United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

November 1999

IRS SEIZURES

Limited Progress in Eliminating Asset Management Control Weaknesses

GAO

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GAO/GGD-00-5

United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-282991

November 29, 1999

The Honorable Amo Houghton
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This responds to your request for a report on whether IRS has made progress in eliminating internal control weaknesses in the management of property seized from delinquent taxpayers and sold by IRS to pay down their tax debts.

In 1992 testimony before your Subcommittee,[1] we reported that IRS' controls over seized property were inadequate to protect against theft, waste, and misuse; and controls over sales practices did not necessarily assure the highest sales price at the lowest cost. Additionally, we commented that the asset management and sales functions could best be done by parties who specialize in those functions rather than as additional duties assigned to revenue officers, whose primary responsibility is to collect unpaid taxes.

Since then, Congress enacted the IRS Restructuring and Reform Act of 1998,[2] which among other things, required IRS to remove revenue officers from any participation in asset sales by July 22, 2000. The act also encouraged IRS to contract out this function.

Accordingly, as agreed with the Subcommittee, this report describes IRS' progress in (1) implementing the Restructuring Act's mandate to remove revenue officers from the asset sale function and (2) addressing other internal control weaknesses identified in our 1992 testimony. Also, as agreed with the Subcommittee, we did the work for this report as part of a broader review of IRS seizure actions already being done for the Senate Committee on Finance. A separate report on that review is also being issued at this time: IRS Seizures: Needed for Compliance but Processes for Protecting Taxpayer Rights Have Some Weaknesses (GAO/GGD-00-4, Nov.

[1]See Tax Administration: IRS' Management of Seized Assets (GAO/T-GGD-92-65, Sept. 24, 1992).

[2]P.L. 105-206, July 22, 1998.

29, 1999). Where appropriate, we make reference to this overall report as a source of additional details.

Results in Brief

As of October 1999, IRS had not finalized its plans for removing revenue officers from its process for selling seized assets. After the passage of the Restructuring Act, IRS organized a study group to consider establishing a specialist position for both managing and disposing of assets after they were seized by revenue officers. The group has been meeting and is considering the scope of the new position. However, the scope of the position, including the extent to which private sector contractors may be used to manage and sell seized property; a position description; or procedures for governing the specialists actions, has not been finalized.

Our review of a representative sample of 1997 nationwide seizure cases, selected as part of our overall review of weaknesses in IRS' seizure processes, showed that the fundamental internal control weaknesses we identified in 1992 remained. More specifically, our review of case files showed the following.

- Similar to 1992, sufficiently complete information to establish accountability over assets (e.g., asset condition and identity information, such as model number) was not always recorded by revenue officers when assets were seized.
- As in 1992, IRS' security arrangements for seized assets were, in some instances, minimal or nonexistent.
- Similar to 1992, IRS' sales practices provided little assurance that the maximum possible sales proceeds were achieved.
- Although installed after 1992, IRS' automated seizure information system still did not provide IRS management with information useful for establishing accountability over seized assets or monitoring the management and sales of the assets.

Regardless of the results of IRS' decisions on contracting out all or part of the asset management and sales function, IRS will remain responsible for assuring that assets are appropriately managed and sold (e.g., maintaining a system of controls sufficient to protect against theft, waste, and misuse and to assure the highest sales price at the lowest cost). In our overall report, we made recommendations for dealing with these asset management and sales weaknesses that we first identified in 1992. Those recommendations are repeated at the end of this report.

Background

IRS' policy has long provided that, for taxpayers who are unwilling to pay their tax debts in a manner that is commensurate with their ability to pay, IRS revenue officers were to initiate enforced collection actions that could culminate in the seizure of their property. In fiscal year 1997, IRS revenue officers seized property from about 8,300 taxpayers who owed the federal government an estimated $1 billion in unpaid taxes[3].

When we first reviewed IRS' management of seized assets in 1992, we concluded that IRS' controls over seized assets were not adequate to protect against theft, waste, and misuse nor to assure that the highest sales prices at the lowest cost were obtained. These conclusions were based on the following control weaknesses.

