Fiscal Year 2018 Statutory Review
Of Compliance With Legal Guidelines
When Issuing Levies

September 7, 2018
Reference Number: 2018-30-068

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information

Phone Number / 202-622-6500
E-mail Address / TIGTACommunications@tigta.treas.gov
Website / http://www.treasury.gov/tigta
To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.
FISCAL YEAR 2018 STATUTORY REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN ISSUING LEVIES

Highlights

Final Report issued on September 7, 2018

Highlights of Reference Number: 2018-30-068 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

When taxpayers do not pay delinquent taxes, the IRS has authority to work directly with financial institutions and other third parties to seize taxpayers’ assets. This action is commonly referred to as a “levy.” The law requires the IRS to notify taxpayers at least 30 calendar days prior to the issuance of a levy and allows taxpayers the opportunity to request a Collection Due Process hearing prior to the first levy on a delinquent account.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA is responsible for annually determining whether the IRS complied with the IRS Restructuring and Reform Act of 1998 (RRA 98) requirement to notify taxpayers prior to issuing levies. The overall objective of this audit was to determine whether the IRS complied with the IRS RRA 98 requirements and IRS policy to notify taxpayers and their authorized representatives of the right to a Collection Due Process hearing prior to issuing levies and to suspend levy action during the time frames required pursuant to Internal Revenue Code Section 6330.

WHAT TIGTA FOUND

Systemic levies issued by the Automated Collection System (ACS) were suspended in January 2016 due to resource constraints. Since then, levy proceeds decreased by 70 percent, or almost $966 million. In addition:

- Dollars written off due to collection statute expiration while cases were in the ACS increased from $1.17 billion to $4.33 billion, a 271 percent increase.
- 912,124 cases were shelved, a 211 percent increase (some of these cases were assigned to private collection agencies starting April 2017).

Tests of the population of 87,090 taxpayers with ACS paper levies identified five cases in which ACS employees levied the taxpayer before waiting 30 days after providing the notice of Collection Due Process rights to the taxpayer. The IRS took corrective action in June 2018.

Tests of the population of 59,355 taxpayers with ACS paper levies in which additional tax was assessed prior to the levies identified 783 (1 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy. A programming fix was implemented in January 2018.

Tests of a statistical sample of 31 taxpayers with systemic levies issued by revenue officers identified five (16 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy. A programming fix to correct the problem by preventing revenue officers from incorrectly identifying Federal contractor levies is scheduled to be implemented by January 2019.

WHAT TIGTA RECOMMENDED

TIGTA recommended that IRS management restart ACS systemic levies for the most significant taxpayer delinquent accounts and ensure that the planned January 2019 programming fix is implemented and effectively prevents employees from incorrectly identifying Federal contractor levies.

In response to the report, IRS management stated that they restarted the ACS systemic levy program on July 17, 2018, and agreed to monitor and test the planned programming fix.
MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies (Audit # 201830003)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) complied with the IRS Restructuring and Reform Act of 1998 requirements and IRS policy to notify taxpayers and their authorized representatives of the right to a Collection Due Process hearing prior to issuing levies and to suspend levy action during the time frames required pursuant to Internal Revenue Code (I.R.C.) Section (§) 6330.¹ This review is included in our Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Protecting Taxpayer Rights.

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

If you have questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

¹ I.R.C. § 6330 (providing right to Collection Due Process Hearing prior to levy) and I.R.C. § 7803(d)(1)(A)(iv) requiring an evaluation of the IRS’s compliance with I.R.C. § 6330.
# Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies

## Table of Contents

- **Background** ............................................................................................................ Page 1
- **Results of Review** ................................................................................................ Page 5
  - Management Suspended Issuance of Systemic Levies in the Automated Collection System ........................................................................................................... Page 5
    - **Recommendation 1:** .......................................................................................... Page 8
  - Paper Levies Issued by the Automated Collection System Function Did Not Always Comply With Notification Requirements ........................................................................ Page 8
  - Levies Issued by Field Collection Did Not Always Comply With Notification Requirements ........................................................................................................ Page 11
    - **Recommendation 2:** ........................................................................................ Page 14
  - Generally, No Improper Levy Actions Were Taken When Taxpayers Appealed Their Notice of Intent to Levy .................................................................................. Page 14
- **Appendices**
  - **Appendix I – Detailed Objective, Scope, and Methodology** ......................... Page 16
  - **Appendix II – Major Contributors to This Report** ........................................ Page 21
  - **Appendix III – Report Distribution List** ........................................................... Page 22
  - **Appendix IV – Outcome Measure** ..................................................................... Page 23
  - **Appendix V – Example of Form 668-A, Notice of Levy** ................................ Page 25
  - **Appendix VI – Previous Five Audit Reports Related to This Statutory Review** ................................................................................................................................. Page 26
  - **Appendix VII – Glossary of Terms** ................................................................. Page 27
  - **Appendix VIII – Management’s Response to the Draft Report** ....................... Page 30
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACS</td>
<td>Automated Collection System</td>
</tr>
<tr>
<td>CDP</td>
<td>Collection Due Process</td>
</tr>
<tr>
<td>DCW</td>
<td>Data Center Warehouse</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>ICS</td>
<td>Integrated Collection System</td>
</tr>
<tr>
<td>I.R.C.</td>
<td>Internal Revenue Code</td>
</tr>
<tr>
<td>IRM</td>
<td>Internal Revenue Manual</td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>TIGTA</td>
<td>Treasury Inspector General for Tax Administration</td>
</tr>
</tbody>
</table>
Background

When taxpayers do not pay delinquent taxes, the Internal Revenue Service (IRS) has the authority to work directly with financial institutions and other third parties to seize taxpayers’ assets. This action is commonly referred to as a “levy” (see Appendix V for an example of Form 668-A, Notice of Levy). The Internal Revenue Code (I.R.C.) generally requires the IRS to provide taxpayers notice of its intention to levy at least 30 calendar days before initiating the levy action.

The IRS Restructuring and Reform Act of 1998 expanded upon this notice requirement by creating I.R.C. Section (§) 6330, which requires the IRS, in addition to giving the taxpayer 30 calendar days’ notice of the IRS’s intent to levy, to also notify taxpayers of their right to request a Collection Due Process (CDP) hearing at which taxpayers can raise various issues with respect to the proposed levy (CDP rights). These provisions also require that all levy actions be suspended during the 30 calendar days prior to the levy as well as throughout the entire period that a hearing (including any appeals from the hearing) is pending. CDP rights include the right to a fair and impartial hearing before the Office of Appeals. If taxpayers fail to request a CDP hearing within the 30-day period, taxpayers can request an equivalent hearing within one year of the date that the CDP notice is issued and the IRS will grant an equivalent hearing. An equivalent CDP hearing is similar to a regular CDP hearing except there is no right to seek judicial review of the Office of Appeals’ decision. However, IRS policy is generally to suspend levy action during the Appeal period, even when not required by statute.

