TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Recalculations of the Collection Statute Expiration Date Were Not Always Accurate

September 16, 2013

Reference Number: 2013-30-098

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

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RECALCULATIONS OF THE COLLECTION STATUTE EXPIRATION DATE WERE NOT ALWAYS ACCURATE

Highlights

Final Report issued on September 16, 2013

Highlights of Reference Number: 2013-30-098 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Collection Statute Expiration Date (CSED) ends the Government's right to pursue collection of a tax liability and is generally 10 years from the tax assessment date. Some situations require the CSED to be recalculated. However, the CSED is not always recalculated accurately. A CSED incorrectly calculated beyond the actual statute of limitations may result in unlawful collection activity and violate a taxpayer's rights. Conversely, the IRS could potentially lose revenue if an inaccurate CSED appears to have expired when the debt is still collectible.

WHY TIGTA DID THE AUDIT

Over the years, the IRS has taken steps in an attempt to improve CSED accuracy. However, the National Taxpayer Advocate has reported miscalculated CSEDs as one of the most serious problems encountered by taxpayers. This audit was initiated to determine whether CSED recalculations were properly and accurately completed to effectively protect taxpayers' rights and the Government's interest.

WHAT TIGTA FOUND

Test results of a statistical sample of 75 tax modules from a population of 1,085 with manually recalculated CSEDs showed that 29 (39 percent) of the 75 tax modules contained errors. Twenty-one had inaccurate CSEDs and eight were missing the required documentation to support the CSEDs. Based on the results of our case review from a population of 1,085 tax modules that were manually recalculated between July 1, 2011, and June 30, 2012, we estimate that CSEDs for 260 tax modules were extended longer than they should have been, 43 tax modules were not extended as long as they should have been, and 116 tax modules were unverifiable.

Most errors were made by employees. These employees generally request CSED recalculations through the Integrated Collection System, and the request is systemically sent to the requesting employee's manager for approval. Managerial approval is required when CSEDs are extended or updated for any reason. However, the current internal controls requiring managerial approval are not effectively ensuring the accuracy of manually recalculated CSEDs.

An IRS computer system recalculates most CSEDs systemically. Random samples from eight separate activities that trigger systemic CSED recalculations showed that all CSEDs were accurate for six of the eight activities. However, the CSED recalculations were not always accurate for modules involving bankruptcies or estates.

TIGTA also identified nine taxpayers who received an annual balance due reminder notice after the CSED expired.

WHAT TIGTA RECOMMENDED

To improve the accuracy of CSED recalculations, TIGTA recommended that the IRS: 1) strengthen controls to ensure that manual CSED recalculations are accurate and properly reviewed and approved; 2) ensure that pending programming corrections are implemented for bankruptcy recalculations; and 3) determine what action is necessary to mitigate the potential burden on taxpayers who received reminder notices after the CSED expired.

The IRS agreed with all of TIGTA's recommendations and has taken or plans to take corrective actions.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 16, 2013

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael E. McKenney
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Recalculations of the Collection Statute Expiration Date Were Not Always Accurate (Audit # 201230016)

This report presents the results of our review to determine whether Collection Statute Expiration Date recalculations were properly and accurately completed to effectively protect taxpayers' rights and the Government's interest. This audit is included in our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge area of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Nancy Nakamura, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Abbreviations

CCalc	CSED calculator
CSCO	Compliance Services Collection Operation
CSED	Collection Statute Expiration Date
IDRS	Integrated Data Retrieval System
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
PPIA	Partial Payment Installment Agreement
SB/SE	Small Business/Self-Employed
W&I	Wage and Investment

Background

When an individual or business taxpayer carries an outstanding tax liability, the Internal Revenue Service (IRS) can take actions to pursue collection of the tax. However, the amount of time the IRS has to collect taxes is limited by statute. Internal Revenue Code (I.R.C.) Section (§) 6502 provides that the IRS generally has 10 years from the date of the tax assessment to work the case and collect payment. This 10-year period is identified by the Collection Statute Expiration Date (CSED), which ends the Government's right to pursue collection of the liability. The IRS calculates the CSED from the assessment date or the return due date, whichever is later, using its Integrated Data Retrieval System (IDRS).[1]

It is possible that one taxpayer's account for one tax year could have multiple CSEDs. For example, if a taxpayer timely filed a Tax Year 2003 return that contained an April 15, 2004, tax assessment, the CSED would be April 15, 2014. If the same taxpayer later filed an amended Tax Year 2003 return on June 26, 2006, that increased the tax, the CSED for that additional assessment would be June 26, 2016.

A CSED is generally 10 years from the tax assessment date. However, in some instances, the CSED is recalculated to suspend or extend the CSED.

