

**Fiscal Year 2005 Statutory Review of
Compliance With Lien Due Process
Procedures**

June 2005

Reference Number: 2005-30-095

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.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 15, 2005

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Fiscal Year 2005 Statutory Review of
Compliance With Lien Due Process Procedures
(Audit # 200430026)

This report presents the results of our review of the Internal Revenue Service's (IRS) compliance with lien due process procedures. The overall objective of this review was to determine whether the Notices of Federal Tax Lien (NFTL) filed by the IRS complied with legal requirements set forth in Internal Revenue Code Section (I.R.C. §) 6320.¹

The IRS attempts to collect Federal taxes due from taxpayers by sending letters, making telephone calls, and meeting face to face with taxpayers. When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim to the taxpayer's assets, called a Federal Tax Lien, for the amount of unpaid tax liabilities.² The IRS files an NFTL, which notifies people that a lien exists. Since January 19, 1999, I.R.C. § 6320 has required the IRS to notify taxpayers in writing within 5 business days of the filing of an NFTL.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether NFTLs filed by the IRS comply with the legal guidelines in I.R.C. § 6320.³ This is the seventh annual audit performed on the IRS' compliance with the law and its own related internal guidelines when filing NFTLs.

In summary, we determined the IRS did not completely comply with the law. Our review of a statistically valid sample of 150 NFTLs identified 7 NFTLs (4.67 percent) for which

¹ I.R.C. § 6320 (Supp. V 1999).

² I.R.C. § 6321 (1994).

³ I.R.C. § 7803(d)(1)(A)(iii) (Supp. V 1999).

the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely, as required by I.R.C. § 6320. In addition, for another 35 NFTLs (23.3 percent), we could not determine if the IRS complied with the law because the IRS could not provide proof or legible proof of timely mailing. During the past fiscal year, the IRS changed procedures for retaining certified mail listings, which contributed to this problem. Finally, in 11 (7.33 percent) of the 150 NFTLs reviewed, the IRS did not follow its own internal guidelines when issuing lien notices, including the guidelines for notifying taxpayer representatives and resending notices when they are returned as undeliverable.

As corrective action to a prior TIGTA report, the IRS has partially implemented systemic changes to improve the notification of taxpayer representatives; however, the scheduled completion date for the enhancement was postponed from its targeted date of the middle of Fiscal Year 2005 and now is scheduled for completion during Fiscal Year 2008.

We recommended the Director, Collection, Small Business/Self-Employed (SB/SE) Division, consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit. Also, we recommended the Director, Campus Compliance Services, SB/SE Division, ensure effective controls and adequate procedures are implemented for transferring, storing, and safeguarding certified mail listings at the Centralized Case Processing function.

Management's Response: SB/SE Division management agreed with our recommendations and already has completed the corrective actions. SB/SE Division management consulted with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations. In addition, they reviewed the process for controlling the Certified Mail Listings (Form 3877). While they complete the transition to the centralized lien processing, management will list any remaining Forms 3877 on Document Transmittals (Form 3210), which require acknowledgment of receipt of listed documents. Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to IRS officials who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Richard Dagliolo, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs) at (631) 654-6028.

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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. When initial contacts by the IRS do not result in the successful collection of unpaid tax, the IRS has the authority to attach a claim to the taxpayer's assets for the amount of unpaid tax liabilities.¹ This claim is referred to as a Federal Tax Lien. The IRS files a Notice of Federal Tax Lien (NFTL),² which notifies people that a lien exists.

Since January 19, 1999, Internal Revenue Code Section (I.R.C. §) 6320³ has required the IRS to notify taxpayers in writing within 5 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 Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320⁴ (lien notice) is used for this purpose and advises taxpayers they have 30 calendar days, after that 5-day period, to request a hearing with the IRS Appeals function. The lien notice indicates the date this 30-day period expires.

