



*Fiscal Year 2014 Statutory Review
of Compliance With Legal Guidelines
When Issuing Levies*

September 22, 2014

Reference Number: 2014-30-078

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

Redaction Legend:

1 = Tax Return/Return Information

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HIGHLIGHTS

FISCAL YEAR 2014 STATUTORY REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN ISSUING LEVIES

Highlights

**Final Report issued on
September 22, 2014**

Highlights of Reference Number: 2014-30-078 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

When taxpayers do not pay delinquent taxes, the IRS has the authority to work directly with financial institutions and other third parties to seize taxpayers' assets. This action is commonly referred to as a "levy." The law requires the IRS to notify taxpayers at least 30 calendar days prior to the issuance of a levy.

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 review was to determine whether the IRS has complied with the legal requirement to timely notify taxpayers prior to issuing levies per Internal Revenue Code Section 6330, *Notice and Opportunity for Hearing Before Levy*.

WHAT TIGTA FOUND

The IRS is protecting taxpayers' rights when issuing systemic and manual levies in cases for which additional assessments were not included in the levy. TIGTA reviewed statistical samples of systemic and manual levies issued by the Automated Collection System and the Integrated Collection System and determined that controls ensured that taxpayers were given notice of their appeal rights at least 30 calendar days prior to the issuance of the levies.

However, a review of a statistical sample of 30 Automated Collection System taxpayers with additional assessments included in the systemic

and manual levies determined that there were 27 (90 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy. IRS management stated that they have since made computer programming changes to correct this problem.

In addition, a review of a statistical sample of 30 Integrated Collection System taxpayers with additional assessments included in the systemic levies determined that there were 18 (60 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS issue interim guidance and retrain revenue officers to exclude from levies additional assessments for which taxpayers have not been given 30 calendar days' notice.

In response to the report, IRS management agreed with the recommendation. IRS management plans to issue guidance to the Field Collection group managers and update Fiscal Year 2015 continuing professional education for revenue officers to emphasize the requirement that levies not include periods for which an additional assessment was made but a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 22, 2014

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2014 Statutory Review of Compliance
With Legal Guidelines When Issuing Levies (Audit # 201430003)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has complied with the legal requirement to timely notify taxpayers prior to issuing levies per Internal Revenue Code Section 6330, *Notice and Opportunity for Hearing Before Levy*.¹ This review is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Taxpayer Protection and 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 recommendation. If you have any questions, please contact me or Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).

¹ 26 U.S.C. § 6330 (Supp. IV 2010) *as amended* by the Trade Act of 2002, Pub. L. No. 107-210, 116 Stat. 933; the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, 116 Stat. 21 (codified in scattered sections of 26 U.S.C., 29 U.S.C., and 42 U.S.C.); the Victims of Terrorism Tax Relief Act of 2001, Pub. L. No. 107-134, 115 Stat. 2427 (2002); and the Community Renewal Tax Relief Act of 2000, Pub. L. No. 106-554, 114 Stat. 2763.



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Abbreviations

ACS	Automated Collection System
DCW	Data Center Warehouse
ICS	Integrated Collection System
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. This action is commonly referred to as a "levy" (see Appendix V for an example of a Form 668-A, *Notice of Levy*). The IRS Restructuring and Reform Act of 1998¹ created the provisions of Internal Revenue Code² Section 6330³ that require the IRS to notify taxpayers of the intention to levy at least 30 calendar days before initiating a levy action to give the taxpayer an opportunity to formally appeal the proposed levy. Generally, only one notice of intent to levy is required per tax period. However, a new notice is required when an additional assessment occurs on a tax period after the original notice of intent to levy has been sent to the taxpayer and the additional assessment amount will be included in the levy.

The IRS Restructuring and Reform Act of 1998 added Internal Revenue Code Section 7803(d)(1)(B), which requires the Treasury Inspector General for Tax Administration (TIGTA) to annually verify whether the IRS is complying with the levy provisions of the Act. This is the sixteenth year in which we have evaluated the controls over levies. While levies can be issued for monetary or physical assets,⁴ this report specifically addresses levies of taxpayers' monetary assets.

TIGTA 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 at least 30 calendar days before initiating a levy action.