1 Internal Revenue Code (I.R.C.) § 6331(a) and (b).
2 I.R.C. § 6331(a) and (b). See Appendix VII for a glossary of terms.
3 I.R.C. § 6331(d).
4 Pub. L. No. 105-206, 112 Stat. 685; I.R.C. § 6330(a); I.R.C. § 6330(b); I.R.C. § 6330(c) provides that taxpayers can raise “any relevant issue relating to the unpaid tax or the proposed levy including (i) appropriate spousal defenses; (ii) challenges to the appropriateness of collection actions; and (iii) offers of collection alternatives which may include the posting of a bond, substitution of other assets, an installment agreement, or an offer in compromise.”
5 I.R.C. § 6330(a) and (e).
6 I.R.C. § 6330(b).
7 Treas. Reg. § 301.6320-1(i)(2) Q&A-17.
8 Treas. Reg. § 301.6320-1(i)(2) Q&A-16 and Internal Revenue Manual (IRM) 5.19.8.4.3 (November 1, 2007).
9 IRM 5.19.8.4.6 (August 5, 2016).
The notice required by I.R.C. § 6330 must include the amount of unpaid tax, the right to request a CDP hearing, and the proposed action the IRS intends to take, along with other important information on topics such as collection alternatives.\textsuperscript{10} IRS policy also requires that a copy of the notice be sent to the taxpayer’s authorized representative if the representative is specifically authorized to receive notices.\textsuperscript{11}

Generally, only one notice and opportunity before levy is required per tax period. However, a new notice is required when an additional assessment occurs on a tax period after the original notice of intent to levy has been sent to the taxpayer and the additional assessment amount will be included in the levy.\textsuperscript{12}

The IRS Restructuring and Reform Act of 1998 also added I.R.C. § 7803(d)(1)(A)(iv), which requires the Treasury Inspector General for Tax Administration (TIGTA) to annually verify whether the IRS is complying with the required procedures under I.R.C. § 6330.\textsuperscript{13} TIGTA conducts multiple reviews each year focusing on different aspects of the IRS’s implementation of I.R.C. § 6330. This review focuses on whether the IRS provides the taxpayer with a notice of CDP appeal rights at least 30 calendar days before taking levy action; and if the taxpayer requests a CDP hearing, whether levy action is suspended as required under I.R.C. § 6330. This is the twentieth year in which we have evaluated the controls over levies. While levies can be issued for monetary or physical assets, this report specifically addresses levies of taxpayers’ monetary assets.\textsuperscript{14}

To collect delinquent taxes, levies are issued either systemically or manually by the Automated Collection System (ACS) and Field Collection:\textsuperscript{15}

- The ACS, through which collection representatives interact with delinquent taxpayers by telephone to collect unpaid taxes and secure tax returns. The three types of levy issuance in the ACS function are:
  - Systemic levies - issued automatically by the ACS.
  - Paper levies - issued by collection representatives through the ACS.
  - Manual levies - issued by collection representatives after manually typing the levy.

\textsuperscript{10} I.R.C. § 6330(a)(3).
\textsuperscript{11} IRM 5.1.23.3.2.3 (October 30, 2014).
\textsuperscript{12} IRM 5.19.4.3.1(5) (October 31, 2016).
\textsuperscript{13} I.R.C. § 7803 (d)(1)(A)(iv).
\textsuperscript{14} Examples of physical assets are real property, automobiles, and business inventory, the taking of which is commonly known as seizure. Annual reporting of seizures is covered by TIGTA in a separate review.
\textsuperscript{15} Levies are also issued by automated levy programs such as the Federal Payment Levy Program and the State Income Tax Levy Program. These levies are transmitted electronically and proceeds are typically received electronically.
• Field Collection, through which revenue officers contact delinquent taxpayers in person. Delinquent cases assigned to revenue officers in the field offices are controlled and monitored on the Integrated Collection System (ICS). The two types of levy issuance in the Field Collection function are:
  o Systemic levies - issued by revenue officers through the ICS.
  o Manual levies - issued by revenue officers after manually typing the levy.

Controls in the ACS and ICS systems have been designed to help ensure that taxpayers have been notified of their CDP rights at least 30 calendar days prior to the issuance of ACS systemic and paper levies and ICS systemic levies. However, there is a higher risk of not complying with I.R.C. § 6330 and its related regulations and procedures when ACS collection representatives and revenue officers issue manual levies. This is because employees request these levies outside of the systemic controls that exist on the ACS and ICS. In particular, most ICS manual levies do not require manager approval. All ACS manual levies require manager or lead review, which helps to mitigate the risk.

The IRS has never tracked complete information about the issuance of ICS manual levies. IRS management informed us during this review that they do track the number of manual levies issued by revenue officers. However, the IRS does not collect any details about these levies, such as the taxpayer’s identification number, the tax year, or date of the levy, making it impossible for TIGTA to identify the exact population of manual levies issued by revenue officers during our review period. IRS management also informed us during this review that they do track manual levies issued by ACS collection representatives, but have never provided that data to TIGTA in prior years because there were so few of them.

TIGTA audit reports issued prior to Fiscal Year (FY) 2005 reported that additional controls were needed over manual levies issued by revenue officers; however, since our FY 2005 report, we have generally reported that revenue officers properly notified taxpayers of their right to a hearing when issuing manual levies. Nevertheless, TIGTA still considers manual levies issued by revenue officers to be higher risk and continues to test them thoroughly. In addition, TIGTA tested the manual levies issued by ACS collection representatives during the audit period.

In FY 2013, we reported that a required new notice of intent to levy was not sent to taxpayers when additional assessments were included on ICS systemic levies. The IRS agreed and made programming fixes for ICS systemic levies in January 2015, February 2016, June 2016, and January 2017, and has scheduled another fix for January 2019. The problem also extended to the ACS. A programming fix for ACS levies was made in January 2013, January 2017, and

---

16 According to the IRS, more than 4,000 manual levies were issued by revenue officers in Fiscal Year 2017.
17 In Fiscal Year 2017, the IRS provided TIGTA with a list of 25 manual levies issued by ACS collection representatives.
18 See Appendix VI for a list of five previous audit reports related to this review.
January 2018. As a result, this year we continued testing both ACS and ICS levies with additional assessments.

