
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Fiscal Year 2019 Statutory Review of
Compliance With Legal Guidelines
When Issuing Levies*

September 19, 2019

Reference Number: 2019-30-070

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HIGHLIGHTS

FISCAL YEAR 2019 STATUTORY REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN ISSUING LEVIES

Highlights

Final Report issued on September 19, 2019

Highlights of Reference Number: 2019-30-070 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 (CDP) 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 requirement to notify taxpayers prior to issuing levies. The overall objective of this audit 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 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

TIGTA reviewed various levies issued to taxpayers during the period October 1, 2017, through September 30, 2018.

Tests of the population of 732,418 taxpayers with State Income Tax Levy Program levies identified 283 taxpayers that were not notified of their CDP rights and 14 taxpayers that were not timely notified of their CDP rights.

Tests of the population of 1,906 taxpayers with Federal contractor levies identified 255 taxpayers that were not notified of their CDP rights.

Tests of the population of 8,982 taxpayers with Alaska Permanent Fund Dividend levies identified four taxpayers that were not notified of their CDP rights and 13 taxpayers with levies issued while a CDP hearing was pending.

Tests of the population of 2,043,617 taxpayers with Federal Payment Levy Program levies identified 410 taxpayers with levies issued while a CDP hearing was pending.

Tests of the population of 482,580 taxpayers with Municipal Tax Levy Program levies identified 61 taxpayers with levies issued while a CDP hearing was pending.

Tests of the population of 198,606 taxpayers with Automated Collection System levies identified five taxpayers that were not timely notified of their CDP rights and 17 taxpayers with levies issued while a CDP hearing was pending.

Tests of a population of 77,527 taxpayers with levies issued by revenue officers through the Integrated Collection System identified an estimated: 1) 51 taxpayers that were not notified of their CDP rights, 2) 140 taxpayers that were not timely notified of their CDP rights, and 3) 38 taxpayers that were not notified of their CDP rights when the CDP notice transaction code was incorrectly reversed.

WHAT TIGTA RECOMMENDED

TIGTA recommended various programming changes and other corrective actions to prevent these errors from occurring.

In response to the report, the IRS agreed with all recommended programming changes and corrective actions. The IRS plans to monitor the corrective actions as part of their internal management system of controls.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 19, 2019

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2019 Statutory Review of Compliance
With Legal Guidelines When Issuing Levies (Audit # 201930002)

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 Section 6330.¹ This is the twenty-first year in which we have evaluated the controls over levies. This review is included in our Fiscal Year 2019 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.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

¹ 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."



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Abbreviations

ACS	Automated Collection System
ALP	Automated Levy Program
CDP	Collection Due Process
FY	Fiscal Year
ICS	Integrated Collection System
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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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.¹ This action is commonly referred to as a "levy" (see Appendix V for an example of Form 668-A, *Notice of Levy*).² 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.³

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).⁴ The law provides an exception to the 30-calendar-day notice requirement for certain situations such as levies on a State tax refund, levies on Federal contractors, levies on disqualified employment tax, and jeopardy levies.⁵ These taxpayers must still be given their CDP rights within a reasonable period of time after the levy.

The Treasury Inspector General for Tax Administration is required to annually verify whether the IRS is complying with the IRS Restructuring and Reform Act of 1998 requirement to notify taxpayers of the intention to levy within required time frames, generally 30 calendar days prior to levy issuance.

The provisions require that all levy actions be suspended during the 30 calendar days prior to the levy for those periods that are the subject of the requested hearing, as well as throughout the entire period that a hearing (including any appeals from the hearing) is pending.⁶ CDP rights include the right to a fair and impartial hearing before the Office of Appeals.⁷ The notice required by I.R.C. § 6330 must include the amount of unpaid tax, the right to request a CDP

¹ Internal Revenue Code § 6331(a) and (b).

² Internal Revenue Code § 6331(a) and (b).

³ See Appendix VII for a glossary of terms. I.R.C. § 6331(d).

⁴ Pub. L. No. 105-206, 112 Stat. 685; I.R.C. § 6330(a); I.R.C. § 6330(b); and I.R.C. § 6330(c) provide 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(f).

⁶ I.R.C. § 6330(a) and (e).

⁷ I.R.C. § 6330(b).



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hearing, and the proposed action the IRS intends to take, along with other important information on topics such as collection alternatives.⁸

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. § 6330.⁹ 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, generally required 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 twenty-first 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.¹⁰

The first step in the collection process involves mailing taxpayers a series of notices asking for payment of the delinquent taxes. The final notice is the CDP notice. If taxpayers do not comply, the IRS may take collection actions to collect delinquent taxes. The IRS may collect monetary assets from the taxpayer by issuing levies through the Automated Collection System (ACS), Field Collection, or one of the IRS's Automated Levy Programs (ALP).¹¹

- 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.
- 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:
 - Systemic levies - issued by revenue officers through the ICS.
 - Manual levies - issued by revenue officers after manually typing the levy.

⁸ I.R.C. § 6330(a)(3).

⁹ I.R.C. § 7803(d)(1)(A)(iv).

¹⁰ 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.

¹¹ Levies issued by the ALPs, such as the Federal Payment Levy Program and the State Income Tax Levy Program, are transmitted electronically and proceeds are typically received electronically.



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- The ALPs, through which levies are issued electronically without employee action, and proceeds are received electronically. The four ALPs are:
 - Federal Payment Levy Program – attaches to Federal disbursements due an individual or business, such as Federal wages, retirement, vendor/contractor payments, and Social Security. It also issues Federal contractor levies and disqualified employment tax levies, which have different legal requirements.¹²
 - State Income Tax Levy Program – attaches to participating State income tax refunds.
 - Municipal Tax Levy Program – attaches to participating local municipal income tax refunds.
 - Alaska Permanent Fund Dividend Levy Program – attaches to the Permanent Fund Dividend distributed by Alaska.

