TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved With the Collection of Revenue; However, Some Program Improvements Can Be Made

June 29, 2015

Reference Number: 2015-30-051

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HIGHLIGHTS

MOST FEDERAL EMPLOYEE/RETIREE DELINQUENCY INITIATIVE CASES ARE RESOLVED WITH THE COLLECTION OF REVENUE; HOWEVER, SOME PROGRAM IMPROVEMENTS CAN BE MADE

Highlights

Final Report issued on June 29, 2015

Highlights of Reference Number: 2015-30-051 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

Like all taxpayers, Federal employees and retirees have a legal obligation to pay their taxes. However, Federal employees and retirees are held to a higher ethical standard for a number of reasons, including that they draw their compensation and funds from Federal taxes. In Fiscal Year 1993, the IRS developed the Federal Employee/Retiree Delinquency Initiative (FERDI) program to promote Federal tax compliance among current and retired Federal civilian and military employees as well as military reservists.

WHY TIGTA DID THE AUDIT

The IRS identified 304,665 Federal employees and retirees who owed approximately $3.54 billion in unpaid taxes at the end of Fiscal Year 2014. This audit was initiated to determine whether the IRS has adequate controls and procedures in place to properly identify and resolve tax compliance issues among Federal employees and retirees.

WHAT TIGTA FOUND

Generally, the IRS is successful at collecting revenue by closing most FERDI cases as fully paid or with an installment agreement.

TIGTA identified two ways in which the FERDI program can be improved. The first involves the Federal Payment Levy Program (FPLP), one of the key collection tools used for the FERDI program, which allows the IRS to levy up to 15 percent of certain Federal payments, including wages, to delinquent taxpayers. Federal payments for certain Federal employees are excluded from the FPLP due to legal or policy constraints, *e.g.*, bankruptcy or military service men and women in combat zones, but the IRS excludes certain other Federal payments from the FPLP without a legal or articulated policy basis. TIGTA forecasts that expanding the FPLP to include more Federal payments could potentially increase revenue by approximately $18.3 million over the next five years.

The second improvement opportunity involves the IRS's policy to handle many FERDI cases manually. Besides the FPLP, FERDI cases bypass the IRS's other Automated Collection System (ACS) tools that can systemically identify taxpayer assets for levy in favor of manual handling. Moving FERDI cases to the ACS's systemic levy process if the FPLP levy attempts fail or if the FPLP levy will not fully pay the amount owed could result in potential benefits such as faster case resolutions and smaller manual inventory sizes.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS continue identifying and expanding the use of the FPLP to other Federal payments, including military retirement payments, and consider applying ACS systemic levies to FERDI taxpayers.

In their response to the report, IRS officials agreed with the recommendation to expand the use of the FPLP to other Federal payments and plan to work with the appropriate agencies to make the necessary programming changes to include military retirement payments.

IRS officials disagreed with the recommendation to apply ACS systemic levies to FERDI taxpayers because they believe that the majority of manually worked FERDI cases will be included in the FPLP after the programming changes.

TIGTA believes that the IRS could further reduce ACS manual inventory by moving FERDI cases to the ACS systemic levy process when FPLP levies do not fully resolve the delinquency.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 29, 2015

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

Michael E. McKenney

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved With the Collection of Revenue; However, Some Program Improvements Can Be Made (Audit # 201330013)

This report presents the results of our review to determine whether the Internal Revenue Service has adequate controls and procedures in place to properly identify and resolve tax compliance issues of Federal employees and retirees. This audit is included in our Fiscal Year 2015 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

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

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 Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Abbreviations

ACS	Automated Collection System
BFS	Bureau of the Fiscal Service
FERDI	Federal Employee/Retiree Delinquency Initiative
FPLP	Federal Payment Levy Program
FY	Fiscal Year
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
TDA	Taxpayer Delinquent Account
TIGTA	Treasury Inspector General for Tax Administration

Background

In Fiscal Year (FY) 1993, the Internal Revenue Service (IRS) developed the Federal Employee/Retiree Delinquency Initiative (FERDI) program to promote Federal tax compliance among current and retired Federal civilian and military employees as well as military reservists.[1] The FERDI program addresses the responsibility of Federal employees to "satisfy in good faith their obligations as citizens, including all just financial obligations, especially those such as Federal, State or local taxes that are imposed by law."[2] The FERDI program applies to all delinquent taxpayers currently receiving a salary or annuity pension from the Federal Government. Federal employees or retirees include the following:

The FERDI program applies to all delinquent taxpayers currently receiving a salary or annuity pension from the Federal Government.

- Civilian employees, including those of the U.S. Postal Service.
- Civil Service or Federal Employee Retirement System retirees.
- Active duty military personnel.
- Military retirees.
- National Guard/Reservists.

FERDI cases are primarily worked through the Automated Collection System (ACS) FERDI operation, which is centralized in the IRS Wage and Investment Division's Jacksonville, Florida, ACS call site.[3] There are 167 employees at the call site dedicated to working FERDI cases. ACS Collection representatives work the majority of FERDI cases; however, cases meeting certain criteria are assigned to Field Collection (the Field) to be worked by revenue officers. For example, FERDI cases with aggregate balances equal to or exceeding $1 million and IRS employee cases with delinquent returns or balance due modules are assigned to the Field. IRS Collection Activity Reports showed that at the end of FY 2014, there were 104,047 FERDI taxpayers with 238,294 taxpayer delinquent accounts (TDA) in ACS inventory and 1,055 FERDI taxpayers with 4,662 TDAs in the Field inventory. In addition, there were 59,165 FERDI taxpayers with 119,061 taxpayer delinquency investigations in ACS inventory and 153 FERDI taxpayers with 353 taxpayer delinquency investigations in the Field inventory at the end of FY 2014.

[1] See Appendix VII for a glossary of terms.
[2] Office of Government Ethics, Code of Federal Regulations, Title 5, Chapter XVI , Subchapter B, Part 2635, subpart H, Section 2635.809.
[3] Pursuant to the IRS realignment, the Wage and Investment Division's ACS function moved to the Small Business/Self-Employed Division on October 19, 2014.

One of the key collection tools used for the FERDI program is the Federal Payment Levy Program (FPLP).[4] The IRS operates the FPLP with the Bureau of the Fiscal Service (BFS) as a systemic means for the IRS to collect delinquent taxes by levying Federal payments. Examples of Federal payments that are subject to the FPLP include Federal employee retirement annuities administered through the Office of Personnel Management, Federal employee travel payments (both advances and reimbursements), and Federal civilian employee salaries administered by the main Federal salary-paying agencies.[5] Appendix V shows a list of Federal payments that are subject to the FPLP along with the dates these payments became available to be levied by the program.

