



*Collection Actions Could Be Accelerated on
Some Large Dollar Balance Due Accounts*

June 22, 2009

Reference Number: 2009-30-090

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 22, 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 – Collection Actions Could Be Accelerated on
Some Large Dollar Balance Due Accounts (Audit # 200830IE031)

This report presents the results of our review to evaluate the source and status of large dollar (\$1 million or more) individual taxpayer balance due accounts and the actions being taken by the Internal Revenue Service (IRS) to collect the amounts owed. This review was part of our Fiscal Year 2008 risk-based audit coverage under the major management challenge of Tax Compliance Initiatives.

Impact on the Taxpayer

While the majority of taxpayers owing \$1 million or more are actively pursued for collection through various programs, we identified some large dollar taxpayers' accounts where actions could be taken to accelerate accounts to field personnel for investigation and possible enforcement action. By accelerating all accounts where taxpayers owe \$1 million or more, we estimated that the IRS could potentially collect approximately \$12.1 million in revenue.

Synopsis

The IRS takes large dollar delinquent accounts very seriously and its Collection function procedures reflect this priority in the emphasis placed on collecting \$1 million or more accounts. On December 22, 2007, there were 2,454 individual taxpayers in the IRS' potentially collectible inventory who each owed more than \$1 million in taxes, penalties, and interest. While the vast majority of these individuals (2,006 of 2,454) were being actively pursued for collection, we



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identified 448 accounts totaling approximately \$1.2 billion that were in the Queue¹ (357 accounts) or that had been shelved (91 accounts). Among the 448 accounts, 214 accounts were in the Queue or in shelved status for more than a year. We used automated information systems² and the IRS' Fiscal Year 2007 collection rate³ to review a statistically valid sample of 155 of the 214 accounts and determined that as much as \$12.1 million may be collectible from 27 taxpayers who owe a total of approximately \$110 million.

To their credit, IRS officials are taking steps to correct two of the three factors causing some large dollar accounts to linger in the Queue or in shelved status for an extended period of time. The first factor, which IRS officials identified and were working to resolve, was a programming flaw in the Inventory Delivery System that allowed accounts to remain in shelved status even when the taxpayer's account reached a balance of \$1 million or more.

The second factor involved another computer programming problem that we brought to the attention of IRS officials after nine Queue accounts included in our sample could not be located in the ENTITY Case Management System (ENTITY). IRS officials stated that erroneous codes were preventing the accounts from appearing in the group managers' inventory in the ENTITY and a computer programming change would be implemented to resolve the problem. We were also informed that the problem was not limited to the few cases in our sample but affected at least 2,439 other accounts with balances owed of \$50,000 or more. Ensuring all delinquent accounts appear in the ENTITY is critical because it ultimately affects which accounts are identified and selected for investigation and possible enforcement action.

The third factor we identified as contributing to large dollar accounts lingering in the Queue or in shelved status is the criterion used in the ENTITY for deciding which accounts are accelerated to the field for collection. The ENTITY is currently programmed to identify and accelerate accounts with assessments of \$1 million or more, but does not take into consideration the related interest and penalty accruals that continue to add to the total account balance owed until paid or otherwise satisfied. As a result, individuals who owe a combination of tax assessments, interest, and penalties that could far exceed \$1 million can have their accounts linger in the Queue or remain shelved while others who may owe less have their accounts accelerated to the field for investigation and possible enforcement action.

Until the IRS ensures that the programming changes are designed, implemented, and functioning properly, the risk remains that its automated inventory systems may not be functioning as intended by Collection function procedures. In addition, opportunities may be missed to collect some of the revenue owed by taxpayers with the largest balance due accounts.

¹ See Appendix V for a glossary of terms.

² The systems used were the IRS Integrated Data Retrieval System and Accurant.

³ The collection rate of approximately 11 percent was calculated using the Fiscal Year 2007 Taxpayer Delinquent Account Inventory dollar amount for individuals and the total dollars collected for individual accounts by the Collection Field function.



