



*Delinquent Taxes May Not Be Collected  
Because Required Research Was Not Always  
Completed Prior to Closing Some Cases  
As Currently Not Collectible*

**August 25, 2014**

**Reference Number: 2014-30-052**

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

2 = Risk Circumvention of Agency Regulation or Statute

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Phone Number / 202-622-6500

E-mail Address / [TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov)

Website / <http://www.treasury.gov/tigta>



## HIGHLIGHTS

### **DELINQUENT TAXES MAY NOT BE COLLECTED BECAUSE REQUIRED RESEARCH WAS NOT ALWAYS COMPLETED PRIOR TO CLOSING SOME CASES AS CURRENTLY NOT COLLECTIBLE**

## Highlights

### **Final Report issued on August 25, 2014**

Highlights of Reference Number: 2014-30-052 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

### **IMPACT ON TAXPAYERS**

If an IRS employee is unable to contact or unable to locate (UTC/UTL) a delinquent taxpayer, the collection case may be closed as currently not collectible (CNC). If all of the required research steps are not taken prior to the case closure, there is a risk that the Government's interest may not be protected and that taxpayers will not be treated equitably.

### **WHY TIGTA DID THE AUDIT**

In Fiscal Year 2012, the IRS closed 482,611 tax modules involving approximately \$6.7 billion as CNC–UTC/UTL. This audit was initiated to determine whether these cases were adequately researched, documented, and approved to ensure that all actions were taken to collect outstanding taxpayer liabilities.

### **WHAT TIGTA FOUND**

Required case actions were not always completed before closing cases as CNC–UTC/UTL. Of a stratified sample of 250 cases reviewed, there was no evidence that employees completed all of the required research steps for 57 percent of the cases prior to their closing. Moreover, 7 percent of the cases did not have a Notice of Federal Tax Lien (NFTL) filed on all delinquent tax periods as required.

Collection Field function (Field) employees did not complete all research in 165 of the 204 Field cases, while Automated Collection System function employees did not complete all

research in eight of the 38 Automated Collection System cases. Automated Collection System function employees use an electronic checklist to guide them; however, Field employees do not have a checklist. Managers approved the case closures even though the required research steps were not completed.

Field employees are required to complete more extensive research than Automated Collection System function employees before they close cases as CNC–UTC/UTL. However, the IRS does not track whether the additional research and time spent is productive.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Directors, Enterprise Collection Strategy and Field Collection, ensure that controls are in place so that employees complete the required research and make NFTL determinations, as well as require managers to document that all case actions have been completed before approving any CNC–UTC/UTL case closures. TIGTA also recommended verifying that all cases closed as CNC–UTC/UTL with aggregate unpaid assessed balances of more than \$10,000 beginning in Fiscal Year 2012 had an NFTL filed on all applicable tax periods. Additionally, TIGTA recommended that an analysis be conducted on the success of the additional research steps taken by Field employees prior to closing cases as CNC–UTC/UTL.

In their response to the report, IRS officials agreed with all of our recommendations and plan to take corrective actions. However, management's planned corrective actions for two of the recommendations did not fully address the recommendations. TIGTA believes management should completely address both recommendations to ensure that the Government's interest is protected.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 25, 2014

**MEMORANDUM FOR** DEPUTY COMMISSIONER FOR SERVICES AND  
ENFORCEMENT

**FROM:**

Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Delinquent Taxes May Not Be Collected Because  
Required Research Was Not Always Completed Prior to Closing Some  
Cases As Currently Not Collectible (Audit # 201330014)

This report presents the results of or review to determine whether currently not collectible cases closed as unable to contact or unable to locate were adequately researched, documented, and approved to ensure that all actions were taken to collect outstanding taxpayer liabilities. This audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

The Internal Revenue Service (IRS) did not agree with the full amount of our outcome measure. Management stated that because Notices of Federal Tax Lien (NFTLs) were filed on some of the tax modules owed by the taxpayer in some of the sample cases, the Government's interest is adequately protected in these instances. Additionally, management believes that the tax liability could be overstated because some returns were prepared under Internal Revenue Code Section 6020(b). Part of the amounts assessed may be abated if the taxpayers file returns.

We do not agree that the Government's interest is adequately protected if NFTLs are only filed on some of the delinquent modules. Furthermore, Internal Revenue Manual 5.16.1.1(4), specifically requires an NFTL be filed on all tax modules being reported as currently not collectible when the aggregate unpaid balance of all the assessments for the tax modules equals or exceeds \$10,000, regardless of any individual balance. The NFTL protects the Government's interest for the dollar value of all delinquencies only if all delinquent modules are included. As it relates to Internal Revenue Code Section 6020(b) assessments, the IRS must file an NFTL to protect the full amount of the assessments since it does not know what portion of the assessments may eventually be abated. The outcome measure is based on the amount protected.



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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. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).



