

July 2001

TAX  
ADMINISTRATION

Millions of Dollars  
Could Be Collected If  
IRS Levied More  
Federal Payments



G A O

Accountability \* Integrity \* Reliability

---

# Contents

---

<b>Letter</b>		1
	Results in Brief	3
	Background	5
	IRS Could Recover at Least \$270 Million Annually From Delinquent Taxpayers Receiving USPS, DOD, and CMS Payments	6
	Some Payments Could Be Included in the Continuous Levy Program Sooner Than Others	10
	IRS Could Use Its General Levy Authority for USPS, DOD, and CMS Vendor Payments Until They Are Available to the Continuous Levy Program	15
	Conclusions	16
	Recommendations for Executive Action	17
	Agency Comments and Our Evaluation	18
<b>Appendix I</b>	<b>Objectives, Scope, and Methodology</b>	21
<b>Appendix II</b>	<b>Comments From the Internal Revenue Service</b>	23
<b>Appendix III</b>	<b>Comments From the Financial Management Service</b>	27
<b>Appendix IV</b>	<b>Comments From the Department of Defense</b>	30
<b>Appendix V</b>	<b>GAO Contacts and Staff Acknowledgments</b>	31
<b>Table</b>		
	Table 1: Potential Taxpayers Affected and Potential Annual Tax Recoveries	8





G A O

Accountability \* Integrity \* Reliability

United States General Accounting Office  
Washington, DC 20548

---

July 20, 2001

The Honorable William M. Thomas  
Chairman, Committee on Ways and Means  
House of Representatives

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

Federal agencies pay billions of dollars each year to thousands of taxpayers that owe delinquent federal taxes. The Department of the Treasury's Financial Management Service (FMS) makes payments on behalf of most agencies. However, more than \$900 billion in payments are disbursed directly by other federal agencies each year.<sup>1</sup> These payments are not currently subject to a tax levy<sup>2</sup> through the continuous federal tax levy program, which the Internal Revenue Service (IRS) operates in conjunction with FMS.<sup>3</sup>

Authorized under the Taxpayer Relief Act of 1997<sup>4</sup> the continuous levy program enables IRS to continuously levy up to 15 percent of certain federal payments made to delinquent taxpayers.<sup>5</sup> The program provides IRS with an automated process for serving tax levies and collecting delinquent taxes through FMS, which matches federal payment data against IRS' accounts receivable data in order to identify payments that IRS could levy. For payments disbursed by FMS, the amount to be levied

---

<sup>1</sup>Non-FMS disbursements are estimated based on our analysis of FMS financial information and represent unaudited data.

<sup>2</sup>A levy under Internal Revenue Code section 6331 is the legal process by which IRS orders a third party to turn over property in its possession that belongs to the delinquent taxpayer named in a notice of levy. Generally, a levy applies only to property possessed and obligations existing at the time of the levy. However, a continuous levy remains in effect from the date the levy is first made until the tax debt is fully paid or IRS releases the levy.

<sup>3</sup>In this report, we will refer to this program as the continuous levy program. IRS does levy some of the payments made by other federal agencies using its general levy authority under Internal Revenue Code section 6331.

<sup>4</sup>P.L. 105-34.

<sup>5</sup>See Internal Revenue Code section 6331(h).

---

and credited to IRS is deducted before FMS disburses the payment. For payments disbursed directly by other federal agencies, FMS would have to notify the respective payment agency to deduct the amount to be levied and credited to IRS before the agency disbursed the payment.

Over half of all non-FMS disbursed federal payments are made by the United States Postal Service (USPS); the Department of Defense (DOD); and the Centers for Medicare & Medicaid Services (CMS),<sup>6</sup> which disburses Medicare fee-for-service payments.<sup>7</sup> These particular payments constitute a large portion of non-FMS disbursed payments, and thus, you requested that we (1) determine the number of delinquent taxpayers receiving federal payments from USPS, DOD, and CMS that would be affected and the amount of tax debt that might be recovered if they were to be included in the continuous levy program; (2) determine whether these types of payments could be included in the continuous levy program and the timeframes for doing so; and (3) identify other actions that could be taken to enhance IRS' ability to levy federal payments to delinquent individuals and businesses that are not currently included in the continuous levy program.

To meet our objectives, we obtained and matched payments made by the three agencies to IRS' accounts receivable records; discussed whether and when these types of payments could be included in IRS' continuous levy program with IRS and FMS officials, as well as with officials from the three agencies and Medicare contractors; and discussed the general levy procedures with IRS officials and reviewed the related tax law governing these procedures. Our estimates of the tax debt that might be recovered are understated because Medicare contractors did not provide us with data on over 50 percent of the Medicare vendor payments made for the time period we reviewed. In addition, we were unable to match about \$3.4 billion in DOD vendor payments against IRS' accounts receivable data because the payment records did not contain a taxpayer identification

---

<sup>6</sup>In June 2001, the Health Care Financing Administration was renamed the Centers for Medicare and Medicaid Services.

<sup>7</sup>Fee-for-service payments are made to individuals and businesses, such as doctors, hospitals, and nursing homes that provide health care services to Medicare beneficiaries. In this report, we will refer to these payments as vendor payments.

---

number (TIN).<sup>8</sup> Our work was done between June 2000 and May 2001 in accordance with generally accepted government auditing standards. (App. I describes our overall objectives, scope, and methodology.)

---

## Results in Brief

About 70,400 individuals and businesses that received about \$1.9 billion in federal payments collectively from USPS, DOD, and CMS owed over \$1 billion in federal taxes as of June 30, 2000. We estimate that IRS could recover at least \$270 million annually in delinquent federal taxes if these payments were included in the continuous levy program. However, the amount of delinquent taxes recovered annually through this program could be somewhat lower because some taxpayers might make other arrangements with IRS to resolve their tax debts. We further estimate that an additional \$16 million could be recovered annually if IRS were to provide FMS with the different names vendors have used for tax purposes, such as prior business names, so that FMS could include them in the continuous levy program.

Whether federal payments made by USPS, DOD, and CMS could be included in the continuous levy program and, if so, when varied by agency and type of payment. FMS plans to receive and include USPS and DOD salary and wage payments, as well as military retirement payments, in the Treasury Offset Program within the next 3 years, thus making them available for continuous levy and enabling IRS to begin collecting about half of the \$270 million in potential annual tax recoveries mentioned earlier. Vendor payments could also be included in the continuous levy program, with the full range of USPS payments possibly included in less than a year; DOD payments possibly included within about 3 years; and CMS payments possibly included within about 5 years. However, with the exception of some DOD vendor payments, officials from FMS, IRS, and the three agencies have not discussed when and how all of these agencies' vendor payments could be included in the continuous levy program and whether practical options exist to include some portion of the vendor payments in the program before all such payments are available.