Controls in the ACS, the ICS, and the ALP systems have been designed to help ensure that taxpayers are notified of their CDP rights at least 30 calendar days prior to the issuance of ACS systemic and paper levies, ICS systemic levies, and ALP levies (when required).¹³ 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 the 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 stated during this review that they do track the number of manual levies issued by revenue officers.¹⁴ 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. The IRS does track manual levies issued by ACS collection representatives. However, IRS management stated that none were issued during Fiscal Year (FY) 2018 due to ACS resources focusing on handling incoming calls.

TIGTA audit reports issued since FY 2005 generally reported that revenue officers properly notified taxpayers of their right to a hearing when issuing manual levies. However, in our FY 2018 report, we reported *****1*****

¹² The legal requirements can be found in I.R.C. § 6330(f). Per Internal Revenue Manual (IRM) 5.1.9.3.15 (Nov. 12, 2014), disqualified employment tax levies are levies served to collect an employment tax liability for taxpayers who previously requested a CDP hearing involving unpaid employment tax.

¹³ Per I.R.C. § 6330(f), the IRS does not have to issue a CDP notice prior to levy issuance for levies on State income tax refunds, Federal contractors, and disqualified employment tax, but is required to issue a CDP notice within a reasonable amount of time after the levy if that levy is the first levy made with respect to a particular tax and tax period.

¹⁴ According to the IRS, revenue officers issued more than 4,100 manual levies in Fiscal Year 2018.



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*****1***** IRS management stated that these violations were due to employee error and that employees received training related to ICS manual levy procedures in the first quarter of FY 2018.¹⁵ TIGTA considers manual levies issued by revenue officers to be higher risk due to being issued outside the ICS and continues to test them thoroughly.

In FY 2018, we also reported that in five cases, the IRS issued ACS paper levies before waiting 30 calendar days after providing the CDP notice to the taxpayer. IRS management stated these violations were due to employee error, and in June 2018 issued an alert reminding employees of the proper procedures.

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 October 2018 through July 2019. 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.

¹⁵ See Appendix VI for a list of five previous audit reports related to this review.



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Results of Review

Levies Issued by the Automated Levy Programs Did Not Always Comply With Legal Requirements

Our review of the IRS's ALPs showed that taxpayers' rights were not always protected.¹⁶ While some of the programs have different statutory requirements about when taxpayers must be notified of their rights, all taxpayers that are levied by the IRS must be notified of their CDP rights.¹⁷ We determined that the IRS's controls in place for ensuring that CDP notices were issued timely did not always work.

Taxpayers also 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.¹⁸ When taxpayers exercise these rights, the IRS must suspend levy action on the tax modules designated for levy, as listed in the CDP letter, throughout the entire period that a CDP hearing (including any appeals from the hearing) is pending. Our review identified that ALP levies were improperly issued when taxpayers had a pending CDP hearing.

Taxpayers were not always notified of their CDP rights when the IRS issued automated program levies

The IRS is required to notify all taxpayers of their CDP rights prior to the levy in most cases. Three of the IRS's ALPs require that CDP notices are issued 30 calendar days prior to the issuance of the levy: the Federal Payment Levy Program, the Municipal Tax Levy Program, and the Alaska Permanent Fund Dividend Levy Program. If there are fewer than 30 calendar days between the date of the notice and the date of the levy, the ALP should 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 of these ALP-generated levies.

For the fourth ALP, the State Income Tax Levy Program, and also for Federal contractor levies and taxpayers with disqualified employment tax levies, the IRS must notify the taxpayers of their CDP rights within a reasonable time after the levy is issued. IRS management stated that CDP notices are issued within two weeks of Federal contractor levies and disqualified employment tax levies. IRS management also stated that CDP notices are issued within two weeks of receipt of

¹⁶ A taxpayer could have more than one levy. Throughout this audit, we reviewed all levies issued during the audit period October 1, 2017, through September 30, 2018, for each taxpayer.

¹⁷ I.R.C. § 6330 (a), (d) and (f).

¹⁸ I.R.C. § 6330(b).



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levy proceeds for State Income Tax Levy Program levies. We considered these notices to be “not timely” if they were issued after 30 calendar days, to allow time for processing.

We analyzed a population of 2,043,617 taxpayers with Federal Payment Levy Program levies, a population of 482,580 taxpayers with Municipal Tax Levy Program levies, and a population of 2,191 taxpayers with disqualified employment tax levies, all issued in FY 2018.¹⁹ The IRS properly notified all of these taxpayers of their CDP rights. However, our analysis of State Income Tax Levy Program levies, Federal contractor levies, and Alaska Permanent Fund Dividend Levy Program levies identified taxpayers that were not properly notified of their CDP rights.

State Income Tax Levy Program levies

Our analysis of the population of 732,418 taxpayers with State Income Tax Levy Program levy proceeds received by the IRS in FY 2018 identified 283 taxpayers that were not notified of their CDP rights, as required. In addition, we identified 14 taxpayers that were not timely notified of their CDP rights. As a result, these 297 taxpayers’ rights were violated. The IRS received levy proceeds from these taxpayers totaling \$244,285.

IRS management stated that these exceptions occurred for two reasons: 1) payments were misapplied to an incorrect tax period that did not have a balance due and 2) certain States sent payments under the secondary Taxpayer Identification Number, which created a credit on a tax period with no return. In both cases, the IRS transferred the payments to the correct tax period, but because it was a transfer, a CDP notice did not systemically generate. Because the payment transfers were all performed manually, IRS management stated that this error is not a programming issue. After IRS management held conversations about the error with the primary State that caused the issue, the State identified a programming solution and agreed to implement it by May 31, 2019. IRS management stated that they will contact the 283 taxpayers by December 31, 2019, to obtain permission to retain the levy payment as originally credited or will refund it to the taxpayer.

Federal contractor levies

Our analysis of the population of 1,906 taxpayers with Federal contractor levies issued in FY 2018 identified 255 taxpayers that were not notified of their CDP rights. *****1*****
*****1***** As a result, these taxpayers’ rights were potentially violated. The IRS did not receive any levy proceeds from these taxpayers.

IRS management stated that these taxpayers’ accounts went to full pay status after the levy was issued, but before the notice went out.²⁰ Therefore, the system did not issue a notice because the

¹⁹ TIGTA reviewed all ALP levies issued October 1, 2017, through September 30, 2018. See Appendix I for population details.