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Recommendations

We recommended that the Director, Planning and Analysis, Small Business/Self-Employed Division, follow through with actions to ensure the programming changes are designed, implemented, and functioning in accordance with Collection function policies and procedures. We also recommended that the Director, Planning and Analysis, explore the cost and benefits associated with changing the ENTITY acceleration criteria of \$1 million to include penalties and interest accruals. If the potential benefits outweigh the cost, the Director should coordinate with appropriate officials to implement the change to the acceleration criteria.

Response

IRS management agreed with our recommendations and has taken actions to address them. Programming changes to the Inventory Delivery System to address accounts reaching a balance of \$1 million in shelved status were implemented in January 2009. Also, programming changes to the ENTITY to appropriately present all cases for assignment in the Queue were implemented in January 2009. Both systems are being monitored to ensure that they are functioning in accordance with Collection function policies. The IRS stated that a research study was initiated to explore changing the ENTITY acceleration criteria, and the results will be reviewed to determine if any appropriate actions are necessary. Management concurred with the calculation of the outcome measure included as Appendix IV given the acknowledgment that it “does not include amounts (costs) that could offset this benefit due to reallocating resources from other IRS investigations.” Management’s complete response to the draft report is included as Appendix VI.

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



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Abbreviations

ENTITY	ENTITY Case Management System
IRS	Internal Revenue Service
TRCAT	Transaction Category Report



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Background

The Internal Revenue Service's (IRS) process for collecting unpaid debt can go through three phases – notices, telephone contact, and in-person contact. Debt goes through these phases until it is determined to no longer be collectible, is collected, or is otherwise resolved. According to the Government Accountability Office,¹ in Fiscal Year 2007, over 16 million first notices were sent to taxpayers, 5.4 million incoming and 1.9 million outgoing telephone contacts were made, and an estimated 400,000 taxpayers were contacted in person. For its efforts, the IRS collected \$43 billion in unpaid tax debt. However, according to figures captured by the IRS Chief Financial Officer, the amount of the IRS' accounts receivable, which is also commonly referred to as the IRS' Unpaid Assessments, exceeded \$290 billion. Approximately \$105.3 billion of the \$290 billion was considered potentially collectible.

In Fiscal Year 2007, the IRS' Unpaid Assessments exceeded \$290 billion, of which \$105.3 billion was considered potentially collectible.

Unpaid assessments are generally identified by either 1) the taxpayer submitting a tax return with a balance due but without full payment or 2) IRS compliance programs such as the IRS audit program that identifies reporting noncompliance on filed tax returns or the Automated Substitute for Return² program that creates a tax due return on the basis of available data provided to the IRS by third parties on income such as wages and interest.

The IRS' Unpaid Assessments – Potentially Collectible Inventory – reflects dollars available to be collected and is the focus of the IRS' collection efforts. It contains accounts in notice inventory and delinquent taxpayer accounts in the Automated Collection System, Collection Field function, Queue awaiting field assignment, and shelved due to a lack of resources. Delinquent accounts remain in the inventory until they are either paid, abated, or until the collection statute of limitations expires, which is usually 10 years from the tax assessment date. Our review focused on accounts with a balance due of \$1 million or more that were in either the Queue or shelved for 1 year or more.

The review was performed at the IRS Small Business/Self-Employed Division Headquarters in the Collection function's Office of Planning and Analysis in New Carrollton, Maryland, during the period March through December 2008. 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

¹ *IRS Has a Complex Process to Attempt to Collect Billions of Dollars in Unpaid Tax Debts*, GAO-08-728, June 2008.

² See Appendix V for a glossary of terms.



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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.



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Results of Review

The IRS relies heavily on the Collection function's automated inventory systems to identify and select accounts to forward to the field for investigation and possible enforcement actions. The Collection function uses the Inventory Delivery System to direct tax delinquency cases to various points in the collection process, including the Automated Collection System and the Collection Field function. Once directed to the Collection Field function, the ENTITY Case Management System (ENTITY) is used to assign cases to field personnel, including accounts designated for accelerated collection action.