Although billions of dollars in vendor payments disbursed by USPS, DOD, and CMS are not scheduled to be included in the continuous levy program

---

<sup>8</sup>A TIN is a unique nine-digit identifier assigned to each individual and business that files tax returns. For individuals, the social security number assigned by the Social Security Administration serves as the TIN. For businesses, the employer identification number assigned by IRS serves as the TIN.

---

at this time, IRS does have general authority under the tax law to levy such payments by issuing a levy notice directly to the agency responsible for the payments. However, IRS does not have current information concerning these agencies' vendors, which IRS needs to identify levy sources, even though the agencies could provide IRS with such information.

To aid FMS in identifying vendor payments currently included in the continuous levy program made to vendors that owe federal taxes, as well as any future vendor payments that may be included in this program, we are recommending that IRS provide FMS with a file of the different names used by these vendors for tax purposes. Since it is likely to be years before the full range of USPS, DOD, and CMS vendor payments could practically be included in the continuous levy program, we are also recommending that IRS and FMS initiate discussions with the three payment agencies on a timetable for including all such payments in the program and on options for accelerating some portion of these agencies' payments. Finally, as an interim measure for enhancing IRS' ability to levy vendor payments directly through those agencies using its general levy authority, we are recommending that IRS work individually with DOD and CMS on ways for them to periodically provide IRS with current vendor information, thus enabling IRS to identify potential levy sources.

We obtained written comments on a draft of this report from the Commissioner of Internal Revenue (see app. II) and the Commissioner of the Financial Management Service (see app. III), which are discussed at the end of this report. The Commissioner of Internal Revenue generally agreed with our recommendations. The Commissioner of the Financial Management Service disagreed with our recommendation that FMS take the lead in initiating discussions with other agencies in an effort to include federal vendor payments in the continuous levy program, and we have revised the recommendation to reflect that IRS and FMS should jointly initiate such discussions.

We also received written comments from the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (see app. IV), and oral comments from a representative of the United States Postal Service, in which they generally agreed with our recommendations. In addition, we received technical comments from the Acting Deputy Administrator of the Centers for Medicare & Medicaid Services, in which he stressed that CMS vendor payments could not be included in the continuous levy program until a new CMS integrated accounting system is completed.

---

## Background

FMS receives payment records from and makes payments on behalf of most federal agencies. However, a number of federal agencies have their own disbursing authority. For example, USPS paid about \$42 billion in salary and benefits to almost 800,000 career employees in calendar year 1999, and entered into more than 47,000 contracts with vendors in calendar year 1998, totaling almost \$8 billion. DOD disbursed over \$295 billion in fiscal year 2000, including about \$150 billion in contractor and vendor payments and about \$100 billion in salary and retirement payments. In addition, Medicare contractors processed over 900 million fee-for-service claims during fiscal year 2000, totaling nearly \$175 billion.

In addition to disbursing payments for various federal agencies, FMS provides centralized debt collection services for most federal agencies. To aid in federal debt collection, FMS has in place the Treasury Offset Program, which uses a centralized database of delinquent debts that have been referred for offset against federal payments. This database includes federal nontax debts and federal tax debts, as well as state tax debts and child support debts. FMS currently matches federal tax refunds, federal retirement and vendor payments, and certain federal salary and social security benefit payments against its database of delinquent debts, and when a match of both TIN and name control<sup>9</sup> occurs, FMS offsets the payment, thereby reducing or eliminating the debt. FMS plans to include some non-FMS disbursed federal salary payments in the Treasury Offset Program in the latter half of 2001.

A provision included in the Taxpayer Relief Act of 1997 enhanced IRS' ability to collect delinquent federal tax debt by authorizing IRS to continuously levy up to 15 percent of certain federal payments made to delinquent taxpayers. FMS modified the Treasury Offset Program to enable IRS to electronically serve a tax levy to FMS once IRS has notified the delinquent taxpayer of the pending levy. In July 2000, IRS began adding tax debts to FMS' database of delinquent federal debts, thus initiating the continuous levy program. For this program, FMS compares federal payee information from agency payment records with IRS' accounts receivable records. When a match of both the TIN and name control occur, FMS informs IRS of the match and IRS then notifies the taxpayer of the pending

---

<sup>9</sup>The name control is the first four characters of an individual's last name or the first four characters of a business name.



---

tax levy.<sup>10</sup> If the taxpayer fails to make an effort to satisfy the tax debt within 30 days,<sup>11</sup> such as by payment in full or entering into an installment agreement, IRS will then instruct FMS to begin levying 15 percent of subsequent payments made to the taxpayer or the exact amount of tax owed if it is less than 15 percent of the next payment. For payments disbursed on behalf of other agencies, FMS deducts the amount to be levied before making the payment, and the levied amount is then credited to IRS.<sup>12</sup> In an April 2000 report, we estimated that IRS could potentially collect as much as \$478 million annually through this program.<sup>13</sup>

---

## IRS Could Recover at Least \$270 Million Annually From Delinquent Taxpayers Receiving USPS, DOD, and CMS Payments

Based on matching federal payments made by the agencies to IRS' accounts receivable data, we estimate that including payments disbursed by USPS, DOD, and CMS in the continuous levy program could result in recovering at least \$270 million annually from about 70,000 delinquent taxpayers. An additional \$16 million in delinquent taxes could be recovered annually from about 656 vendors if IRS were to provide FMS with the different names these vendors have used for tax purposes when FMS matches vendor payment data against IRS' accounts receivable data.

---

## The Number of Taxpayers Affected and Delinquent Taxes Recovered Annually Could Be Substantial

Our analysis of IRS' accounts receivable data as of June 30, 2000, showed that about 70,400 taxpayers received about \$1.9 billion in payments--about \$8.2 billion on an annualized basis--from either USPS, DOD, or CMS, and the TIN and name on their payment records exactly matched the TIN and name on IRS' accounts receivable records. These taxpayers owed over \$1 billion in delinquent taxes at the time they received these payments and

---

<sup>10</sup>According to IRS, if a taxpayer had already received notification of a pending tax levy before the FMS match process, IRS would then immediately serve the levy to FMS, and an additional notice would not be sent.

<sup>11</sup>For social security payments, a second notification letter is sent to taxpayers, and they will receive an additional 30 days before a levy is imposed.

<sup>12</sup>When levying payments disbursed directly by other federal agencies, such as USPS and DOD, FMS plans to identify the amount to be levied and to then notify the respective payment agency to deduct this amount from the payment before it is made to the payee.

<sup>13</sup>See *Tax Administration: IRS' Levy of Federal Payments Could Generate Millions of Dollars* (GAO/GGD-00-65, Apr. 7, 2000).