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

A synopsis of the IRS collection and lien filing processes is included in Appendix V. A description of IRS computer systems used in the filing of liens is included in Appendix VI.

The IRS is filing an increasing number of NFTLs to protect the Federal Government's interest. The number of NFTLs filed increased significantly from 287,517 in Fiscal Year (FY) 2000 to 544,316 in FY 2003. In FY 2004, the

¹ I.R.C. § 6321 (1994).

² Notice of Federal Tax Lien (Form 668 (Y) (c)) (Rev.10-1999), Cat. No. 60025X.

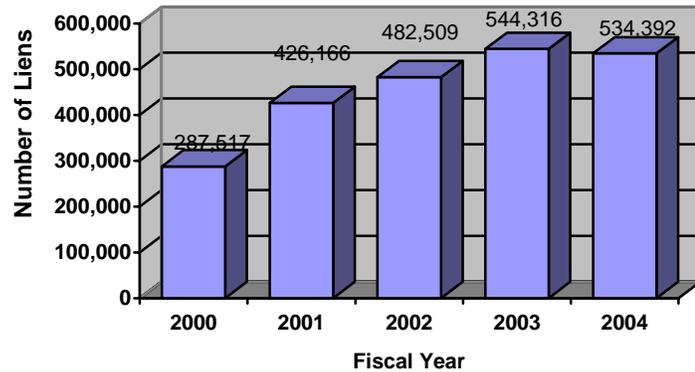
³ I.R.C. § 6320 (Supp. V 1999).

⁴ Notice of Federal Tax Lien Filing and Your Right to a Hearing Under IRC 6320 (Letter 3172) (Rev. 11-2004), Cat. No. 267671.

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number dropped slightly to 534,392. Figure 1 shows the number of NFTLs filed in the last 5 fiscal years.

Figure 1: Liens Filed



Source: IRS Databook 2003 and 2004.

The Treasury Inspector General for Tax Administration (TIGTA) is required to determine annually whether NFTLs filed by the IRS comply with the legal guidelines set forth in the law.⁵ This review included a site visit to the Compliance Collection Policy function within the IRS Small Business/Self-Employed (SB/SE) Division Headquarters in New Carrollton, Maryland. We performed our audit work during the period August 2004 through March 2005.

The audit was conducted in accordance with *Government Auditing Standards*. 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 prior TIGTA reviews

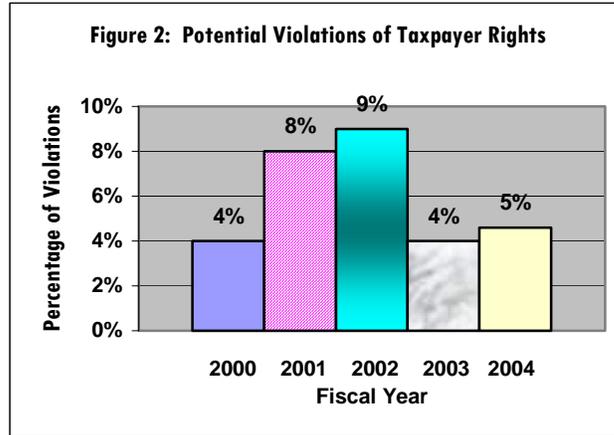
This is the seventh annual audit performed to determine if the IRS complied with the legal requirements of I.R.C. § 6320. In the prior years, we reported that the IRS had not yet achieved full compliance with the law and its own internal guidelines. Figure 2 shows that, in FYs 2000,⁶

⁵ I.R.C. § 7803(d)(1)(A)(iii) (Supp. V 1999).

⁶ *Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2000-10-152, dated September 2000).

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2001,⁷ 2002,⁸ 2003,⁹ and 2004,¹⁰ we reported 4, 8, 9, 4, and 5 percent, respectively, of the NFTLs reviewed involved potential violations of taxpayer rights.



Source: TIGTA mandatory lien reviews from FYs 2000 through 2004.