*Delinquent Taxes May Not Be Collected Because  
Required Research Was Not Always Completed Prior  
to Closing Some Cases As Currently Not Collectible*

## *Table of Contents*

<b>Background</b> .....	Page 1
<b>Results of Review</b> .....	Page 3
Required Case Actions Were Not Always Completed on Cases Closed As Currently Not Collectible – Unable to Contact or Unable to Locate.....	Page 3
<u>Recommendations 1 through 3:</u> .....	Page 6
Procedures Are Inconsistent for Closing Cases As Currently Not Collectible – Unable to Contact or Unable to Locate .....	Page 7
<u>Recommendation 4:</u> .....	Page 9
<b>Appendices</b>	
Appendix I – Detailed Objective, Scope, and Methodology .....	Page 10
Appendix II – Major Contributors to This Report.....	Page 12
Appendix III – Report Distribution List .....	Page 13
Appendix IV – Outcome Measures.....	Page 14
Appendix V – Glossary of Terms .....	Page 15
Appendix VI – Management’s Response to the Draft Report .....	Page 17



*Delinquent Taxes May Not Be Collected Because  
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## *Abbreviations*

ACS	Automated Collection System
BMF	Business Master File
CNC	Currently Not Collectible
FY	Fiscal Year
IMF	Individual Master File
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
NFTL	Notice of Federal Tax Lien
TIGTA	Treasury Inspector General for Tax Administration
UTC	Unable to Contact
UTL	Unable to Locate



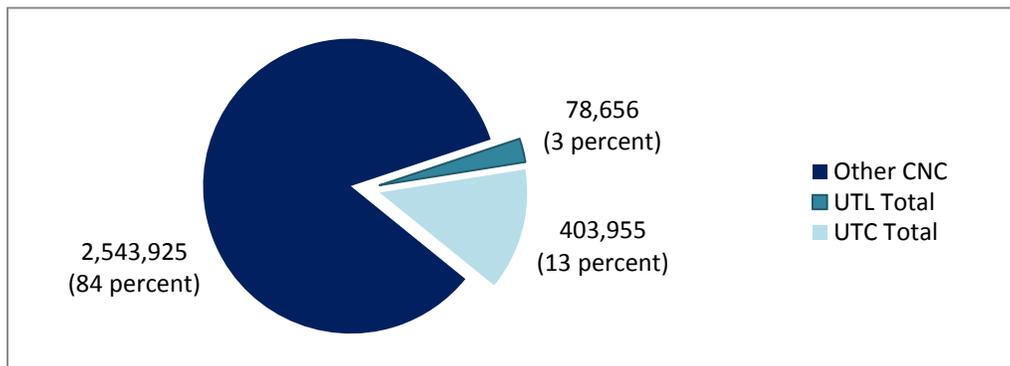
*Delinquent Taxes May Not Be Collected Because  
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## *Background*

The Internal Revenue Service (IRS) attempts to collect Federal taxes due from taxpayers many different ways, including sending letters, making telephone calls, and meeting face-to-face. However, collection actions are not always successful. Consequently, IRS employees may close cases as currently not collectible (CNC)<sup>1</sup> after taking all the necessary steps in the collection process and determining that there is not any income or assets available to resolve the outstanding taxes owed or if they are unable to contact (UTC) or unable to locate (UTL) the taxpayer.

The investigation required to close a case as CNC–UTC/UTL varies based on the dollar amount and case type as well as the function working the case. These cases are normally closed by employees in either the Automated Collection System (ACS) function or in the Collection Field function (hereafter referred to as the Field).<sup>2</sup> Manager approval is generally required to ensure that the investigation meets the established standards of thoroughness and integrity.<sup>3</sup> Once closed as CNC, the case is removed from active inventory. Figure 1 shows that 482,611 tax modules were closed as CNC–UTC/UTL in Fiscal Year (FY) 2012, which accounted for 16 percent of the total tax modules closed as CNC.

**Figure 1: Number of Tax Modules Closed As CNC in FY 2012**



*Source: FY 2012 IRS Collection Activity Report, Recap of Accounts CNC, Report Symbol NO-5000-149.*

<sup>1</sup> See Appendix V for a glossary of terms.

<sup>2</sup> Cases with an aggregate assessed module balance \*\*\*\*\*2\*\*\*\*\* can be closed systemically in the Inventory Delivery System. Additionally, we identified some cases that were closed by a Collection function unit that prepares and processes tax returns for nonfiling business taxpayers.

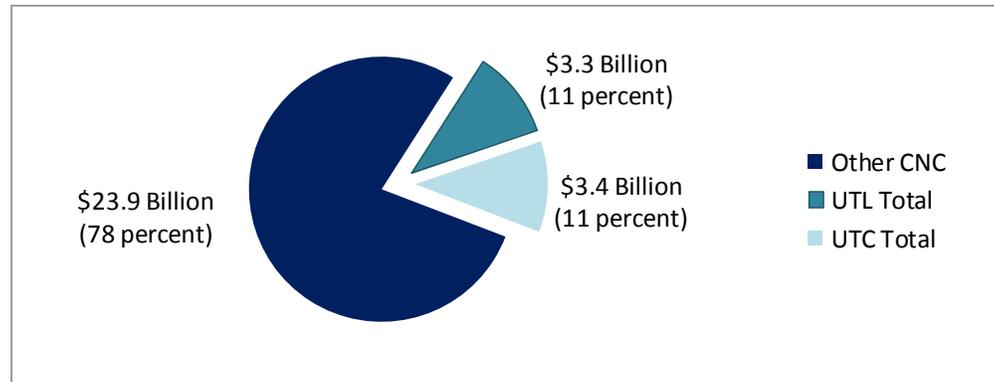
<sup>3</sup> Cases closed as CNC–UTC/UTL in the ACS with an aggregate assessed module balance \*\*\*\*2\*\*\*\*\* do not require manager approval for closure.