---

met IRS' criteria to be included in the continuous levy program.<sup>14</sup> As shown in table 1, we estimate that IRS could recover as much as \$277.5 million annually if these payments were included in the continuous levy program.

Almost half of the \$277.5 million in delinquent taxes that could be recovered would come from vendor payments. The rest would come from wage and salary payments to employees and retirement payments.

The amount of delinquent taxes recovered annually could be somewhat lower because some taxpayers might make other arrangements with IRS to resolve their tax debts once they receive a notice of levy. For example, in an effort to avoid a pending tax levy, some taxpayers might contact IRS to arrange to pay their delinquent tax in full or through entering into an installment agreement or submitting an offer-in-compromise.<sup>15</sup> However, such actions on the part of the taxpayer in response to the levy notice would be an added benefit of the program.

---

<sup>14</sup>To meet the program criteria, a tax delinquent account must include a valid TIN and must not be in one of several exclusion categories, such as under criminal investigation, bankruptcy, litigation, or a pending installment agreement, or classified as currently not collectible due to hardship.

<sup>15</sup>An offer-in-compromise is a taxpayer proposal to settle a tax debt for less than the amount owed.

**Table 1: Potential Taxpayers Affected and Potential Annual Tax Recoveries**

<b>Dollars in Millions</b>				
<b>Type of payment</b>	<b>Potential taxpayers affected</b>	<b>Delinquent tax liability</b>	<b>Potential annual federal payments<sup>a</sup></b>	<b>Potential annual tax recoveries<sup>b</sup></b>
USPS wages & salary	10,039	\$100.1	\$228.8	\$33.8
USPS vendor pay	417	18.3	263.6	4.3
<b>USPS total</b>	<b>10,456</b>	<b>\$118.4</b>	<b>\$492.4</b>	<b>\$38.1</b>
DOD military active duty pay	7,951	\$28.4	\$192.0	\$28.0
DOD civilian pay	6,758	75.0	166.4	24.6
DOD military retirement	28,209	405.2	374.4	55.7
DOD military reserve pay	12,114	81.5	27.6	4.1
DOD vendor pay	1,445	142.2	4,206.0	49.2
<b>DOD total</b>	<b>56,477</b>	<b>\$732.3</b>	<b>\$4,966.4</b>	<b>\$161.6</b>
CMS vendor pay	3,504	\$172.6	\$2,734.8	\$77.8
<b>CMS total</b>	<b>3,504</b>	<b>\$172.6</b>	<b>\$2,734.8</b>	<b>\$77.8</b>
<b>Overall total</b>	<b>70,437</b>	<b>\$1,023.3</b>	<b>\$8,193.6</b>	<b>\$277.5</b>

<sup>a</sup>Vendor payments were for the third quarter of fiscal year 2000; USPS wage and salary payments and DOD civilian payments were for one biweekly pay period in June 2000; and DOD military active duty, retirement, and reserve payments were for the month of June 2000. These payments totaled \$1,865.8 million. To annualize the potential federal payments we multiplied vendor payments by 4; USPS wage and salary payments and DOD civilian payments by 26; and DOD military active duty, retirement, and reserve payments by 12.

<sup>b</sup>To determine the amount that could be levied for each payment, we calculated either 15 percent of the payment amount or the actual amount of tax owed if it was less than 15 percent of the payment. To annualize the potential tax recoveries, we multiplied the amount of levied vendor payments by 4; the amount of levied USPS wage and salary payments and DOD civilian payments by 26; and the amount of levied DOD military active duty, retirement, and reserve payments by 12. The potential annual tax recoveries could vary depending on the extent to which the number of tax delinquent accounts that meet the program criteria either increase or decrease each year.

Source: GAO analysis of agency payment records and IRS' accounts receivable records.

Although the amount of delinquent taxes recovered could be somewhat lower, as noted earlier, our estimates of the amount of delinquent taxes that might be recovered are understated because we did not receive data for over 50 percent of the Medicare vendor payments made for the time period we reviewed. In addition, we were unable to match about \$3.4 billion in DOD vendor payments against IRS' accounts receivable data because DOD's payment records did not contain a TIN. According to DOD officials, DOD has recently increased its emphasis on requiring vendors to provide a TIN when registering to do business with DOD.

---

## Additional Delinquent Taxes Could Be Collected If FMS Had the Different Names Used by Vendors for Tax Purposes

Under procedures for vendor payments that are paid by FMS and currently subject to continuous levy, IRS' file of accounts receivable data provided to FMS includes only the most recent name a vendor has used for tax purposes. As a result, FMS' ability to exactly match the vendor name on payment records against IRS' tax debts is limited.

IRS already makes additional names for individual taxpayers included in its databases available to FMS for use in the existing continuous levy program. For example, if taxpayers change their name when they marry, the name used as a single person would be sent to FMS along with their married name. This is not the case for businesses. For vendor payments currently paid by FMS and thus included in the continuous levy program, if a business were to change its name on its federal tax return, IRS would provide FMS with the most current name in its records, but not the prior name.

When making our overall estimates of delinquent taxes that could be recovered if USPS, DOD, and CMS Medicare vendor payments were included in the continuous levy program, we determined the amount of additional revenue that could be raised if IRS changed its policy and provided FMS with all of the names it has for vendors. In addition to the 70,400 taxpayers whose TIN and name on the payment records exactly matched the TIN and name on IRS' accounts receivable records, we found 1,228 instances in which the TIN on the vendor payment records exactly matched the TIN on IRS' accounts receivable records, but the name on the payment records did not exactly match the name on IRS' records. For 656 of the 1,228 vendors, we found different names used by these vendors in an IRS database that showed they were in fact the delinquent taxpayers. There were no additional names in the IRS database for the remaining 572 vendors. The 656 taxpayers for which there were additional names owed about \$26 million in delinquent taxes. We estimate that IRS could recover about \$16 million annually if the different names it has for vendors were provided to FMS for the continuous levy program.

If IRS were to provide FMS with the different names it has for business taxpayers, this would benefit the current continuous levy program by increasing the instances in which FMS could match the name in both records, as required before a levy can be made.<sup>16</sup> IRS officials agreed and

---

<sup>16</sup>In our April 2000 report ([GAO/GGD-00-65](#)), we identified over 32,000 mismatches on taxpayers' names that we estimated could result in an additional \$74 million annually if such mismatches were corrected.

---

indicated that providing such a file of additional business names to FMS could be done and would be well worth the effort. FMS officials indicated they were in favor of receiving additional business names for use in the continuous levy program.