To collect delinquent taxes, levies are issued either systemically or manually by two operations within the IRS:

- The Automated Collection System (ACS), through which customer service representatives contact delinquent taxpayers by telephone to collect unpaid taxes and secure tax returns.

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.).

² See Appendix VII for a glossary of terms.

³ 26 U.S.C. § 6330 (Supp. IV 2010) *as amended* by the Trade Act of 2002, Pub. L. No. 107-210, 116 Stat. 933; the Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, 116 Stat. 21 (codified in scattered sections of 26 U.S.C., 29 U.S.C., and 42 U.S.C.); the Victims of Terrorism Tax Relief Act of 2001, Pub. L. No. 107-134, 115 Stat. 2427 (2002); and the Community Renewal Tax Relief Act of 2000, Pub. L. No. 106-554, 114 Stat. 2763.

⁴ Examples of physical assets are real property, automobiles, and business inventory, the taking of which is commonly known as seizures. Annual reporting of seizures is covered by TIGTA in a separate review.



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- The Collection Field function, 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).

However, there is a higher risk when revenue officers issue manual levies because they request these levies outside of the systemic controls that exist on the ICS and not all manual levies receive managerial approval. Because the ICS is not generating the manual levies, the IRS cannot reliably track them. Therefore, it is impossible to determine the exact number of manual levies issued by revenue officers during our review period.

TIGTA audit reports issued prior to Fiscal Year 2005⁵ reported that additional controls were needed over manual levies issued by revenue officers; however, since our Fiscal Year 2005 report, we have reported that revenue officers properly notified taxpayers of their right to a hearing when issuing manual levies. Nevertheless, TIGTA still considers manual levies to be higher risk and will continue to thoroughly test them.

Previous TIGTA audit reports have recognized that the IRS has improved controls over the issuance of systemically generated levies, primarily due to the development of systemic controls in both the ACS and the ICS. In prior years, we determined that the ACS and ICS systemic controls were effective. However, in our Fiscal Year 2013 report, we determined a required new notice of intent to levy was not sent to taxpayers when additional assessments were included on the levies. Therefore, TIGTA tested controls for taxpayer notifications on additional assessments more thoroughly in this review by identifying and testing samples of taxpayer cases for which additional assessments were included in levies issued by both the ACS and the ICS.

This review was performed with information obtained from the Small Business/Self-Employed Division National Headquarters Collection function office in New Carrollton, Maryland, and the Wage and Investment Division National Headquarters Filing and Payment Compliance function in Atlanta, Georgia, during the period February through June 2014. 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.

⁵ See Appendix VI for a list of previous audit reports related to this review.



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Results of Review

**Levies Issued by the Automated Collection System Function
Complied With Notification Requirements Except in Cases With
Additional Assessments**

Our review of systemically generated and manually issued levies in the ACS function showed that taxpayers’ rights were generally protected in cases for which additional assessments were not included in the levy. In these cases, controls are in place to ensure that the IRS gives taxpayers notice of their appeal rights at least 30 calendar days prior to the issuance of the 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 customer service representatives contact taxpayers by telephone to resolve their accounts. If the delinquent accounts cannot be resolved, these representatives have the authority to issue levies.

Nearly all levies issued by customer service representatives are generated through the ACS, which contains a control that compares the date that the taxpayer was notified of the pending levy with the date requested to actually 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 appeal rights at least 30 calendar days prior to the issuance of any systemically generated levies.

Although ACS customer service representatives primarily issue levies systemically, they may also request the issuance of manual levies through the ACS under certain circumstances.⁶ Manual levies require the same advance notification to the taxpayer as systemic levies.

Tests of statistical samples of 30 taxpayers⁷ with systemically generated and 30 taxpayers with manual levies issued through the ACS between October 1, 2012, and September 30, 2013, showed that all 60 taxpayers were timely notified of their appeal rights.⁸ However, **1**
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⁶ An example of when a manual levy may be requested is for levies on Individual Retirement Arrangements.

⁷ A taxpayer could have more than one levy. Throughout this audit, we reviewed all levies issued during the audit period for each sampled taxpayer.

