

## **Internal Audit Review of Seizure Activity in the IRS Collection Field Function and the Examination Division's Use of Measures and Statistics**

### **Background**

After the September 1997 Senate Finance Committee hearings, the then-acting Internal Revenue Commissioner and the IRS Chief Inspector asked that a number of internal reviews of IRS enforcement activities be initiated. Three planned reports of those reviews have now been released.

The first report, released in December 1997, focused the use of enforcement statistics in the Arkansas-Oklahoma District. (See IRS Fact Sheet FS-97-27.) The second report, released in January 1998, reviewed the use of enforcement statistics in the Collection field function at the national and regional levels and in 12 IRS districts. (Fact Sheet FS-98-4.)

In July 1998 the third report was released, which focused on the use of Collection seizure actions in 11 of these same districts (the earlier report on Arkansas-Oklahoma already covered seizure activity in that district). In addition, a fourth review, this one on the use of enforcement statistics by the Examination Division, was undertaken because of IRS concerns about the findings of the use of statistics in Collection. The report of this review was also released in July 1998.

### **Summary of the July 1998 Internal Audit Findings**

Use of Seizure Authority in the Collection Field Function -- This Internal Audit review found that in 337 of 467 cases reviewed, the IRS properly following all legal or procedural guidelines in exercising its seizure authority. In 130 cases, one or more legal or procedural issue was cited, including the following: alternatives to seizure were not always pursued or investigated; seizures were conducted despite mitigating factors that could have created a hardship on the taxpayer; reasonable attempts were not always made to contact the taxpayer before the seizure; the value of assets seized was not always commensurate with the resources required to conduct the seizure; seizures were sometimes conducted even though the taxpayer questioned or may not have understood the tax assessment; and legally required waiting periods, prior to the seizure, were not always met.

The Examination Division's Use of Performance Measures and Statistics -- This Internal Audit review found inappropriate use of Examination statistics in all 12 districts reviewed due in part to a lack of clarity and inconsistencies in guidance given to examination personnel. IRS Policy Statement P-1-20 prohibits managers from using tax enforcement statistics to evaluate enforcement officers or impose or suggest production quotas or goals. However, the report says that the Examination Division's corporate measures focused primarily on enforcement statistics, which fostered improper use of enforcement statistics in the regions and districts. This led to an environment at the group manager and employee levels that put emphasis on revenue and other statistical goals. The report concludes that Examination needs to place more emphasis on quality casework and less emphasis on production goals.

### **How the IRS Is Responding to the Findings**

Use of Seizure Authority in the Collection Field Function -- While the Internal Audit report found no systemwide abuses in its review of the Collection Field function, the constructive recommendations of the report will make IRS procedures more sensitive to taxpayers' needs while improving efficiency of this tax administration program.

Some of the specific actions the IRS is taking in response to the report are the following:

- Consideration of reasonable alternative collection methods before deciding to seize assets will be incorporated into IRS procedures as well as memoranda updating and clarifying seizure procedures as required in the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998.
- Development of a comprehensive checklist identifying the legal and procedural requirements of the seizure and sale process.
- Incorporate new seizure procedures into existing and/or new training materials for Collection officers.

The Examination Division's Use of Performance Measures and Statistics -- The IRS is taking numerous actions to address the findings of this report:

- As announced previously in the case of the Collection Division, the IRS has stopped ranking regional and district offices. Fiscal year 1998 performance measures for Examination do not include enforcement results. Managers will now be evaluated on their performance in the management of group operations, including such areas as inventory management, transfer of skills, employee development, etc., but not on enforcement related statistics.

- The IRS has formed an executive taskforce to develop balanced performance measures that will promote quality, customer service, taxpayer rights and productivity.
- The IRS has convened a taskforce to provide guidance on the management of statistics and provide procedures on the Taxpayer Bill of Rights and P-1-20 certification processes.
- The IRS is developing a new Internal Revenue Manual entitled “Managing Statistics” and a training program for all managers at the National, regional and district levels.
- The IRS is developing a plan to institute an independent review process to validate that statistics are being used appropriately at the district level.

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