While the vast majority of large dollar accounts have been identified and forwarded to the field for collection action, steps need to be taken to ensure that computer programming changes to the Collection function's automated inventory systems are implemented and functioning properly. In addition, the criterion in the ENTITY needs to be adjusted to include interest and penalties accruals so all accounts with a balance due of \$1 million or more are accelerated for assignment to the field.

The Vast Majority of Individuals Owing \$1 Million or More Are Actively Pursued for Collection

On December 22, 2007, there were 2,454 individual taxpayers in the IRS' potentially collectible inventory who each owed more than \$1 million in taxes, interest, and penalties. As shown in Figure 1, the majority of these individuals (2,006 of 2,454) were actively pursued by the IRS through notices, the Automated Collection System, or by Collection Field function personnel. However, we identified 448 accounts totaling approximately \$1.2 billion that were in the Queue (357 accounts) or that had been shelved (91 accounts). Among the 448 accounts, 214 accounts were in the Queue (138) or in shelved status (76) for more than a year.



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Figure 1: IRS Unpaid Assessments – Potentially Collectible Inventory, by Collection Action, for the Week Ending December 22, 2007

Potentially Collectible Inventory	Tax Periods	Taxpayers	Total Balance Due
1st Notice Status	425	390	\$1,449,866,780
2nd Notice Status	24	22	\$139,131,021
3rd Notice Status	97	90	\$286,104,765
4th Notice Status	212	190	\$767,942,158
Taxpayer Delinquent Account – Collection Field function	1,657	1,311	\$6,180,551,304
Taxpayer Delinquent Account – Automated Collection System	3	3	\$3,255,459
Taxpayer Delinquent Account – QUEUE	403	357	\$922,873,061
Currently Not Collectible – Shelved	107	91	\$264,349,459
Totals	2,928	2,454	\$10,014,074,007

Source: Transaction Category Report (TRCAT) extract from the Treasury Inspector General for Tax Administration Data Center Warehouse.

As reflected in Figure 2, the largest contributor to these individual taxpayer balance due accounts was assessments stemming from non-filer cases. In these cases, the IRS will typically estimate the taxes owed by the non-filer after not receiving a response to contact letters and prepare a Substitute for Return based on available information.



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Figure 2: IRS Unpaid Assessments – Potentially Collectible Inventory, by Source of Assessment, for the Week Ending December 22, 2007

Source of Assessment	Tax Periods	Taxpayers	Total Balance Due
Substitute for Return	1,546	1,321	\$6,232,243,953
Taxpayer Delinquency Investigation	80	73	\$162,696,326
Delinquent Return Notice Status	11	11	\$39,276,912
Examination Assessment	569	419	\$1,808,731,518
Underreporter Program	59	57	\$152,320,430
Adjustments	37	29	\$92,415,491
Math Errors	8	8	\$38,284,794
Balance Due First Notice	413	391	\$1,036,535,001
Trust Fund Recovery Penalty	191	141	\$402,994,506
Other Penalties	14	14	\$48,575,076
Totals	2,928	2,464³	\$10,014,074,007

Source: TRCAT extract from the Treasury Inspector General for Tax Administration Data Center Warehouse.

Programming Changes and Adjusting the Acceleration Criteria in the ENTITY Case Management System Are Needed

The IRS takes large dollar delinquent accounts very seriously and its Collection function program reflects this priority in the emphasis placed on collecting these accounts. To ensure that large dollar accounts are immediately assigned and worked by field personnel, Collection function management established a policy in April 2005 that cases of \$1 million or more would be accelerated to the field.

We used automated information systems⁴ and the IRS' Fiscal Year 2007 collection rate⁵ to review a statistically valid sample of 155 of 214 accounts. We found 35 of 155 accounts had collection potential but remained in the Queue or shelved. IRS records indicate that 23 of the 35 taxpayers (66 percent) may have been contacted through the Automated Collection System or Collection Field function. Also, 11 of the 35 taxpayers (31 percent) had either a lien or levy placed on their accounts. Although the IRS has planned systemic changes to accelerate

³ There is a difference in the number of taxpayers from Figure 1 as compared to Figure 2 because one taxpayer record could include more than one type of tax assessment for that taxpayer.