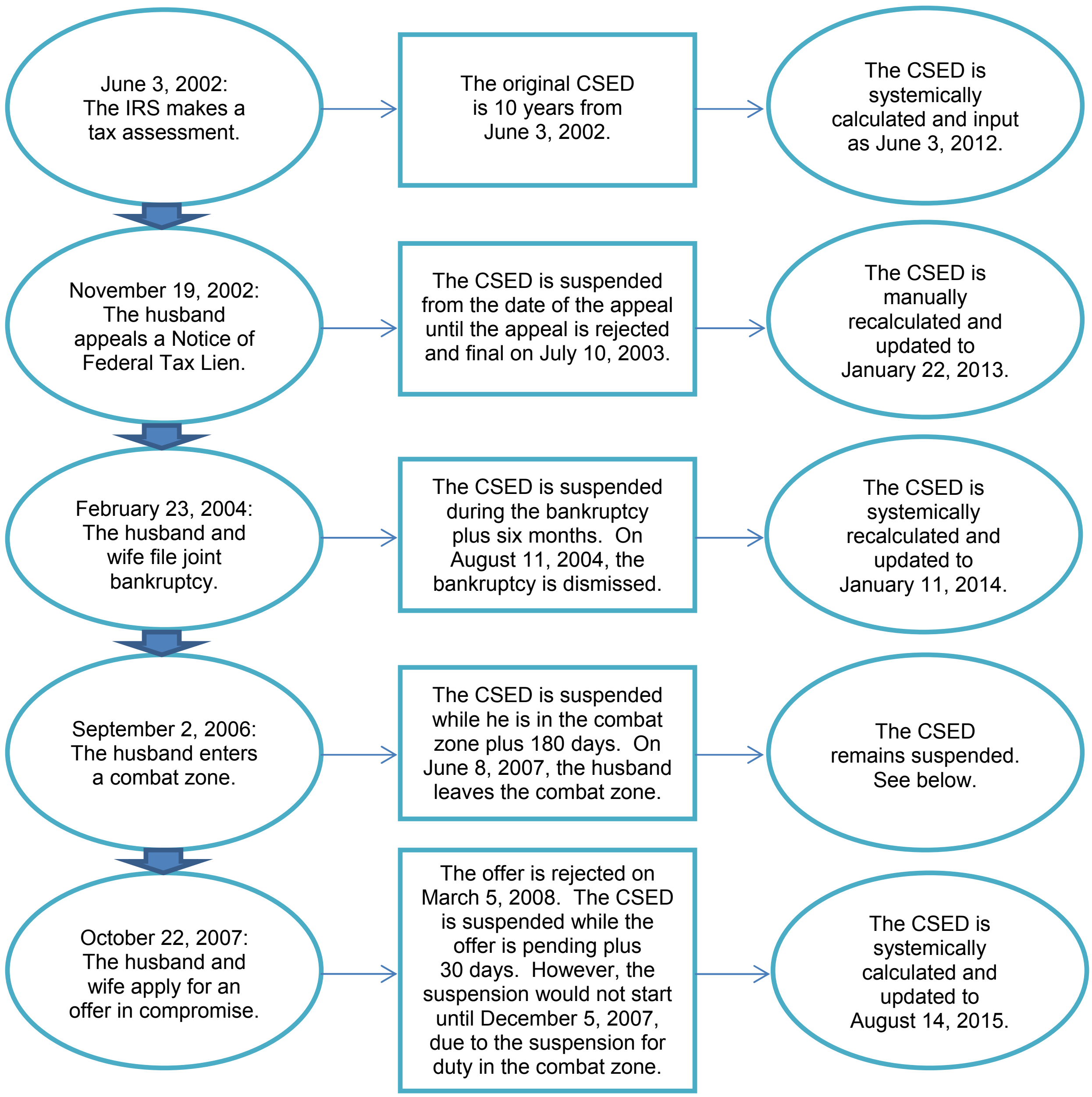
In some instances, the CSED is recalculated to suspend or extend the CSED. For example, the CSED is recalculated when the taxpayer files bankruptcy, submits an application for an offer in compromise, or agrees to extend the CSED for certain installment agreements.

The IDRS systemically updates the large majority of CSED recalculations. However, certain less common activities, such as a taxpayer living outside of the United States, signing a Form 900, *Tax Collection Waiver*, or receiving a wrongful lien or levy, require that the IRS manually recalculate the CSED and update it on the IDRS. Additionally, the IRS must manually recalculate and update all CSED corrections.