- <u>Little accountability.</u> We found that IRS did not (1) keep up-to-date records on property seized, (2) obtain receipts to document asset custody and storage location, (3) record physical condition of the property seized, or (4) conduct physical inventories of assets-on-hand to verify inventory records or check on the assets.
- <u>Inadequate security.</u> We found that some seized assets had been stolen or were missing, and in many cases, the value of the property was not documented in the files. We also reported that by not documenting the condition and value of seized assets, IRS left itself open to claims of damage.
- <u>Sales not yielding highest price at lowest cost.</u> We found that IRS could have attracted more buyers, and thus generated higher sales prices by holding consolidated sales of seized assets. Consolidated sales would also have allowed IRS to reduce sales costs, such as advertising. We also found that IRS did not always arrange for the lowest cost storage of assets.
- <u>Little oversight.</u> We found that IRS did not know the total amount of property in its possession because it lacked an adequate information system. Moreover, IRS management knew very little about the assets seized, including the types of assets seized, the value or condition of those assets, or where the assets were located.

[3]As noted in the Scope and Methodology section of this report, the results of our analyses of a random sample of taxpayers whose assets were seized by IRS are presented as estimates within certain intervals computed at the 95-percent confidence level. The estimates are cited in the report text and the confidence intervals in footnotes. For example, regarding the amount of taxes owed by these taxpayers, we can be 95-percent confident that the interval of $1.1 billion plus or minus about $300 million contains the actual value of taxes owed. The format adopted for reporting confidence intervals in this report follows: 95-percent confidence interval: $800 million to $1.4 billion.

In conclusion, we commented that the asset management and sales functions could best be done by parties who specialize in those functions, such as other agencies or contractors, rather than as additional duties assigned to revenue officers, whose primary responsibility was to collect unpaid taxes. We also said that IRS needed far better information to oversee the management and sales of seized assets.

Scope and Methodology

To determine IRS' progress in removing revenue officers from its process for selling seized assets, we interviewed IRS National and district officials concerning efforts to remove revenue officers from asset sales. We also reviewed the applicable provisions of the Restructuring Act, IRS interpretations of the act's requirements, IRS procedures for selling seized assets, and seizure case files.

To determine IRS' progress in correcting internal control weaknesses, we discussed the 1992 findings with IRS National and district officials. We reviewed statutory and procedural requirements for conducting seizures and sales of taxpayer assets and examined collection case files to assess how those procedures were carried out.

To make our case file review, we first selected a random sample of taxpayers who had property seized by IRS because of unpaid taxes. We selected the random sample from a population of about 8,300 taxpayers who had property seized by IRS in fiscal year 1997.[4] About 9,700 seizures were associated with these 8,300 taxpayers. This sample yielded sufficiently complete information on 115 taxpayers with a corresponding 139 seizures to evaluate IRS' management and control over assets seized. We followed procedures to express confidence in the precision of the results with a 95-percent confidence interval, separately computed for each estimate and reported as footnotes to the text of this report.

Second, we randomly selected 16 cases with assets still in IRS' possession from a population of 76 cases in 4 IRS district offices. Because this phase of our review involved examining the seized assets, possibly stored hundreds of miles from a district office, and reviewing the case file with the revenue officer in charge of the case, we established a maximum travel range of about 100 miles from our work locations in making our random selections.

[4]The random sample of seizure cases was chosen from 1997 because it was the most recent year of closed collection case files that would have allowed sufficient time to elapse so that (1) case file information would be available on the disposition of the assets seized and (2) case files would be available to us at the time we started our case file review in late 1998. This random sample is the same sample used to prepare our report to the Senate Committee on Finance.

Our work was done principally in IRS district offices located in Atlanta, GA; Chicago, IL; St. Louis, MO; Oakland, CA; and the IRS National Office in Washington, D.C. We did our work between January 1998 and August 1999 in accordance with generally accepted government auditing standards.

We obtained written comments from IRS on a draft of this report. We have summarized those comments in this letter and reprinted the written comments, in entirety, in appendix I.