⁴ The systems used were the IRS Integrated Data Retrieval System and Accurint.

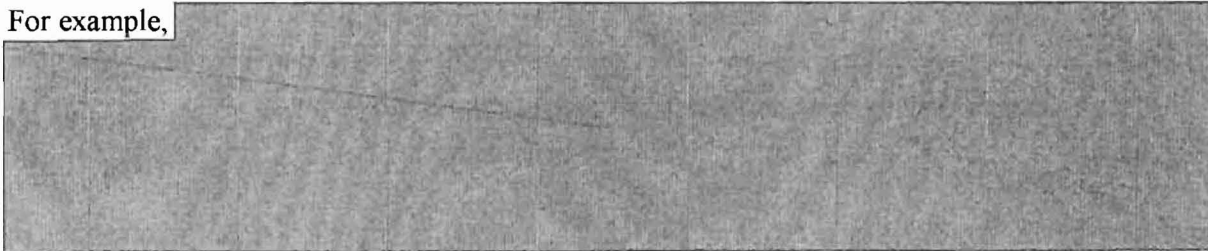
⁵ The collection rate of approximately 11 percent was calculated using the Fiscal Year 2007 Taxpayer Delinquent Account Inventory dollar amount for individuals and the total dollars collected for individual accounts by the Collection Field function.



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assignment for 8 of the 35 accounts, it may be missing the opportunity to collect an estimated \$12.1 million from the remaining 27 taxpayers who owe a total of approximately \$110 million.⁶

For example,



As summarized in Figure 3, 20 of the 35 accounts had assessed balances under \$1 million but exceeded \$1 million with interest and penalties accruals, and 15 cases had assessed balances over \$1 million. The total account balances for the 35 accounts ranged from approximately \$1 million to \$22 million. The total account balances will increase as penalties and interest continue to accrue until the account balances are collected or otherwise resolved.

Figure 3: Analysis of 35 Queue and Shelved Accounts with Collection Potential

Source of Assessment	Number of Accounts	Range of Total Account Balances ⁷
Substitute for Return		
Assessed Balance < \$1 million	8	\$1.0 - \$1.5 million
Assessed Balance > \$1 million	10	\$1.7 - \$22.0 million
Trust Fund Recovery Penalty		
Assessed Balance < \$1 million	8	\$1.1 - \$4.3 million
Assessed Balance > \$1 million	1	
Balance Due First Notice		
Assessed Balance < \$1 million	3	\$1.1 - \$1.3 million
Examination Assessment		
Assessed Balance < \$1 million	1	
Assessed Balance > \$1 million	3	\$1.9 - \$19.9 million
Delinquent Return Notice Status		
Assessed Balance > \$1 million	1	
Total	35	

Source: Our analysis of Queue and shelved accounts.

To their credit, IRS officials are taking steps to correct two of the three issues causing some large dollar accounts to linger in the Queue or in shelved status for an extended period of time. The first factor, identified by the IRS prior to our review, was a programming flaw in the Inventory Delivery System that allowed accounts to remain in shelved status even when the taxpayers'

⁶ Appendix IV contains the methodology used to determine the amount that may be collectible.

⁷ Total account balances include penalties and interest. The assessed balances do not include these amounts.



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accounts reached \$1 million or more. Of 448 taxpayer accounts, 47 met this criterion. Eight of the 35 accounts we identified with collection potential are included in this group. A programming change scheduled for January 2009 would remove accounts from shelved status and place them in the Queue for assignment to the field through the ENTITY. However, the timing of our work did not afford us the opportunity to verify if the scheduled programming change was implemented and functioning as intended.