CSED recalculations can be very complex and difficult to accurately determine because multiple activities requiring CSED recalculations may occur on a taxpayer's account. As the complexity and difficulty of CSED recalculations increase, the risk of IRS records reflecting inaccurate or erroneous CSEDs also increases. Figure 1 shows how CSED calculations can become increasingly complicated as multiple activities require CSED recalculations.

[1] See Appendix V for a glossary of terms.

Figure 1: CSED Recalculation Example[2]



Source: Prepared by our auditors and validated by the IRS's Enterprise Collection Strategy function.

[2] This example assumes Form 1040, *U.S. Individual Income Tax Return*, taxes are owed on a "married filing jointly" tax return for the period ending December 31, 2001. However, the example only provides detailed information for the recalculation of the husband's CSED. The wife's CSED would also be recalculated for some but not all of the activities.

The IRS's *National Taxpayer Advocate Fiscal Year 2004 Annual Report to Congress* reported erroneous and miscalculated CSEDs as one of "The Most Serious Problems Encountered by Taxpayers." As a result, a joint team was established by the IRS and National Taxpayer Advocate. The team identified affected taxpayers, developed additional guidance and training alerts, and submitted requests for system improvements to reduce the number of miscalculated CSEDs. In the *National Taxpayer Advocate Fiscal Year 2009 Annual Report to Congress*, the IRS's policies and procedures for CSEDs were one of "The Most Serious Problems Encountered by Taxpayers." The National Taxpayer Advocate reported that the IRS continued to miscalculate CSEDs in some instances, subjecting taxpayers to unlawful collection.

Miscalculations of CSEDs can potentially violate taxpayers' rights and negatively affect the IRS's ability to protect and collect revenue. Specifically, an erroneous CSED on IRS computer systems which extends beyond the statute of limitations may result in continued collection activity when the IRS was legally required to cease collection efforts. Conversely, when the CSED is miscalculated to reflect that the statute of limitations period has expired when the debt is still collectible, the IRS will cease collection activity, which negatively affects revenue.

This review was performed at the IRS Wage and Investment (W&I) Division's Compliance Services Collection Operation (CSCO) and the Small Business/Self-Employed (SB/SE) Division's Collection Field function office in Kansas City, Missouri, during the period August 2012 through April 2013. 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.

Results of Review

Not All Manually Recalculated Collection Statute Expiration Dates Were Properly or Accurately Completed

Our review of a statistical sample of 75 of 1,085 tax modules with manually recalculated CSEDs showed that not all CSEDs were properly and accurately completed to effectively protect taxpayers' rights and the Government's interest. Testing included tax modules with CSEDs that were manually recalculated between July 1, 2011, and June 30, 2012. Twenty-nine (39 percent) of the 75 tax modules contained errors: 21 (28 percent) had inaccurate CSEDs and eight (11 percent) were missing the required documentation to support the CSEDs.

- For 15 (20 percent) of the 75 tax modules, IRS employees did not follow established guidance to accurately recalculate the CSEDs.
    - Six of the 15 tax modules included Form 900 waivers in which taxpayers agreed to extend the CSED. Form 900 is to be executed only in connection with granting a Partial Payment Installment Agreement (PPIA) and only in certain situations. These waivers only extend the CSED up to six years and require managerial approval. However:
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    - Nine of the 15 tax modules contained employee miscalculations. ****1***** *******************************1************************************ *******************************1*********************************.
- For six (8 percent) of the 75 tax modules, employees made data entry errors. ***1***** ************************************1************************************* ******1**********************************

- For eight (11 percent) of the 75 tax modules, the IRS could not provide documentation to support that the taxpayer agreed to the CSED extension date; however, the IDRS indicated that Form 900 waivers were obtained to extend the CSED. IRS procedures require that the form be retained with the case file for the period of the extension.

Analysis showed that 18 of the 29 inaccurate CSEDs were extended longer than they should have been. If collection activity continues on these tax modules beyond the correct CSEDs, it would violate taxpayer rights. In addition, three of the incorrect CSEDs were not extended as long as they should have been. If collection activity stops before the correct CSEDs, it could result in a potential loss of revenue. The accuracy of the remaining eight CSEDs could not be verified, which results in potentially unreliable CSED information.

Based on the results of our case review from a population of 1,085 tax modules that were manually recalculated between July 1, 2011, and June 30, 2012, we estimate that CSEDs for 260 tax modules were extended longer than they should have been, 43 tax modules were not extended as long as they should have been, and 116 tax modules were unverifiable.[3]

Most errors were made by Collection Field function employees. These employees generally request CSED recalculations through the Integrated Collection System, and the request is systemically sent to the requesting employee's manager for approval. Managerial approval is required when CSEDs are extended or updated for any reason. However, the current internal controls requiring managerial approval are not effectively ensuring the accuracy of manually recalculated CSEDs.