---

### Some Payments Could Be Included in the Continuous Levy Program Sooner Than Others

Whether federal payments made by USPS, DOD, and CMS could be included in the continuous levy program and, if so, when varied by agency and type of payment. FMS plans to receive and include USPS and DOD salary and wage payments, as well as military retirement payments, in the Treasury Offset Program within the next 3 years, thus making them available for continuous levy and enabling IRS to begin collecting about half of the \$277.5 million in potential annual tax recoveries mentioned earlier. Vendor payments could also be included in the continuous levy program, with the full range of USPS payments possibly included in less than a year, DOD payments possibly included within 3 years, and CMS payments possibly included within about 5 years. However, with the exception of some DOD vendor payments, officials from FMS, IRS, and the three agencies have not discussed when and how all of these agencies' vendor payments could be included in the continuous levy program and whether practical options exist to include some portion of the vendor payments in the program before all such payments are available.

---

### USPS Payments Could Be Included in the Continuous Levy Program Relatively Soon

FMS officials stated that their discussions with USPS have focused on including salary payments in the Treasury Offset Program rather than vendor payments. USPS plans to provide employee salary payments to FMS for inclusion in the Treasury Offset Program, and FMS is working with USPS to develop a specific implementation date. According to FMS officials, once USPS salary payments are available for the Treasury Offset program, they could be included in the continuous levy program about a month later.

USPS officials stated that, although they have not had any recent discussions with FMS about including vendor payments in the Treasury Offset Program, they do not believe any obstacles would prevent making vendor payments available to FMS, since all USPS vendor payments are disbursed from one payment center. Officials indicated that within about 4 months of FMS' requesting them to do so, they could likely be ready to provide vendor payments to FMS and to levy payments for which FMS indicates a match with IRS' accounts receivable data. USPS officials did say that levying vendor payments could present some challenges. For example, USPS vendor payments generally are not made on a particular

---

schedule, but rather, are controlled by terms specified in individual contracts. As a result, unlike biweekly salary payments, USPS disburses vendor payments daily throughout the business week. Therefore, vendor data exchanges between USPS and FMS would likely have to occur with greater frequency than salary data exchanges. However, USPS officials stated that the Prompt Payment Act requires that vendor payments be deferred until the pay cycle immediately preceding the payment due date. This should provide an adequate interval to offset such payments, particularly if the vendor data exchanges with FMS were to occur either weekly or biweekly.

USPS officials also stated that USPS does not currently offset vendor payments to recover debts owed to USPS,<sup>17</sup> and therefore, specific offset procedures would have to be developed. However, these officials were confident that they could modify the USPS system to enable them to flag any vendor payments requiring offset identified through the Treasury Offset Program. They further stated that such an offset would require manual intervention to make the offset and reconcile the vendor's account.

Although USPS officials said that they could make vendor payments available to FMS within about 4 months of FMS' requesting such data, USPS and FMS officials have not discussed specific arrangements for doing so, such as when FMS could be ready to receive USPS vendor payment data or how long it might take USPS to develop procedures for performing such offsets.

---

### DOD Salary, Retirement, and Some Vendor Payments Could Be Included in the Continuous Levy Program Within 3 Years

FMS is working with DOD to include civilian, military retirement, and military active duty payments in the Treasury Offset Program, thus eventually making these types of payments available for the continuous levy program. According to DOD officials, the approximate timeframes that have been established for providing DOD payments to FMS are as follows:

- DOD civilian salary payments in the latter part of 2001,
- DOD military retirement payments in 2002, and
- DOD military active duty payments in 2003.

---

<sup>17</sup>USPS establishes an accounts receivable file and bills its vendors to recover debts, such as overpayments.

---

DOD has also initiated preliminary discussions with FMS about providing some vendor payments to FMS. These payments are all made from one payment system maintained at one DOD Defense Finance and Accounting Service (DFAS) location and accounted for about 48 percent of all DOD vendor payments made in fiscal year 2000. However, DOD officials have not specifically discussed providing other vendor payments to FMS in the near future, and they have concerns regarding the current capability to make other vendor payments available for the continuous levy program because of DOD's decentralized vendor payment systems. For example, vendors providing goods and services to three of the military branches—Army, Air Force, and Navy<sup>18</sup>—are paid from separate vendor payment systems maintained at various DFAS locations. In addition, there are separate vendor payment systems for processing certain specialty items, such as fuels and commissary resale products. DOD officials stated that DFAS staff do not currently have the capability to track multiple payments made from the various vendor payment systems to a particular vendor. As a result, if they were to provide vendor payments to FMS from these decentralized payment systems, DOD officials were concerned that there would be a risk of offsetting more in payments than a vendor might owe in delinquent taxes.

Although DOD officials expressed concerns about offsetting more in payments than a vendor might owe in delinquent taxes, IRS officials indicated there are controls in the continuous levy program to prevent such overpayments. For example, IRS provides FMS with a weekly file updating the balance due for each account subject to continuous levy. In addition, FMS has the capability to update the balance due for each account after each payment is levied, thus enabling FMS to identify when a tax debt has been reduced to zero. In addition, selected staff in each IRS office are authorized to directly access FMS' levy database to rescind a levy if necessary, such as for taxpayers subject to a continuous levy that decide to either fully pay the tax debt or enter into an installment agreement. FMS and IRS officials have not discussed these controls with DOD to determine whether they would mitigate DOD's overpayment concerns and pave the way for other types of vendor payments to be provided to FMS for the continuous levy program, in addition to those vendor payments currently under consideration.

---

<sup>18</sup>Marine Corps vendor payments are made from the same payment system from which Army vendor payments are made.

---

DOD is currently developing a centralized vendor payment system that could increase its capability to eventually provide all vendor payments to FMS. According to DOD officials, the multiple vendor payment systems currently in use are to be replaced by a single system known as the Defense Procurement Payment System. The latest DOD estimate indicates that the initial phase for implementing the new system will begin in the latter part of fiscal year 2001. DOD officials estimate that the new system may be fully operational by the latter part of fiscal year 2003 or the early part of fiscal year 2004. However, they indicated that this is a “best-case” scenario.<sup>19</sup>

---

### CMS Vendor Payments Will Not Be Available to the Continuous Levy Program for Several Years

FMS and CMS have not held any discussions related to including Medicare vendor payments in the continuous levy program. CMS and Medicare contractors we spoke with agreed that including all Medicare payments in the continuous levy program would not be possible for several years owing to the decentralized payment system in which the Medicare program operates. CMS administers the Medicare program through about 50 health care contractors, which process and pay over 900 million fee-for-service claims totaling nearly \$175 billion annually. These contractors are responsible for verifying the accuracy of the name and TIN used by health care providers that bill the Medicare program for reimbursement. Thus, the ability to identify and subsequently levy the payments made to Medicare providers who owe federal taxes would depend on establishing effective coordination between IRS and FMS and each of the contractors that pay the claims.