IRS Has Not Finalized Plans on How to Remove Revenue Officers From Asset Sales

As of October 1999, IRS had not finalized its plans for removing revenue officers from any participation in selling seized assets. As a preliminary step to implement the Restructuring Act mandate, IRS collection managers asked IRS Chief Counsel for a legal interpretation of the point at which revenue officer involvement in a seized asset sale should end. Chief Counsel concluded that many activities that take place before the actual sale, such as the determination of the minimum price that IRS would accept for an asset, are "critical" to the sale of an asset and should be considered as "involved" in the sale.

Accordingly, Chief Counsel concluded in its July 1999 interpretation that revenue officer involvement should essentially end with the act of seizing a taxpayer's assets and may begin again after the sale of the assets has been completed.[5] Chief Counsel also commented that an IRS study group would have the best perspective to structure any new IRS position related to asset sales.

Using Chief Counsel's interpretation as a starting point, IRS convened a study group of IRS staff and asset management and sales specialists from other federal agencies. The group met in October 1999 to discuss issues related to removing revenue officers from asset sales and structuring an IRS asset management and sales specialist position. As part of its discussions, the group recognized that any decisions reached would require consideration of a number of issues, including the following.

- Seizure workload. Since enactment of the Restructuring Act, the number of IRS asset seizures has dropped from about 10,000 per year to about 200 for 1999. As discussed in our overall report, IRS expects the number of seizures to rebound as IRS staff become more familiar with the act's collection provisions. Considering the uncertainty regarding the workload

[5]Specifically, Chief Counsel ". . . concluded that revenue officer involvement should cease after notice of seizure has been provided to the taxpayer as required by section 6335(a) and may begin again, at the earliest, after the sale has been completed. In addition, [Chief Counsel] strongly advise[d] that [IRS] consider removing revenue officers from post-sale matters as well."

for a specialist position, the group discussed issues related to ensuring that the number and location of specialist staff are commensurate with the workload.

- Allocation of duties and responsibilities. Although the Restructuring Act mandates that revenue officers are to be removed from any participation in sales, the group considered whether a revenue officer or other IRS employee, such as the specialist, should be present at all asset sales in order to stop a sale from being consummated, if appropriate. For example, a sale should be stopped if a taxpayer pays the tax debt or declares bankruptcy—currently the responsibility of the revenue officers involved in the seizures. The group also considered how the requirement for removing revenue officers from sales would affect supervisory responsibilities. Since many supervisory employees of the collection function are revenue officers, the group considered whether it would be permissible for those collection officials to supervise the specialists.
- Contracting out. The group considered the circumstances under which IRS should use private sector contractors or other government agencies to manage and sell assets. One option was for the specialists to determine, on a case-by-case basis, whether it would be better for the specialist to manage or sell the assets, assign the functions somewhere else in IRS, or contract out the functions.

As of the end of October 1999, IRS' Collection Division management was continuing to review options for structuring the specialist position.

Little Progress in Addressing Control Weaknesses Identified in 1992

In our current review of IRS' seized asset management and sales processes, we found little improvement from 1992 conditions in the 1997 seizures we reviewed. As in 1992, we found (1) little accountability over seized assets, (2) little or no security for some assets, (3) little assurance that IRS' sales produced maximum proceeds, and (4) little useful management information for monitoring seized assets. The following summarizes the problems found. Our overall report on weaknesses in IRS' seizure processes contains additional details.

IRS' Controls Over Seized Assets Not Sufficient to Assure Accountability

With respect to establishing accountability over seized assets, little had changed from our review in 1992. As detailed in our overall report on weaknesses in IRS' seizure processes, asset control information documented by revenue officers in their seizure case files was not as comprehensive as the control information specified by federal financial management guidelines.[6] Among other details, the guidelines explain that information should be sufficiently specific to allow the independent verification that each asset exists and that the recorded physical condition, geographic location, and asset value are accurate.

