Delinquent Federal Contractors Are Not Always Included in the Federal Payment Levy Program

August 14, 2017

Reference Number: 2017-30-053

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:
2 = Law Enforcement Techniques/Procedures and Guidelines for Law Enforcement Investigations or Prosecutions.

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HIGHLIGHTS

DELINQUENT FEDERAL CONTRACTORS ARE NOT ALWAYS INCLUDED IN THE FEDERAL PAYMENT LEVY PROGRAM

Highlights

Final Report issued on August 14, 2017

Highlights of Reference Number: 2017-30-053 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Federal Payment Levy Program (FPLP) allows the IRS to systemically collect back taxes from Federal contractors at a minimal cost. However, the IRS did not always use the FPLP to collect taxes when it was possible, and many Federal agencies do not participate in the FPLP. The use of automated tools helps the IRS allocate more resources to other priorities, such as customer service to taxpayers.

WHY TIGTA DID THE AUDIT

Between Fiscal Years 2012 and 2016, the number of IRS employees decreased by 15 percent. Efficient use of automated tools, such as the FPLP, can help the IRS mitigate the impact on tax collection and customer service. TIGTA initiated this audit to determine whether the IRS is taking appropriate and effective levy actions for delinquent Federal contractors.

WHAT TIGTA FOUND

TIGTA determined that eight (18 percent) of 45 individual Federal contractor accounts and 19 (28 percent) of 68 sampled business Federal contractor accounts were improperly excluded from the FPLP for more than one year while in the Automated Collection System inventory. These accounts were improperly excluded because the IRS made changes to the FPLP inventory selection criteria but did not apply the changes to modules already in Automated Collection System inventory. Three additional accounts were improperly excluded because of a programming problem. The IRS could have potentially collected approximately $1,143,000 in Federal payments from these 30 accounts. In addition, the Internal Revenue Manual was not correctly updated to alert employees they must manually update tax modules for FPLP inclusion when they manually assign cases to specific Automated Collection System inventories.

The Department of the Treasury's Bureau of the Fiscal Service (BFS) administers the FPLP and works with other Federal agencies to increase the number who participate. Some agencies do not participate in the FPLP because they do not utilize the BFS, and consequently, delinquent tax debts by their contractors are not offset through the FPLP. TIGTA analysis identified 193 Federal agencies that appear not to participate in the FPLP, but neither the BFS nor the IRS could confirm our count or provide a list of non-participating agencies.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS identify all tax modules that were improperly excluded from the FPLP and take action to include them; update the Internal Revenue Manual to include proper instructions for employees to manually update tax modules for FPLP inclusion when manually assigning cases to specific Automated Collection System inventories; ensure that programming changes are made to correct the problems with the systemic reversal of the FPLP exclusion; and work with the BFS to identify agencies that do not participate in the FPLP and establish a process to add those agencies.

In response to the report, the IRS agreed to identify and include modules improperly excluded from the FPLP; provide guidance to Automated Collection System employees to manually unblock cases when appropriate; request programming changes on the systemic reversal process of the FPLP exclusion; and meet with the BFS to discuss ways to identify agencies that do not participate, actions that can be taken to add those agencies to the FPLP, and a possible legislative proposal for increasing participation in the FPLP program.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

August 14, 2017

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

Michael E. McKenney

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Delinquent Federal Contractors Are Not Always Included in the Federal Payment Levy Program (Audit # 201630032)

This report presents the results of our review to determine whether the Internal Revenue Service is taking appropriate and effective levy actions for delinquent Federal contractors. This audit is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VI. Copies of this report are also being sent to the Director, Office of Audit Coordination, for appropriate distribution within the Internal Revenue Service.