Lien Notices Were Not Always Mailed Timely and Proof of Mailing Could Not be Located

Our review of a statistically valid sample of 150 NFTLs identified 7 NFTLs (4.67 percent) for which the IRS correctly mailed the lien notices; however, it did not mail the lien notices timely, as required by I.R.C. § 6320. For the 7 NFTLs, lien notices were not mailed within 5 business days after the day of the filing of the liens. The notices were mailed from 1 to 9 days late. We estimate 22,604 NFTL notices prepared from August 1, 2003, through July 31, 2004, could have been mailed late. See Appendix IV for details.

Although we could not identify the specific reasons for the delays, employees did not use the information on the Automated Lien System (ALS) to prepare the required notices timely. Therefore, there were delays in sending lien notifications to taxpayers. Delays in mailing the lien notices

⁷ *Full Compliance With Requirements for Notifying Taxpayers of Federal Tax Lien Filings Has Not Yet Been Achieved* (Reference Number 2001-10-127, dated August 2001).

⁸ *Compliance with Lien Notice Requirements Has Not Been Achieved* (Reference Number 2002-40-135, dated August 2002).

⁹ *Fiscal Year 2003 Statutory Review of Compliance With Lien Due Process Procedures* (Reference Number 2003-40-066, dated February 2003).

¹⁰ *Fiscal Year 2004 Statutory Review of Compliance With Lien Due Process Procedures* (Reference Number 2004-30-086, dated April 2004).

can reduce the time the taxpayers have to request a hearing to less than the 30-day period allowed by the law. These errors could result in taxpayers not being able to appeal the lien filing in court, although the IRS still provides a process for the taxpayer to appeal within the IRS.

Timeliness of lien filing determinations could not always be verified

We could not determine if the IRS complied with the law in another 35 of the 150 NFTLs (23.3 percent) because SB/SE Division management either could not provide proof of timely mailing or a legible copy of the certified mailing list. IRS procedures require the retention of the date-stamped copy of the certified mail listings for 10 years after the end of the processing year. Without the dated proof of mailing, the IRS may be unable to protect itself against a taxpayer's claim that he or she did not receive timely notice of the lien filing and was unaware a Federal Tax Lien existed against his or her assets.

The process for mailing the notices and obtaining the date stamp on the certified mail listings varies among offices. Some ALS units take the certified mail listings and notices directly to the United States Postal Service for mailing while others rely on the IRS Mailroom function to process the mail and obtain a date stamp on the listings. Beginning in FY 2004, the listings were shipped for storage to the Centralized Case Processing (CCP) function at the Cincinnati Campus¹¹ where they were placed in boxes. However, Cincinnati Campus management was unable to locate all of the cases in our sample. Also, some certified mail listings from one office were lost during either transport to or within the CCP function. This new process significantly increased the number of listings that the IRS could not locate to verify the mailing of the NFTLs. Last year's audit report indicated that management could locate all but 3.85 percent of the cases in our sample.

¹¹ 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.

The IRS National Headquarters NFTL compliance review identified a similar potential violation of the law¹²

The IRS annually performs a Compliance Lien Collection Due Process Review to ensure IRS procedures are being followed and taxpayers' rights are being protected. The review includes analyses to determine if the IRS timely notified taxpayers, business partners, spouses, and taxpayer representatives of the filing of an NFTL and timely processed undelivered mail.

In May 2004, the IRS completed its FY 2003 review of NFTLs filed from January through August 2003. For one notice, IRS management could not determine if the notice was mailed timely because the certified mail listing was not retained. SB/SE Division management attributed this to employee error. As of March 8, 2005, the IRS had taken appropriate corrective action.

Recommendations

The Director, Collection, SB/SE Division, should:

1. Consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit.

Management's Response: SB/SE Division management consulted with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations.

The Director, Campus Compliance Services, SB/SE Division, should:

2. Ensure effective controls and adequate procedures are implemented for transferring, storing, and safeguarding certified mail listings at the CCP function.