This review was performed with information obtained from the Small Business/Self-Employed Division National Headquarters Collection function office in New Carrollton, Maryland, during the period November 2017 through June 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.
**Results of Review**

**Management Suspended Issuance of Systemic Levies in the Automated Collection System**

Issuing levies is one of the IRS’s most effective enforcement tools to collect overdue taxes. In many cases, a levy causes the taxpayer to make contact with the IRS, which provides the IRS an opportunity to help bring the taxpayer into compliance. Figure 1 shows the number of notices of levy the IRS has served on third parties over the last six fiscal years.\(^{19}\)

**Figure 1: Notices of Levy Served on Third Parties (FYs 2012 – 2017)**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Number of Notices of Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,961,162</td>
</tr>
<tr>
<td>2013</td>
<td>1,855,095</td>
</tr>
<tr>
<td>2014</td>
<td>1,995,987</td>
</tr>
<tr>
<td>2015</td>
<td>1,464,026</td>
</tr>
<tr>
<td>2016</td>
<td>869,196</td>
</tr>
<tr>
<td>2017</td>
<td>590,249</td>
</tr>
</tbody>
</table>

*Source: IRS Data Books.*

Between FY 2012 and FY 2017, the number of annual notices of levy decreased by 2.37 million, or approximately 80 percent. FY 2017 had the fewest number of notices of levy issued in 15 years. IRS management has been deliberately reducing notices of levy in recent years because they believed there were insufficient resources to handle the resulting taxpayer phone calls (this issue is discussed in more detail below). However, when the IRS issues fewer levies, fewer dollars are collected on past due accounts, and fewer taxpayers are brought back into compliance.

\(^{19}\) This figure shows the total number of notices of levy served, not the number of taxpayers who were served. Taxpayers may be served multiple levies.
Historically, a large portion of the total levies issued by the IRS each year is through the ACS function. For example, in FY 2014 the ACS issued 796,963 (40 percent) of the 1,995,987 notices of levy served. Figure 2 shows the number of taxpayers that were issued systemic and paper levies through the ACS during FYs 2013 – 2017.\textsuperscript{20}

\textit{Figure 2: Number of Taxpayers Issued ACS Levies (FYs 2013 – 2017)}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure2}
\caption{Number of Taxpayers Issued ACS Levies (FYs 2013 – 2017)}
\end{figure}

\textit{Source: TIGTA analysis of ACS data.}

While the IRS did not issue any ACS systemic levies to taxpayers in FY 2017, in prior years, systemic levies represented a majority of taxpayers levied by the ACS each fiscal year (81 percent average from FYs 2013 through 2016). The ACS Systems and Inventory function assessed the impact of suspending the ACS systemic levies by analyzing an 18-month period before and after suspension. Figure 3 shows the decreases in the number of ACS levies and levy proceeds received.\textsuperscript{21}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3}
\caption{Decreases in ACS Levies and Levy Proceeds (FYs 2013 – 2017)}
\end{figure}

\textit{Source: TIGTA analysis of ACS data.}

\textsuperscript{20} Taxpayers may be issued multiple levies.

\textsuperscript{21} Levy proceeds do not represent the exact amount of revenue collected from levies because some monies may be refunded to taxpayers, such as those in hardship situations or those that enter into a payment or installment agreement.
The total number of ACS levies issued (paper and systemic) decreased by nearly 90 percent during the 18-month period after management’s decision. Levy proceeds decreased by 70 percent, or almost $966 million. Furthermore, the analysis showed that in addition to these quantifiable decreases, the decision to suspend ACS systemic levies also negatively impacted other collection actions during this period, including:

- A delay in balance due enforcement because taxpayers will not receive the final demand for payment (the CDP letter). Aggregate balances due on all ACS taxpayer delinquent account cases grew by $5.1 billion to $55.4 billion, which was a 10 percent increase.

- An increase in the number of accounts written off as uncollectible due to statute expiration. Dollars written off due to the expiration of the collection statute while cases were in ACS inventory increased from $1.17 billion to $4.33 billion, which was a 271 percent increase.

- An increase in the number of accounts shelved, before any collection attempt is made by the ACS. ACS shelved 912,124 cases, which was an increase of 619,199 cases, or 211 percent. Some of the cases shelved from ACS were assigned to private collection agencies beginning in April 2017.

IRS management explained that systemic levies result in uniquely high demands on the IRS’s telephone resources. When taxpayers’ bank accounts or wages are attached by an IRS levy, the IRS must be able to answer the resulting phone calls from taxpayers and representatives. IRS management decided to suspend ACS systemic levies when some ACS employees were shifted to the Accounts Management function in January 2016 to assist with answering calls and working correspondence inventory that was backlogged. The shifted employees were moved back to ACS in April 2016; however, certain balance due calls were then shifted to ACS from the Accounts Management function. IRS management believed that the resulting increase in ACS calls precluded the ACS from resuming systemic levies, reasoning that it would have prevented them from delivering an acceptable level of service on all ACS telephone applications. Therefore, no systemic levies have been issued since January 2016.
management informed us they were analyzing different scenarios for restarting the ACS systemic levies, but have not yet set a date to do so.22

The IRS should resume ACS systemic levy action on a priority basis. TIGTA has previously reported that focusing on high-dollar cases would allow the IRS to address significant payment noncompliance without the need for increased resources.23 For example, TIGTA found that replacing some of the IRS’s Automated Substitute for Return program inventory with high-net tax due cases could yield an additional $843 million over a five year span. If management resumed issuing ACS systemic levies on taxpayers with high balances due, it would be able to address significant payment noncompliance while generating more tax revenue without the need to increase resources. For example, current resources working paper ACS levies on lower balance due cases could be reassigned to work systemic levies on higher balance due cases.

**Recommendation**

**Recommendation 1:** The Director, Collection, Small Business/Self-Employed Division, should restart ACS systemic levies for the most significant taxpayer delinquent accounts until planning and analyses of the ACS systemic restart is completed.

**Management’s Response:** The IRS partially agreed with this recommendation. The IRS restarted the issuance of ACS systemic levies on July 17, 2018, and are employing their normal method of case selection.

**Office of Audit Comment:** The IRS’s response meets the intent of the recommendation.

**Paper Levies Issued by the Automated Collection System Function Did Not Always Comply With Notification Requirements**

Our review of ACS levies issued by collection representatives showed that taxpayers’ rights were not always protected.24 While tests of manual levies prepared and issued by collection representatives outside of the ACS system showed proper notification of taxpayer CDP appeal rights to taxpayers, the ACS controls in place for issuing paper levies did not always work.25 In

---

22 After reviewing a draft copy of this report, management advised us they were planning to restart the ACS systemic levy program during July 2018.
24 A taxpayer could have more than one levy. Throughout this audit, we reviewed all levies issued during the audit period for each sampled taxpayer.
25 Collection representatives issue paper levies by using the ACS to generate the levy. Manual levies are manually prepared by representatives outside of the ACS system.
addition, authorized representatives were not always notified of the intent to levy taxpayers, as required by IRS procedures.