The possibility of including Medicare vendor payments in the continuous levy program is further complicated because CMS contractors currently use one of six different computerized systems to process and pay claims. Although CMS eventually plans to have all of its contractors use one of three standardized claims processing systems, this consolidation is not expected to be completed before 2004. The contractors responsible for maintaining the three standardized systems believe that integrating a continuous levy process into Medicare claims processing systems is possible, but the systems would likely have to be modified and tested before implementation.

---

<sup>19</sup>As recently as October 2000, DOD projected that the Defense Procurement Payment System was to be fully operational by the beginning of 2003.



---

Planned enhancements to the CMS accounting and provider enrollment systems may improve the likelihood that Medicare vendor payments could be included in the continuous levy program in the future. For example, in order to comply with federal financial management systems requirements, the agency is developing the CMS Integrated General Ledger and Accounting System. As currently envisioned by CMS, this system would contain detailed information on each Medicare claim paid, and as such, might offer FMS and IRS a central point of coordination for continuously levying Medicare vendor payments. Also, CMS is developing a centralized database of updated information on all health care providers that bill the Medicare program. This system is intended to help ensure that only qualified providers with a valid TIN enroll in and receive payments from the Medicare program. Once fully operational, this system is expected to interface with other CMS systems, thereby helping to ensure that the name and TIN used by providers have been validated by IRS. Neither system is scheduled to be fully operational before late 2006.

Although these new systems may improve the likelihood that CMS vendor payments could be continuously levied in the future, FMS and CMS officials have not held discussions to ensure this result. Medicare contractors already offset payments to vendors for various reasons, such as recovery of previously overpaid claim amounts, which could result from either inadvertent billing errors or intentional misrepresentations. However, FMS and CMS officials have not explored whether these processes for offsetting vendor payments could support including some CMS vendor payments in the continuous levy program before late 2006.

---

## IRS Could Use Its General Levy Authority for USPS, DOD, and CMS Vendor Payments Until They Are Available to the Continuous Levy Program

In addition to the specific levy authority IRS has through the continuous levy program under section 6331(h), IRS has general levy authority under Internal Revenue Code section 6331 to collect federal tax debts by issuing a levy notice directly to a federal agency. The continuous levy program provides IRS with an automated process for serving tax levies and collecting delinquent taxes through FMS. On the other hand, in order to levy payments under its general levy authority IRS must identify that an agency is making payments to a delinquent taxpayer. Unlike the 15-percent levy amount limitation for the continuous levy program, under its general levy authority, IRS can levy up to 100 percent of a taxpayer's property and rights to property in some cases.

IRS currently uses its general levy authority to levy federal salary and retirement payments.<sup>20</sup> However, according to officials, IRS uses its general levy authority less frequently to levy federal vendor payments, partly because IRS has limited ability to identify and serve levies against vendor payments. According to IRS officials, almost all information IRS has on vendor payments comes from annual information returns that federal agencies and contractors are required to file for such payments. It takes IRS several months to process information returns and make them available to collection staff so they can identify potential levy sources. According to IRS officials, information return data are of little use because there is no certainty that an individual or business that received payments in a past year would receive payments in the current year. IRS officials acknowledged that obtaining current information on taxpayers that may be receiving DOD and CMS vendor payments might give IRS collection staff an opportunity to levy such payments under its general levy authority until such time as these payments could be included in the continuous levy program.

DOD and CMS have databases that could be used to provide IRS with current information concerning individuals and businesses receiving vendor payments. However, IRS has not requested such information from these agencies. According to DOD officials, a DOD Central Contractor Register currently includes information on over 160,000 vendors registered to do business with DOD, including a vendor's TIN and name, and an

---

<sup>20</sup>Internal Revenue Code section 6334(d) requires that a certain amount of salaries and wages be exempted from levy.

---

extract of this information could be provided periodically to IRS.<sup>21</sup> Medicare contractors we spoke with stated that it may be possible to provide periodic extracts of payment data on recently paid provider claims, while CMS officials indicated that extracts from centralized agency databases, such as the National Claims History File, could also be made available to IRS. Information from each of these databases could be useful to IRS for identifying a current source against which to serve a levy under IRS' general levy authority. For example, IRS could arrange to obtain information from these agencies concerning vendors that currently receive periodic payments and when such payments are made, and if such vendors have federal tax delinquencies, work out a schedule for levying subsequent payments.

As with IRS' other collection efforts, resource constraints and other collection priorities may limit the amount of delinquent taxes that IRS could recover from DOD and CMS vendors using its general levy authority. However, until all such vendor payments could be included in the continuous levy program, obtaining periodic vendor information from these agencies could enable IRS to begin collecting some portion of the delinquent taxes owed by these vendors.

---

## Conclusions

IRS' mission includes providing taxpayers with top quality service by applying the tax law with integrity and fairness to all. Until more types of federal payments are available, the current continuous levy program results in unequal treatment of delinquent taxpayers depending on whether their federal payments are made by FMS on behalf of other agencies or directly by the agencies themselves. Delinquent taxpayers receiving payments from FMS generally are subject to the continuous levy program; those receiving payments directly from federal agencies are not and IRS is limited to using its general levy authority in order to levy some of these non-FMS payments.

Although practical issues may impede achieving similar treatment of all delinquent taxpayers receiving federal payments, progress could be made and substantial additional revenues could be collected—in fairness to those who properly pay their taxes. FMS has plans for including USPS

---

<sup>21</sup>We obtained an extract of the Central Contractor Register and matched it with IRS' accounts receivable file and found that it included about 4,300 contractors and vendors that owed IRS about \$250 million in delinquent taxes as of June 30, 2000.

---

salary and DOD salary and retirement payments in the continuous levy program. Similar plans do not exist, however, for including all vendor payments from USPS, DOD, and CMS in the continuous levy program. Discussions among FMS, IRS, and the agencies have the potential to ensure that all of these payments are included in the continuous levy program as soon as practical, and for possibly accelerating the inclusion of certain types or categories of vendor payments.

Further, the effectiveness of the current continuous levy program and its expansion to other payments could be enhanced if IRS were to begin sharing the different names that businesses use for tax purposes with FMS. This would treat businesses more similarly to how IRS already handles individual taxpayers in the continuous levy program.

In the interim, until the continuous levy program can be extended to more of the payments made directly by agencies, IRS' use of its existing general levy authority could be improved to better ensure that all delinquent taxpayers receiving federal payments are subject to potential collection action. DOD and CMS have available data that could be shared with IRS to increase IRS' ability to identify those taxpayers' whose federal payments could be practically and effectively levied under the general levy program.

---

## Recommendations for Executive Action

To enhance the value of agency payment data that are available for the continuous levy program, we recommend that the Commissioner of Internal Revenue provide FMS with a file of all business names that IRS has for each business taxpayer that owes federal taxes and meets the program criteria.