To levy a delinquent taxpayer's Federal payments, the IRS systemically transmits account data to the BFS, which compares the taxpayer's identification number with eligible Federal agency payment records. If the BFS identifies a delinquent taxpayer who is scheduled to receive a Federal payment, a match is systemically posted on the IRS system. Once a match is posted, the IRS system automatically determines if a notice of intent to levy has previously been issued. If it has not been issued, the system prepares and sends a notice of intent to levy to the taxpayer.[6] Taxpayers have a minimum of 30 days to respond to the notice, during which time they may consider several alternatives available to them, such as requesting their account to be closed as currently not collectible due to financial hardship or applying for an installment agreement. If taxpayers do not respond to the IRS or take one of the collection options within the notification period, the IRS will systemically transmit a request to the BFS for a continuous FPLP levy of up to 15 percent of the taxpayer's Federal payments.

This review was performed at the IRS ACS call site in Jacksonville, Florida, in the Wage and Investment Division's Campus Compliance Services function during the period July 2013 through January 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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[4] Internal Revenue Code (I.R.C.) Section (§) 6331(h)(2)(A) authorizes the IRS to levy up to 15 percent of certain Federal payments due to taxpayers.

[5] The main Federal salary-paying agencies are the U.S. Department of Agriculture's National Finance Center, Department of the Interior's Interior Business Center, U.S. Postal Service, General Services Administration, and Defense Finance and Accounting Service.

[6] I.R.C. § 6331(d) requires the IRS to notify the taxpayer of its intent to levy. Additionally, pursuant to I.R.C. § 6330, on the first notice of intent to levy on an account, taxpayers are entitled to a Collection Due Process hearing wherein they can raise numerous issues including whether the underlying liability is owed or whether the debt can be satisfied through a collection alternative. Taxpayers notified of an impending FPLP levy have typically already received several previous balance due notices as part of the IRS's standard notification process.

Results of Review

In general, Federal employees and retirees have fewer instances of tax delinquency than the general population of taxpayers. From FYs 2010 through 2014, on average 3.1 percent of Federal employees and retirees were delinquent on taxes as compared to 8.4 percent of the general population of taxpayers.[7] When Federal employees and retirees do become delinquent with their tax obligations, the IRS uses a variety of collection tools at its disposal, including the FPLP, to work and resolve cases. Collection Activity Report data show that the IRS resolved most FERDI cases as fully paid or with an installment agreement.

Most Federal Employee/Retiree Delinquency Initiative Cases Were Closed As Fully Paid or With an Installment Agreement

The overall goal of the FERDI program is to reduce FERDI tax delinquency through outreach, education, and collection policy and procedures specific to the FERDI population. IRS management sets ACS TDA case closure targets each year to measure the effectiveness of the FERDI program. To help determine closure targets and make strategic decisions to improve the FERDI program, management reviews FERDI and Collection Activity Reports to compare statistics such as dollars collected and the number of dispositions on a monthly basis and agency compliance rates on an annual basis. For example, if a certain agency's compliance rates have decreased, the IRS may reach out to that agency to provide education to agency employees on the importance and ethical obligation of filing and paying Federal taxes. In addition, there are critical business measures at the Jacksonville ACS site level for telephone calls, *e.g.*, timeliness, inventory (time between activity on the case, aging measures), and quality of work. Although the site measures are not specific to the FERDI program, FERDI cases are a large portion of the ACS work in the Jacksonville site.

Generally, the IRS identifies delinquent Federal employee and retiree taxpayers on an annual basis.[8] As of the end of FY 2014, the IRS identified 304,665 delinquent Federal employees and

[7] For these purposes, the IRS calculates the delinquency rate by determining the number of delinquent taxpayers (taxpayers with balance due accounts or delinquent return accounts or both) divided by the total number of taxpayers, as of a specific time. Consequently, taxpayers who had a balance due account but resolved it through a collection alternative such as an installment agreement would not be considered "delinquent." It is not clear whether the FERDI program is the reason that Federal employees and retirees incur fewer delinquent accounts than the general population. IRS policy is to prioritize FERDI accounts above non-FERDI collection accounts by working all FERDI cases. General population cases may not be worked due to limited resources.
[8] In addition to the comprehensive annual match, the IRS performs a limited monthly match of delinquent taxpayer accounts in notice status to identify additional FERDI employees. Also, IRS employees can manually identify taxpayers as FERDI when assisting taxpayers or working collection cases.

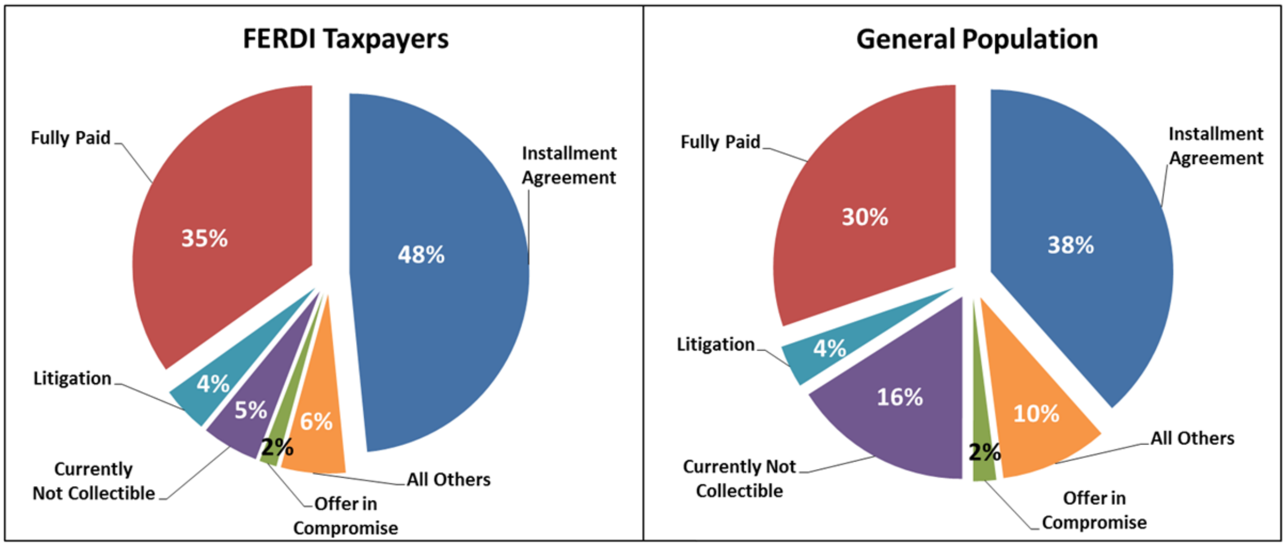
retirees who owed approximately $3.54 billion in unpaid taxes.[9] The amount of unpaid taxes increased by approximately $119 million (3 percent) from $3.42 billion at the end of FY 2010. In addition, the number of delinquent Federal employees and retirees increased by approximately 25,284 (14 percent) from 279,381 at the end of FY 2010. Data also showed that there were another 228,114 Federal employees and retirees paying their delinquent tax debts through installment agreements at the end of FY 2014. These taxpayers owed an additional $1.88 billion in outstanding tax liabilities at that time.