⁸ TIGTA identified 343,394 taxpayers with systemic levies and 93,433 taxpayers with manual levies issued through the ACS from October 1, 2012, through September 30, 2013.



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The IRS agreed with TIGTA that *****1*****
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Taxpayers were not always notified when additional assessments were included in levies issued through the ACS

TIGTA selected a statistical sample of an additional 30 taxpayers for whom additional assessments were included in both systemically generated and manual ACS levies.⁹ Analysis showed that for 27 (90 percent) taxpayers, the IRS did not issue a new notice of intent to levy for the additional assessments prior to the levies being issued. As a result, these taxpayers' rights were potentially violated. Five of the 27 cases were taxpayers with manual levies and 22 of the 27 cases were taxpayers with systemic levies.¹⁰

IRS management stated that for manual levies, the ACS Entity and Module Screens¹¹ have an alert to notify the employee that an additional assessment applies to one or several of the tax periods when issuing a levy. The alert is shown on the Entity and Module Screen for each tax period to which it applies. The employee can then input a code next to the tax period with the additional assessment to exclude the tax period from the levy being issued. These procedures are explained in detail in the Internal Revenue Manual; however, it appears that some employees did not always follow these procedures as required.

IRS management also stated that a systemic control was put in place in January 2013 to stop both manual and systemic levies from being issued on tax periods with additional assessments when a new notice of levy had not been sent. However, programming problems were identified that subsequently had to be corrected. IRS management stated that further testing of the preventive control showed that as of October 1, 2013, both ACS manual and systemic levies no longer included modules with additional assessments for which the taxpayer had not been sent a new notice of intent to levy at least 30 days prior to levy issuance. Based on this information, we are not making a recommendation for ACS levies.

IRS management agreed that the taxpayers should have been issued a new notice of intent to levy and that the taxpayers' rights were potentially violated. However, because no levy payments were received on the affected tax periods in the cases, management determined that no corrective actions were needed. In addition, management also stated that they will identify any levy

⁹ TIGTA identified 18,012 taxpayers with additional assessments that were *potentially* included in issued levies in the ACS from October 1, 2012, through September 30, 2013. We could not be certain that the additional assessment amount was included in the levy in this population until we reviewed the actual levy information for each sample case. This population includes taxpayers with both manual and systemic levies.

¹⁰ In the entire random sample of 30 taxpayers, five had manual levies and 25 had systemic levies.

¹¹ Used by ACS employees to look up tax information and perform actions on delinquent taxpayer accounts.



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payments received on other additional assessments included in levies and take corrective actions as needed.

Based on a statistical sample of 30 taxpayers from a population of 18,012 taxpayers with additional assessments potentially included in the levies, we estimate that 12,470 taxpayers had their rights potentially violated because they were not sent a new notice of intent to levy as required.¹²

Levies Issued by the Collection Field Function Complied With Notification Requirements Except in Cases With Additional Assessments

Our review of systemically generated and manually prepared levies by the Collection Field function showed that taxpayers' rights were protected in cases when additional assessments were not included in the levies. The IRS gave taxpayers notice of their appeal rights at least 30 calendar days prior to the issuance of the levies in these cases.

Sometimes notices and telephone calls to taxpayers do not successfully resolve delinquent accounts, and cases have to be assigned to revenue officers in Collection Field function 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 a 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 appeal 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.

Revenue officers most commonly issue systemic levies through the ICS. However, they are also authorized to issue manual levies on any case as needed. Managerial review or approval is generally not required when revenue officers issue manual levies.

Tests of a statistical sample of 30 taxpayers with systemically generated and a statistical sample of 30 taxpayers with manually prepared levies through the ICS between October 1, 2012, and September 30, 2013, showed that all 60 taxpayers were timely notified of their appeal rights.¹³

¹² The projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the IRS potentially violated between 9,438 and 14,950 taxpayer's rights. See Appendix I for more details on how the projection was calculated.

¹³ TIGTA identified 78,772 taxpayers with systemic levies in the ICS from October 1, 2012, through September 30, 2013. Because the ICS does not control manual levies prepared by revenue officers, it is difficult to reliably determine their exact number. However, TIGTA oversampled and reviewed case history comments from October 1, 2012, through September 30, 2013, for any reference to a manual levy in random selection order until we identified 30 cases that met the manual levy criteria. See Appendix I for details.



