year 2008 Annual Audit Plan under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

The Internal Revenue Service (IRS) has the authority to file liens to protect the Federal Government's interest when taxpayers have unpaid tax liabilities and to levy or seize taxpayers' income or assets in an effort to collect unpaid tax liabilities. These collection tools were not always used or used timely in balance due cases. Not using collection tools to secure the Federal Government's interest or collect balance due amounts could result in inequitable treatment of taxpayers and loss of revenue to the Federal Government.

¹ Field collection employees who attempt to contact taxpayers in person to resolve tax delinquencies that were not resolved through letters or telephone calls to the taxpayer.

² A Notice of Federal Tax Lien, referred to as a lien throughout this report, is filed with officials such as a Secretary of State or County Clerk to notify creditors that the Government has a claim against the taxpayer's property.

³ Levies are legal seizures of tax debtors' assets to satisfy tax delinquencies. These can include assets held by third parties such as bank accounts and wages. The IRS can also seize and sell taxpayer possessions such as business assets, vehicles, and real estate.



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Synopsis

The mission of the Collection function is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of collection enforcement tools when appropriate; provide education to customers to enable future compliance; and, thereby, protect and promote public confidence in the American tax system. The Internal Revenue Code authorizes the IRS to use enforcement tools, such as liens, levies, and seizures, for the collection of taxes owed.

The use of enforcement tools has been emphasized by management and the use of liens and levies has increased in recent years. IRS management has developed various means of evaluating the use of these tools, including a quality review system and management oversight within Area Offices.⁴ National and local management use results from these reviews and oversight observations to take action to emphasize proper and timely use of the enforcement tools available to revenue officers.

Despite management's attention and efforts, Collection function enforcement tools were not used or were not used soon enough in 15 (21 percent) of the 70 cases (taxpayers) we reviewed.⁵ These actions should have been pursued when taxpayers missed specific deadlines or did not respond to letters or messages for the taxpayers to contact the revenue officers. Specifically,

- Liens should have been filed earlier in four of the cases we reviewed. [REDACTED]
- Levies should have been issued earlier in nine of the cases we reviewed. [REDACTED]
- Seizure consideration would have been appropriate in five of the cases we reviewed. In these cases, the process to determine if a seizure was appropriate should have been initiated earlier.

Based on our results, we estimate that collection enforcement tools were not used or were not used soon enough in approximately 4,250 taxpayer cases.⁶

⁴ A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.

⁵ We had exceptions in 15 cases, but 6 cases had exceptions for more than 1 type of enforcement action.

⁶ Our projection is based on a statistically valid sample from a universe of 20,270 taxpayers using a 95 percent confidence level, an error rate of 50 percent, and a precision of ± 10 percent. The actual error rate was 21 percent.



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These instances occurred in part because the revenue officers were not always following up in a timely manner when taxpayers missed deadlines to provide information needed to resolve the case. In addition, the revenue officers in some cases appeared to be hesitant to take enforcement actions when deadlines were missed. In some cases, the revenue officers initiated followup contacts with the taxpayers after the missed deadlines rather than take enforcement actions. In addition, Fiscal Years 2007 and 2008 operational reviews of Area Offices performed under the direction of Headquarters staff did not include case reviews.

The IRS is implementing new procedures and processes to allow greater flexibility for dealing with taxpayers who become delinquent due to current economic conditions, which could have some impact on the use of enforcement tools. The provisions apply to taxpayers who have demonstrated good faith efforts in the past to comply with tax laws, but who now face difficulties such as loss of job, loss of home, or a decrease in home equity. However, these procedures were not in effect when the cases in our review were being worked and, even if they had been in effect, we do not believe they would have had a great impact on how the cases should have been worked. The cases included in our results involved taxpayers who were not demonstrating good faith efforts to resolve their liabilities and comply with tax laws.