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

Table of Contents

Abbreviations

ACS	Automated Collection System
BFS	Bureau of the Fiscal Service
FPLP	Federal Payment Levy Program
IRM	Internal Revenue Manual
IRS	Internal Revenue Service

Background

In an effort to help close the Tax Gap, the Taxpayer Relief Act of 1997[1] added Internal Revenue Code Section 6331(h), authorizing a 15 percent continuous levy[2] on certain Federal payments. The law was later amended by the American Jobs Creation Act of 2004[3] to authorize up to a 100 percent continuous levy on certain Federal vendor payments for goods and services. The Three Percent Withholding Repeal and Jobs Creation Act of 2011[4] added payments to vendors related to property as subject to 100 percent levy. Therefore, current law allows a continuous levy of up to 100 percent of any specified payment due to a vendor of property, goods, or services sold or leased to the Federal Government.[5] In addition to the Internal Revenue Service's (IRS) authority to levy Federal contractor payments at 100 percent of the payment amount, the law[6] permits the IRS to levy Federal contractor payments prior to providing Collection Due Process rights.[7] However, Federal contractors are required to be given the opportunity for a Collection Due Process hearing within a reasonable period of time after the levy.

The Department of the Treasury's Bureau of the Fiscal Service (BFS) is the disbursing agent for the Department of the Treasury and also administers payments for non-Treasury disbursing offices, such as: Defense Finance and Accounting Service; United States Postal Service; and Centers for Medicare and Medicaid Services. The BFS administers the Treasury Offset Program to collect delinquent non-tax debts for Federal agencies.[8] In July 2000, the IRS, in conjunction with the BFS (formerly Financial Management Service), started the Federal Payment Levy Program (FPLP). The FPLP was developed to interface with the Treasury Offset Program as a systemic and efficient means for the IRS to collect overdue taxes through a continuous levy on certain Federal payments disbursed by the BFS. In Fiscal Year 2015, the Treasury Offset Program collected $724.4 million of delinquent Federal taxes through the FPLP.

The FPLP systemic process selects all tax modules in certain collection statuses, although some tax modules may be excluded if certain conditions exist on a taxpayer's account. Generally, a

[1] Pub. L. No. 105-34, 111 Stat. 788.
[2] See Appendix V for a glossary of terms.
[3] Pub. L. No. 108-357, 118 Stat. 1418.
[4] Pub. L. No. 112-56, 125 Stat. 711.
[5] Internal Revenue Code § 6331(h)(3).
[6] Internal Revenue Code § 6330(f).
[7] Collection Due Process rights provide taxpayers an opportunity for an independent review by the Office of Appeals to ensure that the levy action that has been proposed or the lien that has been filed is warranted and appropriate, as well as a stay on collection action until the process is complete. Appeals is independent of other IRS offices, and its mission is to resolve tax controversies, without litigation, on a basis which is fair and impartial to both the Federal Government and the taxpayer.
[8] Internal Revenue Code § 6402 allows the IRS to offset refunds due taxpayers to certain other liabilities owed including past-due support obligations, debts owed to other Federal agencies, and certain State obligations.

taxpayer delinquent account assigned to the Automated Collection System (ACS), Field Collection, or the Collection Queue (awaiting assignment to Field Collection) will be selected for the FPLP.[9] The FPLP levy is continuous until the overdue taxes are paid in full, other arrangements are made to satisfy the debt, or the levy is otherwise released by the IRS.

As part of the FPLP process, the IRS sends a weekly file to the BFS with certain delinquent and unresolved individual and business tax accounts. The BFS then matches the delinquent taxpayer file against Federal payment files. When matches are located, the BFS notifies the IRS of the identified payments, but will not levy payments until an authorization is received from the IRS. Once the BFS receives the authorization and if it is a vendor/contractor payment type, the BFS systemically levies 100 percent of the payment. After the payment is levied, the BFS electronically sends the money to the IRS and the payment is posted to the respective taxpayer's account. Each time a Federal payment is levied, the BFS sends the taxpayer a letter of explanation, including information on which Federal payment was levied, and advises the taxpayer to contact the IRS for resolution.

This review was performed with information obtained from the Small Business/Self-Employed Division Headquarters in Lanham, Maryland, and in Atlanta, Georgia, during the period July 2016 through April 2017. 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.

[9] IRM 5.11.7.2.2 (Aug. 12, 2011).