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Figure 2 shows that these closures were for a total of \$6.7 billion, which accounted for 22 percent of the total dollar amount of tax modules closed as CNC in FY 2012.

**Figure 2: Amount of Unpaid Assessed Balances  
of Tax Modules Closed As CNC in FY 2012**



*Source: FY 2012 IRS Collection Activity Report, Recap of Accounts CNC, Report Symbol NO-5000-149.*

The other CNC category in both figures includes all other CNC closures such as hardship (exists when the taxpayer is unable to pay reasonable basic living expenses), decedent and decedent estates, bankruptcy, and defunct corporations. This review focused on CNC cases closed as UTC and UTL.

This review was performed with information obtained from the Small Business/Self-Employed Division located in Washington, D.C., during the period May 2013 through February 2014. 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.



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## *Results of Review*

The Internal Revenue Manual (IRM) requires that research be completed prior to closing a case as CNC–UTC/UTL and requires a Notice of Federal Tax Lien (NFTL) to be filed when the aggregate unpaid balance of assessments equals or exceeds \$10,000, with some exceptions.<sup>4</sup> However, required research was not always conducted on the cases reviewed, and some cases did not have an NFTL filed prior to their closure. Specifically, 57 percent<sup>5</sup> of a stratified sample of 250 cases did not contain evidence that employees completed required research prior to closing the cases as uncollectible. NFTLs were not filed on all delinquent tax periods in 7 percent<sup>6</sup> of the 250 sampled cases. Following research procedures and filing NFTLs when appropriate helps protect the Government’s interest and ensures that taxpayers are treated equitably.

In addition, the research procedures for cases closed as CNC–UTC/UTL are different depending on whether the case is worked by the Field, the ACS function, or other Collection function employees. Specifically, Field employees are required to perform up to 10 different research steps prior to closing a case as CNC–UTC/UTL, compared with up to four steps for ACS function employees.<sup>7</sup> The IRS does not track how often these additional research steps result in more successful attempts to locate or contact a taxpayer. Such information would allow management to make better decisions about whether to focus limited Field resources on more productive casework or require the more extensive research on all similar cases prior to closing them.

### ***Required Case Actions Were Not Always Completed on Cases Closed As Currently Not Collectible – Unable to Contact or Unable to Locate***

The type and amount of required research prior to closing a case as CNC–UTC/UTL depends on the aggregate unpaid balance of assessments and which IRS function works the case. The IRM also requires documentation of all actions to support a CNC determination. In addition to the research requirements, the IRM requires an NFTL to be filed to protect the Federal Government’s interest when the aggregate unpaid balance of assessments equals or exceeds \$10,000.

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<sup>4</sup> Exceptions to filing an NFTL include: when the balance to be reflected on the NFTL is less than \$2,500; when the taxpayer is a defunct corporation or limited liability corporation (if liable) whose assets have been previously liquidated; or when the taxpayer is deceased and there are no known assets in an estate.

<sup>5</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 49.17 percent and 64.88 percent.

<sup>6</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 3.06 percent and 11.48 percent.

<sup>7</sup> Systemic address searches are completed on cases in the ACS to locate new addresses.



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**Required research steps were not always completed prior to case closure**

We reviewed stratified random samples totaling 250 cases closed as CNC–UTC/UTL in FY 2012 with an aggregate unpaid assessed module balance of \$10,000 or more.<sup>8</sup> Results showed that there was no evidence employees completed all of the required research steps in 57 percent of the 250 sampled cases prior to their closing. These research steps include postal tracers, motor vehicle records, courthouse records for real and personal property, and local licensing when the taxpayer owns a business.<sup>9</sup> If employees performed these searches of outside sources, they would most likely have included documentation of this type of research in the case histories. The estimated percentages of missing research steps based on our samples are:

- 43 percent of the cases did not have any missing research steps.<sup>10</sup>
- 51 percent of the cases had one to three missing research steps.<sup>11</sup>
- 5 percent of the cases had four to six missing research steps.<sup>12</sup>
- 1 percent of the cases had seven or more missing research steps.<sup>13</sup>

We determined that some of the required research steps were rarely performed. For example, a utility search (such as electricity or water service) is required when the aggregate unpaid balance of assessments for the case is \*\*\*\*\*2\*\*\*\*\* and the taxpayer is still living at the last known address or the business is still operating. However, revenue officers did not conduct a utility search for 44 of 46 sample cases for which it was required.

Our review of the sample cases also showed that cases worked and closed by ACS function employees had significantly fewer problems than cases worked and closed by Field employees.<sup>14</sup> Specifically,

- 8 of 38 cases closed by ACS function employees were missing at least one required research step.