Recommendations

We recommended that the Director, Collection, Small Business/Self-Employed Division, reemphasize the IRS policy for timely and effective followup contacts to deadlines established for taxpayers and specifically include an assessment of the adequacy of enforcement actions in case reviews that have been reintroduced as part of the Fiscal Year 2009 operational reviews of Area Offices performed under the direction of Headquarters staff.

Response

IRS management agreed with our recommendations and has taken steps that address our recommendations. Management issued a memorandum emphasizing that 1) revenue officers should implement case strategies which include simultaneous case actions, and 2) enforcement action is generally the next appropriate case action when taxpayers miss established deadlines. The IRS also developed several training courses designed to reinforce the importance of timely and effective case actions including, when appropriate, enforcement action. In addition, as part of the Fiscal Year 2009 headquarters operational reviews of Area Offices, the IRS has included an assessment of the use of appropriate enforcement action in case reviews. Management's complete response to the draft report is included as Appendix V.

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



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or Missed Deadlines*

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.



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Abbreviations

| | |
|-----|--------------------------|
| FY | Fiscal Year |
| IRS | Internal Revenue Service |



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Background

The Collection function mission is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate; provide education to customers to enable future compliance; and, thereby, protect and promote public confidence in the American tax system. Enforcement tools include Notices of Federal Tax Lien,¹ levies, and seizures. The Internal Revenue Code authorizes the Internal Revenue Service (IRS) to use these tools for the collection of taxes owed.

The Collection function mission is focused on resolving delinquent accounts, providing education to customers, and protecting and promoting public confidence in the American tax system.

Liens are encumbrances on property or rights to property as security for a debt or obligation. Liens are filed with appropriate officials such as a Secretary of State or County Clerk to notify creditors that the Government has a claim against the taxpayer's property. Levies are legal seizures of tax debtors' assets to satisfy tax delinquencies. These can include assets held by third parties such as bank accounts and wages. The IRS can also seize and sell taxpayer possessions such as business assets, vehicles, and real estate.

IRS Policy Statement P-5-1 states that enforcement action is a necessary component of a voluntary tax system and should be taken promptly in cases where taxpayers have not shown a good faith effort to comply. The Fiscal Year (FY) 2005 Small Business/Self-Employed Division Collection Program Letter stated that there seemed to be some hesitancy and confusion regarding the next steps in revenue officer case activity, including taking enforcement actions. This led to lapses in case activity and caused cases to remain open longer than necessary.

In a memorandum dated June 24, 2005, the Director, Collection, Small Business/Self-Employed Division, conveyed expectations regarding the appropriate use of enforcement action on collection cases. While acknowledging that employees must consider the facts of the individual case and use professional judgment, the memorandum stated that use of enforcement action is an appropriate alternative for resolving a delinquency when the taxpayer does not make a good faith effort to pay the delinquent tax.

As shown in Figure 1, the number of enforcement actions taken by Collection Field function employees has increased each year since FY 2005, except for seizures which decreased slightly in FY 2008.

¹ A Notice of Federal Tax Lien will be referred to as a lien throughout this report.



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Figure 1: Use of Collection Enforcement Tools

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Change from FY 2005 |
|-----------------|----------------|----------------|----------------|----------------|--------------------------------|
| Liens | 281,082 | 348,888 | 407,412 | 429,896 | 53% Increase |
| Levies | 208,514 | 245,757 | 309,815 | 374,028 | 79% Increase |
| Seizures | 512 | 590 | 676 | 610 | 19% Increase |

Source: Small Business/Self-Employed Division Collection Planning and Analysis function and Collection 5000-23 Reports.

The IRS is implementing procedures and processes to allow greater flexibility for dealing with taxpayers who become delinquent due to the current economic downturn, which could have some impact on the use of enforcement tools. The provisions apply to taxpayers who have demonstrated good faith efforts in the past to comply with tax laws, but who now face difficulties such as loss of job, loss of home, or a decrease in home equity.

