



*Fiscal Year 2014 Statutory Review of
Compliance With Notice of Federal Tax Lien
Due Process Procedures*

September 5, 2014

Reference Number: 2014-30-061

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



HIGHLIGHTS

FISCAL YEAR 2014 STATUTORY REVIEW OF COMPLIANCE WITH NOTICE OF FEDERAL TAX LIEN DUE PROCESS PROCEDURES

Highlights

**Final Report issued on
September 5, 2014**

Highlights of Reference Number: 2014-30-061 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and the Wage and Investment Divisions.

IMPACT ON TAXPAYERS

After filing Forms 668(Y)(c), *Notices of Federal Tax Lien* (NFTL), the IRS must notify the affected taxpayers in writing, at their last known address, within five business days of the lien filings. Taxpayers' rights to appeal the NFTL filings may be jeopardized if the IRS does not comply with this statutory requirement.

WHY TIGTA DID THE AUDIT

TIGTA is required by law to determine annually whether lien notices issued by the IRS comply with the legal requirements set forth in Internal Revenue Code Section 6320(a) and related guidance in the Federal Tax Liens Handbook.

WHAT TIGTA FOUND

TIGTA reviewed a statistically valid sample of 133 NFTLs filed for the 12-month period beginning July 1, 2012, and ending June 30, 2013, and determined that the IRS timely and correctly mailed the taxpayers the notices of lien filing and appeal rights, as required by Internal Revenue Code Section 6320(a).

IRS regulations require that taxpayer representatives be provided copies of all correspondence issued to the taxpayer. The IRS properly notified the taxpayer's representative in nearly all of the cases for which the taxpayer had an authorized representative.

However, the IRS did not always follow internal procedures for undelivered lien notices.

Procedures require address verification and, if applicable, resolution of the undelivered lien notices within 14 calendar days of receipt.

TIGTA selected a judgmental sample of 205 undelivered lien notices returned to the Cincinnati (102 lien notices) and Fresno (103 lien notices) Campuses in February and March 2014. For 61 of the 205 sampled lien notices, employees did not perform the required research to attempt to address the undeliverable issue within 14 calendar days of receipt of the returned lien notice. In addition, the IRS did not always follow internal procedures designed to monitor undelivered lien notices.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Campus Compliance Services, Small Business/Self-Employed Division, make improvements to the handling of undelivered lien notices by ensuring that Internal Revenue Manual requirements are followed in regards to timely research and documentation, as well as remind Automated Collection System Support function managers to provide feedback to employees regarding timely research and documentation requirements for handling undelivered lien notices when appropriate.

In their response to the report, IRS officials agreed with the recommendation and plan to take appropriate corrective action.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 5, 2014

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

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2014 Statutory Review of
Compliance With Notice of Federal Tax Lien Due Process
Procedures (Audit # 201430001)

This report presents the results of our review to determine whether lien notices issued by the Internal Revenue Service (IRS) comply with the legal requirements set forth in Internal Revenue Code (I.R.C.) Section (§) 6320(a) and related guidance in the Federal Tax Liens Handbook. The Treasury Inspector General for Tax Administration is required by law to determine annually whether lien notices issued by the IRS comply with the legal requirements in I.R.C. § 6320(a). The audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge area of Taxpayer Protection and Rights.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendation. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).



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Abbreviations

ACS	Automated Collection System
ALS	Automated Lien System
CAF	Centralized Authorization File
ICS	Integrated Collection System
IDRS	Integrated Data Retrieval System
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
NFTL	Notice of Federal Tax Lien
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Internal Revenue Service (IRS) attempts to collect Federal taxes due from taxpayers by sending letters, making telephone calls, and meeting face-to-face with taxpayers. The IRS has the authority to attach a claim,¹ commonly referred to as a Federal tax lien, to the taxpayer's assets for the amount of unpaid tax when the taxpayer neglects or refuses to pay. The IRS files a Form 668(Y)(c), *Notice of Federal Tax Lien* (NFTL), in appropriate local government offices to notify interested parties that a lien exists.²

Since January 19, 1999, Internal Revenue Code (I.R.C.) Section (§) 6320(a) has required the IRS to notify taxpayers, in writing, within five business days of the filing of an NFTL. The IRS is required to notify taxpayers the first time an NFTL is filed for each tax period. The lien notice³ is used for this purpose and advises taxpayers that they have 30 calendar days, after that five-day period, to request a hearing with the IRS's Office of Appeals. The lien notice indicates the date on which this 30-day period expires.