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<sup>8</sup> The population of Individual Master File cases was 34,421, and we selected a stratified sample of 130 cases. The population of Business Master File cases was 3,851, and we selected a stratified sample of 120 cases.

<sup>9</sup> See Figure 3 in the next section of the report for a complete list of the required research steps.

<sup>10</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 35.12 percent and 50.82 percent.

<sup>11</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 42.9 percent and 58.77 percent.

<sup>12</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 1.81 percent and 7.64 percent.

<sup>13</sup> This requirement includes only cases worked by Field employees because ACS function employees are required to complete only four research steps prior to closing a case as CNC–UTC/UTL. The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the percentage is between 0.82 percent and 2.11 percent.

<sup>14</sup> These results are not based on the stratified statistical sample. The number of cases worked by the ACS function and the Field was not available for the population of cases closed as CNC–UTC/UTL in FY 2012.



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- 165 of 204 cases closed by Field employees were missing at least one required research step.<sup>15</sup>

ACS function employees use an electronic checklist to guide them through the steps required to resolve cases, including those that are closed as CNC–UTC/UTL. Field employees do not have a checklist to help ensure that they complete all the steps required prior to a CNC–UTC/UTL closure. Although the IRM includes a checklist that Field managers can use to ensure that employees completed all required work on the case prior to approving it as a CNC closure, the use of the checklist is not required and there was no evidence in the case histories we reviewed that managers used them. Field managers approved 180 cases for which all required research was not completed, which potentially reduced revenue collected. We believe that additional revenue may have been collected on some of the approximately \$1.9 billion in delinquent accounts if the managers had ensured that all required research steps were taken by their employees prior to closing the cases as CNC–UTC/UTL.<sup>16</sup> It should be noted though that even with the additional research it may be difficult for the IRS to collect on these outstanding liabilities considering that these taxpayers have already proven to be difficult to contact or locate.

**NFTLs were not always filed prior to case closure**

If a taxpayer does not respond to letters sent by the IRS for delinquent taxes, designated IRS employees are authorized to file an NFTL at appropriate local government offices. An NFTL protects the Federal Government’s interest by publicly attaching a claim to the taxpayer’s assets for the amount of the taxpayer’s unpaid tax. The IRM requires filing an NFTL on all modules being reported as CNC when the aggregate unpaid balance of all the assessments for the tax modules equals or exceeds \$10,000, regardless of any individual balance. However, we determined that 7 percent of 250 sampled cases closed as CNC–UTC/UTL in FY 2012 did not have an NFTL filed on all delinquent tax periods as required. For some of the exception cases for which an NFTL was not filed on all of the tax modules, IRS management initially advised us that an NFTL should not be filed when the unpaid balance involves a tax module less than \$2,500, except in rare circumstances. However, management’s initial position did not take into account the aggregate \$10,000 criterion, which would require that an NFTL be filed for these tax modules. All delinquencies, regardless of the balance, should be included when calculating the aggregate \$10,000 criterion for filing the NFTL. As a result, employees may be unclear about the requirement to file an NFTL when the unpaid balance of assessments of all tax modules combined equals or exceeds \$10,000.

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<sup>15</sup> The sample cases that we reviewed included 38 cases closed by the ACS function and 204 cases closed by the Field, for a total of 242 cases. The additional eight sample cases we reviewed were closed by another Collection function unit.

<sup>16</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the total dollar amount is between \$1.65 billion and \$2.19 billion.



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The Government's interest is not adequately protected when liens are not filed when appropriate. Additionally, taxpayers are not treated equitably when the IRS does not consistently follow its procedures to file an NFTL on taxpayers in similar situations. We determined that approximately \$55.3 million was not protected because NFTLs were not filed when required.<sup>17</sup> It must be noted that filing these NFTLs may not result in the IRS collecting additional revenue if assets are not identified for these taxpayers as they have already proven to be difficult to contact or locate.

## **Recommendations**

The Director, Enterprise Collection Strategy, and the Director, Field Collection, should:

**Recommendation 1:** Ensure that controls are in place so that Collection function employees complete the required research and make NFTL determinations before closing cases as CNC-UTC/UTL. This might include developing a checklist that could be inserted into the case history to verify that all necessary actions have been performed prior to case closure.

**Management's Response:** IRS management agreed with this recommendation. Specifically, management will issue interim guidance for IRM 5.16.1 to add a checklist for required case actions.

**Recommendation 2:** Require managers to document that all required case actions have been completed before approving cases to be closed as CNC-UTC/UTL. This might include requiring the use of the IRM checklist to verify that all case actions have been completed prior to approving the case for closure.

**Management's Response:** IRS management agreed with this recommendation. Specifically, management has developed a new CNC checklist for Field Collection function group managers. The checklist has been provided to their training function for incorporation and use in the FY 2014 Field Collection Leadership Continuing Professional Education course, "Collection Management Fundamentals."