However, these procedures were not in effect when the cases in our review were being worked and, even if they had been in effect, we do not believe they would have had a great impact on how the cases should have been worked. The cases included in our results involved taxpayers who were not demonstrating good faith efforts to resolve their liabilities and comply with tax laws. These taxpayers were missing deadlines to provide information that was needed to help resolve their case and/or were not responding to the revenue officer's attempts to contact them. Over half of the cases were businesses that failed to deposit moneys withheld from their employees' paychecks² or repeat offenders even though the IRS had previously tried to educate them about tax laws and how to comply during prior contacts.

This review was performed at the Small Business/Self-Employed Division Collection Field function offices in Farmers Branch and Fort Worth, Texas, and Laguna Niguel, California, during the period May 2008 through January 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

² This includes deductions for such items as income tax, social security, and Medicare. These are referred to as trust fund taxes.



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Results of Review

Proper and Timely Use of Enforcement Tools Was Emphasized by Management

IRS collection personnel have the authority to use enforcement tools such as liens, levies, and seizures to assist them in collecting the proper amount of tax from taxpayers who have not fully paid the tax they owe. IRS management has developed various means of evaluating the use of collection tools, including a quality review system and management oversight within Area Offices.³ National and local management can use results from these reviews and oversight observations to take action to emphasize proper and timely use of the enforcement tools available to revenue officers. Some examples of management's emphasis include:

- A memorandum dated June 24, 2005, to field operations regarding clarification on the appropriate use of enforcement action in collection cases. The memorandum pulled the criteria from various sections of the Internal Revenue Manual and showed the differences that were imposed by the Internal Revenue Service Restructuring and Reform Act of 1998.⁴
- Training and continuing education including sessions on use of enforcement tools.
- Minutes and agendas from group meetings reflecting enforcement topics are included in the discussions.
- Embedded and National Quality Review Systems including attributes for measuring timeliness of case actions and followups and the use of enforcement.
- Program Letters capturing many priorities, including appropriate use of complex enforcement tools and timely followup actions to move cases toward resolution.
- Inactivity reports identifying cases where the revenue officer has not touched the case for extended periods of time.

³ A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.

⁴ 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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**Enforcement Tools Were Not Always Timely Initiated When Taxpayers
Missed Deadlines or Were Not Cooperating to Resolve Their Balance
Due Accounts**

While the use of enforcement tools has been emphasized by management and the use of liens and levies has increased in recent years, enforcement tools are not always used as early in the case as warranted. When contacting a taxpayer, revenue officers are required to explain to the taxpayer his or her rights and should obtain information from the taxpayer that will help resolve the delinquency. In most cases, the revenue officer will need to ask the taxpayer to provide additional information not readily available when they first meet. The needed information should be clearly communicated to the taxpayer because if the information is not provided by the due date (or a request for an extension is not made), the revenue officer should take followup action that will move the case toward resolution. Appropriate followup action can include enforcement actions such as liens and levies that the IRS can use for the collection of taxes owed as authorized by the Internal Revenue Code. Additional contact to inquire about the missed deadline is not considered an appropriate followup action since the deadline requirements and consequences were already clearly communicated to the taxpayer.

Collection function enforcement tools were not always used or were not used soon enough in the collection process in 15 (21 percent) of the 70 sample cases (taxpayers) we reviewed.⁵ These actions should have been pursued when taxpayers missed specific deadlines or did not respond to letters or messages for the taxpayers to contact the revenue officers. ¹

¹ When projected to the population, we estimate that collection enforcement tools were not used or were not used soon enough in approximately 4,250 taxpayer cases.⁶

In the 15 cases, it took an average of 292 calendar days (from a minimum of 18 calendar days to a maximum of 713 calendar days) from the date that the revenue officer should have used or started pursuing enforcement action until either the date the action occurred or the cut-off date of our case review if the action had not yet occurred.

- Liens, while they were eventually filed, should have been filed earlier in four of the cases we reviewed. ¹

¹ In a recent review of payroll taxes, the Government Accountability Office also found that revenue officers did not always file liens timely.⁷ Three of the five cases mentioned above include payroll taxes. The IRS issued interim guidance in December 2008 to address the issue.