We estimate, based on our review of sampled seizure cases, that revenue officers in preparing inventory documents omitted some information on the

- identity of assets seized in about 25 percent[7] of seizure cases (i.e., asset descriptions used by revenue officers were not detailed enough, such as by identifying make, model, or serial number, to differentiate the items seized from other like items);
- quantity of assets seized in about 15 percent[8] of seizure cases;
- condition of assets seized in about 74 percent[9] of seizure cases;
- value of assets seized in about 12 percent[10] of seizure cases;
- location of assets seized in about 10 percent[11] of seizure cases; and
- custodian of assets seized in about 47 percent[12] of seizure cases.

Moreover, we estimate that revenue officers did not obtain receipts in 51 percent[13] of the cases when the revenue officer file indicated that the seized assets were stored at contractor locations. Also, IRS did not make periodic physical inventories of assets in the possession of revenue officers or contractors.

The omission of detailed information on assets (such as asset identity, quantity, or condition) reduces accountability. Even if IRS made physical

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[6]Joint Financial Management Improvement Program, Federal Financial Management System Requirements, Seized/Forfeited Asset System Requirements (FFMRS-4, 3/93). The program established uniform requirements for seized property systems operated by federal agencies, such as documenting the type of asset, value, physical condition, geographic location, and responsible custodian. The guidelines indicate that agencies may develop additional requirements as necessary to support unique mission requirements.

[7]95-percent confidence interval: 18 to 32 percent.

[8]95-percent confidence interval: 8 to 21 percent.

[9]95-percent confidence interval: 65 to 82 percent.

[10]95-percent confidence interval: 6 to 17 percent.

[11]95-percent confidence interval: 6 to 15 percent.

[12]95-percent confidence interval: 36 to 58 percent.

[13]95-percent confidence interval: 35 to 66 percent.

inventories, without such information, there would be little basis for determining that all assets seized were still under IRS or third-party custody or appropriately protected against loss or deterioration.

Little Assurance Some Assets Are Protected Against Loss

Regarding asset protection, little has changed from our review in 1992. As detailed in our overall report on weaknesses in IRS' seizure processes, we found that an estimated 12 percent[14] of seizure cases involved assets that required safeguards but the revenue officers' files did not indicate security arrangements were made. For example, in one case, the revenue officer file contained no documentation on where a taxpayer's $17,000 vehicle was stored or how the vehicle was safeguarded. In another case, the revenue officer seized personal property—jewelry, furniture, and clothes valued at about $10,000—but did not indicate how the assets were protected against loss or damage.

Although we only found a few seizures that resulted in loss or alleged loss or damage to property, we could not determine the magnitude of the loss nor who bore responsibility for the loss because of limited documentation in the revenue officers' files. For example, a piece of seized artwork was damaged while a storage company was moving the assets. The revenue officer did not document the dollar amount of the damage or who was liable for the loss. In another instance, a taxpayer complained that various personal items located in seized real estate were missing. The revenue officer's file provided no further information on the amount of the alleged loss.

Sales Practices Provide Little Assurance of Maximum Proceeds

Similar to our 1992 review, we found that IRS' sales practices provided little assurance that the maximum possible sales proceeds were achieved. As detailed in our overall report, this is attributable to two reasons. First, many assets were sold without competitive bidding, and second, IRS' minimum acceptable price for an asset was often established in an arbitrary manner.

We estimate that about 51 percent[15] of the sales attracted no more than one bidder, and only 42 percent[16] of the cases sold for more than the IRS-established minimum price.

[14]95-percent confidence interval: 6 to 17 percent.

[15]95-percent confidence interval: 36 to 67 percent.

[16]95-percent confidence interval: 29 to 56 percent.

In general, IRS did not do much to attract bidders. IRS did not hold consolidated asset sales that might attract more prospective buyers. Rather, revenue officers held separate sales for property seized from different taxpayers, mostly during weekday work hours, with minimal advertising (e.g., posting in two public places and a legal notice in a local paper). IRS seldom used professional auctioneers or commercial markets that specialize in selling pre-owned assets.

In setting a minimum price, revenue officers followed a formula that provided for reducing the assets' fair market value by up to 40 percent.

Our assessment of the minimum price-setting formula, the revenue officers' use of the formula, and exceptions to the formula, showed that minimum prices were often arbitrarily set.