Analysis of IRS report data shows that Federal employee and retiree delinquency rates were fairly low over the five-year period from FYs 2010 through 2014, averaging 3.1 percent. IRS management informed us that consistently low delinquency rates of Federal employees and retirees might be attributed to the IRS providing information to assist Federal agencies through their outreach activities such as delinquency rate information, demographic data, and other materials to aid agencies in focusing their compliance message to the workforce. Furthermore, in some Federal agencies, Federal tax compliance is a condition of employment.[10] In addition, because Federal employees receive Federal payments, the IRS has an easily identifiable levy source. Moreover, as is described in more detail below, IRS policy prohibits sending FERDI accounts to the IRS's Collection Queue, where accounts might not be pursued due to lack of resources.

IRS data show that FERDI cases worked by IRS employees resulted in a significant percentage of closures that involved the collection of revenue, such as fully paid and installment agreements. Figure 1 compares TDA closure types for Federal employees and retirees with the general population of taxpayers in FY 2014 for the ACS.

[9] FERDI data identified at the end of FY 2014 were reported by the IRS in March 2015.
[10] For example, this is a condition for the IRS and some other Department of the Treasury employees.

Figure 1: Comparison of FY 2014 ACS FERDI and General Population TDA Closures



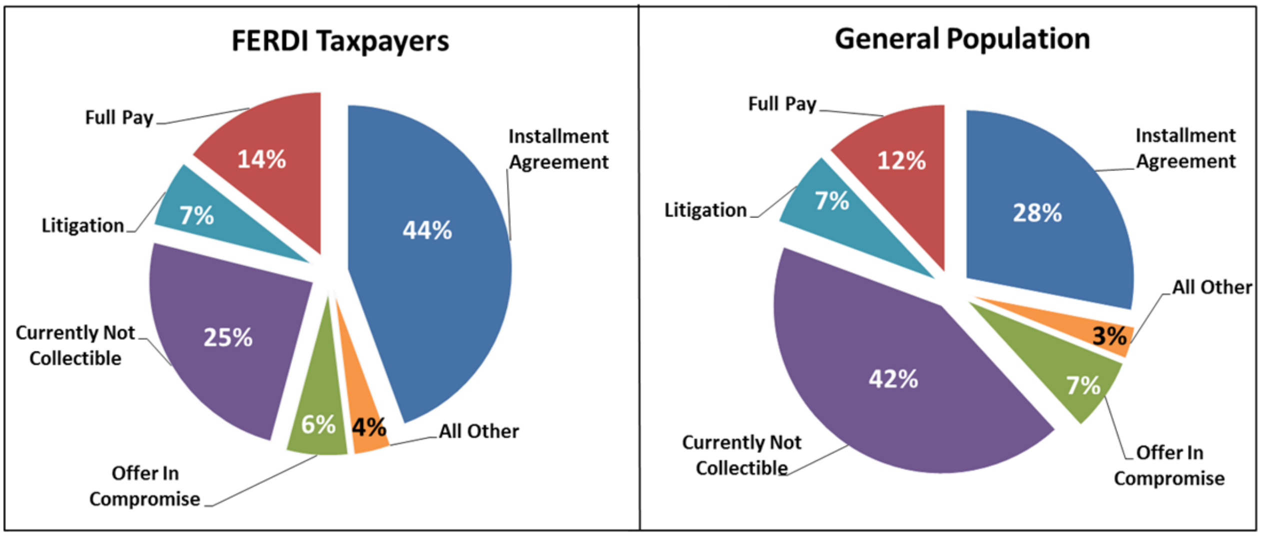
Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of FERDI data from the Collection Activity Reports for FY 2014.

The ACS closed 83 percent of TDA cases involving Federal employees and retirees with an installment agreement or as fully paid, compared with 69 percent[11] for all other (general population) TDA cases. In addition, the ACS closed just 5 percent of FERDI TDAs as currently not collectible, compared with 16 percent for all other TDAs.

Similar to the ACS, Figure 2 shows that the Field also closed a higher percentage of FERDI TDA cases as fully paid or with an installment agreement.

[11] Rounding indicates a total of 68 percent; however, the actual numbers are 30.26 percent for fully paid and 38.44 percent for installment agreement, for a total of 68.7 percent.

Figure 2: Comparison of FY 2014 Field Collection FERDI and General Population TDA Closure Types[12]



Source: TIGTA analysis of FERDI Data from the Collection Activity Reports for FY 2014.

During FY 2014, the Field closed approximately 59 percent[13] of FERDI cases with an installment agreement or as fully paid, compared with 40 percent for all other (general population) TDAs. In addition, the Field closed 25 percent of FERDI cases as currently not collectible, compared with 42 percent for all other TDAs.

Unlike general population cases, the ACS or the Field must work all FERDI cases, and they should never be sent to the Collection Queue, where they may not be worked due to limited resources.[14] In addition, while levies for delinquent general population individuals may only be issued on up to two sources simultaneously,[15] it is possible for FERDI taxpayers to have multiple levies. However, the decision to use multiple levies for FERDI cases is determined on a case-by-case basis and is dependent upon the circumstances of the case and the taxpayer.

In addition, the IRS collects revenue from delinquent FERDI accounts through the FPLP. From FY 2010 through FY 2014, the IRS collected an average of approximately $121.7 million each year by systemically levying against delinquent Federal employees and retirees through the FPLP. Taxpayers who are subject to continuous levy payments such as the FPLP often choose to

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[12] Percentages do not equal 100 percent due to rounding.
[13] Rounding indicates a total of 58 percent; however, the actual numbers are 14.43 percent for fully paid and 44.4 percent for installment agreement, for a total of 58.83 percent.
[14] Internal Revenue Manual (IRM) 5.19.18.4 (July 8, 2013). The Collection Queue is an automated holding file for unassigned inventory of delinquent cases for which Collection employees are unable to be immediately assigned for contact due to limited resources.
[15] Two levy sources, one wage and one nonwage source or two nonwage sources, can be levied on individual taxpayers with outstanding liabilities of $2,500 or more.

instead initiate an installment agreement or alternate payment options, which can lead to more TDAs closed with installment agreements and as fully paid by the ACS and the Field.

IRS FERDI program management has recognized the importance of working FERDI accounts and has taken steps to expand the use of collection tools related to the program. For example, program management has made efforts to add new Federal agencies to participate in the FPLP. However, IRS executive management has not implemented recommendations to expand the use of the FPLP to include some additional Federal payments, such as military retirement payments. Additionally, expanding the use of traditional ACS systemic levies to delinquent Federal employees and retirees could reduce the size of the ACS manual inventory and make the IRS collection efforts more efficient.

Expanding Systemic Levies for Federal Employee/Retiree Delinquency Initiative Taxpayers Could Increase Revenue and Ease the Automated Collection System Manual Workload

The IRS currently excludes certain taxpayers and some types of Federal payments from the FPLP. In addition, FERDI taxpayers are not subject to the same systemic ACS levies as delinquent general population taxpayers. With its reduced budget, it is even more important for the IRS to maximize the use of its automated systems whenever possible because manual processes can prove to be inefficient. The inclusion of more types of Federal payments and FERDI taxpayers in these areas could improve compliance rates as well as reduce the manual ACS workload for collection representatives.