Results of Review

Some Federal Contractor Delinquent Accounts Were Improperly Excluded From the Federal Payment Levy Program

The Internal Revenue Manual (IRM) provides situations for which Federal contractors in taxpayer delinquent account status can be excluded from the FPLP levies. Most of these exclusions are systemic, and the reasons for exclusion include: currently not collectible hardship accounts, approved installment agreements, pending or approved offers in compromise, and open bankruptcies or litigation.[10] Additionally, revenue officers can exclude a Federal contractor's account from FPLP levies if they are working with the taxpayer to resolve the tax debt.[11]

The processing of tax modules assigned to the ACS is the same for all taxpayers, including Federal contractors. When most modules first enter the ACS, they cannot be selected for the FPLP because nearly all modules have a default setting that prevents the IRS computer system from selecting them for the FPLP.[12] The tax modules are then moved to various ACS inventories, depending on what needs to be done to resolve the delinquency. ACS inventory categories include case contact, research, enforcement, and investigation. When tax modules are moved into certain ACS inventories, the IRS computer system systemically makes them available for FPLP selection.[13] Modules assigned to certain other ACS inventories are not candidates for the FPLP because they are actively being worked or have other situations for which the automatic levy would not be appropriate. For example, most cases in the research inventories continue to be excluded from the FPLP because these inventories are used as a holding area for:

- Further contact with other organizational functions (Taxpayer Advocate Service, Appeals).
- Cases in which the taxpayer has been contacted or additional information is needed from within the ACS before resolution or collection activity can resume.

We identified some delinquent Federal contractor accounts that were assigned to ACS inventories and were subject to the FPLP, but the individual modules had not been properly updated to allow them to be selected for the FPLP. Some modules were improperly excluded

[10] IRM 5.11.7.2.2.2 (Aug. 12, 2011).
[11] IRM 5.11.7.2.5(1) (Aug. 12, 2011).
[12] The exception to this rule involves modules for which a determination about FPLP eligibility has been previously made. For example, modules may have been previously assigned and worked by the ACS, but are reassigned to the ACS a second time due to new taxpayer circumstances.
[13] IRM 5.19.9.3.2.4(2) (June 23, 2014).

from the FPLP because the IRS made changes to the inventory selection criteria but did not apply the changes to modules already in ACS inventory prior to the change. Other modules were excluded because the FPLP exclusion reversal was not properly applied to the ACS tax modules. If continuous levies are not processed through the FPLP for Federal contractors, there is a risk that Federal contractors that owe taxes might incorrectly receive payments from the Federal Government. Between Fiscal Years 2012 and 2016, the number of IRS employees decreased by 15 percent. Efficient use of automated tools, such as the FPLP, can help the IRS mitigate the impact of the declining budget on tax collection and customer service.

ACS programming changes caused some Federal contractor accounts to be improperly excluded from FPLP levy actions

We identified 45 individual taxpayers and 207 business taxpayers that were Federal contractors and whose agencies participate in the FPLP that were in taxpayer delinquent account status; issued a Form 1099-MISC, *Miscellaneous Income*, from the Federal Government in Calendar Years 2013, 2014, and/or 2015; and were currently excluded from the FPLP. We reviewed the full population of 45 individual Federal contractor accounts and a random sample of 68 business Federal contractor accounts.[14]

We determined that eight (18 percent) of the individual and 19 (28 percent) of the business Federal contractor accounts were excluded from the FPLP for more than one year while in the ACS inventory. IRS management advised us that the cases were assigned to ACS inventories that were previously systemically excluded from the FPLP, but because of subsequent policy and programming changes, they should have no longer been excluded.

Specifically, in Calendar Year 2014, the IRS evaluated all of the ACS inventories to consider including more of the ACS inventory for FPLP levy actions. Additionally, there were several ACS inventories that were redefined and needed to be evaluated for FPLP inclusion or exclusion. Based on the evaluation of ACS inventories, a programming update was completed January 9, 2016, to systemically include more inventories in the FPLP; however, the IRS did not identify tax modules that were in these ACS inventories prior to January 2016 to now include them in the FPLP.