⁵ We had exceptions in 15 cases, but 6 cases had exceptions for more than 1 type of enforcement action.

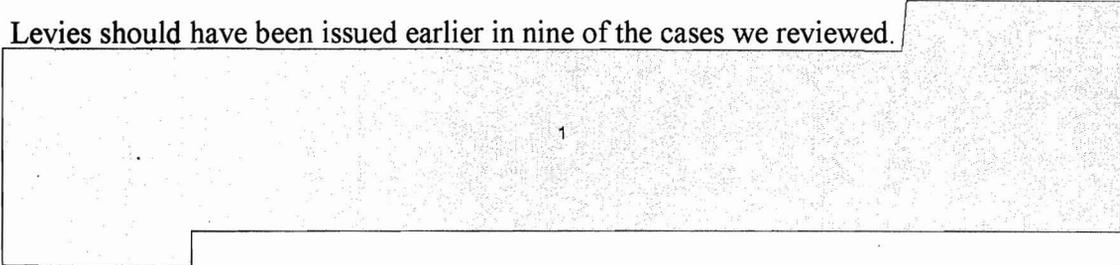
⁶ Our projection is based on a statistically valid sample from a universe of 20,270 taxpayers using a 95 percent confidence level, an error rate of 50 percent, and a precision of ± 10 percent. The actual error rate was 21 percent.

⁷ *Tax Compliance: Businesses Owe Billions in Federal Payroll Taxes* (GAO-08-617, dated July 2008).



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- Levies should have been issued earlier in nine of the cases we reviewed.



- Seizure consideration would have been appropriate in five of the cases we reviewed. In these cases, the process to determine if seizure was appropriate should have been initiated earlier. In the five cases there was an indication of equity in assets, but sufficient research was not performed to determine if seizure was appropriate.

These instances occurred in part because the revenue officers were not always following up in a timely manner when taxpayers missed deadlines to provide information needed to resolve the case. The Internal Revenue Manual provides that followup action should be initiated within 10 calendar days of a missed deadline. In 12 of the 15 cases, the revenue officer waited more than 20 calendar days after the deadline before working again on the case. The next action was an average of 81 calendar days after the deadline date in the 12 cases, ranging from 23 calendar days to 265 calendar days. Further, the next action was enforcement in only 4 of the 12 cases.

Revenue officers advised us that they have a hard time remaining current on each assigned case due to the combined effect of the high number of cases in their inventory, the additional investigative time needed to work the cases because of the complex and sophisticated methods used by the taxpayers to try to hide assets or attempt to place them out of the reach of IRS enforcement, and the amount of documentation required to obtain approval for more potentially controversial actions such as seizures.

In addition, the revenue officers in some of these cases appeared to be hesitant to take enforcement actions when deadlines were missed. This can result in ineffective use of time and further delay case resolution. For example, contrary to IRS procedures, in 9 of the 15 cases the revenue officer initiated followup contacts with the taxpayers after the missed deadlines rather than take enforcement action. In five of the nine cases, the revenue officer initiated at least three additional contacts prior to taking the necessary enforcement actions.

Finally, FYs 2007 and 2008 operational reviews of Area Offices performed under the direction of Headquarters staff did not include case reviews. Results from operational reviews conducted prior to FY 2007 showed that the revenue officer did not always initiate enforcement actions when warranted. The continued inclusion of case reviews during the operational reviews could have provided management with additional information regarding untimely enforcement actions. Case reviews are included in the FY 2009 operational review plan.

If enforcement tools are not used, or not used timely, the result could be a loss of revenue for the Federal Government and inequitable treatment of taxpayers. For example, businesses that do not



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pay their taxes might have lower operating costs, giving them an unfair competitive edge over businesses that timely comply with tax laws. When liens are not filed, or not filed timely, the Federal Government's interest is not adequately protected. Not filing a lien timely could jeopardize the Federal Government's priority right against other creditors. If the IRS has not filed a lien on all outstanding liabilities and the taxpayer sells an asset, the IRS might not be able to retrieve the moneys received from the sale to help satisfy the tax liabilities.