The FPLP does not include all Federal payments

Over the past four fiscal years, the IRS collected an annual average of approximately $121.7 million by systemically levying against delinquent Federal employees and retirees through the FPLP. The FPLP has been expanding since the program was first implemented in July 2000. For example, the program has expanded to include more Federal payments, such as certain Social Security benefits and certain Federal salaries.

However, certain taxpayers and some types of Federal payments are specifically excluded from the FPLP. Some exclusions are due to tax law or because Federal salary payments are not processed through main Federal salary-paying agencies. Other exclusions are due to IRS policy.

Tax law excludes a number of types of Federal payments and taxpayers from the FPLP and other levy actions including, but not limited to, taxpayers in:[16]

[16] See Appendix VI for a complete list of FPLP exclusions.

- Bankruptcy.[17]
- Combat zones.[18]
- Litigation or appeals.[19]
- Installment agreement arrangements.[20]
- Financial hardship such that taxpayers cannot meet basic reasonable living expenses.[21]

Exclusions by law are usually to prevent a violation of taxpayer rights or to reduce taxpayer burden.

In addition, some Federal salary payments are excluded from the FPLP because they are not processed through the main Federal salary-paying agencies. Neither the IRS nor the BFS could provide a complete list of Federal agencies with salary payments not eligible for the FPLP.

IRS management informed us that they continue to work with the BFS to expand and include more Federal agencies in the FPLP. For example, salary payments to U.S. Court System employees were added to the FPLP in FY 2014. The BFS is currently working with payment sources for some of the other agencies excluded from the FPLP in an attempt to add their Federal payments in the future.

IRS policy also excludes certain Federal payments and taxpayers from the FPLP, such as:

- Active duty military wages.[22]
- Military retirement income.[23]
- Taxpayers who are deceased.[24]
- Low-income taxpayers.[25]

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[17] 11 U.S.C. § 362 provides for an automatic stay of collection activity against those who petition for bankruptcy protection.
[18] I.R.C. § 7508.
[19] For example, collection actions including levies are suspended while a taxpayer is pursuing a Collection Due Process hearing under either I.R.C. § 6320 or I.R.C. § 6330, and the suspension continues if the taxpayer elects judicial review from the Collection Due Process hearing.
[20] I.R.C. § 6343(a)(1)(C).
[21] I.R.C. § 6343(a)(1)(D); and Treasury Regulation § 301.6343-1(b)(4).
[22] IRM 5.19.18.5 (July 8, 2013).
[23] IRM 5.19.18.5 (July 8, 2013).
[24] IRM 5.19.9-3 (June 23, 2014).
[25] As a result of the advocacy of the National Taxpayer Advocate, the IRS adopted a low-income filter, which excludes taxpayers receiving Social Security Administration or Railroad Retirement Board benefits, at 250 percent of the poverty level. IRM 5.19.9.3.2.3 (June 23, 2014); also see the National Taxpayer Advocate 2014 Annual Report to Congress.

Military retirees represented 30 percent (91,677 taxpayers) of the delinquent FERDI taxpayers at the end of FY 2014 but owed 44 percent ($1.57 billion) of delinquent FERDI taxes. The IRS's policy does not explain the reason for excluding military retirement pay from the FPLP. Current IRS management is not aware of the original reasoning for the military retirement payment exclusion from the FPLP. Since all FERDI cases are ultimately required to be worked, excluding military retirement payments from the FPLP could actually result in more extensive levies on the assets of retired military personnel. For example, when a FERDI case is not subject to the FPLP, it is assigned to either an ACS employee or a revenue officer to be manually resolved, usually after a 16-week waiting period while the FPLP attempts to levy the taxpayer's Federal payments. Unlike FPLP levies, manual levies issued on payments to retired military personnel are not subject to the 15 percent maximum levy amount. In addition, other assets, such as bank accounts, may also be levied and are also not subject to the FPLP's 15 percent statutory limitation. Other Federal employees who are subject to the FPLP would not be subject to other such levies if the FPLP payments will resolve their tax obligations.[26]

Including military retirement payments in the FPLP would also have other benefits. For example, there could be reductions in penalty and interest assessments on these taxpayers' accounts during the 16-week waiting period before the cases are assigned to employees to be worked manually. In addition, the number of cases that ACS employees must work manually would be reduced, making the process more efficient and less costly. Also, including these payments in the FPLP could potentially raise the compliance rate for FERDI taxpayers and bring in more revenue.

The National Taxpayer Advocate has expressed concerns regarding levying against military retirees who could possibly be receiving disability payments. Therefore, in FY 2015, FERDI program management plans to propose that IRS leadership expand the FPLP to include military retirement payments with two caveats: 1) exclude all military retiree disability payments and 2) utilize the low-income filter to eliminate military retirees whose income may be below 250 percent of the poverty guidelines.[27]

[26] Federal employees and retirees who are subject to a levy by the FPLP may also be subject to a manual levy if the tax debt will not be paid in full by the Collection Statute Expiration Date.
[27] The low-income filter is currently in place for taxpayers receiving Social Security Administration or Railroad Retirement Board benefits who are subject to an FPLP levy.

We analyzed the portion of the Tax Year 2013 military retiree population with incomes above 250 percent of the Department of Health and Human Services poverty guidelines. If included in the FPLP at the end of FY 2013,[28] 32,064 FERDI military retirees over this threshold could have been subject to FPLP levies on their military retirement payments.[29] These taxpayers owed approximately $426.3 million (30 percent) of the $1.4 billion owed by retired military members. Based on the average military pension, the actual amount owed by these taxpayers at the end of FY 2013, and the amount the IRS collected from these taxpayers in FY 2014, we estimate that inclusion of military retirement payments in the FPLP during FY 2014 could have potentially increased revenue by approximately $3.7 million.[30]

Federal employees and retirees are not subject to systemic ACS levies

FERDI taxpayers are subject to systemic FPLP levy attempts on eligible Federal payment sources after cases enter the ACS. However, delinquent Federal employees and retirees are not subject to systemic levy attempts by the ACS on other asset sources, which is a process used for the general population of taxpayers. Instead, the IRS elects to work these cases manually, which could take longer and be more costly than systemic levies. Moving FERDI cases to the ACS systemic levy process after the FPLP levy attempts fail or if the FPLP levy will not fully pay the amount the taxpayer owes could result in potential benefits such as faster case resolutions and smaller manual inventory sizes.

Levy attempts on other asset sources for FERDI taxpayers normally only occur when the case is manually worked by an ACS collection representative. However, it takes a minimum of 16 weeks from the time a FERDI case enters the ACS until it transfers into manual inventory to await assignment to an employee. At that point, it could take additional time to be assigned to a collection representative and begin to be worked. FERDI cases that do not have eligible Federal payment sources or have an FPLP levy that will not fully pay the tax liability by the Collection Statute Expiration Date could be moved into an ACS systemic levy process prior to moving to manual inventory. Systemic levy attempts on other assets could motivate the taxpayer to resolve the debt before they are personally contacted by an ACS employee.