As a result, these Federal contractor accounts were improperly excluded from FPLP levies, and the IRS did not collect the delinquent taxes. Specifically, for the 27 accounts that were improperly excluded from the FPLP, the IRS could have potentially collected approximately $952,000.[15] When projected to the population, we estimate that the IRS could have potentially

[14] The random sample of 68 taxpayer accounts was based on a 95 percent confidence level, 10 percent error rate, and ±6.5 percent precision factor.
[15] The programming change took effect on January 9, 2016, and we did not receive Forms 1099-MISC for Fiscal Year 2016; therefore, we do not know if any Federal agency payments could have been levied through the FPLP to collect these taxpayer delinquent account balances.

collected approximately $2.5 million in delinquent taxes if the Federal contractors were included in the FPLP and they received payments from the Federal Government after January 9, 2016.[16]

Further, the programming change did not extend to modules that are manually moved by employees into two specific ACS inventories that should be included in the FPLP. Therefore, when employees manually move cases into these inventories, they must also make a manual update to the account so that the tax modules will be included in the FPLP, if appropriate. However, although IRS management updated the IRM to show that these ACS inventories are now subject to FPLP levies, it did not update the IRM to alert employees that they must manually update the tax modules for FPLP inclusion when they manually assign the cases to these inventories.

> ***Management Actions:*** After we brought these issues to IRS management's attention, they advised us that they were taking corrective actions. Specifically, management advised us that they were researching all tax modules that were improperly excluded from FPLP levies and taking corrective action as needed. The IRS issued interim guidance on July 21, 2017, and advised us that they plan to update the IRM by August 15, 2018.

We also identified three additional Federal contractor accounts that were improperly excluded from FPLP levy actions for reasons unrelated to the ACS inventory programming changes previously discussed. For these accounts, IRS management determined that there was a separate programming problem involving the systemic process to reverse the FPLP exclusion. For the three accounts, the IRS could have potentially collected approximately $191,000 in delinquent taxes.[17] When projected to the population, we estimate that the IRS could have potentially collected approximately $193,000 in delinquent taxes if the Federal contractors were included in the FPLP and they received payments from the Federal Government after January 9, 2016.[18] Management advised us that they were taking corrective actions.

[16] 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 $951,921 and $7,140,083 based on the bootstrap calculations, which is a more robust way of calculating dollar exceptions.
[17] The programming change took effect on January 9, 2016, and we did not receive Forms 1099-MISC for Fiscal Year 2016; therefore, we do not know if any Federal agency payments could have been levied through the FPLP to collect these taxpayer delinquent account balances.
[18] 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 $191,160 and $534,699 based on the bootstrap calculations, which is a more robust way of calculating dollar exceptions.

Recommendations

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

Recommendation 1: Identify all ACS tax modules that were improperly excluded from the FPLP and take action to include them in the FPLP.

> ***Management's Response:*** IRS management agreed with this recommendation. A Query Management File was developed to identify all the affected modules on the ACS. The query identified a total of 332,233 modules and action is being taken to include them in the FPLP.

Recommendation 2: Ensure that the IRM is updated to include instructions for ACS employees to manually reverse exclusions from FPLP levy actions when accounts are manually moved to the relevant ACS inventories.

> ***Management's Response:*** IRS management agreed with this recommendation. Management will provide guidance to ACS employees to note that for the identified inventories only, they will be systemically unblocked only if the case is systemically moved into the two specific ACS inventories. If a case is manually moved into one of these inventories, a systemic unblock will not occur and needs to be manually unblocked when appropriate.

Recommendation 3: Ensure that ACS programming changes are made to correct the problems with the systemic reversal of the FPLP exclusion. In addition, management should identify any additional ACS accounts that were improperly excluded from the FPLP due to this problem, and take action to include them in the FPLP.

> ***Management's Response:*** IRS management agreed with this recommendation. Management has requested programming changes to correct problems with the systemic reversal of the FPLP exclusion and to monitor the correction of the accounts identified in recommendation one. Management will also determine whether additional ACS accounts were improperly excluded from the FPLP due to this problem and take action to include them in the FPLP.