**Recommendation 3:** Review cases closed as CNC-UTC/UTL with aggregate unpaid assessed balances of more than \$10,000 beginning in FY 2012 for which an NFTL was not filed on all applicable tax periods and determine if an NFTL should be filed to protect the Government's interest. This might initially be a sample of cases to determine the extent of the issue. If the problem is determined to be extensive, review all cases closed as CNC-UTC/UTL beginning in FY 2012.

**Management's Response:** IRS management agreed with this recommendation. Specifically, management will conduct a one-time case review of a sample of ACS and

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<sup>17</sup> The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the total dollar amount is between \$28.5 million and \$82.1 million.



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Field cases closed as CNC–UTC/UTL in FYs 2012 and 2013. The sample will only include cases with an aggregate unpaid assessed balance of more than \$10,000 for which no NFTL has been filed to protect the Government’s interest. They will file an NFTL if they determine that it is the appropriate action.

**Office of Audit Comment:** Although the IRS agreed with this recommendation, the planned corrective action for verifying that an NFTL was filed on all applicable tax periods does not include sampling cases closed in FY 2014, sampling cases that may have had NFTLs filed on some but not all applicable tax periods, or a plan of action if sample results show that there is a significant problem with employees not filing NFTLs. We believe management should completely address the recommendation to ensure that the Government’s interest is protected.

***Procedures Are Inconsistent for Closing Cases As Currently Not Collectible – Unable to Contact or Unable to Locate***

IRS employees who work in the Field and the ACS function have different skill sets. Specifically, Field personnel have technical skills that allow them to take more steps when trying to locate or contact delinquent taxpayers. The IRM recognizes these different skill sets by requiring Field personnel to conduct more detailed research prior to closing a case as CNC. It also limits the dollar amounts that ACS function employees may close as CNC–UTC/UTL to only cases with aggregate unpaid assessed balances \*\*\*\*\*2\*\*\*\*\* if the cases include in-business trust fund liabilities and \*\*\*\*\*2\*\*\*\*\* for all other cases. Field employees can work cases with any assessed balance.

When a delinquency is \*\*\*\*\*2\*\*\*\*\*, Field and ACS function employees conduct the same research before closing the cases as CNC–UTC/UTL. However, the required research differs when the total unpaid delinquency is \*\*\*\*\*2\*\*\*\*\*. Figure 3 compares the research steps required by Field and ACS function employees prior to closing a case as CNC–UTC/UTL for cases with an aggregate unpaid assessed balance \*\*\*\*\*2\*\*\*\*\*. \*\*\*\*\*2\*\*\*\*\*.



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**Figure 3: Research Steps Required to Close Cases  
As CNC–UTC/UTL When the Aggregate Unpaid  
Assessed Balance Is Between \*\*\*\*\*2\*\*\*\*\***

Research Steps Required	Required for Field Employees	Required for ACS Function Employees
Telephone directories	X	X
IRS’s Information Returns Processing data	X	X
Send a postal tracer	X	
Motor vehicle records	X	
Employment commissions	X	
Courthouse records for real and personal property	X	
Local licensing when the taxpayer owns a business	X	
Online resources (Accurint)	X	X
Integrated Data Retrieval System tax return research, if the due date of the last filed return was within the past two years	X	X
Currency and Banking Retrieval System research when Integrated Data Retrieval System research reflects that a taxpayer has filed a Foreign Bank Account Reporting form, and possible use of a Tax Attache for International accounts	X	

*Source: IRM 5.16.1 for Field employee requirements and IRM 5.19.5 for ACS function employee requirements.*

Although ACS function employees do not conduct postal tracers, systemic address searches are conducted on all cases with undeliverable mail, which could locate updated address information. Additionally, the Accurint online research tool includes motor vehicle records, courthouse records, and licensing information; however, the tool is updated only every six months. Field employees are therefore required to research Accurint and other sources to have more current information. Collectively, for cases with aggregate unpaid assessments \*\*\*\*\*2\*\*\*\*\* \*\*2\*\*\*\*\*, Field employees are required to perform up to 10 different research steps prior to closing the case as CNC–UTC/UTL, compared with up to four steps for ACS function employees. Specifically, unlike Field employees, ACS function employees do not directly research current motor vehicle records, courthouse records, and local licensing authorities, and they do not research employment commissions or Currency and Banking Retrieval System information before closing cases as CNC–UTC/UTL.

The IRS does not have a process in place to determine the value of the more extensive research taken by Field employees. As a result, management does not have complete information for determining whether the additional research steps result in more successful attempts to contact or locate taxpayers. If the additional research steps are not cost effective, Field employees could



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spend more time working more productive cases. Conversely, if the additional research steps prove to be beneficial, management should consider requiring them for all similar cases based on the merits of the case instead of the skills of the employees working them. Compiling such information would allow management to make more informed decisions about the amount of time and effort employees should spend before closing cases as CNC–UTC/UTL.

In addition to the cases worked by the ACS function and the Field, we identified eight cases in our sample that were closed by a Collection function unit that prepares and processes tax returns for nonfiling business taxpayers. The IRM authorizes this unit to close cases as CNC–UTL based on undeliverable mail without conducting any additional research and without manager approval. Therefore, these cases were closed without any research that may have helped the IRS to contact or locate these taxpayers.