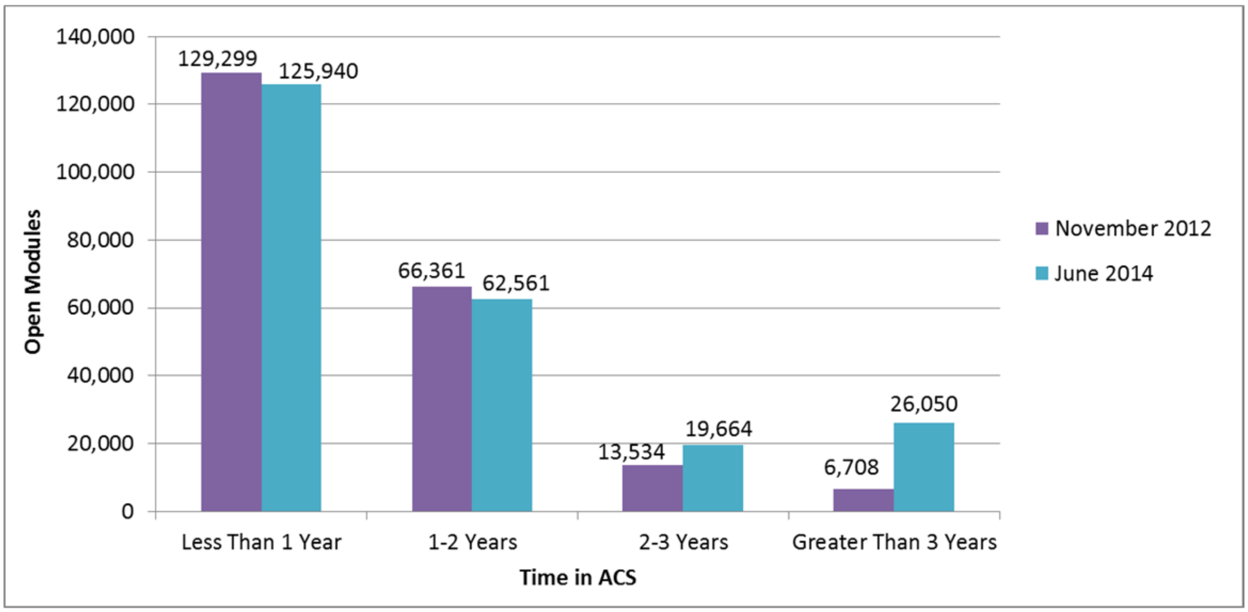
Additionally, inclusion of FERDI taxpayers in an ACS systemic levy process could be more efficient when FERDI manual case inventory cannot be worked on a regular basis. For example, ACS employees typically work FERDI inventory manually for one full day every three weeks and on an ad hoc basis as time allows. However, from January 2013 to June 2014, all ACS sites

[28] For this calculation, we used FY 2013 FERDI data because FY 2014 data were not available at the time of our analysis.
[29] FERDI taxpayers with balance due assessments are subject to FPLP levies regardless of whether they filed a Tax Year 2013 tax return. We did not include FERDI military retirees who had not filed a return because we could not determine if their financial condition was below 250 percent of the poverty guidelines. In addition, we could not exclude FERDI military retirees who could have received disability payments in FY 2013 because the IRS was unable to provide us with this information.
[30] See Appendix IV for details on this estimate.

eliminated scheduled manual collection inventory workdays, including priority FERDI inventory. IRS management made this decision to free up resources to address the IRS's growing inventory of identity theft cases. As a result, manual inventory was worked only occasionally, when telephone traffic was slow and outside of peak hours, causing FERDI cases in the ACS to become older.

Figure 3 shows how the ACS TDA modules of FERDI taxpayers aged from November 2012 (before the manual collection inventory workdays were eliminated) to June 2014.

Figure 3: Comparison of TDA Ages in the ACS for Federal Employee and Retiree Taxpayers



Source: TIGTA analysis of ACS TDA open FERDI inventory.

Overall, FERDI inventory was getting older when the IRS was not regularly working manual inventory. Although the total number of open FERDI TDAs in the ACS increased by 8 percent over the 18-month period, the number of TDAs that had been open in the ACS for two to three years increased by 45 percent, and cases older than three years increased by 288 percent.[31] It is a widely accepted principle in the collection industry that as debts age, they become increasingly more difficult to collect. Since manual ACS cases were worked less frequently over the 18-month period, manual collection actions (such as liens and levies) were not taken for many FERDI delinquencies. If an ACS systemic levy process had been used during this period, further collection actions and possible case resolutions for aging FERDI cases could have

[31] Some of these aging TDAs (approximately 10 percent) are potentially due to continuous FPLP levies in the FERDI ACS inventory. The TDAs being paid by an FPLP levy stay open (age) in the ACS until fully paid or other payment arrangements are made by the taxpayer.

occurred more quickly, using minimal IRS resources, even when the IRS was not regularly working manual ACS inventory.

IRS management informed us that they did not consider using the ACS systemic levy process when developing the ACS inventory processes for FERDI cases. The FERDI inventory processes were based on January 2008 study recommendations that sought to streamline FERDI case processing through full utilization of the FPLP. One of the goals of the study was to reduce manual processing of FERDI inventory, thus saving resources that could be redirected to ACS work that was not suited for systemic processing. At that time, management anticipated that the active duty and retired military populations would have their payments included in the FPLP, thus minimizing the number of FERDI accounts requiring manual processing.

Recommendations

The Director, Collection, Small Business/Self-Employed Division, should:

Recommendation 1: Continue identifying and expanding the use of the FPLP to other Federal payments, including military retirement payments.

> ***Management's Response:*** The IRS agreed with this recommendation. The IRS will ask the Defense Finance and Accounting Service and the BFS to make the programming changes necessary to expand the FPLP to include military retirement payments.

Recommendation 2: Consider applying the same ACS systemic levy process used for the general population to delinquent FERDI taxpayers after the FPLP levy has been attempted.

> ***Management's Response:*** The IRS disagreed with this recommendation. The majority of manually processed ACS FERDI cases involve taxpayers who are receiving military retirement payments. Because these taxpayers will be included in the FPLP after programming changes, the IRS does not believe processing delinquent FERDI taxpayers through the ACS systemically will be an effective use of limited resources.

> ***Office of Audit Comment:*** While we agree that the steps the IRS plans to take will reduce manual ACS inventory, we believe it could be further reduced by moving FERDI cases to the ACS systemic levy process after the FPLP levy attempts fail or if the FPLP levy will not fully pay the amount the taxpayer owes.