Management's Response: SB/SE Division management reviewed the process for controlling Certified Mail Listings (Form 3877). While they complete the transition to the centralized lien processing, management will list any remaining Forms 3877 on Document Transmittals

¹² The IRS and the TIGTA used different methodologies when conducting the NFTL reviews; therefore, the results of the two reviews cannot be strictly compared.

Internal Guidelines Were Not Being Followed for Notifying Taxpayer Representatives and Resending Undelivered Notices

(Form 3210), which require acknowledgment of receipt of listed documents.

In 11 (7.33 percent) of the 150 NFTL cases reviewed, the IRS did not follow its own internal guidelines when issuing lien notices, including its guidelines for notifying taxpayer representatives (8 cases) and resending notices when they are returned as undeliverable (3 cases). As a result, taxpayers and representatives may not be aware of their right to a hearing.

Notices were not always sent to taxpayer representatives

For 8 (29.6 percent) of 27 NFTLs¹³ for which the taxpayer had a representative, a copy of the lien notice was not sent to the representative as required by IRS internal guidelines. The IRS stated this happened because of various reasons, such as the employees did not forward the taxpayer representative's information to the ALS units or ALS unit employees did not send the notice although they had received the taxpayer representative's information.

IRS procedures require that a copy of the notice be sent to the taxpayer's representative not later than 5 days after the notice is sent to the taxpayer when an NFTL is filed. IRS employees requesting the NFTL and lien notice through the Automated Collection System (ACS) are responsible for electronically forwarding the taxpayer representative information to the ALS units, so a copy of the lien notice can be sent. Revenue officers using the Integrated Collection System (ICS) may choose to send the taxpayer representative information to the ALS unit by facsimile or to send the lien notice directly to the taxpayer representative without using the ALS. The ALS units are responsible for printing and mailing NFTLs and related lien notices.

Of the 8 NFTLs, 3 liens (37.50 percent) were initiated through the ACS. Although the ACS had taxpayer representative information for these three liens, the IRS did not send lien notifications to the taxpayer representatives. The ACS has the ability to directly send an electronic file of taxpayer representative information to the ALS unit, where

¹³ Our review of 150 sample cases identified 27 cases in which the taxpayer had a representative.

it is printed and manually keyed in by ALS unit personnel; therefore, there are few errors.

Although the representative information must still be manually input by ALS unit employees to the ALS, there is a software enhancement planned that could further alleviate the manual process and enable fully automated notification to taxpayer representatives on the ALS. However, the IRS has postponed this enhancement due to other priorities.

The other five of eight NFTLs were initiated through the ICS. The revenue officer using the ICS did not document that he or she had requested a lien notice be sent to the taxpayer representative. Revenue officers are required to document in the case history when they request a lien notice for taxpayer representatives. Revenue officers' managers are also required to review case files for this documentation.

The IRS is in the process of designing a programming enhancement to the ICS similar to the ACS change that will electronically forward taxpayer representative information to the ALS units. The scheduled completion date for the ICS enhancement was postponed from its targeted date of middle of FY 2005 and now is slated for completion during FY 2008 due to other priorities.

Undelivered notices were not always sent again to taxpayers

The IRS procedures require an undeliverable lien notice be sent to a new address if the initial mailing is returned because it could not be delivered and a different address is available. For 20 of 150 NFTLs, the first notice was returned to the IRS as undeliverable. Revenue officers and/or ALS unit employees did not resend notices for 3 (33.33 percent) of the 9 NFTLs for which there was another address available. Two of the notices were initiated by revenue officers through the ICS, and one notice was initiated by an employee in the ACS function.