***The IRS is required to notify
taxpayers the first time
an NFTL is filed.***

The law also requires that the lien notice explain, in simple terms, the amount of unpaid tax, the administrative appeal rights available to the taxpayer, and the provisions of the law and the procedures relating to the release of the lien on the property. The lien notice must be given in person, left at the taxpayer's home or business, or sent by certified or registered mail to the taxpayer's last known address.⁴

Depending on employee access and case status, NFTL requests can be generated using one of three IRS systems:⁵ 1) the Integrated Collection System (ICS), 2) the Automated Collection System (ACS), or 3) directly input into the Automated Lien System (ALS).

In Fiscal Year 2011, the IRS implemented the Fresh Start initiative to provide aid to struggling taxpayers. This initiative increased the threshold when NFTL filing determinations are generally made from \$5,000 to \$10,000. Figure 1 shows the number of NFTLs filed for Fiscal Years 2009 through 2013 and that the number of NFTLs filed decreased from 707,768 to 602,005 (15 percent) between Fiscal Years 2012 and 2013.

¹ I.R.C. § 6321.

² See Appendix IV for a synopsis of the IRS collection and NFTL filing processes.

³ Letter 3172, *Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320*.

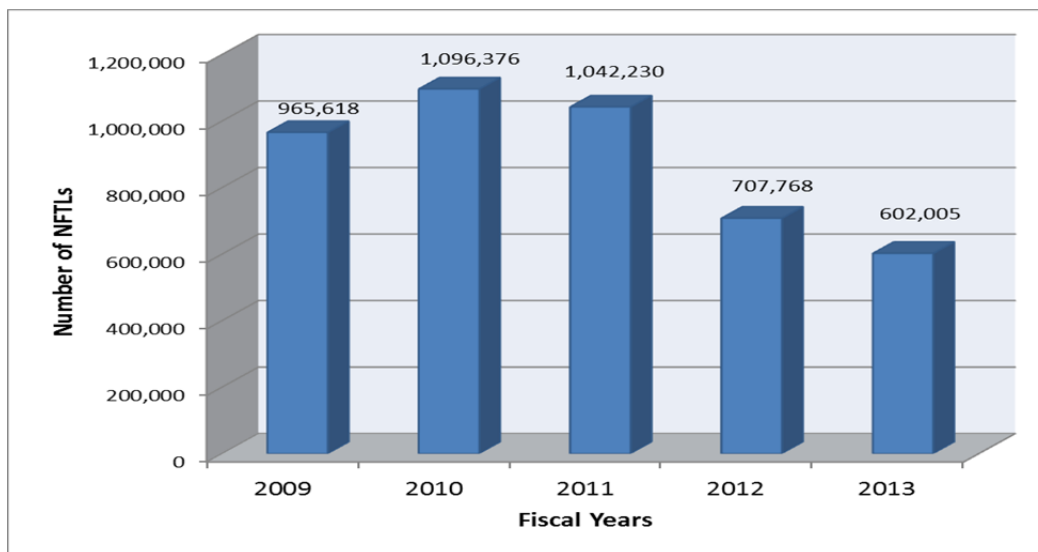
⁴ The last known address is the one shown on the most recently filed and properly processed tax return, unless the IRS received notification of a different address.

⁵ See Appendix V for detailed descriptions of the IRS computer systems used in the filing of the NFTLs.