²⁰ Federal contractor taxpayers systemically receive CDP notices two weeks after the issuance of the levy.



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account was in full pay status. IRS management stated that they will implement an information technology programming change to ensure that CDP notices are issued even if the case becomes full paid after the levy is issued. However, this programming change will not be completed until January 2020 for the Business Master File and mid-year 2020 for the Individual Master File. In the interim, IRS management stated that they are identifying impacted taxpayers on a weekly basis. Beginning September 23, 2019, IRS management will begin sending a letter to the impacted taxpayers to explain the error and try to obtain their agreement to leave the levied funds applied to that tax debt. If the taxpayer disagrees or does not respond, the IRS will manually refund the levied funds to the taxpayer. This will be an ongoing manual process until the programming changes are implemented.

Alaska Permanent Fund Dividend Levy Program levies

Our analysis of the population of 8,982 taxpayers with levies issued through the Alaska Permanent Fund Dividend Levy Program during FY 2018 identified four taxpayers that were not notified of their CDP rights. As a result, these four taxpayers' rights were violated. The IRS received levy proceeds from these taxpayers totaling \$7,267.

IRS management stated that these cases were sent to the Alaska Permanent Fund Dividend Levy Program for levy despite having an existing credit balance on the modules. The notice was not sent because there was not a balance due. IRS management has requested information technology programming to exclude modules with credit balances from being sent to the Alaska Permanent Fund Dividend Levy Program for levy. This programming was completed on May 31, 2019. For the taxpayers with levy proceeds, IRS management took action to issue a manual refund to the taxpayer or complete a credit transfer to another balance due module of the taxpayer.

Automated levies were improperly issued while taxpayers had pending CDP hearings

When a taxpayer requests a CDP hearing, the IRS is required to suspend levy action for the duration of the hearing. Our analysis of the ALPs determined that in most cases programming was working properly to prevent automated levies from being issued while the taxpayer had an open CDP hearing. However, our analysis of Federal Payment Levy Program levies, Municipal Tax Levy Program levies, and Alaska Permanent Fund Dividend Levy Program levies identified taxpayers that had levies issued while there was a pending CDP hearing.

We did not review whether State Income Tax Levy Program levies, Federal contractor levies, or disqualified employment tax levies were issued while the taxpayer had a pending CDP hearing because the law exempts them from this requirement.²¹

²¹ I.R.C. § 6330(f).



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Federal Payment Levy Program levies

Our analysis of the population of 2,043,617 taxpayers with Federal Payment Levy Program levies issued in FY 2018 identified 410 taxpayers with levies that were issued on modules listed in the CDP letter while a CDP hearing was pending. As a result, these 410 taxpayers' rights were violated. The IRS received levy proceeds from these taxpayers totaling \$123.

IRS management agreed that the taxpayers' rights were potentially violated and explained that there was a delay between the time the CDP hearing request was received and the input of the CDP hearing transaction code to the Integrated Data Retrieval System to systemically prevent levies from being able to post on the tax period. IRS management stated that *****1*****
*****1*****

Additionally, IRS management stated that addressing this issue will involve coordination among multiple groups within the Collection function. They are working now to analyze the underlying issues and identify what remedies would be appropriate. They anticipate that this process will take a few months. Based on the results of the analysis, they will create an action plan to address this issue.

Municipal Tax Levy Program levies

Our analysis of the population of 482,580 taxpayers with Municipal Tax Levy Program levies issued in FY 2018 identified 61 taxpayers with levies that were issued while a CDP hearing was pending. As a result, these 61 taxpayers' rights were violated. The IRS did not receive any levy proceeds from these taxpayers.

IRS management agreed that the taxpayers' rights were potentially violated and explained that there was a delay between the time the CDP hearing request was received and the input of the CDP hearing transaction code to the Integrated Data Retrieval System to systemically prevent levies from being able to post on the tax period.

IRS management's analysis of this timing issue and subsequent action plan will address both the Federal Payment Levy Program and the Municipal Tax Levy Program levies requests for CDP hearings. Therefore, we will not be making a separate recommendation.

Alaska Permanent Fund Dividend Levy Program levies

Our analysis of the population of 8,982 taxpayers with levies issued through the Alaska Permanent Fund Dividend Levy Program during FY 2018 identified 13 taxpayers with levies that were issued while a CDP hearing was pending. As a result, these 13 taxpayers' rights were potentially violated. No levy proceeds were received from these taxpayers.

IRS management agreed that the taxpayers' rights were potentially violated and explained that there was a delay between the time the CDP hearing request was received and the input of the CDP hearing transaction code to the Integrated Data Retrieval System to systemically prevent



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levies from being able to post on the tax period. IRS management took corrective actions to release these levies.

IRS management's analysis of this timing issue and subsequent action plan will address the Federal Payment Levy Program, the Municipal Tax Levy Program, and the Alaska Permanent Fund Dividend Levy Program levies requests for CDP hearings. Therefore, we will not be making a separate recommendation.

Recommendations

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

Recommendation 1: Contact the States that sent payments under the secondary taxpayer identification number in response to State Income Tax Levy Program levies, to provide additional guidance on submitting payments to ensure that they are credited promptly and that taxpayers timely receive their CDP rights.

Management's Response: The IRS agreed with this recommendation. It will contact the States that sent levy payments under the secondary taxpayer identification number in response to State Income Tax Levy Program levies in order to address this issue. They will also provide additional guidance to the other 31 States involved in the State Income Tax Levy Program with regard to submitting payments to ensure that they are credited promptly.

Recommendation 2: Ensure that corrective programming is implemented so that CDP notices are issued for Federal contractor levies that are full paid after the levy issuance.

Management's Response: The IRS agreed with this recommendation. Collection has submitted a Unified Work Request to correct programming to address the issue of CDP notices not being issued on modules that are fully paid via Federal Payment Levy Program Federal contractor levies.

Recommendation 3: Ensure that corrective programming is implemented so that modules with credit balances are not sent to the Alaska Permanent Fund Dividend Levy Program for levy.