Revenue Officers Did Not Always Follow Collection Procedures When Working Federal Employee/Retiree Delinquency Initiative Cases

TIGTA reviewed a stratified random sample of 102 FERDI cases worked by revenue officers between July 1, 2012, and June 30, 2013.[32] IRS general collection procedures for Field cases provide a list of specific actions that must be taken and deadlines that must be met when revenue officers are working cases, such as making initial contact, making lien determinations, and taking follow-up actions.[33] We identified 23 (23 percent) cases for which revenue officers did not follow general collection procedures.

However, results also showed that revenue officers often properly followed Field general collection procedures. For example, revenue officers properly:

- Documented the cause and cure of the delinquency in the case history.
- Requested immediate full/partial payment of all delinquent accounts and filing of all delinquent returns when initial taxpayer contact was made.
- Documented the proper components in the case history when a delinquent return was secured.
- Documented plans on how to resolve the case if it was not resolved during initial contact.
- Issued a notice of intent to levy at least 30 days prior to issuing a levy.

IRS management agreed that employees were not always following established collection procedures when working these FERDI Field cases. Management took corrective action as appropriate. The types of errors identified during this review were similar to those found in a prior TIGTA report.[34] Because the cases in our sample were worked before management took corrective actions on the prior report's recommendations, we are not making any new recommendations.

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[32] See Appendix I for more information on our sampling plan.
[33] These Field collection procedures apply to all Field cases, not just FERDI taxpayer cases.
[34] TIGTA, Ref. No. 2013-30-043, *Oversight of Revenue Officer Case Actions Can Be Improved* (May 2013).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS has adequate controls and procedures in place to properly identify and resolve tax compliance issues among Federal employees and retirees. To accomplish our objective, we:

I. Identified IRS procedures and guidelines for promoting tax compliance among Federal employees and retirees.

A. Researched and reviewed applicable IRM[1] sections, internal guidance, and management directives regarding FERDI casework.

B. Conducted a site visit to the Wage and Investment Division's ACS site in Jacksonville, Florida, and discussed FERDI casework and applicable internal controls with collection management and employees.

C. Determined the process for the ACS and the Field to obtain, control, and work FERDI inventory.

D. Compared and contrasted how FERDI cases are worked as compared to how general population taxpayer cases are worked.

E. Assessed how IRS management evaluates program results related to FERDI casework.

II. Analyzed collection data related to the ACS and the Field FERDI program for trends and indicators from FYs 2010 through 2014 on how well the program is resolving tax compliance issues with Federal employees and retirees.

A. Analyzed the IRS Collection Activity Reports to obtain the number of FERDI cases and associated delinquent tax liabilities and the number of closed FERDI cases and associated disposition types.

B. Analyzed the IRS Civilian/Military/Detail Report as of the end of FY 2010 through FY 2014 to identify delinquent Federal employee trends such as numbers of delinquent taxpayers and dollars owed. We obtained general population compliance rates from data provided by the IRS.

C. Identified returns pertaining to military retirees who made sufficient income through military retirement payments to fit the criteria for FPLP levies if the IRS changed its

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

practice of not levying military retirement pay by performing the following calculations:

1. Obtained the population of 93,540 military retiree taxpayers identified as FERDI taxpayers by the IRS at the end of FY 2013.
2. Identified that 48,339 of those taxpayers had filed a Tax Year 2013 return as of October 15, 2014, and matched those records to the TIGTA Data Center Warehouse to obtain the adjusted gross income and number of exemptions claimed for each taxpayer.
3. Eliminated 59 taxpayers who claimed an exemption amount of zero, resulting in a final population of 48,280 military retiree FERDI taxpayers.[2]
4. Calculated the number of taxpayers who were below 250 percent of the poverty guideline using the adjusted gross income and number of exemptions for each taxpayer.[3] We identified 32,064 taxpayers.[4]
5. Calculated the maximum amount that could have been collected from each of the 32,064 taxpayers through the FPLP in FY 2014.
6. Identified all subsequent payments the IRS received during FY 2014 that posted to the corresponding taxpayers' modules. We calculated the difference between the amount that could have been collected through the FPLP and the amount the IRS actually collected through subsequent payments.

D. Requested (from the IRS and the BFS) a list of agencies excluded from the FPLP.

E. Obtained FERDI FPLP levy payment data from the IRS and determined the number of payments received from FY 2010 through FY 2014, including the dollar amount of each FY 2014 payment. We calculated the percentage of FPLP dollars collected in FY 2014 compared to the amount owed by these taxpayers at the end of FY 2013.[5]

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[2] We were unable to determine the size of the household for taxpayers who claimed zero exemptions and had to eliminate them.

[3] This data analysis was based on the Department of Health and Human Services poverty guidelines for the 48 contiguous states; Hawaii and Alaska have different poverty guidelines that were not taken into consideration.

[4] Some of these FERDI military retirees could have received disability payments and would have been excluded from the FPLP based on the IRS proposal to exclude them. Additionally, some of these taxpayers could have had manual levies on their military retirement payments in FY 2014. However, given that we eliminated those taxpayers who did not file Tax Year 2013 tax returns (almost 50 percent), we believe this estimate remains conservative.

[5] This calculation did not include FPLP collections for newly designated FERDI taxpayers in FY 2014, FERDI taxpayers who did not have outstanding debts at the end of FY 2013 but became delinquent in FY 2014, or FERDI taxpayers who were in installment agreement arrangements at the end of FY 2013 and either defaulted or incurred new debts in FY 2014.

III. Determined if FERDI case inventory was properly worked and procedures were being followed.

A. Obtained the population of FERDI taxpayers cases with TDAs assigned to the Field and closed between July 1, 2012, and June 30, 2013, from the TIGTA Data Center Warehouse.[6]

1. Selected a statistically valid sample of 102 closed FERDI cases from a population of 3,656 FERDI taxpayers for review. We used stratified random sampling to categorize cases by currently not collectible and other (non–currently not collectible) closures and by aggregate TDA balances due. We discussed the sampling methodology with our contract statistician, who provided our stratified sampling plan. We replaced seven sample cases because they were closed before a revenue officer took any collection actions; therefore, a total of 109 cases were selected for review.

2. Conducted a case review to ensure that IRM procedures were effectively applied for each sample Field case.

B. Validated a random sample of 25 cases from the population obtained in Step III.A. by comparing data to the Integrated Data Retrieval System to ensure accuracy. We determined that the data were sufficiently reliable.

C. Discussed case review exception cases with IRS management for concurrence.

IV. Evaluated the impact of management's decision to eliminate the ACS scheduled inventory workdays. We analyzed the ACS FERDI open TDA case inventory to determine if any trends existed.

A. Obtained the population of open ACS FERDI TDA cases as of November 2012 and as of June 2014 from the TIGTA Data Center Warehouse.

B. Validated a random sample of 25 cases from each population by comparing specific data to the Integrated Data Retrieval System to ensure accuracy. We determined that the data were sufficiently reliable.