The second factor involved a computer programming problem that we brought to the attention of IRS officials after 9 of the 35 accounts included in our sample could not be located in the ENTITY. Collection function management stated that erroneous codes were preventing accounts from appearing in the ENTITY. IRS management advised the Treasury Inspector General for Tax Administration in October 2008 that they were not aware of the problem, but would implement programming changes to resolve the issue by December 31, 2008. We were also informed that the problem was not limited to the few cases in our sample but involved a total of 2,439 accounts (balances of \$50,000 or more) totaling approximately \$719.2 million. Ensuring that all delinquent accounts appear in the ENTITY is critical because it ultimately affects which accounts are identified and selected for investigation and possible enforcement action. Consequently, the IRS will need to ensure that the programming changes are implemented and function in accordance with the intent of its policies and procedures. By doing so, management's actions would be in accordance with the *Standards for Internal Control in the Federal Government*.⁸

The third factor we identified as contributing to large dollar accounts lingering in the Queue or in shelved status is the criterion used in the ENTITY for deciding which accounts are accelerated to the field for collection. Eighteen of the 35 accounts with collection potential were affected by this issue. The ENTITY is currently programmed to identify and accelerate accounts with assessments of \$1 million or more, but does not take into consideration interest and penalties accruals that continue to add to the total account balance owed until paid or otherwise satisfied. As a result, individuals who owe a combination of tax assessments, interest, and penalties that could far exceed \$1 million can have their accounts linger in the Queue or remain shelved while others who may owe less can have their accounts accelerated to the field for investigation and possible enforcement action.

Until the IRS ensures that the programming changes are designed, implemented, and functioning properly, the risk remains that its automated inventory systems may not be functioning as intended by Collection function procedures. In addition, opportunities may be missed to collect some of the revenue owed by taxpayers with the largest balance due accounts.

⁸ GAO/AIMD-00-21.3.1, dated November 1999.



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Recommendations

The Director, Planning and Analysis, Small Business/Self-Employed Division, should:

Recommendation 1: Follow through with actions to ensure that the programming changes are designed, implemented, and functioning in accordance with Collection function policies and procedures.

Management's Response: IRS management agreed with our recommendation. Management stated that programming changes to the Inventory Delivery System to address accounts reaching a balance of \$1 million in shelved status were implemented in January 2009. Also, programming changes to the ENTITY to appropriately present all cases for assignment in the Queue were implemented in January 2009. Both systems are being monitored to ensure that they are functioning in accordance with Collection function policies.

Recommendation 2: Explore the cost and benefits associated with changing the ENTITY acceleration criteria of \$1 million to include penalties and interest accruals. If the potential benefits outweigh the cost, the Director should coordinate with appropriate officials to implement the change to the acceleration criteria.

Management's Response: IRS management agreed with our recommendation. Management stated that a research study was initiated to explore changing the ENTITY acceleration criteria and the results will be reviewed to determine if any appropriate actions are necessary.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the source and status of large dollar (\$1 million or more) individual taxpayer balance due accounts and the actions being taken by the IRS to collect the amounts owed. To accomplish our objective, we:

- I. Obtained and discussed policies and procedures with the IRS Program Manager, Collection Case Delivery, Small Business/Self-Employed Division, and the IRS Program Manager, Collection Case Selection, Small Business/Self-Employed Division, responsible for overseeing the systems that deliver and select large balance due accounts for assignment to the Collection Field function.
- II. Downloaded an extract of the IRS Transaction Category Report (TRCAT)¹ file for Cycle 200751 (week ending December 22, 2007) from the Treasury Inspector General for Tax Administration Data Center Warehouse.
 - A. Validated the reliability of computer-processed data by matching the IRS Gross Accounts Receivable Dollar Inventory total dollar amount on the TRCAT 713-52-87 for Cycle 200751 (which includes assessed tax and accrued interest and penalties) with the TRCAT extract obtained from the Treasury Inspector General for Tax Administration Data Center Warehouse to ensure that the total gross Individual Master File dollars matched. In addition, we verified data from the extract with Integrated Data Retrieval System transcripts for accounts selected for review.
 - B. Determined the source, age, and dollar amounts of large individual balance due accounts.
- III. Determined what actions had been taken to collect balance due accounts with at least 1 tax period with a total module balance of \$1 million or more that has been awaiting assignment for 1 year or more.
 - A. Coordinated with the IRS Office of Statistics of Income to select a statistically valid sample of TRCAT records from the December 22, 2007, extract. In March 2008, using the Integrated Data Retrieval System, we identified a total universe of 138 Queue and 76 shelved accounts over 1 year old. We selected a random sample of 95 Queue accounts based on a 95 percent confidence level, 25 percent error rate, and ± 5 percent precision factor and a random sample of 60 shelved accounts based on a 95 percent confidence level, 20 percent error rate, and ± 5 percent precision factor.