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Figure 1: Number of NFTLs Filed for Fiscal Years 2009 Through 2013



Source: IRS Data Book for Fiscal Years 2009 through 2013.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether the IRS complied with the law regarding the notification of affected taxpayers and their representatives when filing NFTLs.⁶ This is our sixteenth annual audit to determine whether the IRS complied with the legal requirements of I.R.C. § 6320(a) and its own related internal guidelines for issuing lien notices.⁷ In the past five years, we have twice reported full compliance with the law of timely notifying taxpayers and three times reported an error rate of 2 percent or less. In four of the last five years, we reported that the IRS improved but had not achieved full compliance with internal guidelines involving power of attorney notifications.

This review was performed at the Small Business/Self-Employed Division's Centralized Lien Processing Operation and the ACS Support function in Covington, Kentucky; the Wage and Investment Division's ACS Support function in Fresno, California; and with information obtained from the Small Business/Self-Employed Division's Office of Collection Policy in New Carrollton, Maryland, during the period February through May 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.

⁶ I.R.C. § 7803(d)(1)(A)(iii).

⁷ See Appendix VII for a list of the prior five reports.



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Results of Review

Lien Notices Were Mailed Timely

Tests of a statistically valid random sample of 133 NFTLs from the 614,616 NFTLs filed between July 1, 2012, and June 30, 2013, showed that the IRS timely and correctly mailed the copy of the NFTL and notice of appeal rights to all 133 taxpayers, as required by I.R.C. § 6320(a).

Documentation Showed That Most Taxpayer Representatives Were Properly Notified

Taxpayer representative information is contained on the Centralized Authorization File (CAF)⁸ that is located on the Integrated Data Retrieval System (IDRS).⁹ Using the IDRS, employees can research the CAF to identify the types of authorizations given to taxpayer representatives. IRS procedures¹⁰ require that any notice or other written communication (or a copy thereof) required or permitted to be given to a taxpayer in any matter before the IRS must be given to the taxpayer and, unless restricted by the taxpayer, to the representative. Accordingly, IRS procedures require the requestor of an NFTL to ensure that he or she notifies the Centralized Lien Processing Operation of all powers of attorney and co-obligors that are to be notified. More specifically, when an NFTL is filed, IRS procedures require that a copy of the lien notice be sent to the taxpayer's representative as soon as possible after the lien notice is sent to the taxpayer.

Tests of a statistically valid sample of 133 NFTLs included 38 taxpayers with representatives authorized to receive notifications at the time the NFTLs were filed. *****1***** taxpayers, ALS records did not indicate that the IRS sent copies of the lien notice to the representative. However, because there was *****1***** did not appear to be systemic in nature, we are not making any recommendations for this issue. Figure 2 shows that the error

⁸ The CAF contains information about the types of authorizations taxpayers have given their representatives for their tax returns.

⁹ IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

¹⁰ Conference and Practice Requirements, Statement of Procedural Rules, 26 C.F.R. § 601.506 (2009).



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rate for this issue has been reduced from 26 percent¹¹ in our Fiscal Year 2010 report to***1***¹² in our Fiscal Year 2014 report.

Figure 2: Error Rates Reported on the Notification of Taxpayer Representatives

Report Fiscal Year	Sampled Lien Cases Requiring Representative Notification	Sampled Lien Cases Not Receiving Representative Notification	Error Rate
2010	31	8	26%
2011	30	4	13%
2012	22	4	18%
2013	47	5	11%
2014	38	***1***	***1***

Source: Prior and current year results of TIGTA's tests on the notification of taxpayer representatives.

More Actions Could Be Taken to Effectively Work Undelivered Lien Notices

Employees are not always following procedures, which could preclude the IRS from determining whether undelivered lien notices are being researched timely. Additionally, employees are not always updating the undelivered status of lien notices as required by IRS procedures. As a result, there is no record of the mail status of these lien notices.

IRS procedures require that employees send taxpayers another lien notice to a new address if all of the following factors are present:

- The originally mailed notice is returned as undelivered mail.
- Research confirms the original lien notice was not sent to the last known address.
- The new address was effective prior to or during the same cycle¹³ the NFTL was requested.