When another address is available, employees are responsible for certain actions when notices are returned undeliverable. For liens processed through the ICS, employees in the ALS units research the IRS computer system for a new address. If a new address exists, they will resend the notice. If there is no new address available, the employee forwards the notice to the revenue officer for his

or her action. For liens processed through the ACS, the ALS unit employees research if a new address is available and resend it to the new address. If they cannot find a new address on the IRS computer system, the notice will be shredded and the lien case will be closed.

SB/SE Division management is planning to propose and include in their guidelines a 60-day time period within which this process of resending the notice should be completed.

The IRS National Headquarters NFTL compliance review identified similar instances of noncompliance with internal guidelines

As stated previously, the IRS conducts its own annual compliance review. During this review, the IRS identified instances of taxpayer representatives not receiving a copy of lien notice. The review noted that, although the failure to issue a notice to the taxpayer's representative is not a potential legal violation, the IRS should follow its own internal guidelines. These results are similar to those of this and prior TIGTA audits. As of March 6, 2005, SB/SE Division management certified that the appropriate corrective action has been completed on those instances in which notices were not sent to representatives.

We are making no recommendations at this time regarding internal guidelines. As part of corrective actions to a prior TIGTA report, the IRS has partially implemented systemic changes to improve the notification of taxpayer representatives.

Detailed Objective, Scope, and Methodology

The objective of this audit was to determine whether the Notices of Federal Tax Lien (NFTL) issued by the Internal Revenue Service (IRS) complied with legal requirements set forth in Internal Revenue Code Section (I.R.C. §) 6320.¹ Specifically, we:

- I. Determined whether lien notices issued by the IRS complied with legal requirements set forth in I.R.C. § 6320 (a)² and related internal guidelines.
 - A. Obtained from the IRS Automated Lien System (ALS)³ Project Team an extract of liens prepared by the IRS nationwide from August 1, 2003, through July 31, 2004. The ALS extract contained 484,364 liens and excluded refiled liens. We compared the total population for accuracy to the Collection Report of Liens for the same period. We validated the sample selected in Test I.B. by accessing the ALS database and verifying that the extract information was accurate. We also compared taxpayer data to the IRS Integrated Data Retrieval System.
 - B. Selected a statistically valid sample of 150 NFTLs for review from the ALS extract in Test I.A. We used a statistical sample because we wanted to project the number of errors. We used attribute sampling and the following formula to calculate the minimum sample size (n) of 143 which we rounded to 150:
$$n = (NZ^2 p(1-p)) / (NE^2 + Z^2 p(1-p))^4$$

N = Population (484,364) lien notices)
Z = Desired Confidence Level (90 percent)
p = Expected Error Rate (5 percent)
E = Precision Level (3 percent)
 - C. Analyzed 150 liens using data from the ALS, Integrated Collection System, Automated Collection System, and Integrated Data Retrieval System to determine whether the IRS adhered to the legal and internal guidelines.
 1. Obtained certified mail listings (CML) (also called United States Postal Service Forms 3877) for 115 of the 150 sample cases (35 of the 150 CMLs were not available) and compared the lien-filed date to the postal mail date on the CML to determine whether the lien notice was sent to taxpayers timely.

¹ I.R.C. § 6320 (Supp. V 1999).

² I.R.C. § 6320 (a) (Supp. V 1999).

³ A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

⁴ Using the total population of 484,364 NFTLs, expected error rate of 5 percent and tolerable sampling error of 3 percent and applying the 1.6449 confidence factor for 90 percent confidence level, we calculated a sample size of 143 NFTLs.

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2. Determined whether taxpayers, spouses, partners, and taxpayer representatives received notices.
 3. Determined whether the lien notices were mailed to correct addresses and the undeliverable notices were appropriately processed.
- D. Discussed all exception cases with Small Business/Self-Employed Division Compliance function management for agreement to potential violations and corrective action, if appropriate.
- II. Determined whether internal guidelines have been implemented or modified since our last review by discussing procedures and controls with appropriate IRS personnel in the Small Business/Self-Employed Division Compliance function. Our review included quality review procedures and the centralization of the ALS units.
- III. Determined the status of the Integrated Collection System and Automated Collection System enhancements as planned and any problems encountered.