Not All Federal Agencies Participate in the Federal Payment Levy Program

Federal executive agencies of the U.S. Government contract with independent vendors to accomplish Government business. The Federal contractor designation applies to each taxpayer (person or entity) contracting with the Federal Government to provide property, goods, or services. Federal agencies have the option of whether or not to participate in the FPLP. Even if a Federal agency does not participate in the FPLP, payments made by Federal agencies can be levied by Collection employees working taxpayer delinquent accounts as part of the normal collection process. While the BFS has added large agencies to the program to assist with collecting money owed to the Federal Government, the IRS does not solicit additional Federal agencies to participate in the FPLP. Some Federal agencies do not participate because they already have other systems in place to collect money owed to them and they do not utilize the BFS, and consequently, delinquent tax debts by their contractors are not offset through the FPLP.

We attempted to identify agencies that did not participate by matching 443 Federal agencies that submitted Forms 1099-MISC to the IRS during Tax Years 2013 through 2015 with the list of participating agencies in the IRM. We determined that 250 of the 443 Federal agencies participated; however, the naming conventions used on the Forms 1099-MISC and the list in the IRM were not always easily matched. Also, the Treasury Offset Program uses Agency Location Codes to ensure that payments that are subject to levy are levied. Since we did not have Agency Location Codes for the Federal agencies that issued the Forms 1099-MISC, the BFS could not determine which of the Federal agencies on our list participated in FPLP. Further, for the remaining 193 agencies we identified that appeared not to participate in the FPLP, neither the BFS nor the IRS could confirm our count or provide a list of non-participating agencies. BFS officials advised us that they have worked to get Federal agencies to participate in the FPLP. For example, they are currently working with the *******2******** and other agencies through its *******2****** Initiative (under the *********2*********) in an effort to add them to the FPLP. However, without a complete list of non-participating agencies, neither the BFS nor the IRS has complete information needed to maximize the use and effectiveness of the FPLP.

Recommendation

Recommendation 4: The Director, Collection Operations, Small Business/Self-Employed Division, should work with the BFS to identify agencies that do not participate in the FPLP and establish a process to add those agencies.

> ***Management's Response:*** IRS management agreed with this recommendation. During one of the next two quarterly FPLP meetings with the BFS, IRS management will add an item to the agenda to discuss ways to identify agencies that do not participate in the FPLP and actions that may be taken to add those agencies to the FPLP. Separately, IRS management will also discuss with the BFS, the Office of Chief Counsel, and the Office of Tax Policy a possible legislative proposal for increasing participation in the FPLP program.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS is taking appropriate and effective levy actions for delinquent Federal contractors. To accomplish the objective, we:

I. Reviewed current IRM guidelines to identify updates to the criteria for the FPLP related to Federal contractors.

II. Determined if Federal contractors excluded from the FPLP process met one of the valid exclusions.

  A. Identified the population of Federal contractors in taxpayer delinquent account status with payments made by a Federal agency, but excluded from the FPLP.

  B. The total population of Federal contractors in taxpayer delinquent account status that received payments from Federal agencies in Calendar Years 2013 through 2015 was 252 (45 individual taxpayers and 207 business taxpayers). We reviewed the entire population of 45 individual Federal contractors and selected a random statistical sample of 68 cases from the population of 207 business Federal contractors. We used a random sample for the business Federal contractors so that we could project our results to the population. We used a 95 percent confidence level, a 10 percent error rate, and a ±6.5 percent precision factor. The Treasury Inspector General for Tax Administration's contracted statistician reviewed and assisted in developing the sampling plans and projections.

    1. Reviewed the sampled cases to determine if the Federal contractor exclusions from FPLP processing were appropriate.

    2. Determined the reasons why accounts that did not meet the exclusion criteria were excluded from the FPLP.

Data validation methodology

During this review, we evaluated the data we received from the TIGTA Strategic Data Services office and the IRS for reasonableness by performing validity tests and tracing a judgmental sample of cases to the IRS Integrated Data Retrieval System. The validity test supported the data were sufficiently reliable and could be used to meet the objective of this audit.

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: Small Business/Self-Employed Divisions' policies, procedures, and practices for FPLP inventory processing. We evaluated these controls by interviewing IRS management and employees and the Department of the Treasury's BFS staff who are involved with the FPLP process and reviewing Federal contractor accounts that received payments from Federal agencies to verify that the FPLP was working as intended.