The potential for revenue collections is not maximized when levies are not used or not used timely against taxpayer's assets or income. Timely use of known levy sources such as bank accounts is important because taxpayers with financial issues could change banks routinely in order to prevent the IRS from taking their funds. In addition, the likelihood of obtaining funds from levies could decrease as time goes on if the taxpayer has financial difficulties other than their tax debt.

Recommendations

The Director, Collection, Small Business/Self-Employed Division, should:

Recommendation 1: Reemphasize the IRS policy for timely and effective followup contacts to deadlines established for taxpayers. This can be accomplished by issuing a memorandum similar to the one covering Expectations for Enforcement dated June 24, 2005. This might need some additional text regarding the need to consider the new flexibility options that were recently implemented.

Management's Response: IRS management agreed with the recommendation and issued a memorandum emphasizing that 1) revenue officers should implement case strategies which include simultaneous case actions, and 2) enforcement action is generally the next appropriate case action when taxpayers miss established deadlines. The IRS also developed several training courses designed to reinforce the importance of timely and effective case actions including, when appropriate, enforcement action.

Recommendation 2: Include an assessment of the adequacy of taking enforcement actions when warranted into the case reviews that have been reintroduced as part of the FY 2009 operational reviews of Area Offices performed under the direction of Headquarters staff.

Management's Response: IRS management agreed with the recommendation and, as part of the FY 2009 headquarters operational reviews of Area Offices, the IRS has included an assessment of the use of appropriate enforcement action in case reviews.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether revenue officers¹ are adhering to case resolution guidelines by taking appropriate enforcement actions (liens,² levies, or seizures³) when warranted to resolve balance due accounts.

To identify cases to review, we queried the open Integrated Collection System⁴ to select balance due cases that were opened between October 1, 2005, and May 31, 2007, which provided us with cases opened after the Enforcement Expectations memorandum dated June 24, 2005. This should also have allowed sufficient time for the provisions of the Enforcement Expectations memorandum to be filtered down to field employees. Selecting cases opened by May 31, 2007, provided cases that were open long enough for significant work to have been completed on the cases for our analysis. We then limited the results to cases where the total balance due was at least \$10,000 and there was more than 1 tax period for the taxpayer. We also excluded specialty type cases. This resulted in a population of 20,270 taxpayers.

We randomly selected a statistical sample of 96 cases from the population noted. The statistically valid sample size was determined based on a 50 percent expected error rate, a 95 percent confidence level, and a ± 10 percent precision level. The error rate was based on error rates identified in prior audit reports. After reviewing 70 cases, we determined that the actual error rate was 21 percent, which would have required a sample size of 65 cases. Therefore, we discontinued the case review at that point. We selected a statistical sample because we wanted to estimate the total number of taxpayers where collection enforcement tools were not used or were not used in a timely manner.

To validate our data, we compared the balance due amount per tax module (40 modules), the balance due amount per taxpayer (15 taxpayers), and the balance due amount that was shown as a credit (40 tax modules) to information on the Integrated Data Retrieval System.⁵ We determined that all of the cases were accurate and were correctly identified for our universe.

¹ Field collection employees who attempt to contact taxpayers in person to resolve tax delinquencies that were not resolved through letters or telephone calls to the taxpayer.

² A Notice of Federal Tax Lien, referred to as a lien throughout this report, is filed with officials such as a Secretary of State or County Clerk to notify creditors that the Government has a claim against the taxpayer's property.

³ Levies are legal seizures of tax debtors' assets to satisfy tax delinquencies. These can include assets held by third parties such as bank accounts and wages. The IRS can also seize and sell taxpayer possessions such as business assets, vehicles, and real estate.

⁴ An automated system used to control and monitor delinquent cases assigned to revenue officers in the field offices.

⁵ The IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.



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Also, we reviewed the history sheets to validate that the cases met our criteria based on the dates the cases were assigned and the balance due modules included in the case. No discrepancies were identified.