To increase the potential for collecting delinquent federal taxes owed by federal vendors, we recommend that the Commissioner of Internal Revenue and the Commissioner of the Financial Management Service jointly initiate specific discussions with USPS, DOD, and CMS to develop plans for obtaining vendor payments from the respective agencies for the continuous levy program. The discussions should cover plans for including all of the agencies' vendor payments in the continuous levy program, as well as options for including some of their vendor payments in the program on an accelerated basis.

To ensure that IRS has updated information on vendor payments to aid in identifying possible levy sources for use under its general levy authority, we recommend that the Commissioner of Internal Revenue work with DOD and CMS officials to develop the means for these agencies to

---

periodically provide IRS with vendor information that is more current than that which IRS receives now through annual information returns.

---

## Agency Comments and Our Evaluation

We received written comments on our draft report from the Commissioner of Internal Revenue (see app. II) and the Commissioner of the Financial Management Service (see app. III). Both the IRS and FMS Commissioners offered factual updates, clarifications, or technical comments that we have incorporated throughout this report where appropriate.

The Commissioner of Internal Revenue generally agreed with our recommendations. Regarding our recommendation that the Commissioner of the Financial Management Service initiate discussions with USPS, DOD, CMS, and IRS officials to develop plans for obtaining vendor payments from the respective agencies for the continuous levy program, the Commissioner of FMS disagreed that initiating discussions with these agencies was FMS' responsibility. Rather, the Commissioner stated that it was IRS' responsibility to initiate and jointly schedule with FMS the implementation of the continuous levy program for DOD, USPS, and CMS vendor payments. The Commissioner further stated that once IRS is ready to develop this process, FMS will work with the agencies and IRS to make the necessary system changes to allow IRS to continuously levy these payments.

We agree with the FMS Commissioner's view that IRS has the responsibility to participate in leading discussions for implementing the continuous levy program for vendor payments. However, because FMS is a principal component in developing the necessary processes to effectively implement continuous levies, we also believe that FMS must be equally involved in the discussions on extending the continuous levy program to vendor payments paid by agencies other than FMS. Accordingly, we modified our recommendation to state that the IRS and FMS Commissioners should jointly initiate specific discussions with USPS, DOD, and CMS for this purpose. Having been made aware of this modification to our recommendation before providing comments, the IRS Commissioner agreed in his written comments to participate with FMS in discussions with the agencies and to assist FMS in developing plans for obtaining vendor payments for inclusion in the continuous levy program.

To enhance the value of agency payment data available to the continuous levy program, the Commissioner of Internal Revenue agreed to provide FMS with a file of all business names that IRS has for each business taxpayer that owes federal taxes and meets the program criteria. The

---

Commissioner stated that a draft Request for Information Services has been submitted to begin the formal process necessary to make this change, and the change is expected to be completed by January 2003.

To ensure that IRS has updated information on vendor payments to aid in identifying possible levy sources for use under its general levy authority, the Commissioner agreed to pursue the costs and benefits of securing possible levy sources from such agencies as DOD as well as pursuing more frequent levy source updates from internal IRS sources.

We also received written comments from the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (see app. IV), and oral comments from a representative of the United States Postal Service, in which they generally agreed with our recommendations.

In addition, we received technical comments from the Acting Deputy Administrator of the Centers for Medicare & Medicaid Services, in which he stressed that CMS vendor payments could not be included in the continuous levy program until a new CMS integrated accounting system is completed. Given the substantial delinquent taxes that could potentially be recovered from CMS vendors and that CMS contractors already offset vendor payments for various other reasons, we believe that discussions between IRS, FMS, and CMS should explore whether some portion of the vendor payments could be included on an accelerated basis.

---

As agreed with your offices, unless you announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies to the Ranking Minority Member, House Committee on Ways and Means; Ranking Minority Member, Subcommittee on Oversight; and the Chairman and Ranking Minority Member, Senate Committee on Finance. We will also send copies to the Commissioner of Internal Revenue, Commissioner of the Financial Management Service, Secretary of Defense, Administrator of the Centers for Medicare & Medicaid Services, Postmaster General, and other interested parties. Copies of this report will also be made available to others upon request.

---

If you have any questions concerning this report, please contact Ralph Block at (415) 904-2000 or me at (202) 512-9110. Key contributors to this work are listed in appendix V.

A handwritten signature in black ink that reads "Michael Brostek". The signature is written in a cursive style with a large initial "M" and a stylized "B".

Michael Brostek  
Director, Tax Issues

---

# Appendix I: Objectives, Scope, and Methodology

---

Our objectives in this report were to (1) determine the number of delinquent taxpayers receiving federal payments from the United States Postal Service (USPS), Department of Defense (DOD), and Centers for Medicare & Medicaid Services (CMS) that would be affected and the tax debt that might be recovered if they were to be included in the continuous levy program; (2) determine whether these types of payments could be included in the continuous levy program and the timeframes for doing so; and (3) identify other actions that could be taken to enhance IRS' ability to manually levy federal payments to delinquent individuals and businesses that are not currently included in the continuous levy program.

---

## Scope and Methodology

To determine the number of delinquent taxpayers receiving federal payments from USPS, DOD, and CMS that would be affected and the tax debt that might be recovered if they were included in the continuous levy program, we obtained and matched IRS' accounts receivable records as of June 30, 2000, that met IRS' continuous levy program criteria with agency and contractor payment records as follows:

- For wage and salary payments, USPS provided payments for a biweekly pay period made on June 23, 2000; for vendor payments, USPS provided payments made during the April through June 2000 quarter.
- For DOD military salary, retirement, and reserve payments, the DOD Defense Manpower Data Center provided payments made for the month of June 2000; for DOD civilian salary, the DOD Defense Management Data Center provided payments made for the biweekly pay period ending July 1, 2000; for DOD vendor and contractor payments, the Defense Finance and Accounting Service provided payments made during the April through June 2000 quarter.
- For CMS Medicare vendor payments, Medicare contractors provided payments made during the April through June 2000 quarter.

For payments that matched on both taxpayer identification number (TIN) and name, we calculated either 15 percent of the payment or the actual amount of tax owed if it was less than 15 percent of the payment to determine the amount that could be levied. All estimates of the delinquent taxes that might be recovered throughout this report have been annualized. Although some taxpayers might take actions to avoid a continuous levy, we believe our estimates of the tax debt that might be recovered are understated because we did not receive data for over 50 percent of Medicare payments made during the April through June 2000 quarter. In addition, we were unable to match about \$3.4 billion in DOD



vendor payments against IRS' accounts receivable data because the payment records did not contain a TIN.