Appendix II

Major Contributors to This Report

Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Beverly Tamanaha, Audit Manager
Michael Garcia, Lead Auditor
Erik Martinez, Auditor

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Services and Enforcement
Director, Campus Collection, Small Business/Self-Employed Division
Director, Collection, Small Business/Self-Employed Division
Director, Field Collection, Small Business/Self-Employed Division
Director, Headquarters Collection, Small Business/Self-Employed Division
Director, Office of Audit Coordination

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $2.5 million (see page 3).

Methodology Used to Measure the Reported Benefit:

We selected a random statistical sample of 113 accounts[1] from the total population of 252 delinquent Federal contractors that received Federal payments in Calendar Years 2013, 2014, and/or 2015 while excluded from the FPLP.[2]

Our case review showed that 27 (24 percent) Federal contractor accounts (eight individual taxpayers and 19 business taxpayers) were excluded from the FPLP for more than one year while in ACS inventory. The cases were assigned to ACS inventories that were previously systemically excluded from the FPLP, but because of subsequent policy and programming changes, they should have no longer been excluded. The total module balances due on these 27 accounts as of March 2017 was $951,921. Based on our sample results, we estimate that the IRS could have potentially collected approximately $2.5 million in delinquent taxes if the Federal contractors were included in the FPLP and they received payments from the Federal Government after January 9, 2016. To project the results of our statistical sample, we used a 95 percent confidence interval, 10 percent error rate, and a ±6.5 percent precision factor. We are 95 percent confident that the point estimate is between $951,921 and $7,140,083 based on the bootstrap calculations, which is a more robust way of calculating dollar exceptions.

[1] The sample was comprised of 45 individual taxpayers and 68 business taxpayers.
[2] The population was comprised of 45 individual taxpayers and 207 business taxpayers.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $193,000 (see page 3).

Methodology Used to Measure the Reported Benefit:

We selected a random statistical sample of 113 accounts[3] from the total population of 252 delinquent Federal contractors who received Federal payments in Calendar Years 2013, 2014, and/or 2015 while excluded from the FPLP.[4]

Our case review showed that three Federal contractor accounts were improperly excluded from FPLP levy actions due to an ACS inventory programming problem involving the systemic process to reverse the FPLP exclusion. The total module balances due on these three accounts as of March 2017 was $191,160. Based on our sample results, we estimate that the IRS could have potentially collected approximately $193,000 in delinquent taxes if the Federal contractors were included in the FPLP and they received payments from the Federal Government after January 9, 2016. To project the results of our statistical sample, we used a 95 percent confidence interval, 10 percent error rate, and a ±6.5 percent precision factor. We are 95 percent confident that the point estimate is between $191,160 and $534,699 based on the bootstrap calculations, which is a more robust way of calculating dollar exceptions.

[3] The sample was comprised of 45 individual taxpayers and 68 business taxpayers.
[4] The population was comprised of 45 individual taxpayers and 207 business taxpayers.

Appendix V

Glossary of Terms

Term	Definition
Agency Location Codes	Eight-digit identifiers are assigned by the BFS to Federal entities for reporting purposes. The first two digits of the eight-digit Agency Location Codes identify the Branch, Department, Commission, Bureau or agency of the Federal entity. The third and fourth digits identify the particular bureau or office within the Federal entity and the last four-digits identify the specific agency accounting or program section within the particular bureau or agency.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Collection Queue	An automated holding file for unassigned inventory of delinquent cases for which revenue officers are unable to be immediately assigned for contact due to limited resources.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
Field Collection	The unit in the area offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time.
Internal Revenue Manual	The primary, official source of instructions to staff relating to the organization, administration, and operation of the IRS.
Offer in Compromise	An agreement between a taxpayer and the Government that settles a tax liability for payment of less than the full amount owed.

Term	Definition
Revenue Officer	Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses or the Automated Collection System.
Tax Module	A specific year and type of return within a taxpayer's account; all tax modules combined comprise a taxpayer's account. The IRS would establish two modules for an individual taxpayer who owes taxes for two different tax years (one module for each year).
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Treasury Offset Program	The Treasury Offset Program is a centralized offset program, administered by the BFS's Debt Management Services, to collect delinquent debts owed to Federal agencies and States.