To accomplish our audit objective, we:

- I. Determined whether the IRS is following case resolution guidelines when working balance due accounts.
 - A. Identified and selected a statistically valid sample of 70 balance due cases to review.
 - B. Reviewed the 70 cases to determine whether procedures established to move cases toward timely resolution were followed.
 1. Reviewed case consultations to determine whether the need to use enforcement action was discussed.
 2. Determined whether taxpayer contacts were timely and effective and whether deadlines and consequences established for taxpayers during contacts were enforced.
 3. Determined whether the revenue officer adequately considered the taxpayer's compliance, financial condition, collection statute date, and other risk factors in determining the appropriate collection method to pursue and whether that action was appropriate.
 4. Determined whether the taxpayer was provided with the appropriate publications and notifications regarding the collection process and rights before enforcement actions were used.
- II. Determined what local oversight and direction was provided to encourage appropriate case actions and timely case resolution during visits to the Gulf States and California Small Business/Self-Employed Division Area Offices.⁶
 - A. Held discussions with two territory managers⁷ in each Area Office to determine:
 1. How they monitor their groups to ensure that cases are being worked effectively.
 2. Whether they conduct quarterly consistency review meetings to help ensure that the group managers are consistent in the application of the quality review attributes.

⁶ A geographic organizational level used by IRS business units and offices to help their specific types of taxpayers understand and comply with tax laws and issues.

⁷ Collection managers that report to the Area Director, Collection, and oversee portions of the Collection function operations within the area.



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- B. Obtained and reviewed embedded quality review reports for the two groups we visited in each of the Area Offices.
 - C. Held discussions with two group managers in each of the Area Offices to determine:
 - 1. How they conducted and documented case reviews, what actions were taken based on the reviews, and how they used embedded quality review report results.
 - 2. How they monitored revenue officer inventories to ensure timely completion of work.
 - 3. Their views on taking enforcement actions and perception of revenue officer willingness to consider enforcement actions when appropriate.
 - 4. What topics they included in group meetings to determine whether enforcement actions were covered.
 - 5. Whether the area has any local procedures and guidelines on use of enforcement.
 - D. Held discussions with four revenue officers that report to each of the group managers interviewed to determine how they:
 - 1. Determine the course of action to take on balance due cases and when to use enforcement actions.
 - 2. Monitor case actions and followup dates.
 - 3. Decide what actions to take when the taxpayer or power of attorney misses a specified action date.
 - 4. Perceive the effectiveness of the Case Consultation process.
- III. Determined whether national oversight and training on enforcement actions was appropriate.
- A. Reviewed collection operational reviews (for FYs 2005 and 2006) to determine whether issues with enforcement actions were identified and what action was taken to correct the issues.
 - B. Reviewed training materials regarding enforcement actions/case resolution for consistency with established guidelines.
 - C. Determined whether any additional assistance or guidance was provided to the Area Offices regarding enforcement actions.
 - D. Obtained and reviewed national quality review reports to determine whether problem trends are identified and what corrective actions were taken.



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Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)

Carl L. Aley, Director

Amy L. Coleman, Audit Manager

Joseph P. Snyder, Lead Auditor

Michael Della Ripa, Auditor

Chanda L. Stratton, Auditor



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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, 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 Internal Control OS:CFO:CPIC:IC
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



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Appendix IV

Case Example – Untimely Enforcement Actions

The history includes all the significant actions with the taxpayer and/or representative to resolve the case between April 25, 2006, and April 12, 2007.

| History Date | Deadline Date | Action Requested | Consequence of Missing Deadline | Explanation of History Actions |
|--------------|---------------|------------------|---------------------------------|--------------------------------|
| 1 | | | | |
| 1 | | | | 1 |
| 1 | | | | |
| 1 | | | | 1 |
| 1 | | | | 1 |
| 1 | | | | |



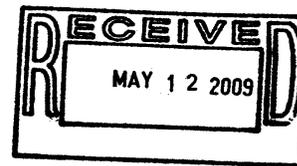
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Appendix V