**Management Action:** In response to our questions about the cases closed by the Collection function unit based on undeliverable mail without manager approval, the IRS responded that it will be updating the IRM. The update will remove CNC guidance from this unit’s IRM section and all future cases with undeliverable mail will follow normal collection processing, after the taxpayer delinquency investigation processing has been closed, to include manager approval.

## **Recommendation**

**Recommendation 4:** The Director, Enterprise Collection Strategy, and the Director, Field Collection, should consider conducting an analysis of the success of the additional research steps taken by Field employees prior to closing cases as CNC–UTC/UTL. Based on this analysis, determine whether the additional research steps should be taken on all cases with aggregate unpaid assessed balances \*\*\*\*\*2\*\*\*\*\* prior to closing cases as CNC–UTC/UTL or whether the required research for revenue officers should be changed to eliminate unproductive research steps.

**Management’s Response:** IRS management agreed with this recommendation. Specifically, management will conduct a one-time case review of a sample of Field cases closed as CNC–UTC/UTL in FY 2015 with an aggregate unpaid assessed balance \*\*\*\*\*2\*\*\*\*\* to determine whether the required research for revenue officers should be changed to eliminate unproductive research steps.

**Office of Audit Comment:** Although the IRS agreed with this recommendation, the planned corrective action does not include a plan of action if sample results show that Field employees’ additional research steps were successful at finding delinquent taxpayers. We believe management should completely address the recommendation to ensure that the Government’s interest is protected.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to determine whether CNC<sup>1</sup> cases closed as UTC or UTL were adequately researched, documented, and approved to ensure that all actions were taken to collect outstanding taxpayer liabilities. To accomplish the objective, we:

- I. Determined the adequacy of the guidance to properly close cases as CNC–UTC/UTL. This included comparing the IRM for ACS Inventory (IRM 5.19.5) and Collection Inventory (IRM 5.16.1) to determine if they were consistent for the required research to close a case as CNC–UTC/UTL.
- II. Reviewed FY 2012 CNC–UTC/UTL cases downloaded from the Data Center Warehouse to verify the accuracy of the data.
- III. Obtained stratified random samples from the FY 2012 Data Center Warehouse downloads of Individual Master File (IMF) and Business Master File (BMF) taxpayers with accounts closed as CNC–UTC/UTL and reviewed them to determine if the cases were properly researched.
  - A. Obtained and reviewed the histories of the sampled cases from the Integrated Collection System and Account Management Services to determine if the appropriate research was documented in the case files to support the CNC–UTC/UTL case closure to meet the requirements in the IRM.
  - B. Reviewed sampled cases to determine if there was documented manager approval and if an NFTL was filed when applicable.

#### **Internal controls methodology**

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRM guidance for CNC–UTC/UTL actions to ensure that required research is conducted before cases are closed as CNC. We evaluated these controls by reviewing statistical samples of IMF and BMF CNC–UTC/UTL cases and interviewing Collection function personnel.

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<sup>1</sup> See Appendix V for a glossary of terms.



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**Data validation methodology**

During this review, we evaluated the reasonableness of our FY 2012 CNC–UTC/UTL population by comparing the Data Center Warehouse totals with the FY 2012 IRS Collection Activity Report, *Recap of Accounts Currently Not Collectible*, Report Symbol NO-5000-149 totals. The comparison determined that the data were sufficiently reliable and could be used to meet the objective of this audit.

**Sampling methodology**

We obtained our samples from cases with an aggregate unpaid assessed module balance of \$10,000 or more. The sample size of 250 was based on available resources, and the strata were defined to improve the projection of the overall error dollars. The population of IMF cases was 34,421, and we selected a stratified sample of 130 cases (80 cases with aggregate assessed module balances of \$10,000 through \$100,000; 46 cases between \$100,000 and \$65 million; and four cases of \$65 million or more). The population of BMF cases was 3,851, and we selected a stratified sample of 120 cases (80 cases with aggregate assessed module balances of \$10,000 through \$100,000 and 40 cases of more than \$100,000). TIGTA’s contracted statistician reviewed and assisted in developing the sampling plans and projections.



*Delinquent Taxes May Not Be Collected Because  
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to Closing Some Cases As Currently Not Collectible*

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## **Appendix II**

### *Major Contributors to This Report*

Nancy A. Nakamura, Assistant Inspector General for Audit (Compliance and Enforcement Operations)  
Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)  
Carl Aley, Director  
Glen J. Rhoades, Audit Manager  
Richard Viscusi, Acting Audit Manager  
Beverly K. Tamanaha, Lead Auditor  
Charles S. Nall Jr., Senior Auditor  
Brian G. Foltz, Auditor



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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  
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS  
Director, Enterprise Collection Strategy, Small Business/Self-Employed Division SE:S:CS  
Director, Field Collection, Small Business/Self-Employed Division SE:S:FC  
Director, Filing and Payment Compliance, Wage and Investment Division SE:W:CP:FPC  
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 Liaisons:  
    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. This benefit will be incorporated into our Semiannual Report to Congress.

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

- Revenue Protection – Potential; \$55.3 million (see page 3).