Management's Response: The IRS agreed with this recommendation and stated that corrective action was implemented in May of 2019. The IRS review of cases pre-selected for the 2019 levy issuance shows the programming change is working.

Recommendation 4: Analyze the causes of delays between the time a CDP hearing request is received at the campus and the input of the CDP hearing transaction code to the Integrated Data Retrieval System, and create an action plan to minimize those delays.

Management's Response: The IRS agreed with this recommendation. It has formed a collaborative team between Collection Headquarters and Collection Campus. The team will identify the cause of this issue and will prepare an action plan to address it.



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Levies Issued by the Automated Collection System Did Not Always Comply With Legal Requirements

Our review of ACS levies showed that taxpayers' rights were not always protected for both systemic and paper levies. 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.²²

ACS systemic levies are issued automatically by the system; ACS paper levies are issued by collection representatives through the system. 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.

Additionally, as with the ALPs, ACS levies may not be issued while a CDP hearing is pending, for those periods that are the subject of the requested hearing. Systemic controls are in place to prevent this from occurring; however, our review found some cases in which ACS levies were issued while a CDP hearing was pending.

Taxpayers were not always notified of their CDP rights when the IRS issued ACS levies

Our analysis of the population of 198,606 taxpayers with ACS levies issued during FY 2018 identified five taxpayers that were not timely notified of their CDP rights. As a result, these five taxpayers' rights were violated. The IRS received levy proceeds from these taxpayers totaling \$725.

IRS management agreed that the taxpayers' rights were violated and explained that this occurred due to ACS employee errors related to same-day actions and employment tax accounts. IRS management is taking corrective action by issuing an alert reinforcing Internal Revenue Manual (IRM) 5.19.4.4 guidelines for cancelling same-day actions. Additionally, IRS management will review a sample of Business Master File employment tax accounts and ACS programming during the first quarter of FY 2020 to determine whether either IRM procedural changes or a work request is necessary to require a manual override on Business Master File employment tax levy requests. IRS management is *****1*****
*****1*****

²² IRM 5.19.4.2 (Mar. 1, 2018).



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ACS levies were improperly issued while taxpayers had pending CDP hearings

Our analysis of the population of 198,606 taxpayers with ACS levies issued during FY 2018 identified 17 taxpayers with levies that were issued while a CDP hearing was pending. As a result, these 17 taxpayers' rights were violated. No levy proceeds were received from these taxpayers.

IRS management agreed that the taxpayers' rights were violated and explained that there was a delay between the time the CDP hearing request was received and the input of the CDP hearing transaction code to the Integrated Data Retrieval System to systemically prevent levies from being able to post on the tax period. IRS management took corrective actions to release these levies.

IRS management's analysis of this timing issue and subsequent action plan will address ACS levies along with the Federal Payment Levy Program and the Municipal Tax Levy Program levies requests for CDP hearings. Therefore, we will not be making a separate recommendation.

Recommendation

Recommendation 5: The Director, Collection, Small Business/Self-Employed Division, should determine the cause and take the appropriate corrective action(s) to ensure that the ACS system does not issue levies on taxpayers without a CDP notice.

Management's Response: The IRS agreed with this recommendation. It will review the ACS system to determine the cause, create an action plan, and take corrective actions, with the exception of programming changes, as appropriate. If the IRS determines there is a need for programming actions, it will submit the programming requests and ensure that they are properly implemented.

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

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. When the revenue officer requests a levy through the ICS, it is considered to be an ICS systemic levy.



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Revenue officers can also request a levy outside of the ICS, using a paper levy form, which is an ICS manual levy.

Our review of levies issued by revenue officers in Field Collection during FY 2018 showed that taxpayers' rights were not always protected for both systemically and manually issued levies. However, our review did not identify any levies issued by Field Collection in FY 2018 while there was a pending CDP hearing.

Taxpayers were not always notified of their CDP rights when the IRS issued systemic Field Collection levies

Our analysis of the population of 77,527 taxpayers with ICS systemic levies initially identified 607 taxpayers whose rights were potentially violated.²³ IRS management provided a response to random samples of these exception cases. Specifically, we identified:

- 245 taxpayers that were not notified of their CDP rights prior to levy issuance. The IRS received levy proceeds from these taxpayers totaling \$241.
 - IRS management reviewed a random sample of 116 of these cases and concurred that 24 were exception cases. We reviewed the IRS's responses and agreed that 24 (20.7 percent) of the 116 were exceptions. Based on these results, from the population of 245 potential exceptions, we estimate that 51 were exception cases and these taxpayers' rights were potentially violated.²⁴
- 253 taxpayers that were not timely notified of their CDP rights. The IRS received levy proceeds from these taxpayers totaling \$6,198.
 - IRS management reviewed a random sample of 112 of these cases and concurred that 62 were exception cases. We reviewed the IRS's responses and agreed that 62 (55.4 percent) of the 112 were exceptions. Based on these results, from the population of 253 potential exceptions, we estimate that 140 were exception cases and these taxpayers' rights were potentially violated.²⁵

²³ Due to constraints with the availability of data from TIGTA's Data Center Warehouse, we were able to obtain ICS systemic levies only from January 1, 2018, through September 30, 2018, from the ICS Closed Case database. However, we were able to obtain all levies issued during FY 2018 from the ICS Open Case database. We reviewed the population of these available levies.

²⁴ 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 38 and 66. See Appendix IV for more details on how the projection was calculated.

²⁵ 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 122 and 158. See Appendix IV for more details on how the projection was calculated.