The first step in the collection process involves mailing taxpayers a series of notices asking for payment of the delinquent taxes. If taxpayers do not comply, the majority of the accounts are forwarded to an ACS Call Center where collection representatives speak with taxpayers by telephone to resolve their accounts. If the delinquent accounts cannot be resolved, these representatives have the authority to issue levies.26

ACS manual levies are rare. In FY 2017, only 25 manual levies were issued by ACS collection representatives. However, manual levies are manually prepared and issued outside of the ACS, which requires representatives to review the taxpayer’s account to ensure proper and timely notification of CDP appeal rights prior to levy. We reviewed 21 manual levies because the IRS was not able to provide copies for four of the 25 levies issued by ACS collection representatives between October 1, 2016, and September 30, 2017.27 Tests showed that all 21 taxpayers were properly and timely notified of their CDP appeal rights. In addition, we did not identify any levy CDP hearing requests for these 21 taxpayers.

**Taxpayers were not always notified when paper levies were issued by ACS employees**

Paper levies, also issued by collection representatives, are generated through the ACS. The ACS contains a control that compares the date the taxpayer was notified of the pending levy with the requested date to issue the levy. If there are fewer than 30 calendar days between the dates, the ACS will not generate a levy. This control is designed to ensure that taxpayers have been notified of their CDP rights at least 30 calendar days prior to the issuance of any ACS generated levies.

Our analysis of the population of 87,090 taxpayers with employee-generated paper levies issued through the ACS during the same 12-month period identified five taxpayers that were not timely notified of their CDP rights.28 Although CDP notices were sent to these taxpayers, the ACS controls to prevent the levies from being issued until the required 30 days had passed did not work. As a result, these five taxpayer’s rights were potentially violated. *******

** Other taxpayers were not notified of the intent to levy.**

IRS management informed us that ACS controls did not work in these cases because of employee error. Specifically, for some tax modules, an alert in ACS asks the employee to determine if the levy is a Disqualified Employment Tax Levy. If the ACS employee answers

---

26 IRM 5.19.4.2 (Mar. 1, 2018).
27 In three cases, the ACS manual levies were more than a year old and no longer maintained by the IRS. *******
28 TIGTA identified 87,090 taxpayers with paper levies issued through the ACS from October 1, 2016, through September 30, 2017. See Appendix I for details.
“yes” in error, the levy will be issued prior to the 30-day CDP letter requirement. In June 2018, IRS management issued an alert reminding employees to correctly identify whether the levy is a Disqualified Employment Tax Levy or not, and use the appropriate IRM guidelines. Because the IRS has already taken corrective action, we are not making a recommendation for this issue.

Authorized representatives were not always properly notified of the intent to levy taxpayers

IRS policy requires that a copy of the CDP notice also be sent to the taxpayer’s authorized representative if the representative is specifically authorized to receive notices. From the same population of 87,090 taxpayers with ACS paper levies, we identified 2,517 taxpayers with representatives at the time the CDP notice was issued. We tested a random sample of 30 taxpayer cases from this population and determined there were seven cases in which taxpayers’ representatives were also authorized to receive notices and the CDP notices for these cases were still within the ACS case retention period.

IRS management agreed that the authorized representatives were approved to receive taxpayer notices, but ACS employees failed to notify those representatives of the intent to levy the taxpayer. If the taxpayer depends on an authorized representative to respond to IRS notices and the representative is not properly notified of the intent to levy the taxpayer, the taxpayer may be burdened by a levy and not be able to request a timely CDP hearing.

IRS management stated they believe current programming ensures that authorized representatives are sent copies of notices they are entitled to receive and that no corrective actions are necessary. Because the number of errors was small, we are not making a recommendation for this issue at this time. However, during next year’s audit, we will analyze all of the CDP notices within the ACS case retention period to determine if computer programming changes are needed.

29 I.R.C. 6330(h) describes a Disqualified Employment Tax Levy as any levy for the collection of employment taxes for a taxable period that is within the two-year period after an employment tax period for which the taxpayer or predecessor timely requested a hearing under I.R.C. 6330.

30 IRM 5.1.23.3.2.3 (October 30, 2014).
Taxpayers were not always notified when additional assessments were included in paper levies issued by ACS employees

TIGTA tested a population of 59,355 taxpayers with paper ACS levies in which an additional assessment posted prior to the taxpayer’s FY 2017 levy. Analysis showed that for 783 (1.3 percent) taxpayers with paper ACS levies, the IRS did not issue a new notice of intent to levy for the additional assessments prior to the levies being issued. As a result, rights were potentially violated for these 783 taxpayers.

IRS management agreed that these 783 taxpayers should have been issued a new notice of intent to levy and that the taxpayers’ rights were potentially violated. In January 2013, IRS management implemented a systemic control intended to prevent ACS levies from being issued on tax periods with additional assessments when a new notice of levy had not been sent. However, testing during audits performed in FYs 2014 through 2017 continued to identify the same issue. IRS management determined what was causing the problem and implemented another programming fix in January 2018.

Before the programming was completed, management implemented a temporary manual process to monitor incoming ACS inventory to identify any additional assessments that required a new CDP notice. IRS employees were not always following this procedure, which caused the problems for the 783 taxpayers we identified. On March 6, 2018, IRS management took corrective action by issuing an alert reminding employees to follow those procedures. Because the IRS has taken corrective actions, we are not making a new recommendation for this issue. We will, however, test the effectiveness of those corrective actions in next year’s review.

We also identified $399,169 in levy payments for 76 of the 783 taxpayers’ accounts that needed corrective action by IRS management. IRS management explained that they will first attempt to move these payments to other balance due modules in which proper CDP notification was made to the taxpayer. For any remaining payments, taxpayers will be contacted to obtain permission to retain the levy payment as originally credited or to refund it to the taxpayer.

Levies Issued by Field Collection Did Not Always Comply With Notification Requirements

Our review of systemically generated levies by revenue officers in Field Collection showed that taxpayers’ rights were protected in cases for which additional assessments were not included in the levies. The IRS gave taxpayers notice of their CDP rights at least 30 calendar days prior to the issuance of the levies in the cases without additional assessments. However, for levies

31 TIGTA identified and tested a subpopulation from the original ACS paper levy population consisting of 59,355 taxpayers with additional assessments that posted to the taxpayer’s account prior to the FY 2017 levy. See Appendix I for details.
manually prepared by revenue officers, taxpayers were not always given the notice of CDP hearing before the levies were issued.

Sometimes notices do not successfully resolve delinquent accounts, and cases have to be assigned to revenue officers in Field Collection offices for face-to-face contact with the taxpayers. Cases assigned to revenue officers are controlled on the ICS. Revenue officers use the ICS to record collection activity on the delinquent cases and to generate enforcement actions such as levies.