Collection function employees are responsible for certain actions when notices are returned as undelivered. For example, ACS Support employees are required to research the IDRS within 14 calendar days of receipt of the undelivered lien notice to ensure that the address on the

¹¹ See Appendix VI for the confidence intervals pertaining to the notification of taxpayer representatives error rates reported during Fiscal Years 2010 through 2013.

¹² The point estimate projection is based on a two-sided 90 percent confidence interval. We are 90 percent confident that the true percentage of taxpayers with representatives whose representative was not notified is between
*****1*****

¹³ Cycle refers to the IRS method of documenting dates, *i.e.*, Processing Cycle 201102 is the second week of January 2011.



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original lien notice is correct. If the employee cannot find a new address on the computer system, the undelivered lien notice will be destroyed and a new notice is not issued.

If the address on the lien notice is not the last known address and a different address was in effect prior to the NFTL being requested, employees should issue a new lien notice to the new address. A new lien notice is created by using an option in the ALS.

We selected a judgmental sample¹⁴ of 205 undelivered lien notices returned to the Cincinnati (102 lien notices) and Fresno (103 lien notices) Campuses¹⁵ in February and March 2014. The sample included only returned lien notices identified as undelivered and did not include returned mail identified as refused or unclaimed. A test of undelivered lien notices identified 28 of the 205 lien notices for which the address on the IRS computer system and the original lien notice did not agree. For 22 of the 28 notices, the address on the IRS computer system was updated after the original lien notice was sent to the taxpayer. Therefore, no additional action was required. However, for six of the 28 notices, the address was updated prior to the cycle the NFTL was prepared in the ALS. We determined that a lien notice was sent to the six taxpayers using the updated address in accordance with IRS procedures.

Employees are not always following internal procedures for undelivered lien notices

IRS procedures require address verification and, if applicable, resolution (request to have the lien notice reissued) of the undelivered lien notices within 14 calendar days of receipt in the ACS Support function. For our judgmental sample of 205 lien notices, we reviewed computer system audit trails to assess whether IRS employees performed timely research to determine whether the addresses were correct on the originally mailed notices. We determined that 144 of the 205 cases were researched timely by ACS Support function employees.

In January 2012, IRS procedures were revised to require ACS Support function employees to document the date undelivered lien notices are received in the ACS Support function and the date research is completed. Documentation should be noted in the ACS action history codes (if the taxpayer's account is still open) or in the Accounts Management System¹⁶ narrative history (if the taxpayer's account is closed). While 144 cases were researched timely, 19 of the 144 cases did not have the research properly documented.

Fresno Campus: ***1***** undelivered lien notices that were not researched timely were processed by the Fresno Campus. The ACS Support function received date was documented in ***1***** cases that were timely researched.

¹⁴ A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.

¹⁵ A campus is the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

¹⁶ The Account Management System is a computer-based system used to answer and resolve all taxpayer account-related inquiries. The Accounts Management System provides a common interface that allows users of multiple IRS systems to view history and comments from other systems.



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Cincinnati Campus: ***1*** *****undelivered lien notices that were not researched timely were processed by the Cincinnati Campus. *****1*****for which timely research was not properly documented were processed by the Cincinnati Campus.

Without documenting the ACS Support function received date, the IRS may be unable to determine whether undelivered lien notices are being researched timely.

Employees are still not always following procedures designed to monitor undelivered lien notices

In August 2007, procedures for handling undelivered lien notices were revised so that:

- The undeliverable notice is returned directly to the requesting employee or function.
- Employees handling undelivered lien notices could input a specific IDRS transaction code with an appropriate action code. The transaction code signifies that the lien notice was returned and the action code indicates the reason, *i.e.*, undelivered, unclaimed, or refused.

In August 2009, the weekly systemic extract from the ALS to the Master File¹⁷ was enhanced to include the undeliverable status (transaction code and action code). When a lien notice is returned undelivered and research has been completed regarding an updated address, the employee can request the lien notice screen on the ALS be updated with the undelivered status or go to the lien notice screen themselves and indicate the undelivered status. When the ALS is used to update the status of the lien notice, no additional input is necessary to update the status on the IDRS.