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- 109 taxpayers for which the CDP notice transaction posted to show the letter was issued but was reversed on the same date, and the letter was not later reissued prior to the levy. The IRS received levy proceeds from these taxpayers totaling \$2,939.
 - IRS management reviewed a random sample of 72 of these cases and concurred that 25 were exception cases. We reviewed the IRS's responses and agreed that 25 (34.7 percent) of 72 were exceptions. Based on these results, from a population of 109 potential exceptions, we estimate that 38 taxpayers' rights were potentially violated.²⁶

IRS management stated that these exceptions occurred for three reasons:

- 1) Erroneous identification of Federal contractor levies that bypassed the systemic block.
- 2) Erroneous identification of disqualified employment tax levies that bypassed the systemic block.
- 3) The CDP notice transaction code was reversed in error, the notice was never re-issued, and revenue officers are not following the IRM for invalid CDP notices.²⁷

For the erroneous Federal contractor levies, we identified a similar issue in our FY 2018 review.²⁸ IRS management issued an alert in June 2018 reminding employees to follow the related IRM procedures when issuing a levy on a Federal contractor and implemented a programming fix on January 1, 2019. Because the IRS has taken corrective actions, we will not be making a new recommendation for this issue. However, we will test the effectiveness of those corrective actions in next year's review.

For the disqualified employment tax levies, IRS management stated that a programming fix will be required to correct this issue. This enhancement is expected to be implemented in January 2021. In the interim, the Director, Field Collection Operations issued an all employee memo via e-mail on June 24, 2019, entitled *Disqualified Employment Tax Levy (DETL) and Federal Contractor (FEDCON) Levy* with a reminder of the required processes and references to IRM guidance.

For the CDP notice transaction codes that were reversed in error, revenue officers are not following IRM procedures. IRS management stated that they plan to issue an IRM 5.11.1 Procedural Update and update the ICS User Guide by January 31, 2020. Additionally,

²⁶ 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 31 and 45. See Appendix IV for more details on how the projection was calculated.

²⁷ IRM 5.11.1.3.3.9 *Invalid Collection Due Process Notice and Rescinding a Valid Collection Due Process Notice* (Aug. 1, 2014).

²⁸ TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2018).



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Collection Policy provided Field Collection with a list of cases requiring a correction of the transaction code or a new issuance of the CDP notice letter.

IRS management stated that for all of the improper levy proceeds received, they will either secure taxpayer approval to retain the proceeds or issue a manual refund. IRS Collection management requested issuance of a manual refund for these taxpayers on June 28, 2019. However, it has not yet been completed.

Manual Field Collection levies were not always issued properly

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.²⁹ 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 32 taxpayers with manual levies prepared by revenue officers identified four cases in which taxpayers were not notified or not timely notified of their CDP appeal rights.³⁰ There were no levy payments received in these cases.

IRS management agreed that the taxpayers' rights were violated and explained that this occurred due to revenue officers errors. IRS management took corrective action to release or request a release for the levies that were outstanding.

In our FY 2018 report, we identified a similar issue, and IRS management stated that revenue officers received training related to ICS manual levy procedures in the first quarter of FY 2018; therefore, a recommendation was not made on this issue in that report.³¹

Recommendations

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

Recommendation 6: Ensure that corrective programming changes are implemented to effectively prevent employees from incorrectly identifying disqualified employment tax levies.

Management's Response: The IRS agreed with this recommendation. Collection will submit a programming request to prevent employees from incorrectly identifying disqualified employment tax levies.

²⁹ ICS manual levies issued by revenue officers are similar to ACS manual levies issued by collection representatives. For example, a manual levy may be issued on Individual Retirement Arrangements.

³⁰ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

³¹ TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2018).



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Recommendation 7: Provide revenue officers with clarification and reinforcement of the IRM 5.11.1.3.3.9 procedures for invalid CDP notices when the notice transaction code is reversed in error.

Management's Response: The IRS agreed with this recommendation. It will issue an IRM Procedural Update and update the ICS User Guide with regard to reversing a CDP notice. The IRS plans to issue an all employee e-mail from the Director of Field Collection Operations highlighting the issuance of the IRM Procedural Update for IRM 5.11.1 and the ICS User Guide.



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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 hearing prior to issuing levies and to suspend levy action during the time frames required pursuant to I.R.C. Section (§) 6330.¹ To accomplish our objective, we:

- I. Evaluated the adequacy of controls, requirements, and processes for issuing levies as per I.R.C. § 6330.
 - A. Reviewed and documented the applicable IRM (policy and procedural) sections to determine whether they are sufficient and accurate per I.R.C. § 6330.
- II. Determined whether controls for **levies issued by ACS personnel** were adequate to comply with legal and procedural guidelines for notification to taxpayers prior to levy issuance.
 - A. Identified a population of 198,606 taxpayers with levies issued by the **ACS** between October 1, 2017, and September 30, 2018, by querying the Data Center Warehouse database ACS Open and ACS Closed inventory database files.
 1. Provided data identified in Step II.A. to the Applied Research and Technology group to analyze the population of ACS levies for evidence that CDP rights were sent to the taxpayers at least 30 calendar days prior to levy issuance.
 - a. Identified 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 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 cases.
- III. Determined whether controls for **levies issued by revenue officers** were adequate to comply with legal and procedural guidelines for notification to taxpayers prior to levy issuance.

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).



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- A. Identified the population of 77,527 taxpayers with **systemic ICS** levies issued by revenue officers through the ICS between October 1, 2017, and September 30, 2018, by querying the Data Center Warehouse ICS Open and Closed levy databases.
- B. Analyzed the population of levies, using the Applied Research and Technology group, for evidence that CDP rights were sent to the taxpayers at least 30 calendar days prior to levy issuance.
- C. Identified potential exception cases in which taxpayers' rights may have been violated due to: 1) the CDP notice was not sent to the taxpayer (245 taxpayers), 2) the CDP notice was not sent to the taxpayer (253 taxpayers) timely, or 3) the CDP notice transaction posted to show the letter was issued but was reversed on the same date, and the letter was not later reissued prior to the levy (109 taxpayers).
 - 1. Provided and discussed exception cases with IRS management. We used the TIGTA contract statistician to assist with calculating projections and projected the mutually agreed upon error cases to the three potential exception case populations.
 - a. Based on the population of 245 potential exception taxpayers, IRS management reviewed a random sample of 116 taxpayers and concurred with 24 actual exceptions. We used a 20.7 percent error rate, a 5.7 percent precision, and a two-sided 95 percent confidence interval to estimate the number of taxpayers' rights that were potentially violated because they did not receive a CDP notice.
 - b. Based on the population of 253 potential exception taxpayers, IRS management reviewed a random sample of 112 taxpayers and concurred with 62 actual exceptions. We used a 55.4 percent error rate, a 7.1 percent precision, and a two-sided 95 percent confidence interval, to estimate the number of taxpayers' rights that were potentially violated because they were not timely notified of their CDP rights.
 - c. Based on the population of 109 potential exception taxpayers, IRS management reviewed a random sample of 72 taxpayers and concurred with 25 actual exceptions. We used a 34.7 percent error rate, a 6.4 percent precision, and a two-sided 95 percent confidence interval to estimate the number of taxpayers' rights that were potentially violated because the CDP notice transaction posted to show the letter was issued but was reversed on the same date, and the letter was not later reissued prior to the levy.
- D. Identified a judgmental sample of 32 **manual ICS** levies issued by revenue officers outside of the ICS between October 1, 2017, and September 30, 2018.² We worked

² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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with the Applied Research and Technology group to mine the data in the ICS histories for text references to manual levies.³

1. Reviewed all levies issued to the 32 taxpayers during our audit period for evidence that CDP rights were sent to the taxpayers at least 30 calendar days prior to levy issuance.
 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.
- IV. Determined whether automated controls for **levies issued systemically by the ALPs** were adequate to comply with legal and procedural guidelines for notification to taxpayers prior to levy issuance.⁴
- A. Identified a population of 3,271,694 ALP levies issued between October 1, 2017, and September 30, 2018, using the Data Center Warehouse Individual Master File and Business Master File transaction code data obtained through Strategic Data Services request.
 1. Analyzed the population of **ALP** levies as follows:
 - a. Federal Payment Levy Program, the Alaska Permanent Fund Dividend Levy Program, and the Municipal Tax Levy Program; we analyzed the levies in the three populations for evidence that CDP rights were sent to the taxpayers at least 30 calendar days prior to levy issuance.
 - b. State Income Tax Levy Program, Federal contractor, and disqualified employment tax levy CDP notices; we analyzed the levies in the three populations for evidence that the CDP notice was issued within the required time frames before or after the issuance of the levy.⁵
 2. Reviewed taxpayer transaction data on the Integrated Data Retrieval System and the ICS, for all levies in which we identified exception cases, to verify whether there was any evidence the taxpayers were timely notified of their levy CDP rights.
 3. Identified if any levy payments were received on exception cases.

³ We are unable to identify the population of manual ICS levy cases because the IRS does not track them.

⁴ Per IRM 5.19.9.1.1 (Oct. 20, 2016), the IRS's ALPs include the State Income Tax Levy Program, the Federal Payment Levy Program, the Alaska Permanent Fund Dividend Levy Program, and the Municipal Tax Levy Program.

⁵ State Income Tax Levy Program, Federal contractor levies, and disqualified employment tax levies do not have the 30-calendar day pre-levy notice requirement, but a CDP notice is required within a reasonable time after the levy is issued. All other ALPs require the CDP notice to be sent 30 calendar days prior to the levy issuance.



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- V. Determined whether controls and procedures for taxpayers that requested a levy **CDP hearing** were adequate to ensure that levy actions were suspended for the required time period.
- A. Identified the levy CDP hearing Individual Master File and Business Master File transaction codes for the populations from Steps II.A. - ACS levies, III.A. - ICS systemic levies, and IV.A. - ALP levies, using Strategic Data Services requests.
1. Analyzed the populations identified in Step V.A. to determine if any levies were issued on tax years included in the taxpayers' CDP notice for which there was a pending CDP hearing.
 2. Reviewed taxpayer transaction data for the identified exception cases on the Integrated Data Retrieval System and ICS data to verify whether there was any evidence the taxpayers were timely notified of their levy CDP rights.
 3. Identified if any levy payments were received on exception cases.
- VI. We assessed the reliability of the ACS, ICS, Individual Master File, and Business Master File data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.⁶

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 being taken on taxpayers that request CDP levy hearings. We evaluated these controls by reviewing populations and samples of taxpayer levies and CDP levy hearings.

⁶ All data were validated prior to analyzing populations, selecting samples, or reviewing cases for potential exceptions.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Small Business/Self-Employed Division
Deputy Commissioner, Small Business/Self-Employed Division
Director, Collection, Small Business/Self-Employed Division
Director, Collection Policy, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division
Director, Headquarters Collection, Small Business/Self-Employed Division
Director, Enterprise Audit Management



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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:

- Taxpayer Rights and Entitlements – Potential; 557 taxpayer accounts for which the IRS did not timely issue the final CDP rights notification letter before issuing the levy (see page 5).
- Taxpayer Rights and Entitlements – Potential; 484 taxpayer accounts for which the IRS issued a levy while the taxpayer had a pending CDP hearing (see page 7).
- Taxpayer Rights and Entitlements – Potential; five taxpayer accounts for which the IRS did not timely issue the final CDP rights notification letter before issuing the levy (see page 10).
- Taxpayer Rights and Entitlements – Actual; 17 taxpayer accounts for which the IRS issued a levy while the taxpayer had a pending CDP hearing (see page 10).
- Taxpayer Rights and Entitlements – Potential; 229 taxpayer accounts for which the IRS did not timely issue the final CDP rights notification letter before issuing the levy (see page 11).
- Taxpayer Rights and Entitlements – Actual; four taxpayer accounts for which the IRS did not send a notice of intent to levy prior to levy issuance (see page 14).

Methodology Used to Measure the Reported Benefit:

ALP

1. From a population of 3,271,694 taxpayers with automated levies issued between October 1, 2017, and September 30, 2018, we identified 557 taxpayers for which the IRS did not timely issue the final CDP rights notification letter before issuing the levy.
2. From a population of 3,271,694 taxpayers with automated levies issued between October 1, 2017, and September 30, 2018, we identified 484 taxpayers for which the IRS issued a levy while the taxpayer had a pending CDP hearing.



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ACS

3. From a population of 198,606 taxpayers with levies issued through the ACS between October 1, 2017, and September 30, 2018, we identified five taxpayers for which the IRS did not timely issue the final CDP rights notification letter before issuing the levy.
4. From a population of 198,606 taxpayers with levies issued through the ACS between October 1, 2017, and September 30, 2018, we identified 17 taxpayers for which the IRS issued a levy while the taxpayer had a pending CDP hearing.