- First, we found little documentation supporting revenue officer estimates of the fair market value of the assets seized—the starting point for computing the minimum acceptable price for the assets. We estimate that only about 4 percent[17] were based on professional appraisals and about 71 percent[18] of seizure case files contained no documentary evidence for the amounts recorded by the revenue officers. Moreover, as indicated by revenue officer file notations, about 35 percent[19] of the recorded values were set on the basis of revenue officer judgment.
- Second, we found instances where the recorded estimates of asset fair market value were not used as the starting point in setting the minimum price. For example, a revenue officer noted in the case file that, on checking courthouse records, the value of the seized property was about $93,000. In computing the minimum acceptable price for the property, however, the revenue officer used a value of $80,000 without explanation. Without appraisals, neither IRS nor we can be certain of the value of the taxpayer property.
- Third, we found little justification for the maximum percentage reduction allowed in the formula used to compute the minimum price. National Office officials responsible for program guidance advised us that they were not aware of the origins of the reductions. And while the guidance suggested that these were maximum reductions that needed to be

[17] 95-percent confidence interval: 1 to 9 percent.

[18] 95-percent confidence interval: 62 to 80 percent.

[19] 95-percent confidence interval: 26 to 45 percent.

supported, revenue officers used the maximum reduction an estimated 69 percent[20] of the time with little detailed justifications shown.

- Fourth, the percentage reductions used by the revenue officers did not necessarily reflect the different risks to buyers based on the type of asset. Often we found that revenue officers applied the same maximum reductions to both real property and personal property, yet the conditions associated with the sale of these assets varied substantially. For personal property, such as a car, ownership and control of the asset passed at sale. For real property, such as a taxpayer's residence, the taxpayer had 6 months to reclaim the asset after sale, and the purchaser usually did not have access to the property during the 6-month period.
- Fifth, IRS' policies limited the minimum price to no more than the taxpayer's tax liability plus the estimated expenses of seizure and sale. Under this policy, the minimum price could be set much lower than the formula's maximum percentage reduction would allow. In one case that we reviewed, use of the tax debt amounted to another 20 percent reduction below the formula-determined price.

Little Information Available to Management to Monitor Seized Asset Program

After 1992, IRS installed an automated system to inventory and monitor the property seized from delinquent taxpayers. However, the new system still did not provide IRS management with information useful for establishing accountability over seized assets or monitoring the management and sales of the assets as envisioned by federal financial management guidelines.[21] Moreover, the system was not Year 2000 compliant and will not be used beginning January 2000. The first phase of a replacement system, currently under development, will not become operational until about July 2000. In the interim, IRS will rely on an as-yet-unspecified paper-based tracking system.

As we detailed in our overall report on weaknesses in IRS' seizure processes, IRS' system to track seized assets did not include all the information set out by federal financial management guidelines, and the information it did contain was not always current or accurate. More specifically, the automated inventory system

- did not require the entry of the full description of assets as recorded by revenue officers in their case files;

[20] 95-percent confidence interval: 59 to 78 percent.

[21] Federal financial management guidelines, in addition to specifying the types of information to be included in an inventory control system, also stated that the system should generate periodic reports that provide performance results so that management can monitor areas of concern, evaluate results, and take appropriate corrective action when necessary.

- did not provide data entry fields for capturing information on asset condition or custody;
- did not provide a data entry field for theft, loss, and damage expenses;
- did not consistently capture information on the value of the assets—in some instances valuing the assets at the amount of the taxpayer's delinquency and in others, at the value of the taxpayer's ownership interest in the assets;
- did not always coincide with the revenue officers' files or the actual property on hand (in comparing system records, revenue officers' files, and our physical inspection of assets involving 16 seizures in 4 IRS district offices, we found discrepancies in 15 seizures); and
- was not required to be updated in a timely manner.

Given the above limitations, the system could produce little useful oversight information that management could use to monitor seized assets. Moreover, the system had limited information-reporting capabilities. It did not even have the capability to produce a report on the total inventory of seized assets held by IRS.