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

Of the 130 IMF<sup>1</sup> and 120 BMF cases we reviewed, we found that seven IMF cases with aggregate unpaid assessed module balances of \$79,230 and 19 BMF cases with aggregate unpaid assessed module balances of \$1.475 million did not have an NFTL filed on all tax modules. The projection of the exception cases and total error dollars were calculated for the stratified samples. The IMF projected error rate was 7 percent (2,237 taxpayers), with the average dollar amount per case of \$736. The BMF projected error rate was 14 percent (545 taxpayers), with the average dollar amount per case of \$7,776. The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the true IMF error rate is between 1.88 percent and 11.12 percent (647 and 3,828 taxpayers) and the true BMF error rate is between 7.78 percent and 20.51 percent (300 and 790 taxpayers). Using the average combined dollar amount per case of \$1,444 and the population of 38,272 taxpayers, we found that approximately \$55.3 million in potential revenue was not protected due to NFTLs not being filed. The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the true number of taxpayers affected is between 1,173 and 4,392 and the total dollar amount is between \$28.5 million and \$82 million.

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<sup>1</sup> See Appendix V for a glossary of terms.



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## Appendix V

### *Glossary of Terms*

**Account Management Services** – Enables access to multiple IRS systems, including the ACS, using only one computer terminal. Functionality includes inventory management; next case delivery; nationwide history and follow-ups; correspondence received from taxpayers concerning lost, stolen, destroyed, or returned refunds; immediate print capabilities to fax to taxpayer; and generation of electronic referrals.

**Accurint** – A web-based research tool for public records/asset locator researching. Additional databases have been added to the tool for specific IRS needs.

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

**Business Master File** – IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

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

**Currency and Banking Retrieval System** – Contains Bank Secrecy Act data including Report of International Transportation of Currency or Monetary Instruments and Report of Foreign Bank and Financial Accounts.

**Currently Not Collectible** – Accounts can be declared currently not collectible for numerous reasons including: bankruptcy, defunct, hardship, in-business, unable to locate, unable to contact, decedent, *etc.*

**Data Center Warehouse** – Delivers data analysis capabilities to TIGTA's business units. This availability to data and analysis tools enables TIGTA to conduct audits, investigations, integrity projects, and administrative support activities in a timely and efficient manner.

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

**Information Returns Processing** – Information Returns Master File Processing creates a master file of current tax year information returns and maintains access to nine prior years.

**Integrated Collection System** – An information management system designed to improve revenue collections by providing revenue officers access to the most current taxpayer



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information, while in the field, using laptop computers for quicker case resolution and improved customer service.

**Integrated Data Retrieval System** – IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.

**Internal Revenue Manual** – The operations manual for employees of the IRS.

**Licensing** – Many professions require a license, generally from the State or provincial government, in order to ensure that the public will not be harmed by the incompetence of the practitioners. Examples of these professions are: architecture, interior design, engineering, teachers, medical practitioners, lawyers, psychologists, geologists, and certified public accountants.

**Motor Vehicle Records** – All States and the District of Columbia have a department or office of motor vehicles, which requires State residents who own a motor vehicle to register their motor vehicle and requires State residents who drive a motor vehicle to hold a valid driver’s license. Information maintained by the various departments or offices of motor vehicles varies from State to State. Most States provide driver information, lien holders, and vehicle information on cars, trucks, *etc.*, and identification card information.

**Notice of Federal Tax Lien** – A public document that the IRS files to alert creditors that the Government has a legal right to a taxpayer’s property. A Federal tax lien is the Government’s legal claim against a taxpayer’s property when he or she neglects or fails to pay a tax debt. The lien protects the Government’s interest in all property, including real estate, personal property, and financial assets.

**Postal Tracer** – A Form 4759, *Address Information Request – Postal Tracer*, is prepared to request information from the U.S. Postal Service. Form 4759 may be used to: obtain the physical address of a Post Office Box holder; verify possible non–Master File addresses; request directions to an address; or confirm the Master File address of record when a field call verifies that the taxpayer is UTC or UTL at that address.

**Revenue Officer** – Employees in the Field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.

**Tax Attache** – The senior IRS official serving in a foreign post of duty who is the IRS Commissioner’s Representative in those foreign jurisdictions in all matters delegated by the Deputy Commissioner International. Upon request, the Tax Attache gathers foreign-based information to support IRS examinations and investigations, as well as the Department of Justice and the Department of the Treasury, by conducting record searches, obtaining certification of foreign documents, securing testimony, and interviewing taxpayers and third parties.

**Taxpayer Delinquency Investigation** – An unfiled tax return for a taxpayer. One taxpayer delinquency investigation exists for all tax periods.



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**Appendix VI**

*Management's Response to the Draft Report*

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

COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

July 25, 2014

MEMORANDUM FOR MICHAEL E. MCKEN  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Karen Schiller /s/ Karen Schiller  
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report - Delinquent Taxes May Not Be Collected Because Required Research  
Was Not Always Completed Prior to Closing Some Cases as Currently Not Collectible  
(Audit# 201330014)

Thank you for the opportunity to review your draft report titled "Delinquent Taxes May Not Be Collected Because Required Research Was Not Always Completed Prior to Closing Some Cases as Currently Not Collectible (Audit# 201330014)". We agree with your findings and appreciate your acknowledgement of our responsiveness to questions you raised about cases closed because of undeliverable mail.