The IRS established an automated control in the ICS similar to the control in the ACS that prevents systemic levies from being issued unless taxpayers have been provided notice of their CDP rights at least 30 calendar days prior to the issuance of the levies. If fewer than 30 calendar days have elapsed since the notice of intent to levy date, the ICS will not generate a levy.

Tests of a random sample of 15 taxpayers with systemically generated levies through the ICS between October 1, 2016, and September 30, 2017, showed that all 15 taxpayers and their authorized representatives were timely notified of their CDP rights. In addition, we did not identify any taxpayers in our ICS systemic levy sample who requested CDP hearings for intent to levy prior to levy issuance.

Revenue officers did not always notify taxpayers before issuing manual levies

Revenue officers most commonly issue systemic levies through the ICS. However, they are also authorized to issue manually prepared levies on any case as needed. Manual levies are issued outside of the ICS and its controls. Managerial review or approval is generally not required when revenue officers issue manual levies.

Tests of a judgmental sample of 25 taxpayers with manual levies prepared by revenue officers showed that. Additionally, . There were no levy payments received in these cases. We did not identify any taxpayers in our ICS manual levy sample who requested CDP hearings for intent to levy prior to levy issuance.

IRS management agreed that . IRS management informed us

---

32 TIGTA identified 76,079 taxpayers with systemic levies issued through the ICS from October 1, 2016, through September 30, 2017. See Appendix I for details.
33 ICS manual levies issued by revenue officers are similar to ACS paper levies issued by collection representatives. For example, a manual levy may be issued on Individual Retirement Accounts.
34 A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. Since the ICS does not control manual levies prepared by revenue officers, it is difficult to reliably determine their exact number. See Appendix I for details.
that revenue officers received training related to ICS manual levy procedures in the first quarter of FY 2018, after these levies were issued; therefore, we are not making a recommendation for this issue.

**Taxpayers were not always notified when additional assessments were included in systemic levies issued through the ICS**

TIGTA selected a random sample of 31 taxpayers for which additional assessments were included in ICS systemic levies.35 Our analysis showed that for five (16 percent) of 31 taxpayers, the IRS did not issue a new notice of intent to levy for the additional assessments prior to the levies being issued. The IRS agreed that these five taxpayers should have been provided a new notice of intent to levy for the additional assessments prior to issuing the levies and that the taxpayers’ rights were potentially violated.

In January 2015, IRS management made changes to the ICS programming for systemic levies intended to prevent levies from being issued on tax periods with additional assessments when a new notice of levy had not been sent. IRS management advised us that subsequent programming fixes were implemented in February 2016, June 2016, and January 2017 to correct these problems. However, our FY 2017 review identified another problem related to the ICS control for Federal contractor levies and we continued to identify the same problem in this year’s review.36

Levies for Federal contractors do not require a CDP notice until after the levy is issued.37 However, if the revenue officer codes a taxpayer account as a Federal contractor by mistake, the levy will be issued without the required CDP notice. The IRS updated the Internal Revenue Manual (IRM) in January 2018 to instruct employees how to identify whether a taxpayer is a Federal contractor.38 In addition, the IRS requested a programming fix to solve this problem by requiring a Federal contractor indicator be present on the case to generate a levy for a Federal contractor. Implementation of the corrective action is not expected to be completed until January 1, 2019. In the interim, IRS management issued an alert in June 2018 reminding employees to follow the related IRM procedures when issuing a levy on a Federal contractor.

IRS management informed us that in ********1***********************************

*TIGTA identified and tested a subpopulation from the original ICS systemic levy population consisting of 8,572 taxpayers with additional assessments potentially included in systemically generated levies in the ICS from October 1, 2016, through September 30, 2017. We could not be certain that the additional assessment amount was included in the levy in this population until we reviewed the actual levy information for each sample case. See Appendix I for details.

*IRC section 6330(h)(2) describes a Federal Contractor Levy, as any levy if the person whose property is subject to levy is a Federal contractor.

*IRM 5.7.9.3.1(2) (Jan. 11, 2018).

*IRM 5.7.9.3.3 (Jan. 11, 2018).
IRS management has a planned programming fix for this problem due in January 2019.

Based on the results of our review from a population of 8,572 taxpayer cases with additional assessments potentially included in ICS systemic levies, we estimate that 408 taxpayers’ rights were potentially violated because they were not sent a new notice of intent to levy, as required.40

Recommendation

Recommendation 2: The Director, Collection, Small Business/Self-Employed Division, should ensure that the corrective programming action scheduled for January 2019 is implemented and effectively prevents employees from incorrectly identifying Federal contractor levies.

Management’s Response: The IRS agreed with this recommendation stating this enhancement is expected to be implemented in January 2019. The IRS will monitor and test it to ensure that it is operating as intended.

Generally, No Improper Levy Actions Were Taken When Taxpayers Appealed Their Notice of Intent to Levy

Taxpayers have the right to request a CDP hearing with the IRS Office of Appeals, at which time the taxpayer can raise various issues with respect to the proposed levy (CDP rights).41 When taxpayers exercise these rights, the IRS must suspend levy action on the tax modules designated for levy, as listed in the CDP letter, for 30 days prior to levy issuance and throughout the entire period that a CDP hearing (including any appeals from the hearing) is pending.

Our initial analysis of the population of 76,079 taxpayers with systemic ICS levies in FY 2017 identified 1,240 taxpayers with levies issued while the taxpayer had an open levy CDP hearing. However, tests of a random sample of 30 taxpayers showed that the tax periods listed on the

40 The point estimate projection for the actual total amount is based on using a two-sided 95 percent confidence interval. We are 95 percent confident that the actual value is between 136 and 919. See Appendix IV for more details on how the projection was calculated.
41 I.R.C. § 6330(b).
levies did not match the tax periods listed on the CDP letter. Therefore, the IRS properly sent the levies on tax periods that were not related to the taxpayers’ open levy CDP hearings.

However, our analysis of the population of 87,090 taxpayers with paper ACS levies issued in FY 2017 identified 1,240 taxpayers with levy issuance dates at the same time the taxpayer had an open levy CDP hearing. See Appendix I for details.

From an additional population of 19,604 taxpayers with open levy CDP hearings in FY 2017, we identified 43 taxpayers with levy issuance dates at the same time the taxpayer had an open levy CDP hearing. See Appendix I for details.

---

42 From a population of 76,079 taxpayers with systemic ICS levies in FY 2017, TIGTA identified 1,240 taxpayers with levy issuance dates at the same time the taxpayer had an open levy CDP hearing. See Appendix I for details.