ICS

5. From a population of 77,527 taxpayers with systemic ICS levies issued by revenue officers through the ICS between October 1, 2017, and September 30, 2018, we initially identified 607 potential error cases in which the IRS did not timely issue the final CDP rights notification letter before issuing the levy.

From the population of 607 potential error cases, IRS management reviewed a random sample of 300 total cases. We reviewed the IRS's responses and concurred. We projected the mutually agreed upon error cases to the three potential exception case populations:

- IRS management reviewed a random sample of 116 out of 245 potential cases in which the CDP notice was not sent to the taxpayer and concurred that 24 were exception cases. We reviewed the IRS's responses and agreed that 24 (20.7 percent) of the 116 were exceptions. Based on the population of 245 potential exception taxpayers, using a 20.7 percent error rate, a 5.7 percent precision, and a two-sided 95 percent confidence interval, we estimate 51 taxpayers' rights were potentially violated because they did not receive a CDP notice.¹
- IRS management reviewed a random sample of 112 out of 253 potential cases in which the CDP notice was not timely sent to the taxpayer and concurred that 62 were exception cases. We reviewed the IRS's responses and agreed that 62 (55.4 percent) of the 112 were exceptions. Based on the population of 253 potential exception taxpayers, using a 55.4 percent error rate, a 7.1 percent precision, and a two-sided 95 percent confidence interval, we estimate 140 taxpayers' rights were potentially violated because they were not timely notified of their CDP rights.²
- IRS management reviewed a random sample of 72 out of 109 cases in which the CDP notice transaction posted to show the letter was issued but was reversed on the same

¹ 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 38 and 66.

² 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 122 and 158.



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date, and the letter was not later reissued prior to the levy and concurred that 25 were exception cases. We reviewed the IRS's responses and agreed that 25 (34.7 percent) of 72 were exceptions. Based on the population of 109 potential exception taxpayers, using a 34.7 percent error rate, a 6.4 percent precision, and a two-sided 95 percent confidence interval, we estimate 38 taxpayers' rights were potentially violated because the CDP notice transaction posted to show the letter was issued but was reversed on the same date, and the letter was not later reissued prior to the levy.³

6. From a judgmental sample of 32 taxpayers with manual levies issued through the ICS between October 1, 2017, and September 30, 2018, we identified four cases for which the IRS did not send a notice of intent to levy prior to levy issuance.⁴

³ 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 31 and 45.

⁴ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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Appendix V

Example of a Form 668-A, Notice of Levy

Form 668-A (May 2018)	Department of the Treasury - Internal Revenue Service Notice of Levy			
Date	Telephone number of IRS office			
Reply to	Name and address of taxpayer			
To	Identifying number(s)			
Special instructions for certain property levied				
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.				
Kind of Tax	Tax Period Ended	Unpaid Balance of Assessment	Statutory Additions	Total
This levy will attach funds in IRAs, Self-Employed Individuals' Retirement Plans, or any other Retirement Plans in your possession or control, if it is signed in the block to the right.			Total Amount Due	
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 408(n) 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 numbers(s) shown on this form. Don't offset 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 (<i>not on a detachable stub</i>). 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 2043N

www.irs.gov

Form 668-A (Rev. 5-2018)

Part 1 — For Addressee



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Appendix VI

Previous Five Audit Reports Related to This Statutory Review

TIGTA, Ref. No. 2014-30-078, *Fiscal Year 2014 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2014).

TIGTA, Ref. No. 2015-30-058, *Fiscal Year 2015 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (June 2015).

TIGTA, Ref. No. 2016-30-052, *Fiscal Year 2016 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (July 2016).

TIGTA, Ref. No. 2017-30-065, *Fiscal Year 2017 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Aug. 2017).

TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2018).



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Appendix VII

Glossary of Terms

Term	Definition
Alaska Permanent Fund Dividend Levy Program	An ALP that operates in conjunction with the State of Alaska, Department of Revenue, Permanent Fund Dividend Division.
Automated Collection System	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.
Automated Levy Program	A levy program in which selected Federal tax debts are matched with State taxing authorities, municipal taxing authorities, and Federal agencies disbursing funds such as, salary, pension, and vendor payments.
Business Master File	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.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Collection Due Process Rights	I.R.C. Section 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.
Collection Representative	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.



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Term	Definition
Data Center Warehouse	An online database maintained by TIGTA. The Data Center Warehouse pulls data from IRS system resources, such as IRS collection and examination files, for TIGTA access.
Disqualified Employment Tax Levy	A levy served to collect an employment tax liability for taxpayers who previously requested a CDP hearing involving unpaid employment tax.
Federal Contractor Levy	Any levy if the person whose property is subject to the levy (or any predecessor thereof) is a Federal contractor.
Federal Payment Levy Program	An automated program the IRS has implemented with the Department of the Treasury, Bureau of the Fiscal Service, since Calendar Year 2000. The Bureau of Fiscal Service administers the Treasury Offset Program to collect delinquent nontax debts for Federal agencies. The Federal Payment Levy Program was developed to be a systemic and efficient means for the IRS to collect delinquent taxes.
Field Collection	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.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Integrated Collection System	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.
Integrated Data Retrieval System	An IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Code	Title 26 of the United States Code enacted by Congress containing all relevant rules pertaining to estate, excise, gift, income, payroll, and sales taxes.



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Term	Definition
Internal Revenue Manual	The primary, official source of IRS “instructions to staff” related 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 IRS divisions and functions.
Jeopardy Levy	A levy that is issued if collection is in jeopardy. The taxpayer must be offered CDP rights within a reasonable period after the levy, if not provided prior to the levy.
Manual Levy	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.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
Municipal Tax Levy Program	An ALP that matches a Master File database of delinquent taxpayers eligible to be levied against a database of local income tax refunds for each municipality participating in the program.
Paper Levy	A paper ACS levy is initiated through the ACS by a collection representative, resulting in levy preparation and issuance by the system.
Revenue Officer	Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.
State Income Tax Levy Program	An ALP that matches a Master File database of delinquent taxpayers eligible to be levied against a database of State tax refunds for each State participating in the program.
Systemic Levy	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.
Tax Period	Each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.