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IRS management stated that the revenue officers did not follow required Internal Revenue Manual procedures when issuing the manual levies with additional assessments. In addition, ICS programming updates are planned to address the additional assessment issue with systemic levies.

The IRS agreed that the *****1*****
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*****1*****
*****1*****.

Revenue officers need additional training when additional assessments are included in levies

TIGTA selected a separate statistical sample of 30 taxpayers for which additional assessments were included in ICS systemic levies.¹⁴ Our analysis showed that 18 (60 percent) taxpayers were not issued a new notice of intent to levy for the additional assessments prior to the levies being issued. The IRS agreed that the 18 taxpayers should have been provided a new notice of intent to levy for the additional assessments prior to issuing the levies and that the taxpayers' rights were potentially violated.

We previously identified this issue and reported it in our Fiscal Year 2013 report. IRS management agreed to update the ICS programming for systemic levies to prevent levy issuance on tax periods for which an additional assessment has been made and a new notice of intent to levy has not been sent to the taxpayer. Implementation of the programming changes is scheduled for January 2015. Because this corrective action has not yet been implemented, we are not making a new recommendation for this issue.

IRS management subsequently took corrective actions on *****1*****
*****1*****. No levy payments were received on the affected tax periods in the other **1** cases. In addition,

¹⁴ TIGTA identified 4,037 taxpayers with additional assessments *potentially* included in systemically generated levies in the ICS from October 1, 2012, through September 30, 2013. We could not be certain that the additional assessment amount was included in the levy in this population until we reviewed the actual levy information for each sample case. Taxpayers with manual levies were not included in this population. See Appendix I for details.



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management informed us that they will identify any levy payments received on other additional assessments included in levies and take corrective actions as needed.

Based on a statistical sample of 30 taxpayers from a population of 4,037 taxpayers with additional assessments potentially included in levies, we estimate that 1,514 taxpayers had their rights potentially violated because they were not sent a new notice of intent to levy as required.¹⁵

Recommendations

Recommendation 1: The Director, Collection Policy, Small Business/Self-Employed Division, should issue interim guidance and retrain revenue officers on the requirement to prevent levy issuance on tax periods for which an additional assessment has been made and a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.

Management's Response: IRS management agreed with this recommendation. Specifically, management will issue guidance to the Field Collection group managers and update Fiscal Year 2015 continuing professional education for revenue officers to emphasize the requirement that levies not include periods for which an additional assessment was made but a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.

¹⁵ The projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the IRS potentially violated between 896 and 2,039 taxpayer's rights. See Appendix I for more details on how the projection was calculated.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS has complied with the legal requirement to timely notify taxpayers prior to issuing levies per Internal Revenue Code Section 6330, *Notice and Opportunity for Hearing Before Levy*. To accomplish our objective, we:

- I. Determined whether manual levies issued by both revenue officers and ACS function personnel complied with legal guidelines for notification to taxpayers prior to levy issuance.
 - A. Identified a population of taxpayers with potential manual ICS levies by querying the narrative history text field of the ICS open inventory in the Data Center Warehouse (DCW)¹ database files to identify any references to manual levies issued between October 1, 2012, and September 30, 2013.
 1. Selected a statistical sample of 210 taxpayer cases. We selected a statistical sample to ensure each taxpayer case had an equal chance of being selected. We verified cases met manual levy criteria in random selection order until we reached 30 cases for review.
 2. Reviewed all levies issued to the 30 taxpayers during our audit period for evidence that appeal rights were sent to the taxpayer at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.
 - B. Identified a population of 93,443 taxpayers with manual ACS levies by querying the employee number field in the DCW ACS open inventory database files to identify levies requested by ACS personnel, indicating manual levies, between October 1, 2012, and September 30, 2013.
 1. Selected a statistical sample of 60 taxpayer cases. We selected a statistical sample to ensure each taxpayer case had an equal chance of being selected. We verified cases met manual levy criteria in random selection order until we reached 30 cases for review.
 2. Reviewed all levies issued to the 30 taxpayers during our audit period for evidence that appeal rights were sent to the taxpayer at least 30 calendar days

¹ See Appendix VII for a glossary of terms.