43 TIGTA identified and analyzed a population of 19,604 taxpayers with open levy CDP hearings in FY 2017. See Appendix I for details.
Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS complied with the IRS Restructuring and Reform Act of 1998 requirements and IRS policy to notify taxpayers and their authorized representatives of the right to a CDP\(^1\) hearing prior to issuing levies, and to suspend levy action during the time frames required pursuant to I.R.C. § 6330. To accomplish our objective, we:

I. Evaluated the adequacy of controls, requirements, and processes for issuing levies as per I.R.C. § 6330.
   A. Discussed levy issuance trends over the last few years with IRS management to determine the cause of the downward trends.

II. Determined whether manual levies issued by both revenue officers and ACS personnel and paper levies issued by ACS personnel complied with legal guidelines for notification to taxpayers prior to levy issuance.
   A. Identified a judgmental sample of 25 taxpayers with potential manual ICS levies, with the assistance of the TIGTA Applied Research and Analytics group, by querying the ICS history table text field from the Data Center Warehouse (DCW) for references to manual levies issued between October 1, 2016, and September 30, 2017. We were unable to identify the population of manual ICS levy cases because the IRS does not track them.

   1. Reviewed all levies issued to the 25 taxpayers during our audit period for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.

   2. Identified whether taxpayers in our sample cases had requested a CDP hearing after receiving their CDP rights for intent to levy and verified the CDP hearing was resolved prior to levy issuance.

   B. Identified a population of 87,090 taxpayers with paper ACS levies by querying the employee number field in the DCW ACS open inventory database files to identify levies requested by ACS personnel, indicating manual levies, between October 1, 2016, and September 30, 2017.

\(^1\) See Appendix VII for a glossary of terms.
1. Analyzed the population of levies for evidence that CDP rights were sent to the taxpayers at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.
   a) Identified five cases in which taxpayers were not timely notified of the IRS’s intent to levy.
   b) Reviewed taxpayer transaction data on the Integrated Data Retrieval System and ACS data for all levies in the five cases to verify whether there was any evidence the taxpayers were timely notified of their levy CDP rights.
   c) Identified any levy payments applied on the five cases.

2. Identified a subpopulation of 2,517 taxpayers (from step II.B) with authorized representatives at the time the CDP notice was issued with no evidence the representatives were notified of the intent to levy.
   a) Selected a statistical sample of 30 taxpayer cases for review. We selected a statistical sample to ensure that each taxpayer case had an equal chance of being selected.
   b) Reviewed taxpayer transaction data on the Integrated Data Retrieval System and ACS data for all levies in the sample of 30 cases to verify whether there was any evidence the authorized representatives were notified of the intent to levy.

C. Identified a population of 25 manual ACS levies by querying the ACS actions table where the action code was “OA,” the sub-action code was “00,” and the text field included “MLVYML,” between October 1, 2016, and September 30, 2017.

   1. Reviewed the population of levies for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.
   2. Identified whether taxpayers in our sample cases had requested a CDP hearing after receiving their CDP rights for intent to levy and verified the CDP hearing was resolved prior to levy issuance.

III. Determined whether automated controls for systemic ICS and ACS levies were adequate to comply with legal guidelines for notification to taxpayers prior to levy issuance.

   A. Determined that no systemic ACS levies had been issued since January 2016. Therefore, we could not review any of this type of levy.

   1. Discussed this issue with IRS management and obtained statistics from the IRS on how stopping ACS levies has impacted compliance.
B. Identified a population of 76,079 systemic ICS levies issued between October 1, 2016, and September 30, 2017, by querying the ICS database of open cases maintained in the DCW.

1. Selected a statistical sample of 60 taxpayer cases with ICS systemic levies for review. We selected a statistical sample to ensure that each taxpayer case had an equal chance of being selected. We verified cases met ICS systemic levy criteria in random selection order until we reached 30 cases for review.

   a) Reviewed all levies issued to the first 15 sampled taxpayers with ICS systemic levies during our audit period for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies. We stopped testing after the first 15 taxpayers because no errors were identified.

IV. Determined whether IRS controls ensured that taxpayers were properly notified prior to levy issuance when additional assessments were included in the levies.

A. Identified a subpopulation (from the original levy population in Steps II.B) of 59,355 taxpayers with paper ACS levies in which additional assessments were potentially included in levies. We matched the Taxpayer Identification Number in the ACS paper levy populations (previously identified) to the Individual Master File and Business Master File databases in the DCW. Taxpayers identified had tax periods with an additional assessment posted prior to the levy issuance date.

   1. Analyzed the population to identify cases in which no notice of levy was issued after the additional assessment was posted.

   2. Identified any levy payments applied on error cases.

B. Identified a subpopulation (from the original levy population in Step III.B) of 8,572 taxpayers with ICS systemic levies in which additional assessments were potentially included in levies. We matched the Taxpayer Identification Number in the ICS systemic populations (previously identified) to the Individual Master File and Business Master File databases in the DCW. Taxpayers identified had tax periods with: 1) an additional assessment posted prior to the levy issuance date and 2) an original notice of CDP rights sent to the taxpayer prior to the date of the additional assessment.

---

2 We oversampled by 30 cases because ICS manual levies are also included in ICS systemic levies and there is no way to identify them without looking at each ICS history.
1. Selected statistical samples of 180 ICS systemic taxpayers.\(^3\) We selected statistical samples to ensure that each taxpayer case had an equal chance of being selected. We reviewed cases in random selection order until we reached 105 ICS systemic cases (31 for which the additional assessments were included in a tax period covered by the levy and 74 that were not included in the levy).

2. Reviewed all levies in the sample from Step IV.B.1 in which additional assessments were included in the levies issued to the 31 ICS systemic taxpayers for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance.

3. Projected the error cases to the ICS systemic population based on a 4.762 percent error rate, a 4.567 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 105 taxpayers. This was due to our original sample containing 74 taxpayer cases for which additional assessments were not included in the levies.

V. Determined whether the IRS controls ensured that levy actions are stopped for the required time period when a taxpayer requested a levy CDP hearing.

A. Analyzed the population of taxpayers with ICS systemic levies (from step III.B) and identified 1,240 taxpayers with levies issued while the taxpayer had an open levy CDP hearing.

1. Selected a statistical sample of 30 taxpayer cases with levies issued while the taxpayer had an open levy CDP hearing for review.

2. Reviewed ICS histories for tax modules included in the CDP hearing to determine whether they were included on any levy actions taken after the CDP levy hearing start date.

B. Analyzed the population of taxpayers with ACS paper levies (from step II.B) to identify taxpayers in which the IRS issued a levy on a tax period listed in the CDP hearing while the taxpayer had an open levy CDP hearing.

C. Identified a population of 19,604 taxpayers with open CDP levy hearings in FY 2017 by querying the Appeals cases table in the DCW.