¹ See Appendix V for a glossary of terms.



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We made no projections for the remaining universe of accounts.

- B. Researched information for the samples selected in Step III.A. using the Integrated Data Retrieval System, the ENTITY, and closed case files from the Integrated Collection System (where available) to determine the current status, income available, and IRS actions taken to collect balances due.
 - C. For the cases sampled in Step III.A., researched the Accurant to identify taxpayers' assets.
 - D. Determined if the cases in our samples have Collection potential based on income and assets identified.
 - E. Discussed our cases with the Small Business/Self-Employed Division Collection function analyst to verify our facts and conclusion.
 - F. Contacted 17 group managers and 1 supervisory revenue officer to determine why cases with collection potential had not been assigned to the Collection Field function from 1 to 6 years.
- IV. Calculated the amount of potential increased revenue.
- A. Calculated the total dollar amount (\$110,019,492) for 27 Queue and shelved accounts with collection potential that remained either in Queue or shelved status.
 - B. Obtained statistics from the Collection Activity Reports for Fiscal Year 2007 and determined the percentage of total dollars collected by the Collection Field function using the total inventory dollars and the total dollars collected. We then applied this percentage to the total estimated potential dollars collectible for the 27 Queue and shelved accounts.



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Appendix II

Major Contributors to This Report

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Ali Vaezazizi, 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
Director, Planning and Analysis, Small Business/Self-Employed Division SE:S:C:PA
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

Outcome Measure

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

Type and Value of Outcome Measure:

- Increased Revenue – Potential; approximately \$12.1 million (see page 5).

Methodology Used to Measure the Reported Benefit:

We obtained a data extract using the TRCAT¹ file for the week ending December 22, 2007. There were 2,454 individual taxpayers in the IRS' potentially collectible inventory who each owed over \$1 million in taxes, interest, and penalties for at least 1 tax period. The vast majority of these individuals (2,006 of 2,454) are being actively pursued by the IRS through notices, the Automated Collection System, or by Collection Field function personnel. However, for the remaining 448 taxpayers who are awaiting assignment in the Queue or whose accounts have been shelved, we found that some of these taxpayers may have the ability to pay all or part of their tax liabilities based on their income and/or financial assets we identified through the IRS Integrated Data Retrieval System and the Accurant.

Among the 448 accounts, 214 accounts were in the Queue (138 accounts totaling \$310,994,047) or in shelved status (76 accounts totaling \$276,859,080) for 1 year or longer. With the assistance of the IRS Office of Statistics of Income, we selected a statistically valid sample of 95 Queue and 60 shelved accounts.

Statistical Information	Queue	Shelved
Universe	138	76
Error Rate	25%	20%
Precision Factor	±5%	±5%
Confidence Level	95%	95%
Sample Size	95	60

¹ See Appendix V for a glossary of terms.



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We identified 35 accounts where the taxpayer may have some ability to pay towards his or her outstanding liability and the account had not been active for a year or longer. For purposes of calculating our outcome measure, we excluded the 8 shelved accounts that would be impacted by the January 2009 programming changes preventing accounts of \$1 million or more from being shelved. The remaining 27 Queue and shelved accounts totaling \$110,019,492 continued to remain inactive.