IRS is in the process of developing a replacement information system, largely because the existing system was not Year 2000 compliant. Because of Year 2000 complications, IRS will cease using the existing system by January 2000 but does not plan to have a new system in place at that time. In designing the new system, for an estimated implementation in July 2000, IRS took into consideration the financial management guidelines and input from us. While IRS has not completed its system design work, IRS officials told us that the July implementation will not provide for information reporting beyond the limited capabilities of the existing system. They also said that any enhancements to these capabilities would follow in later phases of development of the system.

Conclusion

Regardless of whether seized asset sales are done "in-house" by an IRS specialist or contracted out to a private concern, IRS must have controls that provide for accountability over seized assets, security for assets, sales practices that protect the government's and taxpayers' interests, and information to allow for management oversight. Without such controls, taxpayers who have their assets seized are at risk of having their interests suffer—for example, from asset sales that fail to maximize net proceeds. To this end, we have made a number of recommendations in our overall report. This report summarizes the information supporting those recommendations.

Recommendations

This report repeats the recommendations detailed in our overall report. The recommendations are as follows.

To improve IRS' process for controlling assets after seizure, we recommend that the Commissioner fully implement federal financial management guidelines to include

- ensuring that revenue officers document basic asset control information, including detailed asset identity descriptions, asset condition, and custody information;
- ensuring that basic control information is entered in a timely manner and included in the revised automated inventory control system;
- ensuring asset security and accountability through scrutiny of decisions regarding security and periodic reconciliation of inventory records to assets-on-hand (periodic physical inventories); and
- requiring revenue officers to record and account for all theft, loss, and damage expenses of each asset and document efforts to obtain reimbursement for the expenses in collection case files.

To strengthen the sales process for assuring that the highest prices are obtained from seized asset sales, we recommend that the Commissioner

- develop guidelines for establishing minimum asset prices to preclude the use of arbitrary percentage reductions or the amount of the delinquency as the minimum price and
- take the steps necessary to promote reasonable competition among potential buyers during asset sales.

To strengthen oversight of seizure activities, we recommend that the Commissioner establish a method for providing IRS senior managers with useful information to monitor the use of seizure authority, including the quality of asset management and disposal activities.

Agency Comments and Our Evaluation

In written comments on a draft of this report, IRS agreed with the report's findings and said it was working to address them. More specifically, IRS said that it needed to strengthen its requirements for documenting the property seized and its process for marketing assets. IRS also noted that, as discussed in our overall report, certain conditions associated with the sale of seized assets (e.g., sale of assets in "where is" and "as is" condition) may depress the price at which the assets may be sold. Additionally, IRS acknowledged that, in the short term, it will not have an information system that will provide IRS management with all of the asset management information needed. But IRS said that it expects to expand the capabilities of the management information system so that, in the long term, IRS will have an automated system that will meet all of the federal financial management guidelines. For additional comments on individual recommendations, IRS referred to its response to our overall report. In those comments, IRS generally agreed with most of the recommendations but said it was impractical, at this time, to implement those associated with monitoring the quality of seizure decisionmaking and the results of seizures (see IRS Seizures: Needed for Compliance but Processes for Protecting Taxpayer Rights Have Some Weaknesses, (GAO/GGD-00-4, Nov. 29, 1999)).

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to Representative William J. Coyne, Ranking Minority Member, Subcommittee on Oversight, House Committee on Ways and Means; the Honorable Charles O. Rossotti, Commissioner of Internal Revenue; other interested congressional committees; and other interested parties. We will also make copies available upon request.

This work was done under the direction of Thomas M. Richards. Other major contributors are listed in appendix II. If you have any questions, you may contact me on (202) 512-9110.

Sincerely yours,

James R. White

James R. White
Director, Tax Policy
and Administration Issues

Comments From the Internal Revenue Service

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

COMMISSIONER

November 16, 1999

Mr. James R. White
Director, Tax Policy and Administration Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. White:

Thank you for the opportunity to review and comment on your recent draft report entitled "Internal Revenue Service (IRS) Seizures: Limited Progress in Eliminating Asset Management Control Weaknesses." We would like to assure you that we have identified many of the same concerns you raise in your findings and are working to address them. In our efforts to expeditiously respond to the deficiencies you identified in 1992, we selected an existing automated Collection reports system, the Automated Work Control System (AWCS), as the vehicle for carrying the seizure and sale information. We recognized that it did not immediately contain all of the desired information, but we believed that it could be further developed to meet these needs. We were, however, unable to upgrade the AWCS seizure and sale module to provide all needed information. We have used this experience, along with your input, to design a replacement system that will provide the required functionality, when fully developed. Because of its limitations, we have determined that AWCS does not warrant being made Year 2000 compliant and will be retired by December 31, 1999. This will leave us without automated report functionality until the process is built into the Integrated Collection System in July 2000.