C. Compared both populations to identify any trends, such as the aging of cases in the ACS.

[6] We used this time period because the ACS stopped working scheduled inventory workdays in January 2013 and we wanted to make sure we included cases closed before and after that date. Cases are usually assigned to the ACS prior to being assigned to the Field.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRM policies and procedures for the FERDI program, FPLP procedures related to the FERDI program, ACS programming controls related to the FERDI program, and ACS and Field general collection procedures. We evaluated these controls by interviewing management and reviewing samples of FERDI cases worked by both the ACS and the Field.

Appendix II

Major Contributors to This Report

Nancy Nakamura, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
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Bridgid Shannon, Senior Auditor
Matthew Schimmel, Senior Audit Evaluator
Marcus Sloan, Auditor
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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
Director, Collection, Small Business/Self-Employed Division SE:S:C
Director, Collection Inventory Delivery, Small Business/Self-Employed Division SE:S:C:CID
Director, Headquarters Collection, Small Business/Self-Employed Division SE:S:C:HQ
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 Liaison: Commissioner, Small Business/Self-Employed Division SE:S

Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $18,323,510 forecast for a five-year period by expanding the use of the FPLP to more Federal payments (see page 7).

Methodology Used to Measure the Reported Benefit:

Military retirement payments are not excluded from the FPLP by Federal law, but the IRS does not currently include them in the program. To identify returns pertaining to military retirees who made sufficient income through military retirement payments to fit the criteria for FPLP levies if the IRS changed this practice, we performed the following calculations.

From a population of 93,540 military retiree taxpayers identified as FERDI taxpayers by the IRS at the end of FY 2013, we identified 48,339 who had filed a Tax Year 2013 return as of October 15, 2014.[1] We then eliminated 59 taxpayers from the population who claimed an exemption amount of zero,[2] resulting in a population of 48,280 military retiree FERDI taxpayers. Using the Tax Year 2013 adjusted gross income and number of exemptions claimed for each taxpayer, we calculated the number of taxpayer returns that were below 250 percent of the Department of Health and Human Services Calendar Year 2014 poverty guidelines. While 15,968 FERDI military retiree returns had reported income below 250 percent of the poverty guidelines, we identified 32,312 FERDI military retiree returns with reported income above 250 percent of the poverty guidelines (who therefore made sufficient income to be subject to levy).

We then determined that the 32,312 military retiree returns belonged to 32,064 unique military retiree taxpayers. If included in the FPLP, 32,064 FERDI military retirees identified at the end

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[1] FERDI taxpayers with balance due assessments are subject to FPLP levies regardless of whether they filed a Tax Year 2013 tax return. We did not include taxpayers who had not filed a return because we could not determine if their financial condition was below 250 percent of the poverty guidelines. In addition, we could not exclude FERDI military retirees who could have received disability payments in FY 2013 because the IRS was unable to provide us with this information.

[2] We were unable to determine the size of the household for taxpayers who claimed zero exemptions and had to eliminate them.

of FY 2013 could have been subject to FPLP levies on their military retirement payments in FY 2014.[3] These taxpayers owed a total of $426,273,864 as of the end of FY 2013. The average military retirement pay for delinquent retirees was $21,395 in FY 2013. We multiplied this average by 15 percent (the amount that can be levied through the FPLP) to determine the maximum amount that could have been collected from each of these taxpayers by the FPLP in FY 2014 ($3,209). We compared this amount to each taxpayer's total outstanding balance due as of the end of FY 2013. We totaled the amount that could have been collected from each taxpayer using the smaller of either $3,209 or the taxpayer's total balance due, for a total of $53,242,197. We calculated the difference between the total amount the IRS actually collected from each of the taxpayers in FY 2014 ($49,577,495)[4] and the amount that could have been collected from each taxpayer if included in the FPLP ($53,242,197). We then totaled the differences between the amount actually collected and the amount that could have been collected from the FPLP in order to determine if there would be an increase or a decrease in revenue. As a result, we estimate that inclusion of military retirement payments in the FPLP in FY 2014 could have potentially added $3,664,702 to the amount collected. We multiplied the one-year projection ($3,664,702) by five to obtain a five-year forecast[5] of $18,323,510.

[3] Some of these FERDI military retirees could have received disability payments and would have been excluded from the FPLP based on the IRS proposal to exclude them. Additionally, some of these taxpayers could have had manual levies on their military retirement payments in FY 2014. However, given that we eliminated those taxpayers who did not file Tax Year 2013 tax returns (almost 50 percent), we believe this estimate remains conservative. See footnote 1 of Appendix IV for more details.

[4] This amount was calculated by identifying the subsequent payments that posted to the corresponding taxpayers' modules during FY 2014. It does not take into account any payment reversals.

[5] The five-year forecast is based on multiplying the base year by five and assumes that economic conditions and tax laws do not change, as well as other considerations such as the number of FERDI military retirees, the number of FERDI military retirees with disability payments, and the amount of tax liability FERDI military retirees owed over the next five-year period.

Appendix V

Federal Payments Subject to the Federal Payment Levy Program

Type of Federal Payment	Date Included in the FPLP
Civil Service Annuities	July 2000
Employee Travel Payments	May 2001
Contractor/Vendor Payments	November 2005
Contractor/Vendor Payments (U.S. Postal Service)	June 2009
Employee Salary	January 2002
Social Security Administration Title II	February 2002
Centers for Medicare and Medicaid Services Medicare Provider/Supplier Payments	October 2008
Railroad Retirement Board Benefit Payments	July 2011

Source: IRS IRM Exhibit 5.19.9-1 (Oct. 1, 2010).

Appendix VI

Federal Payment Levy Program Exclusion Criteria

When one or more of the following conditions exists in any tax module of a taxpayer, the taxpayer will be either systemically reversed out of, or not selected for, the FPLP.[1]

Military deferment or combat zone
Active criminal investigation
Offer in compromise pending or approved
Duplicate return freeze
Currently not collectible – unable to pay
Currently not collectible – deceased
Deceased taxpayer
Pending installment agreement prior to an FPLP levy only
Current or approved installment agreement
Collateral agreement pending or approved
Open disaster zone case
Bankruptcy/litigation
Collection Due Process on filed lien or intent to levy with Appeals Office
Taxpayer claim or adjustment to return pending
Taxpayer is a Federal Government agency
Taxpayer killed or taken hostage in terrorist action
Collection Due Process request (levy or lien) not yet assigned to Appeals

Source: IRS IRM Exhibit 5.19.9-3 (Oct. 1, 2010).

[1] In addition, military pay and military retirement pay are excluded from the FPLP, but other Federal income sources for those taxpayers are included.

When one or more of the following conditions exists in any tax module of a taxpayer, *that tax module* will either be systemically reversed out of, or not selected for, the FPLP.

Modules within three months of the Collection Statute Expiration Date for which there is no FPLP levy or if the FPLP levy exists on Office of Personnel Management or Social Security Administration payments
Modules within one month of the Collection Statute Expiration Date for which an FPLP levy exists on any Federal payment source except an Office of Personnel Management or Social Security Administration payments
Blocked from the FPLP
Innocent spouse module
Injured spouse module
Taxpayer files Collection Due Process request (levies or liens) and is not yet assigned to Appeals
Amended return claim pending
Limited Liability Company Disregarded Entity – Employment tax periods prior to January 2009 will not be selected into or will be reversed out of the FPLP

Source: IRS IRM Exhibit 5.19.9-3 (Oct. 1, 2010).