Appendix VI

Management's Response to the Draft Report

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

SMALL BUSINESS/SELF-EMPLOYED DIVISION

July 21, 2017

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Delinquent Federal Contractors Are Not Always Included in the Federal Payment Levy Program (Audit # 201630032)

Thank you for the opportunity to review this draft report. The Federal Payment Levy Program (FPLP) is a component of the IRS's efforts to reduce the tax gap. Since the implementation of the program in July 2000, we have collected $6.39 billion from delinquent taxpayers. In Fiscal Year 2016, the IRS collected $631.3 million of delinquent Federal taxes through the FPLP. The program provides an automated and efficient process for serving tax levies and collecting delinquent unpaid taxes from certain federal payments through the Department of Treasury's Bureau of the Fiscal Service (BFS). As noted in your report, automated tools such as the FPLP can help to mitigate the impact of our declining resources on revenue protection.

In 2014, we evaluated all the Automated Collection System (ACS) inventories to consider including more of them for FPLP levy actions. Based on that analysis, we updated programming to systemically include more ACS inventories in the FPLP. However, certain tax modules that were in these inventories prior to the programming change were not included in the update. We agree with your recommendations to correct these issues and to update guidance to our employees.

Federal agencies have the option of participating or not participating in the FPLP, and neither IRS nor BFS has the ability to compel them to do so. However, we agree that the IRS and BFS should collaborate on ways to identify agencies that do not participate and encourage them where appropriate to participate. We will also discuss with BFS, the Office of Chief Counsel and the Office of Tax Policy a possible legislative proposal for increasing participation in the FPLP program.

We are continuously looking for ways to improve the effectiveness of the FPLP and we appreciate your continued support and insight. Attached is a detailed response outlining our corrective actions to address your recommendations.

If you have any questions, please contact me or Scott Prentky, Director Collection at (954)-991-4326.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection Operations, Small Business/Self-Employed Division, should identify all ACS tax modules that were improperly excluded from the FPLP and take action to include them in the FPLP.

CORRECTIVE ACTION:
We agree with this recommendation. A Query Management File was developed to identify all the affected modules on the ACS. The query identified a total of 332,233 modules. Action is being taken to include them in the FPLP.

IMPLEMENTATION DATE:
February 15, 2018

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

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

RECOMMENDATION 2:
The Director, Collection Operations, Small Business/Self-Employed Division, should ensure that the IRM is updated to include instructions for ACS employees to manually reverse exclusions from FPLP levy actions when accounts are manually moved to the relevant ACS inventories.

CORRECTIVE ACTION:
We agree to provide guidance to ACS employees to note that for the identified inventories only, they will only be systemically unblocked if the case is systemically moved into those two inventories. If a case is manually moved into one of these inventories, a systemic unblock will not occur and needs to be manually unblocked when appropriate.

IMPLEMENTATION DATE:
August 15, 2017

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

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

RECOMMENDATION 3:
The Director, Collection Operations, Small Business/Self-Employed Division, should ensure that ACS programming changes are made to correct the problems with the systemic reversal of the FPLP exclusion. In addition, management should identify any additional ACS accounts that were improperly excluded from the FPLP due to this problem, and take action to include them in the FPLP.

CORRECTIVE ACTION:
We have requested programming changes to correct the problems with the systemic reversal of the FPLP exclusion and to monitor the correction of the accounts identified in recommendation one. We will determine whether additional ACS accounts were improperly excluded from the FPLP due to this problem and take action to include them in the FPLP.

IMPLEMENTATION DATE:
December 15, 2017

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

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

RECOMMENDATION 4:
The Director, Collection Operations, Small Business/Self-Employed Division, should work with BFS to identify agencies that do not participate in the FPLP and establish a process to add those agencies.

CORRECTIVE ACTION:
During one of our next two quarterly meetings with BFS to discuss the FPLP program we will add an item to the agenda to discuss with BFS ways to identify agencies that do not participate in the FPLP and actions that our agencies may be able to take to add those agencies to the FPLP. Separately, we will also discuss with BFS, the Office of Chief Counsel and the Office of Tax Policy a possible legislative proposal for increasing participation in the FPLP program.

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IMPLEMENTATION DATE:
April 15, 2018

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

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