The IRS relies on its employees to ensure that CSEDs are properly calculated and monitored. To assist employees in meeting this responsibility, the IRS has developed and implemented a number of internal controls and procedures to help provide reasonable assurance that it and its employees are following all laws and regulations. Management oversight is one of the controls to help ensure that all procedures are followed and CSEDs are accurately calculated.

Management should take additional actions to ensure that employees tasked with approving manual CSED recalculations actively review the new CSEDs for accuracy. For example, procedures should be updated to require employees responsible for approving manual CSED recalculations to thoroughly document the basis and methodology of the recalculation prior to approval. Additionally, the Embedded Quality Review System should randomly review cases that require a manual CSED recalculation.

[3] We are 95 percent confident that the range of tax modules that were extended longer than they should have been is between 159 and 362, those not extended as long as they should have been is between nine and 122, and those that were unverifiable is between 42 and 189 tax modules.

The IRS has taken several steps to improve the accuracy of CSEDs

In response to the IRS's *National Taxpayer Advocate Fiscal Year 2009 Annual Report to Congress*, the IRS took several steps to improve the accuracy of CSED recalculations. In February 2012, the W&I Division's CSCO initiated a CSED team in Kansas City, Missouri, to write off accounts for which the CSED had expired, check the accuracy of expired CSEDs, and identify trends and recommend any needed system or procedural updates.

In February 2013, the team expanded to the SB/SE Division's CSCO and the W&I and SB/SE Divisions' Automated Collection System. In preparation for the CSED team expansion, the IRS held specialized training sessions[4] on CSEDs for employees transitioning to the CSED team. In addition to creating the CSED team, IRS management required all W&I Division employees to obtain one Continuing Professional Education credit covering CSED material in Fiscal Year 2012.

A CSED calculator was completed in March 2013

In August 2010, the IRS initiated a project to develop a CSED calculator (CCalc). The objective of the CCalc Project was to create a user friendly tool that would:

- Accurately calculate the CSED based on the data input by the user.
- Account for various events that may affect the CSED.
- Include the ability to calculate the CSED for the original assessed tax and for additional assessments.

The CCalc was implemented in September 2012, and most employees were able to use the CCalc. However, management identified incompatibility issues with the CCalc and some of the IRS's newer computer applications. While most employees were not affected, they took further action to correct these issues. The IRS has stated that these issues were resolved and the CCalc became available for use by all users in March 2013.

Recommendation

Recommendation 1: The Director, Enterprise Collection Strategy, should strengthen controls to ensure that manual CSED recalculations are accurate and employees responsible for approving manual CSED recalculations properly review new CSEDs for accuracy.

> **Management's Response:** IRS management agreed with the recommendation. Internal Revenue Manual 5.1.19 will be revised to require employees to include the

[4] A "CSED Computation and Correction" training session was offered March 26 through March 30, 2012, and a "CSED Verification and Correction" training session was offered November 27 through December 6, 2012.

manual CSED computation steps in the case history for the group manager to review for accuracy and appropriateness when approving a CSED update.

Systemic Recalculations of Collection Statute Expiration Dates Were Not Always Accurate

Random samples from eight separate activities that trigger systemic CSED recalculations showed that all CSEDs were accurate for six of the eight activities. However, the CSED recalculations were not always accurate for modules involving bankruptcies or estates.

We reviewed 40 tax modules from a population of 3,712,534 tax modules with CSEDs that were systemically recalculated between July 1, 2011, and June 30, 2012 – five tax modules from each of the following eight categories:

- Bankruptcies
- Collection Due Process Hearings
- District Court Litigation/Judgment
- Estate Tax Payment Extensions
- Innocent Spouse Claims
- Installment Agreements
- Offers in Compromise
- Taxpayer in a Combat Zone

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Systemic recalculations for estate tax returns were consistently inaccurate when certain conditions exist

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The IDRS is currently programmed to generate systemic CSED recalculations for estate tax returns with payment extensions. However, the IDRS does not generate the correct CSED for I.R.C. §§ 6161 or 6166 elections relating to estate tax when the extension of time to file date and the extension of time to pay date do not match.

The IRS has the authority under I.R.C. §§ 6161 and 6166 to grant payment extensions for the time to pay estate taxes. I.R.C. § 6161 allows for a one-year payment extension. Multiple one-year extensions may be granted under I.R.C. § 6161; however, the total payment extension time cannot exceed 10 years. I.R.C. § 6166 allows up to a five-year payment deferral followed

[5]*************************************1***
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by equal installment payments over a maximum of 10 years. When the time to pay estate tax is extended, the CSED is also extended for the same amount of time.

After sharing these results, the IRS agreed that corrective actions were needed and additional testing was not warranted.