1. Analyzed the population to identify cases in which the IRS issued a levy and applied a levy payment for a module with an open levy CDP hearing.

---

\(^3\) We oversampled this population because there is no way to know if additional assessments are included in levies without reviewing case histories or other levy module data.
2. Reviewed the potential error cases using the Integrated Data Retrieval System transaction data to determine whether there was any evidence that cases were properly worked.

VI. Validated the manual, paper, and systemic levy data from the ACS and the ICS, and the CDP levy hearing data from the Appeals table by relying on the DCW site procedures that ensure that data received from the IRS were valid. The DCW performs various procedures to ensure that it receives all the records in the ACS, the ICS, and other various IRS databases. In addition, we scanned the data in each population for reasonableness, and we verified the levy, additional assessment, and CDP levy hearing date for each sample case by comparing to Integrated Data Retrieval System transcripts. All the levies identified are in the appropriate period, and the data appeared to be logical. We are satisfied that the data are sufficient, complete, and relevant to the review.

VII. Used the TIGTA contract statistician to assist with reviewing sampling plans and calculating projections.

**Internal controls methodology**

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the Small Business/Self-Employed Division Collection function’s automated controls in place that prevent the issuance of levies prior to 30 calendar days before initiating any levy action and to prevent levy enforcement actions on taxpayers who request CDP levy hearings. We evaluated these controls by reviewing samples of taxpayer levy and CDP levy hearings.
Appendix II

Major Contributors to This Report

Matthew A. Weir, Assistant Inspector General for Audit, Compliance and Enforcement Operations
Carl Aley, Director
Phyllis Heald-London, Audit Manager
Autumn Macik, Lead Auditor
Marcus Sloan, Auditor
Lance Welling, Information Technology Specialist (Data Analytics)
Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Director, Collection, Small Business/Self-Employed Division
Director, Campus Collection, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division
Director, Headquarters Collection, Small Business/Self-Employed
Director, Collection Policy, Small Business/Self-Employed Division
Director, Office of Audit Coordination
Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

1. Taxpayer Rights and Entitlements – Actual; five taxpayer accounts affected (see page 8).
2. Taxpayer Rights and Entitlements – Actual; 783 taxpayer accounts affected (see page 8).
3. Taxpayer Rights and Entitlements – Actual; ********1********** (see page 11).
4. Taxpayer Rights and Entitlements – Potential; 408 taxpayer accounts affected (see page 11).

Methodology Used to Measure the Reported Benefit:

ACS

1. From a population of 87,090 taxpayers with paper levies issued through the ACS between October 1, 2016, and September 30, 2017, we identified five taxpayers for which the IRS did not wait 30 days after sending the final CDP rights notification letter before issuing the levy.

2. From a population of 59,355 taxpayers with paper levies issued through the ACS between October 1, 2016, and September 30, 2017, who had an additional assessment issued prior to the levy, we identified 783 taxpayers for which the IRS did not issue a new CDP notice after the additional assessment prior to levy issuance.

ICS

3. From a judgmental sample of 25 taxpayers with manual levies issued through the ICS between October 1, 2016, and September 30, 2017, we identified ********1********** (see page 11).

4. From a statistical sample of 31 taxpayers with additional assessments included in systemic levies issued through the ICS between October 1, 2016, and September 30, 2017, we identified five cases for which an additional assessment was made on a tax period covered by the levy and the IRS did not send the taxpayer a new final CDP rights notification letter for the additional assessment before issuing the levy.

1 A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.
We projected the five error cases to the total population of 8,572 taxpayers. Our sample size in the projection was 105 taxpayers. This was due to our original sample containing 74 taxpayer cases for which additional assessments were not included in the levies.\(^2\) We estimate that 408 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy, as required.\(^3\)

\(^2\) We oversampled in this population because there is no way to know if additional assessments are included in the levies without reviewing case histories or other levy module data.

\(^3\) The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 136 and 919.
### Example of Form 668-A, Notice of Levy

<table>
<thead>
<tr>
<th>Date</th>
<th>Telephone number of IRS office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reply to</td>
<td>Name and address of taxpayer</td>
</tr>
<tr>
<td>To</td>
<td>Identifying number(s)</td>
</tr>
</tbody>
</table>

**Special instructions for certain property seized**

**This isn’t a bill for taxes you owe. This is a notice of levy we are using to collect money owed by the taxpayer named above.**

<table>
<thead>
<tr>
<th>Kind of Tax</th>
<th>Tax Period Ended</th>
<th>Unpaid Balance of Assessment</th>
<th>Statutory Additions</th>
<th>Total</th>
</tr>
</thead>
</table>

This levy won’t attach funds in IRAs, Self-Employed Individuals’ Retirement Plans, or any other Retirement Plans in your possession or control, unless it is signed in the block to the right.

We figured the interest and late payment penalty to

The Internal Revenue Code provides that there is a lien for the amount that is owed. Although we have given the notice and demand required by the Code, the amount owed hasn’t been paid. This levy requires you to turn over to us this person’s property and rights to property (such as money, credits, and bank deposits) that you have or which you are already obligated to pay this person. However, don’t send us more than the “Total Amount Due.”

Money in banks, credit unions, savings and loans, and similar institutions described in section 401(a) of the Internal Revenue Code must be held for 21 calendar days from the day you receive this levy before you send us the money. Include any interest the person earns during the 21 days. Turn over any other money, property, credits, etc. that you have or are already obligated to pay the taxpayer, when you would have paid it if this person asked for payment.

Make a reasonable effort to identify all property and rights to property belonging to this person. At a minimum, search your records using the taxpayer’s name, address, and identifying number(s) shown on this form. Don’t offer money this person owes you without contacting us at the telephone number shown above for instructions. You may not subtract a processing fee from the amount you send us.

To respond to this levy —

1. Make your check or money order payable to United States Treasury.
2. Write the taxpayer’s name, identifying number(s), kind of tax and tax period shown on this form, and “LEVY PROCEEDS” on your check or money order (not on a detachable stub.)
3. Complete the back of Part 3 of this form and mail it to us with your payment in the enclosed envelope.
4. Keep Part 1 of this form for your records and give the taxpayer Part 2 within 2 days.

If you don’t owe any money to the taxpayer, please complete the back of Part 3, and mail that part back to us in the enclosed envelope.