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prior to levy issuance, including those tax periods with additional assessments included in the levies.

- II. Determined whether automated controls for systemic ICS and ACS levies were adequate to comply with legal guidelines for notification to taxpayers prior to levy issuance.
 - A. Identified a population of 78,772 ICS and 343,394 ACS taxpayers with systemic levies issued between October 1, 2012, and September 30, 2013, by querying the ICS and ACS databases of open cases maintained in the DCW.
 1. Selected statistical samples of 30 taxpayer cases with systemic ICS levies and 30 taxpayer cases with ACS systemic levies for review. We selected statistical samples to ensure each taxpayer case had an equal chance of being selected.
 2. Reviewed all levies in both samples that were issued to the 30 ICS and 30 ACS taxpayers during our audit period for evidence that appeal rights were sent to the taxpayers at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.
- III. Determined whether IRS controls ensured that taxpayers were properly notified prior to levy issuance when additional assessments were included in the levies.
 - A. Identified a population of 18,012 ACS (manual and systemic levies included) and 4,093 ICS (systemic levies included) taxpayers with additional assessments potentially included in levies by matching the Taxpayer Identification Number in the ICS systemic and the ACS systemic and manual levy populations (previously identified) to the Individual Master File and Business Master File databases in the DCW. Taxpayers identified had tax periods with: 1) an additional assessment posted prior to the levy issuance date and 2) an original notice of appeal rights sent to the taxpayer prior to the date of the additional assessment.
 1. Selected statistical samples of 60 ACS and 60 ICS taxpayers. We selected statistical samples to ensure each taxpayer case had an equal chance of being selected. We verified cases had additional assessments included in the levies in random selection order until we reached 30 ACS and 30 ICS cases for review.
 2. Reviewed all levies in both samples in which additional assessments were included in the levies issued to the 30 ICS and 30 ACS taxpayers for evidence that appeal rights were sent to the taxpayer at least 30 calendar days prior to levy issuance.
 - a. Projected the error cases to the ACS population based on a 69.23 percent error rate, a 14.66 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 39 taxpayers because we had to select an additional nine taxpayer cases to obtain our sample size of



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- 30 taxpayers. This was due to our original sample of 30 taxpayers containing nine cases in which additional assessments were not included in the levies.
- b. Projected the error cases to the ICS population based on a 35.42 percent error rate, a 13.59 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 48 taxpayers because we had to select an additional 18 taxpayer cases to obtain our sample size of 30 taxpayers. This was due to our original sample of 30 taxpayers containing 18 cases for which additional assessments were not included in the levies.
3. Consulted with TIGTA's contract statistician regarding our projections.
- IV. Validated the manual and systemic levy data from the ACS and the ICS by relying on the DCW site procedures that ensure that data received from the IRS are valid. The DCW performs various procedures to ensure that it receives all the records in the ACS, the ICS, and other various IRS databases. In addition, we scanned the data in each population for reasonableness, and we verified the levy and additional assessment data for each sample case by comparing it to the Integrated Data Retrieval System transcripts. All the levies identified are in the appropriate period, and the data appeared to be logical. We are satisfied that the data are sufficient, complete, and relevant to the review.

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. We evaluated these controls by reviewing samples of taxpayer levy cases.



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Appendix II

Major Contributors to This Report

Bryce Kisler, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Phyllis Heald London, Audit Manager
Marcus Sloan, Lead Auditor
Mike Della Ripa, Senior Auditor
Nicole DeBernardi, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Director, Field Collection, Small Business/Self-Employed Division SE:S:FC
Director, Collection Policy, Small Business/Self-Employed Division SE:S:CS:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Commissioner, Small Business/Self-Employed Division SE:S



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; 13,989 taxpayer accounts affected (see pages 3 and 5).