***Management Action*:** IRS management stated that corrective actions were completed. Specifically, the estate tax Internal Revenue Manual was revised in June 2013 to provide detailed guidance for CSED recalculations and to instruct employees to manually update CSEDs on the Integrated Collection System. IRS management will have the ability to prepare and review reports for recalculated estate tax CSEDs.

Programming corrections are needed for certain bankruptcy recalculations

Initial tests identified inaccurate CSEDs for certain types of bankruptcy modules that warranted additional testing. Testing was extended to a statistical sample of 75[6] of 309,296 tax modules with an IDRS transaction and closing code indicating bankruptcy that posted between July 1, 2011, and June 30, 2012. ***********************************1**************** *********************************1******************.

The CSED is suspended while the IRS is legally prohibited by the Bankruptcy Code[7] from collecting the tax and for six months thereafter. This period of prohibited collection is commonly referred to as the "automatic stay."[8]

Computer programming problems prevented *******************1*******************.

- *********************************1** ********,[9] ****************1** ****************************1*******************.
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********************************1** ***1***. Based on the results of our expanded case review, we estimate that CSEDs for ***1*** bankruptcy tax modules that were systemically recalculated between July 1, 2011, and

[6] See Appendix I for details of the sampling methodology used.
[7] Title 11 of the United States Code (U.S.C.).
[8] 11 U.S.C. § 362.
[9] ************************************1*** ********************************1**************************.

June 30, 2012, ********************************1*****************************
1*****.[10]

Management Action: The errors identified required two separate programming corrections, ***********************************1**************************.

- IRS management requested a Master File programming change to correct the ***1*** ***1*** in February 2013. In March 2013, the programming change was made and a data recovery was performed to correct any modules with an inaccurate CSED.
- At the time our review was concluded, the IRS's Management Information Technology function was reviewing the ***1*** issue to determine the appropriate programming correction.

Recommendation

Recommendation 2: The Director, Enterprise Collection Strategy, should follow up with the IRS's Management Information Technology function to ensure that the pending programming correction addressing the ***1*** is identified and implemented timely.

> **Management's Response:** IRS management agreed with the recommendation. Follow up has been completed with the Information Technology function, and it is currently reviewing the ***1***** to determine the appropriate programming correction(s). Based on its assessment, a programming work request will be prepared and submitted as appropriate.

Some Taxpayers Inappropriately Received Annual Balance Due Reminder Notices

For the 12-month period between April 1, 2011, and March 31, 2012, nine taxpayers likely received an annual balance due reminder notice after the CSED expired, potentially creating a burden on these taxpayers. Testing included the Individual Master File population of 23 cases for which collection and enforcement action indicators posted to taxpayers' accounts after the CSEDs expired between April 1, 2011, and March 31, 2012.

After the CSED expires, the Government can no longer initiate collection action. IRS systems are programmed to prevent the issuance of annual balance due reminder notices when CSEDs are within six months of expiring; however, CSEDs were not always being updated in the IRS systems.

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[10] We are 95 percent confident that the range of bankruptcy tax module CSEDs that ***1****************
*************************1***************.

For three of the nine taxpayers, the IRS determined that the CSED was inaccurate and took the appropriate corrective actions. However, these corrective actions were not taken until after the taxpayers received annual balance due reminder notices. For six of the nine taxpayers, IRS management agreed that there was a problem and stated that computer programming issues were most likely the cause.

***Management Action*:** IRS management stated that corrective actions were completed in February 2013 to prevent annual balance due reminder notices from being issued to taxpayers after the CSED expired. Specifically, a unified work request was submitted and completed to update programming which corrected the issue that CSEDs were not always being updated in IRS systems.

Recommendation

Recommendation 3: The Director, Enterprise Collection Strategy, should determine what action, if any, is necessary to mitigate the potential burden on taxpayers who received reminder notices after the CSED expired.

> ***Management's Response:*** IRS management agreed with the recommendation. Programming changes were completed in February 2013 to prevent future annual reminder notices from being issued after the CSED. The IRS will explore options to mitigate the potential burden on taxpayers who received the annual reminder notice in error and determine which option(s), if any, to pursue.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether CSED recalculations were properly and accurately completed to effectively protect taxpayers' rights and the Government's interest. To accomplish this objective, we:

I. Identified the IRS's procedures and guidelines for recalculating CSEDs.

   A. Reviewed applicable IRS procedures.

   B. Conducted a site visit to the W&I Division CSCO in the Kansas City, Missouri, Campus and a nearby SB/SE Division Collection Field function[1] office.

      1. Interviewed IRS management to determine how CSEDs are suspended or extended then subsequently recalculated and identified what controls exist to ensure CSED recalculation accuracy.