*Fiscal Year 2019 Statutory Review of Compliance
With Legal Guidelines When Issuing Levies*

Appendix VIII

Management's Response to the Draft Report



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

September 03, 2019

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton *Eric C. Hylton*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2019 Statutory Review of
Compliance With Legal Guidelines When Issuing Levies
(Audit #201930002)

Thank you for the opportunity to review the subject draft report. As reflected in the audit report, the levies issued by our Automated Collection System (ACS) and Field Collection organizations complied with all legal and procedural requirements in the vast majority of instances. For example, in the population TIGTA identified of 198,606 taxpayers with ACS levies issued during FY 2018, TIGTA identified only five taxpayers who were not timely notified of their Collection Due Process (CDP) rights, and 17 taxpayers with levies that were issued while a CDP hearing was pending. We understand the importance of respecting taxpayer rights and are taking corrective actions to address those cases.

For the first time, TIGTA included our Automated Levy Programs (ALPs) in this annual levies audit. Through the ALPs, cases are selected systematically for levy, and the levies are issued electronically without employee action. The IRS has collected a total of over \$5 billion in Fiscal Years 2017, 2018, and 2019 (to date) via these levy programs. TIGTA found programming and procedural issues that, in a minority of cases, led to the issuance of automated levies that included modules for which the CDP notification had not been completed, or which were issued while taxpayers had pending CDP hearings. We are taking corrective actions to address cases where levy proceeds were received and to correct the problems TIGTA identified.

We agree with your recommendations. We are always seeking ways to further strengthen our levies program while protecting taxpayer rights and we appreciate your insights. 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, Small Business/Self-Employed Division.

Attachment



Fiscal Year 2019 Statutory Review of Compliance With Legal Guidelines When Issuing Levies

Attachment

RECOMMENDATION 1:

The Director, Collection, Small Business/Self-Employed Division, should contact the states which sent payments under the secondary taxpayer identification number in response to State Income Tax Levies Program (SITLP) levies, to provide additional guidance on submitting payments to ensure that they are credited promptly, and taxpayers timely receive their CDP rights.

CORRECTIVE ACTION:

We agree. We will contact the state which sent payments under the secondary taxpayer identification number in response to SITLP levies, to address that issue. We will provide additional guidance to the other 31 states involved in the SITLP program with regard to submitting payments to ensure that they are credited promptly.

IMPLEMENTATION DATE:

December 15, 2019

RESPONSIBLE OFFICIAL:

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

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 2:

The Director, Collection, Small Business/Self-Employed Division, should ensure that corrective programming is implemented so that CDP notices are issued for Federal contractor levies that are full paid after the levy issuance.

CORRECTIVE ACTION:

We agree. Collection has submitted a Unified Work Request (UWR) to correct programming to address the issue of CDP notices not being issued on modules which are full paid via Federal Payment Levy Program (FPLP) Federal Contractor levies.

IMPLEMENTATION DATE:

October 15, 2020

RESPONSIBLE OFFICIAL:

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



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CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:

The Director, Collection, Small Business/Self-Employed Division, should ensure that corrective programming is implemented so that modules with credit balances are not sent to the Alaska Permanent Fund Dividend Levy Program for levy.

CORRECTIVE ACTION:

We agree. Corrective programming was implemented in May of 2019. Our review of cases pre-selected for the 2019 levy issuance shows the programming change is working.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

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

CORRECTIVE ACTION MONITORING PLAN:

N/A

RECOMMENDATION 4:

The Director, Collection, Small Business/Self-Employed Division, should analyze the causes of delays between the time a CDP hearing request is received at the campus and the input of the CDP hearing transaction code to the Integrated Data Retrieval System, and create an action plan to minimize those delays.

CORRECTIVE ACTION:

We agree. We have formed a collaborative team between Collection Headquarters and Collection Campus. The team will identify the cause of this issue and will prepare an action plan to address it.

IMPLEMENTATION DATE:

April 15, 2020

RESPONSIBLE OFFICIAL:

Director, Collection Policy, Small Business/Self-Employed Division



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CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 5:

The Director, Collection, Small Business/Self-Employed Division, should determine the cause and take the appropriate corrective action(s) to ensure that the ACS system does not issue levies on taxpayers without a CDP notice.

CORRECTIVE ACTION:

We agree.

1. We will review the ACS system to determine the cause, create an action plan and take corrective actions, with the exception of programming changes, as appropriate.
2. If we determine there is a need for programming actions, we will submit the programming requests and ensure they are properly implemented.

IMPLEMENTATION DATE:

1. April 15, 2020
2. January 15, 2021

RESPONSIBLE OFFICIAL:

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

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 6:

The Director, Collection, Small Business/Self-Employed Division, should ensure that corrective programming changes are implemented to effectively prevent employees from incorrectly identifying disqualified employment tax levies.

CORRECTIVE ACTION:

We agree. Collection will submit a programming request to prevent employees from incorrectly identifying disqualified employment tax levies. We anticipate this enhancement will be implemented in January 2021.

IMPLEMENTATION DATE:

March 15, 2021



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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.

RECOMMENDATION 7:

The Director, Collection, Small Business/Self-Employed Division, should provide revenue officers with clarification and reinforcement of the Internal Revenue Manual (IRM) 5.11.1.3.3.9 procedures for invalid CDP notices when the notice transaction code is reversed in error.

CORRECTIVE ACTION:

We agree. The IRS will issue an IRM Procedural Update (IPU) and update the Integrated Collection System (ICS) User Guide with regard to reversing a Collection Due Process Notice. We plan to issue an all employee email from the Director of Field Collection Operations highlighting the issuance of the IPU for IRM 5.11.1 and the ICS User Guide.

IMPLEMENTATION DATE:

January 31, 2020

RESPONSIBLE OFFICIAL:

Director, Field Collection Operations, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN:

IRS will monitor this corrective action as part of our internal management system of controls.