Management's Response to the Draft Report



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



May 12, 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS

DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Christopher Wagner *San R. Fink for*
Commissioner, Small Business/Self-Employed Division

SUBJECT:

Draft Audit Report – Enforcement Actions Were Not Always
Timely Initiated When Taxpayers Did Not Respond to Contact
Attempts or Missed Deadlines (Audit # 200830006)

Thank you for the opportunity to review the draft report titled "Enforcement Actions Were Not Always Timely Initiated When Taxpayers Did Not Respond to Contact Attempts or Missed Deadlines."

Your report recommends that we reemphasize the IRS policy for timely and effective follow-up contacts to deadlines established for taxpayers and include an assessment of the adequacy of enforcement actions in case reviews which have been reintroduced as part of the Fiscal Year 2009 operational reviews of area offices performed under the direction of Headquarters staff.

We agree with the recommendations and have already taken steps that address both recommendations. The Director, Collection issued a memorandum to revenue officers on March 17, 2009, emphasizing the importance of implementing an effective case strategy and timely follow-up actions including enforcement action when appropriate. In addition, the 2009 Revenue Officer Continuing Professional Education (CPE) will have classes to reinforce these priorities.

In response to the second recommendation, we have already included an assessment of the use of enforcement actions when conducting case reviews as part of the headquarters operational review of area offices. The findings and trends identified in these reviews will be shared with the Director, Collection.

Attached is a detailed response outlining our corrective actions. If you have questions, please call me at (202) 622-0600 or David Alito, Director, Collection at (202) 283-7660.

Attachment



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Attachment

RECOMMENDATION 1:

Reemphasize the IRS policy for timely and effective followup contacts to deadlines established for taxpayers. This can be accomplished by issuing a memorandum similar to the one covering Expectations for Enforcement dated June 24, 2005. This might need some additional text regarding the need to consider the new flexibility options that were recently implemented.

CORRECTIVE ACTION:

On March 17, 2009, the Director, Collection issued a memorandum to revenue officers emphasizing the following three key points:

- 1) Revenue officers should implement case strategies which include simultaneous case actions. The case should include a documented plan of action updated throughout the life of the case;
- 2) When taxpayers do not stay current with filing and payment requirements, provide requested financial information, and make payments based on their ability to pay by established deadlines, then enforcement action is, generally, the next appropriate case action; and
- 3) Management reviews and discussions should be used to focus on 2009 Collection Program Letter commitments.

We also developed several training courses designed to reinforce the importance of timely and effective case actions including, when appropriate, enforcement action. The following courses will be delivered during the 2009 Revenue Officer CPE:

- 1) Strategic Approach - Focus on Employment Tax Cases
- 2) Seizure and Sale
- 3) Responding to a Changing Economy

IMPLEMENTATION DATE:

Completed

RESPONSIBLE OFFICIAL:

N/A

CORRECTIVE ACTION(S) MONITORING PLAN:

N/A

RECOMMENDATION 2:

Include an assessment of the adequacy of taking enforcement actions when warranted into the case reviews that have been reintroduced as part of the Fiscal Year 2009 operational reviews of area offices performed under the direction of Headquarters staff.



*Enforcement Actions Were Not Always Timely Initiated
When Taxpayers Did Not Respond to Contact Attempts
or Missed Deadlines*

2

CORRECTIVE ACTION:

As part of the Fiscal Year 2009 headquarters operational reviews of area offices, we have included an assessment of the use of appropriate enforcement action in case reviews. When all of the operational reviews are completed, we will prepare a summary rollup of the case review findings, trends, and related recommendations which will be provided to the Director, Collection.

IMPLEMENTATION DATE:

October 15, 2009

RESPONSIBLE OFFICIAL:

Director, Collection Policy, SB/SE Collection Division

CORRECTIVE ACTION MONITORING PLAN:

The Director, Collection Policy will monitor the status and advise the Director, Collection SB/SE of any delays in implementation.