Based on our prior work involving the continuous levy program, we were aware that problems with information contained in vendor payment records could make such records unsuitable for matching against IRS' accounts receivable file, thus reducing the amount of tax debt that might be recovered. To identify additional debt that could be collected if problems with vendor payment records were corrected, we analyzed agency payment records to identify instances of a missing or inconsistent payee TIN or name. We selected all instances in which the TIN in the payment records matched the TIN in IRS' accounts receivable records, but the name in the payment records did not match the name in IRS' records. For these instances, we then reviewed IRS' records to determine whether it had additional information to indicate that the payee was in fact the delinquent taxpayer in question.

To determine whether USPS, DOD, and CMS payments could be included in the continuous levy program and the timeframes for doing so, we interviewed IRS officials responsible for the continuous levy program. We also interviewed Financial Management Service (FMS) officials involved in recent discussions with various agencies in an attempt to include non-Treasury disbursed payments in the Treasury Offset Program. In addition, we interviewed officials from USPS, DOD, and CMS as well as selected Medicare contractors responsible for processing the various types of payments.

To identify actions that could be taken to enhance IRS' ability to manually levy federal payments from delinquent individuals and businesses that are not included in the continuous levy program, we discussed this issue with IRS officials and officials from USPS, DOD, and CMS. We identified various agency databases that could be used to provide IRS with updated vendor payment sources. We also discussed IRS' current levy procedures with IRS officials, and reviewed the related tax law governing these procedures.

We did our work at IRS, FMS, and USPS headquarters in Washington, D.C.; DOD headquarters in Arlington, VA; CMS headquarters in Baltimore, MD; Defense Finance and Accounting Service Centers in Columbus and Cleveland, OH, and Denver, CO; Defense Manpower Data Center in Seaside, CA; and the CMS Regional Office in San Francisco, CA. We also interviewed Medicare contractors located in Alabama, California, Florida, Maryland, New York, North Dakota, Pennsylvania, Texas, and Wisconsin.

# Appendix II: Comments From the Internal Revenue Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMMISSIONER

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

July 16, 2001

Mr. Michael Brostek  
Director, Tax Administration and Justice  
U. S. General Accounting Office  
Washington, DC 20548

Dear Mr. Brostek:

Thank you for the opportunity to reply to the draft report titled Tax Administration: Millions of Dollars Could Be Collected If IRS Levied More Federal Payments. We welcome your comments and are in general agreement with your recommendations, as elaborated on later in our response. We also wish to take this opportunity to further clarify several statements in the report.

I am concerned that in your opening paragraph you give the impression the IRS does not have or use the authority to levy on payments disbursed directly by other federal agencies. Currently, the IRS has two continuous levy programs:

- A continuous automated levy system, the Federal Levy Payment Program (FPLP) with Treasury's Financial Management Service (FMS); and
- A paper levy program administered under the general levy guidelines.

Both levy programs have the same levy authority. We have had success with continuous paper levies that apply to federal salaries. The paper levies on other payment types have not been as successful due to timing and the age of those sources.

In the third paragraph of the "Background" section of your report, you said the IRS serves a levy through FMS. We serve levies "to" FMS rather than through them. Further, down in the same paragraph you say, "When an exact match of both the TIN and name occur, FMS informs IRS of the match and IRS then notifies the taxpayer of the pending tax levy." This is true only if the taxpayer has not received notification of a pending tax levy prior to the match process. When the match occurs and we have made the notification, we serve the levy immediately to FMS.

Under "The Number of Taxpayers Affected and Delinquent Taxes Recovered Annually Could Be Substantial," we would like to comment on the last sentence in the third paragraph, which states, "However, such actions on the part of the taxpayer in response to the levy notice would be an indirect benefit of the program." We feel this is a direct benefit because, as a result of the continuous

See comment 1.

See comment 2.

See comment 3.

See comment 4.

levy program, taxpayers are voluntarily contacting the IRS to make arrangements to resolve their tax liability. Resolution of the tax liability had not occurred prior to the levy.

See comment 5.

Under "IRS Could Use Its General Levy Authority for USPS, DOD, and CMS Vendor Payments until They Are Available to the Continuous Levy Program," we would like to clarify your statement in the second sentence of the second paragraph, "However, according to officials, IRS rarely uses this authority to levy federal vendor payments..." Although most IRS levies are issued through the Automated Collection System (ACS), federal vendor payments are levied less frequently due to the limited ability to identify federal vendor payments and the systemic nature of ACS. In contrast, in the field operation we levy federal vendor payments directly whenever possible.

See comment 6.

In the first paragraph under "Conclusions," we are concerned with the use of the term "disparate treatment" in the second sentence. We are limited in the use of this program until FMS brings in more paying agencies. We also are concerned with the last sentence, "Delinquent taxpayers receiving payments from FMS generally are subject to continuous levy while those receiving payments directly from federal agencies are not." As previously mentioned, we issue continuous paper levies on those payments received from federal agencies.

Our response to the Recommendations for Executive Action is as follows:

**Recommendation 1:**

To enhance the value of agency payment data that are available for the continuous levy program, we recommend that the Commissioner of Internal Revenue provide FMS with a file of all business names that IRS has for each business taxpayer that owes federal taxes and meets the program criteria.

We agree with your recommendation. A preliminary telephone discussion with Information Technology Services (ITS) indicates they can accomplish this change. Our Small Business/Self-Employed Division submitted a draft Request for Information Services on May 18, 2001, to begin the formal process to make this change. I anticipate the change will be completed by January 2003.

**Recommendation 2:**

To increase the potential for collecting delinquent federal taxes owed by federal vendors, we recommend that the Commissioner of Internal Revenue and the Commissioner of the Financial Management Service jointly initiate specific discussions with USPS, DOD, and CMS to develop plans for obtaining vendor payments from the respective agencies for the continuous levy program. The discussions should cover plans for including all of the agencies' vendor payments in the continuous levy program, as well as options for including some of their

3

vendor payments in the program on an accelerated basis.

We will participate with FMS in discussions that include other federal agencies and assist them in developing plans for obtaining vendor payments from those agencies for FPLP.

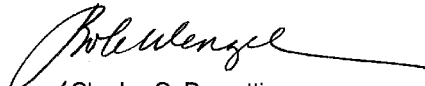
**Recommendation 3:**

To ensure that IRS has updated information on vendor payments to aid in identifying possible levy sources for use under its general levy authority, we recommend that the Commissioner of Internal Revenue work with DOD and CMS officials to develop the means for these agencies to periodically provide IRS with vendor information that is more current than that which IRS receives now through annual information returns.

We will conduct a cost benefit study of securing possible levy sources from other agencies such as DOD, as well as pursuing more frequent updates from internal sources.

Again, thank you for the opportunity to comment on your report. I would be happy to discuss these issues with you.

Sincerely,



Charles O. Rossotti

---

The following are GAO's comments on the Internal Revenue Service's letter dated July 16, 2001.