The following *entity or module* will be systemically blocked from the FPLP but may be manually unblocked to be included into the FPLP:

Taxpayer is a State, local, or Indian tribal government entity
Certain modules in certain ACS inventories are subsequently systemically unblocked

Source: IRS IRM Exhibit 5.19.9-3 (Oct. 1, 2010).

Appendix VII

Glossary of Terms

Term	Definition
Adjusted Gross Income	As defined by Section 62 of the I.R.C., in the case of an individual, means gross income minus deductions allowed by this chapter.
Automated Collection System	A telephone contact system that maintains taxpayer's balance due accounts and return delinquency investigations through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Balance Due Module	Occurs when the taxpayer has an outstanding (unpaid) liability for taxes, penalties, or interest.
Bankruptcy	A legal proceeding administered by the U.S. bankruptcy courts and governed by Title 11 of the United States Code, commonly referred to as the Bankruptcy Code. The Bankruptcy Code establishes the law under which bankruptcy proceedings are commenced, administered, and closed.
Collection Activity Reports	A group of reports providing management information to Field and Headquarters Collection officials. The reports reflect activity associated with TDA and TDA issuances and installment agreements, including issuances, dispositions, and inventories as well as Collection-related payments.
Collection Queue	An automated holding file for unassigned inventory of delinquent cases for which employees are unable to be immediately assigned for contact due to limited resources.
Collection Statute Expiration Date	The expiration of the time period established by law to collect taxes. It is normally 10 years from the date of the tax assessment.
Currently Not Collectible	Tax accounts are reported as currently uncollectible when the taxpayer has no income or assets, which are, by law, typically subject to levy. Accounts can be declared currently not collectible for numerous reasons including bankruptcy, hardship, unable to locate or contact the taxpayer, and decedent taxpayer.

Data Center Warehouse	An online database maintained by TIGTA. The Data Center Warehouse pulls data from IRS system resources, such as IRS Collection files and IRS Examination files, for TIGTA access.
Delinquent	A tax account for which part or the entire amount owed to the IRS is overdue. These amounts can represent quarterly taxes such as employment taxes or annual taxes for unemployment taxes that are due once per year.
Department of Health and Human Services – Poverty Guidelines	A simplified version of the Federal poverty thresholds used for administrative purposes—for instance, determining financial eligibility for certain Federal programs.
Federal Employee/Retiree Delinquency Initiative	Program that promotes Federal tax compliance among current and retired Federal employees. FERDI taxpayers are identified by matching delinquent taxpayer records against personnel records maintained by the U.S. Office of Personnel Management, the Department of Defense, and the U.S. Postal Service.
Federal Payment Levy Program	The FPLP is an automated levy program the IRS has implemented with the Department of the Treasury's Financial Management Service [now the BFS]. As Federal employees or retirees, FERDI taxpayers receive Federal payments that are subject to a 15 percent continuous levy through the FPLP.
Field Collection (Field)	The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time in smaller, more manageable payments.
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 operations manual for employees of the IRS, it contains the policies, procedures, instructions, guidelines, and delegations of authority that direct the operation for all divisions and functions of the IRS. Topics include tax administration, personnel, and office management.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.

Lien	An encumbrance on property or rights to property as security for outstanding taxes.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
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.
Notice	Computer-generated messages resulting from an analysis of the taxpayer's account on the Master File. These include notices of assessments of tax, adjustments, balances due, or overpayments that are refunded to taxpayers.
Revenue Officer	Employees in the Field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the ACS.
Small Business/Self-Employed Division	The IRS organization that services self-employed taxpayers and small businesses by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable tax laws.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Delinquency Investigation	An unfiled tax return(s) for a taxpayer. One taxpayer delinquency investigation is issued for each delinquent tax period of a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer. A separate TDA exists for each delinquent tax period of a taxpayer.

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

JUN 01 2015

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved with the Collection of Revenue; However, Some Program Improvements Can Be Made (Audit #201330013)

Thank you for the opportunity to review the subject draft report which evaluated whether the IRS has adequate controls and procedures in place to properly identify and resolve balance due delinquency accounts among federal employees and retirees. The IRS developed the Federal Employee/Retiree Delinquency Initiative (FERDI) program in 1993 to promote federal tax compliance among current and retired federal employees. The program incorporates the purpose and intent of Office of Government Ethics regulations that address the responsibility of federal employees to "satisfy in good faith their obligations as citizens, including all just financial obligations, especially those such as federal, state or local taxes that are imposed by law".

As you noted in your report, federal employees and retirees have fewer instances of tax delinquency than the general population of taxpayers. You reported that, on average, from FY 2010 – 2014, 3.1 percent of federal employees and retirees were delinquent on taxes as compared to 8.4 percent of the general population of taxpayers. However, when federal employees and retirees are delinquent with their tax obligations, we use a variety of collection tools to work and resolve cases. Many of these cases are closed fully paid.

Notwithstanding the success of the FERDI program, we are working with the National Taxpayer Advocate, the Bureau of Fiscal Service and other internal and external stakeholders to improve the FERDI program and protect taxpayer rights. For example, we automated our FERDI processing, making the process more efficient and effective. We have looked, and will continue to look, at other federal payments that we may be able to include in the Federal Payment Levy Program (FPLP). And, as discussed in the attachment, we agree with your recommendation and will expand FPLP to include military retirement payments.

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We agree with your computation of the measurable benefit. However, the benefit is dependent on when Defense Finance and Accounting Service and Bureau of Fiscal Services can implement the requested programming changes to expand FPLP to include military retirement payments. Until we know when these programming changes can be implemented, we do not know whether this benefit will be achieved.

Attached is a detailed response with our corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Scott Prentky, Director, Collection, at (954) 423-7318.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection, Small Business/Self-Employed Division should continue identifying and expanding the use of the FPLP to other Federal payments, including military retirement payments.

CORRECTIVE ACTION:
We will ask the Defense Finance and Accounting Service and Bureau of Fiscal Services to make the programming changes necessary to expand FPLP to include military retirement payments.

IMPLEMENTATION DATE:
January 15, 2016

RESPONSIBLE OFFICIAL:
Director, Collection Inventory Delivery and Selection, Small Business/Self-Employed Division

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

RECOMMENDATION 2:
The Director, Collection, Small Business/Self-Employed Division, should consider applying the same Automated Collection System (ACS) systemic levy process used for the general population to delinquent FERDI taxpayers after the FPLP levy has been attempted.

CORRECTIVE ACTION:
The majority of the delinquent FERDI taxpayers who are subject to manual ACS levy processing are taxpayers who are receiving military retirement payments and are not subject to FPLP. Because we are expanding FPLP to include military retirement payments, processing delinquent FERDI taxpayers through ACS systemically will not be an effective use of our limited resources.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A