Next, we determined that, in Fiscal Year 2007, the Collection Field function collected approximately 11 percent on individual balances due accounts. This percentage was calculated by dividing the Collection Field function Taxpayer Delinquent Account Inventory for individual taxpayers (\$13,034,906,856) by the amount collected for individual taxpayers (\$1,429,565,978). The percent calculated is an overall percentage for all individual balance due accounts in all dollar ranges.

$$\frac{\$ 1,429,565,978}{\$13,034,906,856} = .1097 \text{ or approximately 11 percent}$$

We then applied the 11 percent to the \$110,019,492 owed on the 27 accounts and determined that the IRS could potentially collect approximately \$12.1 million if the accounts were assigned to the field. The outcome measure does not include amounts (costs) that could offset this benefit due to reallocating resources from other IRS investigations.



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Appendix V

Glossary of Terms

Accelerated Collection Action – Cases sent for immediate issuance to front-line collection employees.

Accurint – A third-party research tool that provides online access to asset/locator information including real and personal property data, motor vehicle information, State corporation data, and other public records.

Adjustments – A change in the amount of tax owed based on IRS matching programs or a computation error made by the taxpayer on the filed return.

Automated Collection System – A telephone contact system through which telephone assistants collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Automated Substitute for Return – A program that attempts to enforce filing compliance on taxpayers who have not filed individual income tax returns by automatically generating a return that assesses related tax, penalties, and interest. The IRS' goal is to motivate the taxpayer to file an accurate tax return, which usually reports a lower tax liability than the IRS assesses because the IRS does not know all of the taxpayer's circumstances.

Balance Due First Notice – An IRS notice informing the taxpayer that there is a balance due on the return filed.

Collection Field function – The unit in the Area Offices¹ consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Currently Not Collectible – Accounts where no current collection potential exists and the taxpayer's financial condition or the inability of the IRS to locate the taxpayer makes it unlikely to collect in the future.

Data Center Warehouse – A centralized storage and administration of files that provides data and data access services to IRS data.

Delinquent Return Notice Status – An IRS notice sent to the taxpayer because a return was not filed. The taxpayer filed the return after receiving such notification.

¹ 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.



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ENTITY Case Management System – A Collection function system that uses data from the Integrated Collection System and Integrated Data Retrieval System for case management, report compilation, and management information. The ENTITY is used by Collection Field function group managers to assign inventory to revenue officers.

Examination Assessment – An additional amount owed by the taxpayer after the taxpayer's return was examined.

Individual Master File – The IRS database that maintains transactions or records of individual tax accounts.

Integrated Collection System – The information management system designed to improve revenue collections by providing revenue officers access to the most current taxpayer information and, while in the field, using laptop computers for quicker case resolution and improved customer service.

Integrated Data Retrieval System – The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

Inventory Delivery System – The inventory delivery system used by the Collection function to route and prioritize Collection function work.

Levy – A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.

Lien – A claim on a taxpayer's assets for the amount of unpaid tax.

Math Error – A computation error or mismatch of taxpayer information identified through a matching program that would result in a tax change.

Module - A part of a taxpayer's account that reflects tax data for one type of tax and one tax period.

Non-filer – A taxpayer who fails to file income tax returns and effectively stops paying income tax.

Other Penalties – Penalties assessed for various noncompliance reasons including late filing, failure to make estimated payments, late Federal tax deposits, etc.

Queue – An automated holding file for unassigned inventory of delinquent cases for which the Collection function does not have enough resources to immediately assign for contact.

Shelved – Delinquent unpaid accounts or investigations of unfiled tax returns that have been taken out of Collection function inventory because they are a lower priority than other available cases.

Taxpayer Delinquent Account – A balance due account of a taxpayer. A separate Taxpayer Delinquent Account exists for each tax period.



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Taxpayer Delinquency Investigation – The taxpayer did not file a tax return. The return was later secured after the case was assigned to the Automated Collection System or a Collection Field function revenue officer.