      2. Performed a walk-through to observe how CSEDs are suspended, extended, recalculated, and corrected (when applicable).

II. Interviewed SB/SE Division and W&I Division personnel and obtained supporting documentation when needed to determine:

   A. Whether IRS employees assigned responsibilities over CSED issues receive training to accurately recalculate CSEDs and to identify and correct incorrect CSEDs.

   B. What actions the IRS has taken for improvements in recalculating CSEDs and how these improvements are being tracked.

   C. The basis for the CCalc, including why the CCalc was created and how it will integrate with current work streams.

III. Determined whether IRS systems and employees are accurately recalculating CSEDs.

   A. Identified the population of CSEDs that were systemically and manually recalculated between July 1, 2011, and June 30, 2012. The population for systemic CSED recalculations was 3,712,534 tax modules, and the population for manual CSED recalculations was 1,085 tax modules.

   B. Selected random samples of systemic and manual tax modules from the populations identified in Step III.A. for review. We selected random samples to ensure that every

[1] See Appendix V for a glossary of terms.

tax module had an equal chance of being selected and to project the number of tax modules to the population when applicable.

1. The systemic sample of 40 tax modules consisted of random samples of five tax modules each from eight separate activities that trigger systemic recalculations.
2. The manual sample consisted of a statistically valid random sample of 75 tax modules for which the CSEDs were manually recalculated due to Transaction Code 550 posting to the modules and was based on the actual overall error rate of 38.67 percent, a precision of ± 10.7 percent, and a confidence interval of 95 percent. Our contract statistician reviewed our projections.

C. Conducted case reviews to determine whether recalculated CSEDs appearing on the IDRS were accurate by manually recalculating the CSEDs from our samples and comparing our results to the CSEDs appearing on the IDRS. We used information from the following sources to manually recalculate our sample CSEDs: IDRS transcripts, the Automated Insolvency System, the Automated Offers in Compromise system, and case histories obtained from the Integrated Collection System. A tax module can have more than one CSED; however, we only reviewed the CSED that corresponded to the original tax assessment of each tax module unless the original tax assessment carried a zero liability amount. If the original tax assessment carried a zero liability amount, we reviewed the next activity that carried its own CSED, *e.g.*, additional tax assessment.

D. Expanded the systemic case review for certain bankruptcy cases to determine whether the IDRS was accurately recalculating these CSEDs.

1. Identified the population of 309,296 tax modules with CSEDs which were systemically recalculated due to Transaction Code 521 Closing Code 64 posting to the module from the population identified in Step III.A.
2. Reviewed a statistically valid random sample of 75 tax modules from the population identified in Step III.D.1. We selected a random sample to ensure that every tax module had an equal chance of being selected and to project the number of tax modules to the population. We originally selected an oversample of 200 tax modules to ensure that we obtained enough tax modules meeting our criteria. We conducted our review in selection order of the first 75 tax modules, but we were unable to review three tax modules because the CSEDs were in a suspended status. We excluded those three tax modules and replaced them with the next three tax modules in selection order to complete our review of 75 tax modules. The sample selection was based on the actual overall error rate of 2.67 percent, a lower precision of 2.35 percent, an upper precision of 6.63 percent, and a confidence interval of 95 percent. The population projections

were based on a sample of 78 tax modules (see Appendix IV for projection details). Our contract statistician reviewed our projections.

IV. Determined whether the IRS took collection or enforcement actions on taxpayers after the CSED expired.

A. Identified the Individual Master File population of 192 cases for which collection and enforcement action indicators posted to taxpayers' accounts after the CSEDs expired between April 1, 2011, and March 31, 2012.

B. Selected random samples of Individual Master File taxpayer accounts identified in Step IV.A for review. We selected the following samples to ensure that every taxpayer account had an equal chance of being selected:

1. Ten random taxpayer accounts with a lien indicator (Transaction Code 582).
2. Ten random taxpayer accounts with a collection due process notice issuance indicator (Transaction Code 971 Action Code 069).
3. The entire population of 23 taxpayer accounts with an annual balance due reminder notice issuance indicator (Transaction Code 971 Action Code 804 Computer Paragraph 71 series).

C. Conducted additional analysis using IDRS transcripts and case histories obtained from the Integrated Collection System to determine whether collection or enforcement actions were actually taken after the CSED expired.

V. Validated random samples of 25 tax modules from our original data extracts by verifying several fields (which included the Taxpayer Identification Number, tax period, and transaction code) to determine the reliability of the data. Our validation showed that the data were sufficiently reliable for our tests.

VI. Discussed our sampling methodologies with our contract statistician to obtain agreement and ensure that we could project the error rates to the populations when needed.