---

## GAO Comments

1. In response to IRS' concern that our text may have given the impression that IRS does not levy any federal payments that are not subject to the continuous levy program, we modified footnote 3 to recognize that IRS does levy such payments under its general levy authority.
2. IRS' suggested change has been incorporated into the text.
3. IRS' suggested change is included in footnote 10.
4. We deleted "indirect" from our text. While it is debatable whether the benefit would be direct or indirect, levy notices do sometimes result in taxpayers making other arrangements to resolve their tax liability.
5. IRS' suggested change has been incorporated into the text.
6. In response to IRS' concern with our use of the term "disparate treatment" of taxpayers in our conclusions, we have revised our text to state that whether or not taxpayers are included in the continuous levy program is predicated in part on whether their federal payments are made by FMS or directly by other agencies. We believe that this results in unequal treatment of delinquent taxpayers who receive federal payments and that this will only be corrected when more types of federal payments are available to the program.

# Appendix III: Comments From the Financial Management Service



COMMISSIONER

DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

July 5, 2001

Mr. Michael Brostek  
Director, Tax Administration and Justice  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Brostek:

The Financial Management Service (FMS) has received for comment a copy of the draft report (GAO-01-711), entitled Tax Administration: Millions of Dollars Could Be Collected If IRS Levied More Federal Payments. The draft Report contains one recommendation that relates to the Department of the Treasury's Financial Management Service (FMS) and its role in the collection of delinquent tax debt.

#### Recommendation

*To increase the potential for collecting delinquent federal taxes owed by federal vendors, we recommend that the Commissioner of the Financial Management Service initiate specific discussions with USPS, DOD, CMS and IRS officials to develop plans for obtaining vendor payments from the respective agencies for the continuous levy program. The discussions should cover plans for including all of the agencies' vendor payments in the continuous levy program, as well as options for including some of their vendor payments in the program on an accelerated basis.*

#### FMS Comment on Recommendation

It is clearly the responsibility of the Internal Revenue Service (IRS) to initiate and jointly schedule with FMS the implementation of the continuous levy program for vendor payments. FMS has held discussions with the Department of Defense (DOD), the United States Postal Service (USPS), and the Centers for Medicare and Medicaid Services (CMS) about offsetting their vendor payments through the Treasury Offset Program (TOP). Once IRS is ready to develop the process, FMS will work with these agencies and the IRS to make the necessary systems changes to allow the IRS to continuously levy non-Treasury disbursed (NTDO) vendor payments.

Page 2- Michael Brostek

With the passage of the Debt Collection Improvement Act and the Taxpayer Relief Act, FMS has systematically developed TOP by assessing which payment streams will provide for the highest dollars collected for the Federal government and implementing them in an orderly fashion. FMS believes that it is this very approach to the development and implementation of the different phases of TOP that has allowed us to be successful.

The Taxpayer Relief Act provided for the continuous levy of Federal payments, and the first phase was implemented in July 2000. In the next several months, FMS expects to start the implementation of the continuous levy of Federal salary and Social Security Administration (SSA) Title II benefit payments. All of the implementations to date have been well planned, developed, and implemented. FMS is currently starting the requirements phase of the implementation of offset of vendor payments with DOD. FMS cannot implement the levy of those vendor payments without the working partnership of IRS.

Other Comments

Concerning your discussion regarding the scheduling of Federal salary offsets for USPS (page 9 of the draft Report), please note that USPS has delayed the September 2001 implementation date. FMS is working with USPS to develop a new implementation date. Once offsets of NTDO salary payments are implemented, IRS will be able to levy salary payments through FMS; however, as noted above, no system currently exists to levy NTDO vendor payments.

Concerning the scheduling of Federal salary offsets with DOD (page 10 of the draft Report), FMS is working with DOD to solidify the phased implementation dates.

It should be noted that once FMS implements a system to offset NTDO vendor payments, IRS will have the flexibility to levy up to 100% of such vendor payments through FMS, subject to applicable law. In addition, the system will be designed to prevent the type of over collections that concern DOD, as noted on page 11 of the draft Report.

FMS also offers the following technical comments:

On page 4, paragraph 4, second sentence, the description of the centralized database for the Treasury Offset Program should state that in addition to Federal non-tax debts, the database also includes Federal tax debt, child support debt, and state tax debt.

On page 4, paragraph 4, third sentence, the description of the matching program should state, "FMS currently matches Federal tax refund, Federal retirement and vendor payments, as well as certain Federal salary and social security benefit payments, against

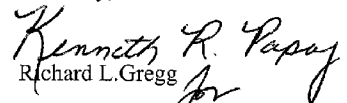
Page 3- Michael Brostek

its database of delinquent debts, and when a match of both TIN and name control occurs, FMS offsets the payment, thereby reducing or eliminating the debt.”

On page 5, paragraph 2, fifth sentence, the sentence on the matching process should state, “When a match of both TIN and name control occurs, FMS informs IRS of the match and IRS then notifies the taxpayer of the pending tax levy.”

Thank you for the opportunity to respond to this draft GAO report. If you have any questions or wish to discuss these comments further, please contact Dean Balamaci on (202) 874-6660.

Sincerely,

  
Richard L. Gregg

cc: Donald V. Hammond, OFAS



---

# Appendix IV: Comments From the Department of Defense

---



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JUL 17 2001

Mr. Michael Brostek  
Director  
Tax Administration and Justice  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Brostek:

The Department of Defense has reviewed the General Accounting Office draft report, "TAX ADMINISTRATION: Millions of Dollars Could Be Collected If IRS Levied More Federal Payments," dated June 21, 2001 (GAO Code 268917/OSD Case 4026), and concurs with the recommendations in the report.

Thank you for the opportunity to comment on the subject draft report.

Sincerely,

Nelson Toye  
Deputy Chief Financial Officer

---

# Appendix V: GAO Contacts and Staff Acknowledgments

---

## GAO Contacts

Michael Brostek (202) 512-9110  
Ralph T. Block (415) 904-2000

---

## Acknowledgments

In addition to those named above, Wendy Ahmed, Tom N. Bloom, Robert C. McKay, Ellen Rominger, James J. Ungvarsky, and Elwood D. White made key contributions to this report.



---

## Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are also accepted.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

***Orders by mail:***

U.S. General Accounting Office  
P.O. Box 37050  
Washington, DC 20013

***Orders by visiting:***

Room 1100  
700 4<sup>th</sup> St., NW (corner of 4<sup>th</sup> and G Sts. NW)  
Washington, DC 20013

***Orders by phone:***

(202) 512-6000  
fax: (202) 512-6061  
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

***Orders by Internet***

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

[Info@www.gao.gov](mailto:Info@www.gao.gov)

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

---

## To Report Fraud, Waste, and Abuse in Federal Programs

***Contact one:***

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)
- 1-800-424-5454 (automated answering system)