In Fiscal Year 2012, the IRS closed nearly 500,000 tax modules as currently not collectible-unable to contact/unable to locate (CNC-UTC/UTL). After reviewing a sample of these cases, you found some documentation and managerial review shortcomings. We generally agree with your recommendations which should assist in improving our case work and have already initiated some of the recommended actions. We developed a checklist of research requirements for revenue officer and group manager use. The checklist will be incorporated into a group manager Continuing Professional Education (CPE) course that will be delivered this year.

However, we do not agree with the outcome measure related to Notice of Federal Tax Liens (NFTL). We believe that your methodology overstates the potential revenue that is not protected when an NFTL was not filed for every delinquent tax module owed by the taxpayer. \*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*

We believe that the government's interest is adequately protected in these cases. Additionally, the business cases include assessments resulting from returns prepared by the IRS under IRC § 6020(b). In many of these cases, all or part of the assessment may be abated when the taxpayer is located and files a return. Taking these factors into



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2

consideration, the amount of revenue not protected is significantly less than the potential \$55.3 million shown in the report.

Attached is a detailed response outlining our corrective actions. If you have any questions, please contact me, or a member of your staff may contact Darren J. Guillot, Director, Enterprise Collection Strategy, at (202) 317-3583.

Attachment



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Attachment

**RECOMMENDATION 1:**

Ensure that controls are in place so that Collection function employees complete the required research and make NFTL determinations before closing cases as CNC-UTC/UTL. This might include developing a checklist that could be inserted into the case history to verify that all necessary actions have been performed prior to case closure.

**CORRECTIVE ACTION:**

We will issue interim guidance for Internal Revenue Manual (IRM) 5.16.1 to add a checklist for required case actions.

**IMPLEMENTATION DATE:**

June 15, 2015

**RESPONSIBLE OFFICIAL:**

Director, Enterprise Collection Strategy, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 2:**

Require managers to document that all required case actions have been completed before approving cases to be closed as CNC-UTC/UTL. This might include requiring the use of the IRM checklist to verify that all case actions have been completed prior to approving the case for closure.

**CORRECTIVE ACTION:**

We have developed a new CNC checklist table for Field Collection Group Managers (GM). The checklist has been provided to our training function for incorporation and use in the FY2014 Field Collection Leadership CPE course, "Collection Management Fundamentals."

**IMPLEMENTATION DATE:**

November 15, 2014



*Delinquent Taxes May Not Be Collected Because  
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2

**RESPONSIBLE OFFICIAL:**

Director, Enterprise Collection Strategy, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 3:**

Review cases closed as CNC–UTC/UTL with aggregate unpaid assessed balances more than \$10,000 beginning in FY 2012 in which an NFTL was not filed on all applicable tax periods and determine if an NFTL should be filed to protect the Government's interest. This might initially be a sample of cases to determine the extent of the issue. If the problem is determined to be extensive, review all cases closed CNC–UTC/UTL beginning in FY 2012.

**CORRECTIVE ACTION:**

We will conduct a one-time case review of a sample of Automated Collection System (ACS) and Field cases closed as CNC–UTC/UTL in FY2012 and FY2013. Our sample will only include cases with an aggregate unpaid assessed balance over \$10,000 in which no NFTL has been filed to protect the Government's interest. We will file an NFTL if we determine that it is the appropriate action.

**IMPLEMENTATION DATE:**

September 15, 2015

**RESPONSIBLE OFFICIAL(S):**

Director, Enterprise Collection Strategy, Small Business/Self-Employed Division  
Director, Field Collection, Small Business/Self-Employed  
Director, Campus Compliance Services, Small Business/Self-Employed Division  
Director, Compliance, Reporting Compliance, Wage and Investment

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.



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*Delinquent Taxes May Not Be Collected Because  
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**RECOMMENDATION 4:**

The Director, Enterprise Collection Strategy, and the Director, Field Collection, should consider conducting an analysis of the success of the additional research steps taken by Field employees prior to closing cases as CNC-UTC/UTL. Based on this analysis, determine whether the additional research steps should be taken on all cases with aggregate unpaid assessed balances \*\*\*\*\*2\*\*\*\*\* prior to closing as CNC-UTC/UTL or whether the required research for revenue officers should be changed to eliminate unproductive research steps.

**CORRECTIVE ACTION:**

We will conduct a one-time case review of a sample of Field cases closed as CNC-UTC/UTL in FY 2015 with an aggregate unpaid assessed balance \*\*\*\*\*2\*\*\*\*\* to determine whether the required research for revenue officers should be changed to eliminate unproductive research steps.

**IMPLEMENTATION DATE:**

September 15, 2015

**RESPONSIBLE OFFICIAL(S):**

Director, Enterprise Collection Strategy, Small Business/Self-Employed Division  
Director, Field Collection, Small Business/Self-Employed

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.