Major Contributors to This Report

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Parker Pearson, Director
Lynn Wofchuck, Audit Manager
Pillai Sittampalam, Lead Auditor
James Dorrell, Senior Auditor

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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 the Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 22,604 Notices of Federal Tax Lien (NFTL) with legal violations of taxpayers' rights (see page 3).

Methodology Used to Measure the Reported Benefit:

From the nationwide statistically valid sample of 150 NFTLs,¹ we identified 7 NFTLs (4.67 percent) with potential legal violations of taxpayers' rights. The sample was selected based on a confidence level of 90 percent, a precision level of ± 3 percent, and an expected error rate of 5 percent. After reviewing the 150 NFTLs in our sample, we determined that the actual error rate was 4.67 percent, which caused us to have to change the precision level to ± 2.84 percent. We projected the findings to the total population provided by the Internal Revenue Service of 484,364 NFTLs prepared by the Automated Lien System² from August 1, 2003, through July 31, 2004. We estimated that similar taxpayer rights could have been affected in 22,604 NFTLs ($7/150 \times 484,364$ population). We are 90 percent confident that the range of NFTLs affected by similar errors is between 21,962 and 23,246.

Taxpayer rights could be affected because the taxpayer not receiving a notice or receiving a late notice might not be aware of the right to appeal or have less than the 30-day period allowed by the law to request a hearing. In addition, taxpayer rights could be affected when the taxpayer appeals the filing of the lien and the Internal Revenue Service denies the request for the appeal.

¹ One NFTL may require multiple lien notices since the Internal Revenue Service is required to separately notify taxpayers' spouses and business partners.

² See Appendix VI for a description of this system.

**Synopsis of the Internal Revenue Service
Collection and Lien Filing Processes**

The collection of unpaid tax begins with a series of letters (notices) sent to the taxpayer advising of the debt and asking for payment of the delinquent tax. The Internal Revenue Service (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. A description of IRS computer systems used in the filing of lien notices is included in Appendix VI.

- IRS employees who make personal (face-to-face) contact with taxpayers are called revenue officers and work in the IRS Area Offices. The computer system used in most of the Area Offices to track collection actions taken on taxpayer accounts is called the Integrated Collection System.
- IRS employees who make only telephone contact with taxpayers work in call sites in IRS Customer Service offices. The computer system used in the call sites to track collection actions taken on taxpayer accounts is called the Automated Collection System.

When these efforts have been taken and the taxpayer has not paid the tax liability, designated IRS employees are authorized to file a Notice of Federal Tax Lien (NFTL). Liens protect the Federal Government's interest by attaching a claim to the taxpayer's assets for the amount of unpaid tax liabilities. The right to file an NFTL is created by Internal Revenue Code Section 6321 (1994) 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 within 10 days after the notice and demand for payment.

When designated employees request the filing of an NFTL using either the Integrated Collection System or Automated Collection System, the NFTL requests from both systems are transferred to the Automated Lien System (ALS). All NFTLs are processed by the ALS unless there is an expedite situation, in which case the NFTL is manually prepared. Although they are manually prepared and not printed through the ALS, manual NFTLs are tracked and controlled on the ALS and the lien notice is processed through ALS. The ALS maintains an electronic database of all open NFTLs and updates the IRS primary computer records to indicate an NFTL has been filed.

Most lien notices are mailed to taxpayers by certified or registered mail rather than being delivered in person. To maintain a record of the notices, the IRS prepares a certified mail listing (United States Postal Service (USPS) Form 3877), which identifies each notice that is to be mailed. The notices and a copy of the certified mail listing are delivered to the USPS. A USPS employee ensures all notices are accounted for, then date stamps the listing and returns a copy to

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the IRS. The stamped certified mail listing is the only documentation the IRS has that certifies the date the notices were mailed. IRS guidelines require that the stamped certified mail listing be retained for 10 years after the end of the processing year.