The lack of accountability over seized assets cited in your report is caused, to some extent, by the limitations of AWCS. Another problem is the lack in uniformity of case documentation. We must strengthen the Internal Revenue Manual (IRM) requirements for documenting a number of items regarding seized property to be in conformance with federal financial management guidelines. However, due to the nature of seized assets there may be some remaining instances where we are unable to determine a serial or model number of an item when the identifying plate has been lost during use or covered with a substance which cannot be removed and makes it unreadable. In some cases, the taxpayer redeems the property immediately after seizure and only a preliminary inventory is ever completed. The detailed inventory, which would have been required if we retained the assets for sale, is not required and never completed.

Since the report stated that only a few cases were found where there was a loss or damage to taxpayer's property while it was in our possession, we believe that the problem is more one of a failure to document, rather than a failure to provide proper security. IRM 56(12)5.2(1), Protection During Period of Seizure, which was in effect for

2

seizures during the period under review, stated that only special actions requested to protect seized property will be noted in the Taxpayer Delinquent Account history. This could lead revenue officers to believe that routine security measures did not require documentation, and provided no guidance on what the special actions might be. The location of the seized property is to be noted on the Form 2433, Notice of Seizure, but there is no area available on the form to describe security measures. The proper place to note security measures would be the case history. In instances where real property is seized, we do not take physical possession and, generally, we do not need to secure the property.

We are currently working to improve the seizure and sale process, and feel these changes will improve the marketability of those assets that are sold. The plans for a Uniform Asset Disposal Mechanism (UADM) to be implemented by July 22, 2000, as mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98), should substantially improve our sale procedures. A specialist should provide considerably more expertise than a revenue officer who may conduct, on average, less than one sale each year. However, the UADM is no panacea. A number of issues that have limited the marketability and consequently, sale proceeds, remain. The lack of clear title is a sale price depressant as is the fact that the law strictly limits the amount of time that can elapse between the publication of the notice of sale and the sale date. Any process established as part of the UADM, even a contracted third party seller, must abide by these legal restrictions. The types of buyers interested in the assets we offer for sale are by nature looking for a bargain due to the risks and costs they incur. They purchase the taxpayer's interest in the property "where is" and "as is," without recourse. We can hope to achieve proceeds near fair market value only in rare instances.

Due to the decision to end the use of AWCS by December 31, 1999, we were faced with the need to get a replacement going as soon as possible. Unfortunately, this means our interim efforts are now going to a replacement system which does not supply all of the needed information. However, we intend to expand functionality in the future. The sharp reduction in seizure activity after passage of RRA 98 has left us, at this time, with minimal seized assets to monitor. Our long-term goal is to have an automated system that will meet all of the federal financial requirements.

The responses to recommendations in this report are contained in the response to "IRS Seizures: Needed for Compliance but Processes for Protecting Taxpayer Rights Have Some Weaknesses." We look forward to working with you in the future to improve the management of the IRS' seized assets.

Sincerely,

Bob Wenzel

Acting for Charles O. Rossotti

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Acknowledgments

In addition to those named above, Wendy Ahmed, Julie Cahalan, Sharon Caporale, Kevin Daly, Sally Gilley, Leon Green, Mary Jankowski, Joseph Jozefczyk, Stuart Kaufman, Ann Lee, Mary Jo Lewnard, John Mingus, George Quinn, Julie Scheinberg, Sidney Schwartz, Samuel Scrutchins, James Slaterback, Shellee Soliday, Clarence Tull, Margarita Vallazza, and Thomas Venezia made key contributions to this report.

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