Signature of Service Representative | Title
--- | ---

Catalog Number 16044T Part 1 — For Addressee

www.irs.gov

Form 668-A(c)(DO) (Rev. 1-2015)
Appendix VI

**Previous Five Audit Reports Related to This Statutory Review**


# Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automated Collection System</td>
<td>A telephone contact system through which collection representatives collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.</td>
</tr>
<tr>
<td>Business Master File</td>
<td>The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.</td>
</tr>
<tr>
<td>Collection Due Process Rights</td>
<td>I.R.C. § 6330 gives the taxpayer the right to appeal before the proposed levy action and after a jeopardy levy, a disqualified employment tax levy, a levy on a Federal contractor, and a levy on State tax refunds. The IRS notifies taxpayers of their CDP rights by issuing a notice explaining their right to request a hearing.</td>
</tr>
<tr>
<td>Collection Representative</td>
<td>The duties of a collection representative are varied. Many hours are spent on the telephone and working taxpayer contact inventory. Some of their duties include securing levy sources, resolving delinquent accounts, and responding to taxpayer correspondence.</td>
</tr>
<tr>
<td>Data Center Warehouse</td>
<td>An online database maintained by TIGTA. The DCW pulls data from IRS system resources, such as IRS Collection and Examination files, for TIGTA access.</td>
</tr>
<tr>
<td>ACS Case Retention Period</td>
<td>When a case is closed off the ACS, it goes to the closed database for two years; after the two-year period elapses, the case is no longer available.</td>
</tr>
<tr>
<td>Field Collection</td>
<td>The unit in the Area Offices consisting of revenue officers who handle face-to-face contacts with taxpayers to collect delinquent accounts or secure unfiled returns.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government’s fiscal year begins on October 1 and ends on September 30.</td>
</tr>
<tr>
<td>Individual Master File</td>
<td>The IRS database that maintains transactions or records of individual tax accounts.</td>
</tr>
<tr>
<td>Integrated Collection System</td>
<td>An information management system designed to improve revenue collections by providing revenue officers access to the most current taxpayer information, while in the field, using laptop computers for quicker case resolution and improved customer service.</td>
</tr>
<tr>
<td>Integrated Data Retrieval System</td>
<td>An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer’s account records.</td>
</tr>
<tr>
<td>Internal Revenue Code</td>
<td>Title 26 of the United States Code enacted by Congress containing all relevant rules pertaining to estate, excise, gift, income, payroll, and sales taxes.</td>
</tr>
<tr>
<td>Internal Revenue Manual</td>
<td>The primary, official source of IRS “instructions to staff” relating to the organization, administration, and operation of the IRS. It details the policies, delegations of authorities, procedures, instructions, and guidelines for daily operations for all divisions and functions of the IRS.</td>
</tr>
<tr>
<td>Manual Levy</td>
<td>A manual ICS levy is a paper levy form that is manually prepared and issued by a revenue officer. A manual ACS levy is a paper levy form that is manually prepared and issued by an ACS employee.</td>
</tr>
<tr>
<td>Module</td>
<td>Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.</td>
</tr>
<tr>
<td>Paper Levy</td>
<td>A paper ACS levy is initiated through the ACS by a collection representative, resulting in levy preparation and issuance by the system.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Private Collection Agencies</td>
<td>Private collection agencies work on accounts where taxpayers owe money, but the IRS is no longer actively working them. Several factors contribute to the IRS assigning these accounts to private collection agencies, including older, overdue tax accounts or lack of resources preventing the IRS from working the cases.</td>
</tr>
<tr>
<td>Revenue Officer</td>
<td>Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.</td>
</tr>
<tr>
<td>Systemic Levy</td>
<td>ACS systemic levies are initiated, prepared, and issued completely by the ACS with no manual intervention necessary. ICS systemic levies are initiated by revenue officers, resulting in levy preparation and issuance by the system.</td>
</tr>
<tr>
<td>Tax Period</td>
<td>Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.</td>
</tr>
<tr>
<td>Taxpayer Delinquent Account</td>
<td>A balance due account of a taxpayer. One taxpayer delinquent account exists for all delinquent tax periods for a taxpayer.</td>
</tr>
</tbody>
</table>
Management's Response to the Draft Report

August 27, 2018

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Mary Beth Murphy
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2018 Review of Compliance With Legal Guidelines When Issuing Levies (Audit #201830003)

Thank you for the opportunity to review the above subject draft report. IRS issued over 590,000 levies in Fiscal Year 2017 and, in the great majority of instances, complied with all required legal and procedural requirements. We appreciate your recognition that, generally, no improper levy actions were taken when taxpayers appealed their notice of intent to levy.

We implemented programming in recent years to prevent levies being issued that include modules with additional assessments for which a collection due process notice has not been sent. That programming has been very successful in addressing this problem; while TIGTA did find instances in Automated Collection System (ACS) cases in this year’s audit, those cases were in inventory prior to the implementation of the January 2018 programming. There were also a few Field Collection cases identified with this same issue. To address them, we have already updated the Internal Revenue Manual and have requested a programming fix (due to be implemented in January 2019). We agree with your recommendation to ensure the programming is carried out and is functioning correctly.

TIGTA recommended that we restart ACS systemic levies for the most significant taxpayer delinquent accounts until planning and analyses of the ACS systemic restart is completed. We restarted the issuance of ACS systemic levies in July of this year. In accordance with our controls to ensure fairness in case selection, we are using our normal case selection methods for the systemic levies program rather than focusing solely on high-dollar balance due cases.

While TIGTA did not make a recommendation regarding ACS manual levies, we issued Servicewide Electronic Research Program alerts in June to address issues identified in the audit. We plan to complete a program review on the manual issuance of the LT11, Notice of Intent to Levy and Notice of Your Right to a Hearing, notices and levies by
pulling cases for analysis from the time the alerts were issued until the end of October 2018. We are taking these actions to ensure taxpayer rights are protected in this process.

We are always seeking ways to further strengthen our levy program and we appreciate your insights in that regard. Attached is a detailed response outlining our corrective actions to address your recommendations. If you have any questions, please contact me or Paul Mamo, Director, Collection Operations.

Attachment
RECOMMENDATION 1:
The Director, Collection, Small Business/Self-Employed Division, should restart ACS systemic levies for the most significant taxpayer delinquent accounts until planning and analyses of the ACS systemic restart is completed.

CORRECTIVE ACTIONS:
We agree with the recommendation in part. We restarted the issuance of ACS systemic levies on July 17, 2018, and are employing our normal method of case selection.

IMPLEMENTATION DATE:
Implemented

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

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 2:
The Director, Collection, Small Business/Self-Employed Division, should ensure that the corrective programming action scheduled for January 2019 is implemented and effectively prevents employees from incorrectly identifying Federal contractor levies.

CORRECTIVE ACTIONS:
We agree with the recommendation. IRS management expects this enhancement to be implemented in January 2019 and will monitor and test it to ensure that it is operating as intended.

IMPLEMENTATION DATE:
August 15, 2019

RESPONSIBLE OFFICIAL:
Director, Collection Policy, Small Business/Self-Employed Division

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