Methodology Used to Measure the Reported Benefit:

ACS¹

- From a statistical sample of 30 taxpayers with manually issued levies through the ACS between October 1, 2012, and September 30, 2013, we identified ****1*****
*****1*****
*****1***** (see page 3).
- From a statistical sample of 30 taxpayers with additional assessments included in manual and systemic levies issued through the ACS between October 1, 2012, and September 30, 2013, we identified 27 cases for which an additional assessment was made on a tax period covered by the levy and the IRS did not send the taxpayer a new final notification letter for the additional assessment before issuing the levy. We projected the 27 error cases to the total population of 18,012 taxpayers. We estimate that 12,470 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy as required (see page 3).²

ICS

- From a statistical sample of 30 taxpayers with systemically generated and 30 taxpayers with manual levies issued through the ICS between October 1, 2012, and September 30, 2013, we identified *****1*****
*****1*****

¹ See Appendix VII for a glossary of terms.
² We are 95 percent confident that the point estimate is between 9,438 and 14,950.



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*****1***** (see page 5).

- From a statistical sample of 30 taxpayers with additional assessments included in systemic levies issued through the ICS between October 1, 2012, and September 30, 2013, we identified 18 cases for which an additional assessment was made on a tax period covered by the levy and the IRS did not send the taxpayer a new final notification letter for the additional assessment before issuing the levy. We projected the 18 error cases to the total population of 4,037 taxpayers. We estimate that 1,514 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy as required (see page 5).³

³ We are 95 percent confident that the point estimate is between 896 and 2,039.



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Appendix V

Example of a Form 668-A, Notice of Levy

Form 668-A(c)(DO) (Rev. July 2002)	Department of the Treasury – Internal Revenue Service Notice of Levy												
DATE: REPLY TO:	TELEPHONE NUMBER OF IRS OFFICE: NAME AND ADDRESS OF TAXPAYER: TO: IDENTIFYING NUMBER(S):												
THIS ISN'T A BILL FOR TAXES YOU OWE. THIS IS A NOTICE OF LEVY WE ARE USING TO COLLECT MONEY OWED BY THE TAXPAYER NAMED ABOVE.													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;">Kind of Tax</th> <th style="width: 20%;">Tax Period Ended</th> <th style="width: 20%;">Unpaid Balance of Assessment</th> <th style="width: 20%;">Statutory Additions</th> <th style="width: 20%;">Total</th> </tr> </thead> <tbody> <tr> <td style="height: 100px;"> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Kind of Tax	Tax Period Ended	Unpaid Balance of Assessment	Statutory Additions	Total						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%; text-align: right;"> THIS LEVY WON'T ATTACH FUNDS IN IRAs, SELF-EMPLOYED INDIVIDUALS' RETIREMENT PLANS, OR ANY OTHER RETIREMENT PLANS IN YOUR POSSESSION OR CONTROL, UNLESS IT IS SIGNED IN THE BLOCK TO THE RIGHT. </td> <td style="width: 20%; text-align: center; vertical-align: bottom;"> Total Amount Due ▶ </td> </tr> </table>	THIS LEVY WON'T ATTACH FUNDS IN IRAs, SELF-EMPLOYED INDIVIDUALS' RETIREMENT PLANS, OR ANY OTHER RETIREMENT PLANS IN YOUR POSSESSION OR CONTROL, UNLESS IT IS SIGNED IN THE BLOCK TO THE RIGHT.	Total Amount Due ▶
Kind of Tax	Tax Period Ended	Unpaid Balance of Assessment	Statutory Additions	Total									
THIS LEVY WON'T ATTACH FUNDS IN IRAs, SELF-EMPLOYED INDIVIDUALS' RETIREMENT PLANS, OR ANY OTHER RETIREMENT PLANS IN YOUR POSSESSION OR CONTROL, UNLESS IT IS SIGNED IN THE BLOCK TO THE RIGHT.	Total Amount Due ▶												
We figured the interest and late payment penalty to _____													
<p>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."</p> <p>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.</p> <p>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.</p> <p>To respond to this levy —</p> <ol style="list-style-type: none"> 1. Make your check or money order payable to United States Treasury. 2. Write the taxpayer's name, identifying number(s), kind of tax and tax period shown on this form, and "LEVY PROCEEDS" on your check or money order (not on a detachable stub.). 3. Complete the back of Part 3 of this form and mail it to us with your payment in the enclosed envelope. 4. Keep Part 1 of this form for your records and give the taxpayer Part 2 within 2 days. <p>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.</p>													
Signature of Service Representative	Title												
Part 5— IRS File Copy	Catalog No. 15704T www.irs.gov Form 668-A(c)(DO) (Rev. 7-2002)												

Source: IRS.gov website.