VII. Considered the possibility of fraud and evaluated the risk of fraud as we conducted this review.

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 the following internal controls were relevant to our audit objective: W&I Division and SB/SE Division policies, procedures, and practices for recalculating CSEDs and IDRS and Integrated Collection System programming controls. We evaluated these controls by observing W&I Division and

SB/SE Division employees input CSED data, interviewing management, and reviewing samples of recalculated CSEDs.

Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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Appendix IV

Outcome Measures[1]

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 260 tax modules[2] with CSEDs that were extended longer than they should have been (see page 4).
- Increased Revenue – Potential; 43 tax modules with CSEDs that were not extended as long as they should have been (see page 4).
- Reliability of Information – Potential; 116 tax modules with CSEDs that were unverifiable (see page 4).

Methodology Used to Measure the Reported Benefit:

From a statistically valid random sample of 75 tax modules containing manually recalculated CSEDs between July 1, 2011, and June 30, 2012, we found: 18 tax modules with CSEDs that were extended longer than they should have been, three tax modules with CSEDs that were not extended as long as they should have been, and eight tax modules with CSEDs that were unverifiable. The sample was selected based on the actual overall error rate of 38.67 percent, a precision of ± 10.7 percent, and a confidence interval of 95 percent.

We projected the findings to the total population of 1,085 tax modules containing manually recalculated CSEDs between July 1, 2011, and June 30, 2012. We estimate that CSEDs for 260 tax modules were extended longer than they should have been, 43 tax modules were not extended as long as they should have been, and 116 tax modules were unverifiable. We are 95 percent confident that the range of tax modules that were extended longer than they should have been is between 159 and 362, those not extended as long as they should have been is between nine and 122, and those that were unverifiable is between 42 and 189 tax modules.

[1] For all projections on tax modules: A tax module can have more than one CSED; however, we only reviewed the CSED that corresponded to the original tax assessment of each tax module unless the original tax assessment carried a zero liability amount. If the original tax assessment carried a zero liability amount, we reviewed the next activity that carried its own CSED, *e.g.*, additional tax assessment.
[2] See Appendix V for a glossary of terms.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; *******************1**************************
*********************1********************************.

- Taxpayer Rights and Entitlements – Potential;*************1**********************
**************************1***********************************.

Methodology Used to Measure the Reported Benefit:

We selected a random sample of five estate tax return modules from a population of 72 estate tax return modules containing systemically recalculated CSEDs between July 1, 2011, and June 30, 2012. *************************1************************************
*************************************1**************************************
*************1********.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; ***1*** bankruptcy tax modules with *****1*****
****************1**************************(see page 7).

Methodology Used to Measure the Reported Benefit:

From a statistically valid random sample of 75 bankruptcy tax modules containing systemically recalculated CSEDs between July 1, 2011, and June 30, 2012,*********1***********
*****************1*******************************. The sample was selected based on the actual overall error rate of *************1***********************
***************1*****************, and a 95 percent confidence interval.

We projected the findings to the total population of 309,296 bankruptcy tax modules containing systemically recalculated CSEDs due to a specific IDRS transaction and closing code indicating bankruptcy that posted between July 1, 2011, and June 30, 2012. We used a ***1***error rate to project our findings to the population. Our projections are based on a sample size of 78 because we had to select an additional three tax modules to obtain our sample size of 75 tax modules with recalculated CSEDs. This was due to our original sample of 75 tax modules containing three tax modules with suspended CSEDs that had to be replaced with three more tax modules with recalculated CSEDs instead. We are 95 percent confident that the range of bankruptcy tax module CSEDs********************1*************************
************1*****************.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; nine taxpayers who likely received an annual balance due reminder notice after the CSED (see page 9).

Methodology Used to Measure the Reported Benefit:

We analyzed the total population of 23 Individual Master File taxpayer accounts for which an annual balance due reminder notice indicator posted after the CSED expired during the period between April 1, 2011, and March 31, 2012. Our analysis showed that nine taxpayers likely received an annual balance due reminder notice after the CSED expired.

Appendix V

Glossary of Terms

Term	Definition
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.
Automated Insolvency System	The IRS's primary tool for tracking legal requirements for dealing with taxpayers under bankruptcy protection as well as ensuring that the Government's interest is protected when these taxpayers have tax obligations. It is also a comprehensive control and processing support application for processing bankruptcy and other insolvency work.
Automated Offers in Compromise System	The application that tracks and controls offers in compromise. Area Offices and campuses share a common database that contains relevant offer information. The application allows the user to process, view, and track the status of each offer. The Automated Offers in Compromise system also generates forms, letters, and managerial reports. It is maintained by the Austin Development Center.
Automatic Stay	A provision under the United States Bankruptcy Code prohibiting creditors from beginning or continuing proceedings for collecting owed amounts from individuals who filed for bankruptcy.
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.
Compliance Services Collection Operation	Units of tax examiners who work Balance Due Notice Program cases.
Continuing Professional Education	An educational program that is provided to employees to keep them informed on the latest changes or updates regarding subject matter related to their job position.