In November 2013, the ACS Support function's Internal Revenue Manual¹⁸ was updated to require ACS Support function employees to use the ALS lien notice screen to prompt the input of this transaction code and action code combination. For 126 of the 144 cases that were researched timely, a transaction code and action code were input to the IDRS. Of the 18 cases for which the transaction code and associated action code were not properly entered, ***1*** were processed by the Cincinnati Campus.

Compliance with these procedures is important because it allows management to review the handling of undelivered lien notices. Because ACS Support function employees are not always updating taxpayers' data in the ALS, management does not have the information needed to ensure and enforce the timely resolution of the undelivered lien notices.

Further, because not all Cincinnati Campus employees are consistently following the procedures to enter the undelivered notice status into the ALS, the information about the undelivered lien

¹⁷ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

¹⁸ Internal Revenue Manual 5.19.6.17.4 (Nov. 4, 2013).



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notice is limited to only those employees working the undelivered mail. IRS management, as well as Accounts Management function¹⁹ employees and Centralized Lien Processing Operation employees, who have access to the ALS do not have access to information on undelivered lien notices that are not entered into the ALS as required. As a result, other IRS functional employees, such as Taxpayer Assistance Center²⁰ employees, would be unable to answer taxpayer questions about whether the lien notices were delivered.

In response to our Fiscal Year 2013 report, the IRS issued a Service-Wide Electronic Research Program Alert and updated the Internal Revenue Manual to require that the ACS Support function document the received date on either the ACS or the Accounts Management System (dependent on where the case resides). In addition, the ACS Support function was required to begin using the feature in the ALS for systemic generation of the transaction code and action code combination on undelivered lien notices. Although these corrective actions improved compliance with the procedures, they were not completely effective and more effective controls should be established.

Management took action to correct an ALS programming error

Although most ACS Support function employees complied with the procedures to input the appropriate transaction code and action code combination in our sampled undelivered lien notices cases, the ALS programming erroneously reversed the action codes for undelivered and unclaimed lien notices. Specifically, when an ACS Support function employee used the command code to update the delivery status of a returned lien notice and selected “undelivered,” the action code for “unclaimed” was uploaded to the Master File. If “unclaimed” was selected, the action code for “undelivered” was uploaded. We advised management of this issue on April 21, 2014. Management advised us they had already discovered the ALS programming issue and had corrected it on March 30, 2014. Management confirmed that this condition existed from November 4, 2013, through March 30, 2014. Management also advised us that they are reviewing the feasibility of correcting the previous uploads for which the codes were incorrectly uploaded.

Recommendation

Recommendation 1: The Director, Campus Compliance Services, Small Business/Self-Employed Division, should make improvements to the handling of undelivered lien notices by ensuring that Internal Revenue Manual requirements are followed in regards to timely research and documentation, as well as remind ACS Support function managers to provide

¹⁹ The Accounts Management function is responsible for providing taxpayers with information on the status of their returns and refunds and for resolving the majority of issues and questions to settle their accounts.

²⁰ A Taxpayer Assistance Center is an IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face to face.



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feedback to employees regarding timely research and documentation requirements for handling undelivered lien notices when appropriate.

Management's Response: IRS management agreed with this recommendation. In their response, management plans to annually review performance to ensure that the ACS Support function is adhering to the Internal Revenue Manual requirements regarding timely research and documentation. Also, ACS Support function management will ensure that employees processing undelivered lien notices are properly trained and are receiving regular feedback via performance reviews.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether lien notices issued by the IRS comply with the legal requirements set forth in I.R.C. § 6320(a) and related guidance in the Federal Tax Liens Handbook. To accomplish this objective, we:

- I. Determined whether lien notices issued by the IRS complied with legal requirements set forth in I.R.C. § 6320(a) and related internal guidelines.
 - A. Selected a statistically valid random sample of 133 NFTLs for review from an ALS¹ extract of all NFTLs filed by the IRS nationwide between July 1, 2012, and June 30, 2013.