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

The Automated Lien System (ALS) is a comprehensive database that prints Notices of Federal Tax Lien (NFTL) and lien notices, stores taxpayer information, and documents all lien activity. Lien activities on both the Integrated Collection System and the Automated Collection System cases are controlled on the ALS by Technical Support or Case Processing functions in Area Offices. Employees in these Area Offices process NFTLs and lien notices and respond to taxpayer inquiries using the ALS.

The Integrated Collection System (ICS) is an Area Office 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. Lien requests made using the ICS are uploaded to the ALS. The ALS generates the NFTL and related lien notices and updates the Internal Revenue Service's (IRS) primary computer files to indicate an NFTL has been filed.

The Automated Collection System (ACS) is a computerized call site inventory system that maintains balance due accounts and return delinquency investigations. The ACS employees enter all of their case file information (online) on the ACS. Lien notices requested using the ACS are uploaded to the ALS, which generates the NFTL and related lien notices and updates the IRS' primary computer files to indicate an NFTL has been filed.

The Integrated Data Retrieval System (IDRS) is an online data retrieval and data entry system that processes transactions entered from terminals located in both campuses¹ and Area Offices. The system 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 Area Offices to the Master File for the IRS to maintain accurate records of activity on taxpayers' accounts.

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

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.

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

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MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kevin M. Brown *KMB*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2005 Statutory Review
of Compliance With Lien Due Process Procedures
(Audit #200430026)

We have reviewed the draft report and appreciate your acknowledgement that we continually review our procedures to ensure taxpayers' rights are being protected. We agree with the recommendations, and we have already implemented procedural changes and systemic enhancements which decreased the number of notices not issued timely. We are continuing our efforts to achieve total compliance with the lien notice requirements of Section 6320 of the Internal Revenue Code.

We have made recent enhancements including the addition of taxpayer representative information to the Automated Lien System (ALS) and the improvement of procedures for handling undelivered mail. Another pending enhancement will allow employees requesting Notices of Federal Tax Lien (NFTL) through the Integrated Collection System (ICS) to systemically download taxpayer representative information directly into ALS for generation of these notifications.

We are also centralizing all lien processing, except printing and mailing, in the Cincinnati Campus. Our national print sites in Detroit and Ogden have handled printing and mailing for lien processing since June 2004. Utilization of these print sites, which include in-house U.S. mail facilities, will substantially reduce untimely notice issuance.

As noted in the report, during the initial centralization process, Certified Mail Listings (U.S. Postal Service Form 3877) were lost, so we reviewed the process to determine what changes were needed to improve the control of these documents. While we complete the transition process, we will list any remaining Forms 3877 on Document Transmittals (Form 3210), which require acknowledgement of receipt of listed documents. This process will ensure that the Centralized Lien Processing Unit will be able to determine which documents are in their possession.

Fiscal Year 2005 Statutory Review of Compliance With Lien Due Process Procedures

2

Our comments on your recommendations follow:

RECOMMENDATION 1

The Director, Collection, Small Business/Self-Employed Division, should consult with the Office of Chief Counsel to identify any actions necessary to correct the potential legal violations we identified in this audit.

CORRECTIVE ACTION

Completed

IMPLEMENTATION DATE

April 2005

RESPONSIBLE OFFICIAL

Director, Collection Policy, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2

The Director, Campus Compliance Services, Small Business/Self-Employed Division, should ensure effective controls and adequate procedures are implemented for transferring, storing, and safeguarding certified mail listings at the CCP function.

CORRECTIVE ACTION

Completed

IMPLEMENTATION DATE

December 2004

RESPONSIBLE OFFICIAL

Director, Filing and Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

N/A

If you have any questions, please call me at (202) 622-0600 or Brady R. Bennett, Director, Collection, Small Business/Self-Employed Division, at (202) 283-7660.