Transaction Category Report File(s) – Files created as part of the IRS' Accounts Receivable Dollar Inventory. The files identify all accounts with a balance due.

Trust Fund Recovery Penalty – A penalty assessed against responsible corporate officers for their willful failure to collect and remit trust fund taxes to the Federal Government. Businesses use Employer's Quarterly Federal Tax Return (Form 941) to report trust fund taxes.

Underreporter Program – A program that matches income, deductions, and credits reported on the tax return with the wage and information return data reported by employers, banks, and credit unions on information returns.



*Collection Actions Could Be Accelerated on Some
Large Dollar Balance Due Accounts*

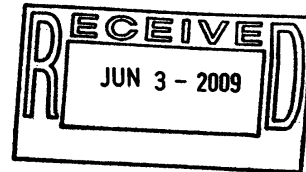
Appendix VI

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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



June 3, 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Christopher Wagner
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Collection Actions Could Be Accelerated
on Some Large Dollar Balance Due Accounts
(Audit # 2008301E031)

Thank you for the opportunity to review the draft report titled "Collection Actions Could Be Accelerated on Some Large Dollar Balance Due Accounts."

Your report recommends that the IRS follow through with actions to ensure the programming changes are designed, implemented, and functioning in accordance with Collection function policies and procedures, and explore the cost and benefits associated with changing the ENTITY acceleration criteria of \$1 million to include penalties and interest accruals.

We agree with the recommendations outlined in the report and have already taken action to address them. We appreciate that you recognized the IRS previously identified the programming issue with the Inventory Delivery System (IDS) and was taking action to correct the situation where accounts remained in shelved status after reaching a balance of \$1 million. Programming changes to IDS were implemented in January 2009 to address this. In the ENTITY Case Management System (ENTITY) you identified cases that were not appropriately being presented for assignment in the Queue. Corrective actions were implemented in January 2009 to address this situation. Both systems are being monitored to ensure they are functioning in accordance with Collection policies.

Regarding the second recommendation, we have initiated a research study to explore the cost and benefits of changing the acceleration criteria in ENTITY to include interest and penalty accruals. Currently, the system accelerates inventory based on the assessed balance of a case, while prioritizing the remaining inventory based on risk.



*Collection Actions Could Be Accelerated on Some
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We concur with the calculation of the outcome measure presented in Appendix IV of the report, given the acknowledgement that it "does not include amounts (costs) that could offset this benefit due to reallocating resources from other IRS investigations." These additional costs will be considered in the research study to address the second recommendation.

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



*Collection Actions Could Be Accelerated on Some
Large Dollar Balance Due Accounts*

Attachment

RECOMMENDATION 1:

Follow through with actions to ensure that the programming changes are designed, implemented, and functioning in accordance with Collection function policies and procedures.

CORRECTIVE ACTION:

1. Implement and monitor changes in IDS to address accounts reaching a balance of \$1 million in shelved status.
2. Implement and monitor changes in ENTITY to appropriately present all cases for assignment in the Queue.

IMPLEMENTATION DATE:

1. January 2009 – Completed
2. January 2009 – Completed

RESPONSIBLE OFFICIAL:

Director, Planning and Analysis, SB/SE Collection Division

CORRECTIVE ACTION(S) MONITORING PLAN:

All actions completed, therefore no monitoring plan necessary.

RECOMMENDATION 2:

Explore the cost and benefits associated with changing the ENTITY acceleration criteria of \$1 million to include penalties and interest accruals. If the potential benefits outweigh the cost, coordinate with appropriate officials to implement the change to the acceleration criteria.

CORRECTIVE ACTION:

1. Initiate a research study to explore changing the ENTITY acceleration criteria.
2. Review research results to determine any appropriate actions necessary.

IMPLEMENTATION DATE:

1. April 2009 – Completed
2. June 2010

RESPONSIBLE OFFICIAL:

Director, Planning and Analysis, SB/SE Collection Division

CORRECTIVE ACTION MONITORING PLAN:

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