Population:	614,616
Confidence Level:	90 percent
Expected Rate of Occurrence:	2 percent
Precision Rate:	±2 percent
 - B. Validated the ALS extract by comparing a sample of records to online data. We determined that the data were sufficiently reliable for purposes of this report.
 - C. Determined whether the sampled NFTLs adhered to legal guidelines regarding timely notifications of lien filings to the taxpayer, the taxpayer's spouse, or business partners by reviewing data from the ALS, the ICS, the ACS, the IDRS, and the certified mail lists (U.S. Postal Service Form 3877, *Firm Mailing Book for Accountable Mail*).
 - D. Evaluated the controls and procedures established for transferring, storing, and safeguarding certified mail lists at the Centralized Lien Processing Operation for recordkeeping.
 - E. Determined if taxpayers' representatives were provided a copy of the lien due process notice by reviewing data from the ALS, the IDRS, the ICS, and the ACS.
 1. Reviewed IDRS screens for CAF indicators (Transaction Code 960) for all sample cases.
 2. Reviewed ALS history screens for accounts with CAF indicators to see whether notices were mailed to taxpayers' representatives.

¹ See Appendix V for detailed descriptions of the IRS computer systems used in the filing of NFTLs.



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3. For the sampled lien notices without the taxpayer's representative/power of attorney and co-obligors notifications on the ALS histories, reviewed the ACS and the ICS for taxpayer representative indicators and determined whether taxpayer representatives/powers of attorney should have been notified.
- II. Evaluated the procedures for processing lien notices (Letter 3172, *Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320*) that are returned undelivered.
- A. Selected a judgmental² sample of unprocessed (unopened) mail containing 205 undelivered lien notices returned to the Fresno (103) and Cincinnati (102) Campuses³ in February and March 2014, and recorded the taxpayer's name, address, Social Security Number, Serial Lien Identification number, and date received at the respective campus mailroom. Mailroom personnel from the Fresno and Cincinnati Campuses provided us with confirmation of the dates the sampled undelivered lien notices were delivered to the ACS Support functions. We used a judgmental sample because we could not determine the population of undelivered lien notices at those two campuses.
 - B. For each sample case, researched the IDRS to determine whether the address on the Master File⁴ matched the address on the undelivered lien notice.
 - C. For each sample case, reviewed taxpayer audit trails and the ACS and Accounts Management System histories to determine whether employees performed the required IDRS research for resolution of the undeliverable status within 14 calendar days of receipt of the undelivered lien notice.
 - D. For each sample case of an undelivered lien notice in which appropriate research was completed for resolution of the undeliverable status, verified that a Transaction Code 971 with an Action Code 253 was entered into the IDRS.
- III. Determined whether internal guidelines have been implemented or modified since our last review by discussing procedures and controls with appropriate IRS personnel in the National Headquarters.

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

² A judgmental sample is a nonstatistical sample, the results of which cannot be used to project to the population.

³ A campus is the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

⁴ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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following internal controls were relevant to our audit objective: the Small Business/Self-Employed Division Collection function's policies, procedures, and practices for timely notifying taxpayers of lien filings and timely verifying addresses of undelivered lien notices. We evaluated these controls by reviewing samples of lien notices sent to taxpayers and lien notices returned to the IRS as undelivered.



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Appendix II

Major Contributors to This Report

Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Enterprise Collection Strategy, Small Business/Self-Employed Division SE:S:CS
Director, Collection Policy, Small Business/Self-Employed Division SE:S:CS:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W



Appendix IV

Synopsis of the Internal Revenue Service Collection and Notice of Federal Tax Lien Filing Processes

The collection of unpaid tax begins with a series of letters (notices) sent to taxpayers advising them of their debt and asking for payment of the delinquent tax. IRS computer systems are programmed to mail these notices when certain criteria are met. If the taxpayer does not respond to these notices, the account is transferred for either personal or telephone contact.

- IRS employees who make personal (face-to-face) contact with taxpayers are called revenue officers and work in various locations. The ICS¹ is used to track collection actions taken on taxpayer accounts.
- IRS employees who make only telephone contact with taxpayers work in call sites. The ACS is used in the call sites to track collection actions taken on taxpayer accounts.