Embedded Quality Review System	A system designed to assist managers in measuring employees' individual performance as it relates to case activities. Employee performance is evaluated against attributes that are designed to identify actions which move cases toward closure through appropriate and timely case activity.
Estate Tax Return	Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, is filed for certain estates of deceased persons.
Fiscal Year	A 12-consecutive-month period ending on the last day of any month. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Integrated Collection System	An information management system designed to improve revenue collections by providing revenue officers access to the most current taxpayer information while in the field using laptop computers for quicker case resolution and improved customer service.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	The single official source of IRS instructions to staff. Instructions to staff are procedures, guidelines, policies, and delegations of authority and other such instructional materials relating to the administration and operation of the IRS.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
National Taxpayer Advocate	An independent organization within the IRS to help taxpayers resolve problems with the IRS and recommend changes that will prevent the problems.
Offer in Compromise	An agreement between a taxpayer and the Federal Government to settle a tax liability for less than the full amount owed.
Partial Payment Installment Agreement	An installment agreement that the IRS can use when the taxpayer has some ability to pay, but the monthly payment amount will not fully pay the amount owed by the CSED.

Tax Module	A specific year and type of return within a taxpayer's account; all tax modules combined comprise a taxpayer's account.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.

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

AUG 21 2013

MEMORANDUM FOR MICHAEL E. MCKENNEY
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Faris R. Fink Faris R. Fink
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report –Recalculations of the Collection Statute Expiration Date Were Not Always Accurate (Audit # 201230016)

Thank you for the opportunity to review your draft report titled, "Recalculations of the Collection Statute Expiration Date Were Not Always Accurate." We agree with your recommendations and appreciate your acknowledgement of the steps we have already taken to improve the accuracy of Collection Statute Expiration Date (CSED) recalculations.

As stated in the report, CSED recalculations can be very complex. This is especially true when simultaneous extensions and suspensions are involved and manual calculation is required. We are taking actions to improve CSED recalculation accuracy which include correcting errors identified in your review. Relevant Internal Revenue Manual instructions for CSED recalculation approval will be strengthened and we will follow up to ensure accuracy improves.

We will continue to work with Information Technology to identify the necessary programming changes to correct certain CSED recalculations for bankruptcy cases. Programming changes already made will ensure annual reminder notices are not issued on modules where the CSED has already expired.

We agree that accurate CSED recalculation and appropriate documentation and notice issuance will help achieve the benefits described in your 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 John Guillot, Director, Enterprise Collection Strategy, SB/SE at (202) 622-7902.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Enterprise Collection Strategy, should strengthen controls to ensure that manual CSED recalculations are accurate and employees responsible for approving manual CSED recalculations properly review new CSEDs for accuracy.

CORRECTIVE ACTION:
Internal Revenue Manual 5.1.19 will be revised to require employees to include the manual CSED computation steps in the case history for the group manager to review for accuracy and appropriateness when approving a CSED update.

IMPLEMENTATION DATE:
February 15, 2014

RESPONSIBLE OFFICIAL(S):
Director, Collection Policy, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:
The Director, Enterprise Collection Strategy, should follow up with the Information Technology function to ensure that the pending programming correction addressing the ***1*** is identified and implemented timely.

CORRECTIVE ACTION:
Follow up has been completed with the Information Technology function and they are currently reviewing the ***1*******to determine the appropriate programming correction(s). Based on their assessment, a programming work request will be prepared and submitted as appropriate.

IMPLEMENTATION DATE:
July 15, 2014

RESPONSIBLE OFFICIAL(S):
Director, Collection Policy, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.

2

RECOMMENDATION 3:
The Director, Enterprise Collection Strategy, should determine what action, if any, is necessary to mitigate the potential burden on taxpayers who received reminder notices after the CSED expired.

CORRECTIVE ACTION:
Programming changes were completed in February 2013 to prevent future annual reminder notices from being issued after the CSED. We will explore options to mitigate the potential burden on taxpayers who received the annual reminder notice in error and determine which option(s), if any, to pursue.

IMPLEMENTATION DATE:
February 15, 2014

RESPONSIBLE OFFICIAL(S):
Director, Collection Policy, Enterprise Collection Strategy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
IRS will monitor this corrective action as part of our internal management system of controls.