When these efforts have been taken and the taxpayer has not paid the tax liability, designated IRS employees are authorized to file an NFTL by sending a Form 668(Y)(c), *Notice of Federal Tax Lien*, to the appropriate local government offices. The NFTLs protect the Federal Government's interest by informing the public of its claim to the taxpayer's assets for the amount of unpaid tax. The Federal tax lien is created by I.R.C. § 6321 when:

- The IRS has made an assessment and given the taxpayer notice of the assessment, stating the amount of the tax liability and demanding payment.
- The taxpayer has neglected or refused to pay the amount after the notice and demand for payment.

The right to file an NFTL is found in I.R.C. § 6323. When employees request the filing of an NFTL using either the ICS or the ACS, the ALS processes the NFTL filing requests from both systems. In an expedited situation, employees can manually prepare the NFTL. Even for manually prepared NFTLs, the ALS controls and tracks the NFTLs and initiates subsequent lien notices² to notify responsible parties of the NFTL filings and of their appeal rights. The ALS maintains an electronic database of all open NFTLs and updates the IRS's primary computer records to indicate that an NFTL has been filed.

Most lien notices are mailed to taxpayers by certified or registered mail, rather than delivered in person. To maintain a record of the notices, the IRS prepares a certified mail list (U.S. Postal

¹ See Appendix V for detailed descriptions of the IRS computer systems used in the filing of the NFTLs.

² Letter 3172, *Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320*.



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Service Form 3877, *Firm Mailing Book for Accountable Mail*), which identifies each notice that is to be mailed. The lien notices and a copy of the certified mail list are delivered to the U.S. Postal Service. A U.S. Postal Service employee ensures that all notices are accounted for, date stamps the list, and returns a copy to the IRS. The stamped certified mail list is the only documentation the IRS has that certifies the date on which the notices were mailed. IRS guidelines require that the stamped certified mail list be retained for 10 years after the end of the processing year.



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Appendix V

Internal Revenue Service Computer Systems Used in the Filing of Notices of Federal Tax Liens

Automated Collection System is a computerized call site inventory system that maintains balance due accounts and return delinquency investigations. ACS function employees enter all of their case file information (online) on the ACS. The NFTLs requested using the ACS are uploaded to the ALS, which generates the Form 668(Y)(c), *Notice of Federal Tax Lien*, and related lien notices and updates the IRS's primary computer files to indicate that the NFTLs have been filed.

Automated Lien System is a comprehensive database that prints the NFTLs, generates lien notices, stores taxpayer information, and documents all lien activity. Lien activities on both ACS and ICS cases are controlled on the ALS by Case Processing functions at the Cincinnati, Ohio, Campus.¹ Employees at the Cincinnati Campus process the NFTLs and respond to taxpayer inquiries using the ALS.

Integrated Collection System is an IRS computer system with applications designed around each of the main collection tasks such as opening a case, assigning a case, building a case, performing collection activity, and closing a case. The ICS is designed to provide management information, create and maintain case histories, generate documents, and allow online approval of case actions. NFTL requests made using the ICS are uploaded to the ALS. The ALS generates the NFTL and related lien notices and updates the IRS's primary computer files to indicate the NFTLs have been filed.

Integrated Data Retrieval System is an online data retrieval and data entry system that processes transactions entered from terminals located in campuses and other IRS locations. It enables employees to perform such tasks as researching account information, requesting tax returns, entering collection information, and generating collection documents. The IDRS serves as a link from campuses and other IRS locations to the Master File² for the IRS to maintain accurate records of activity on taxpayers' accounts.

¹ A campus is the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

² The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



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Appendix VI

*Confidence Intervals for Notification of Taxpayer
Representatives Error Rates Reported During
Fiscal Years 2010 Through 2013*

***Two-sided 90 percent confidence intervals using the exact binomial method
for the exception rate for Fiscal Years 2010 through 2013***

Report Fiscal Year	Sample Lien Cases Requiring Representative Notification	Sample Lien Cases Not Receiving Representative Notification	Error Rate	Confidence Interval
2010	31	8	26%	Between 13.52% and 41.73%
2011	30	4	13%	Between 4.70% and 28.00%
2012	22	4	18%	Between 6.48% and 36.90%
2013	47	5	11%	Between 4.28% and 21.10%

Source: Prior year results of TIGTA's tests on the notification of taxpayer representatives.



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Appendix VII

*Statutory Lien Reports Issued During
Fiscal Years 2009 Through 2013*

TIGTA, Ref. No. 2009-30-089, *Additional Actions Are Needed to Protect Taxpayers' Rights During the Lien Due Process* (June 2009).

TIGTA, Ref. No. 2010-30-072, *Actions Are Needed to Protect Taxpayers' Rights During the Lien Due Process* (Jul. 2010).

TIGTA, Ref. No. 2011-30-051, *Challenges Remain When Processing Undeliverable Mail and Preventing Violations of Taxpayers' Rights During the Lien Due Process* (May 2011).

TIGTA, Ref. No. 2012-30-057, *Problems Persist When Processing Undelivered Lien Notices and Notifying Taxpayers' Representatives* (May 2012).

TIGTA, Ref. No. 2013-30-072, *Fiscal Year 2013 Statutory Review of Compliance With Lien Due Process Procedures* (Jul. 2013).



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Appendix VIII

Management's Response to the Draft Report

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

**COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION**

August 4, 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report - Fiscal Year 2014 Statutory Review of Compliance
With Notice of Federal Tax Lien Due Process Procedures
(Audit# 201430001)

Thank you for the opportunity to review your draft report titled "Fiscal Year 2014 Statutory Review of Compliance With Notice of Federal Tax Lien Due Process Procedures". We agree with your recommendation and appreciate your acknowledgment that we timely and correctly mailed copies of the notice of federal tax lien (NFTL) and notice of appeal rights in every case you reviewed.

Since 1998, TIGTA has been required to annually review whether the lien notices we issue comply with all legal requirements. Consistent with the results of your reviews over the past 5 years, you found that we generally followed all applicable statutory requirements and IRS procedures. Specifically, you found that we timely and correctly mailed copies of the NFTLs and notices of appeal rights to all 133 taxpayers whose cases you reviewed and we properly sent copies of the notices to the taxpayers' representatives in more than ***I*****of the cases in which the taxpayers were represented. Importantly, no taxpayer rights were violated in those cases in which the taxpayers' representatives did not receive a copy of the notice. We are proud of this record of success and appreciate your acknowledgment that we generally followed all legal requirements and IRS procedures.

You have recommended we take additional steps to ensure all required actions are completed when lien notices are returned undelivered. While you recognized our significant improvements in resolving notices returned as undeliverable, you suggested that we improve our processes for ensuring IRM requirements are followed and documented. You also suggested that we remind our Automated Collection System Support Function managers to provide feedback to employees regarding timely research and documentation requirements for handling undelivered lien notices when appropriate. We agree with these suggestions. We also



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agree with your outcome measures relative to the number of taxpayer representatives that may not have been notified when the Notice of Federal Tax Lien was filed.

Attached is a detailed response with our corrective action to your recommendation. 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.



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Attachment

RECOMMENDATION 1:

The Director, Campus Compliance Services, Small Business/Self-Employed Division, should make improvements to the handling of undelivered lien notices by ensuring that Internal Revenue Manual requirements are followed in regards to timely research and documentation, as well as remind ACS Support managers to provide feedback to employees regarding timely research and documentation requirements for handling undelivered lien notices when appropriate.

CORRECTIVE ACTION:

We will develop and initiate a plan to review our performance annually to ensure that we are adhering to the Internal Revenue Manual requirements regarding timely research and documentation. Site management will ensure that employees processing undelivered lien notices are properly trained, and are receiving regular feedback via performance reviews.

IMPLEMENTATION DATE:

September 15, 2015

RESPONSIBLE OFFICIAL:

Director, Campus Compliance Services, Small Business/Self-Employed,

CORRECTIVE ACTION MONITORING PLAN:

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