*Fiscal Year 2014 Statutory Review of Compliance
With Legal Guidelines When Issuing Levies*

Appendix VI

*Previous Audit Reports
Related to This Statutory Review*

TIGTA, Ref. No. 1999-10-071, *The Internal Revenue Service Has Not Fully Implemented Procedures to Notify Taxpayers Before Taking Their Funds for Payment of Tax* (Sept. 1999).

TIGTA, Ref. No. 2000-10-150, *The Internal Revenue Service Has Significantly Improved Its Compliance With Levy Requirements* (Sept. 2000).

TIGTA, Ref. No. 2001-10-113, *The Internal Revenue Service Complied With Levy Requirements* (Jul. 2001).

TIGTA, Ref. No. 2002-40-176, *The Internal Revenue Service Has Improved Controls Over the Issuance of Levies, But More Should Be Done* (Sept. 2002).

TIGTA, Ref. No. 2003-40-129, *The Internal Revenue Service Does Not Have Controls Over Manual Levies to Protect the Rights of Taxpayers* (Jun. 2003).

TIGTA, Ref. No. 2004-30-094, *Additional Efforts Are Needed to Ensure Taxpayer Rights Are Protected When Manual Levies Are Issued* (Apr. 2004).

TIGTA, Ref. No. 2005-30-072, *Taxpayer Rights Are Being Protected When Levies Are Issued* (Jun. 2005).

TIGTA, Ref. No. 2006-30-101, *Fiscal Year 2006 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Aug. 2006).

TIGTA, Ref. No. 2007-30-070, *Fiscal Year 2007 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Apr. 2007).

TIGTA, Ref. No. 2008-30-097, *Fiscal Year 2008 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Apr. 2008).

TIGTA, Ref. No. 2009-30-070, *Fiscal Year 2009 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (May 2009).

TIGTA, Ref. No. 2010-30-068, *Fiscal Year 2010 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Jun. 2010).

TIGTA, Ref. No. 2011-30-036, *Fiscal Year 2011 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Mar. 2011).

TIGTA, Ref. No. 2012-30-095, *Fiscal Year 2012 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Aug. 2012).

TIGTA, Ref. No. 2013-30-092, *Fiscal Year 2013 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Aug. 2013).



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Appendix VII

Glossary of Terms

Term	Definition
Appeal Rights	The IRS has an administrative appeals process that works with taxpayers to try to settle tax disputes in an effort to avoid formal court hearings. The IRS sends the taxpayer a report and/or letter that explains proposed adjustments or proposed/taken collection actions. The letter also tells the taxpayer of their right to request a conference with an Appeals or Settlement Officer as well as how to make a request for a conference.
Automated Collection System	A telephone contact system through which customer service representatives collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
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.
Collection Field Function	The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Customer Service Representatives	The duties of a customer service representative are varied. Many hours are spent on the telephone, working paper cases, or assisting taxpayers at a Taxpayer Assistance Counter. Paper cases include both incoming taxpayer correspondence and internally generated cases.
Data Center Warehouse	An online database maintained by TIGTA. The DCW pulls data from IRS system resources, such as IRS Collection files and IRS Examination files, for TIGTA access.
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.



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Term	Definition
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	Federal tax law begins with the Internal Revenue Code, enacted by Congress in Title 26 of the United States Code.
Internal Revenue Manual	The primary, official source of IRS "instructions to staff" relating to the organization, administration, and operation of the IRS. It details the policies, delegations of authorities, procedures, instructions, and guidelines for daily operations for all divisions and functions of the IRS.
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 initiated through the ACS by a customer service representative, resulting in levy preparation and issuance by the system.
Revenue Officer	Conducts face-to-face interviews with taxpayers (and/or their representatives) at the taxpayer's place of business or residence or, on occasion, at an IRS office. These interviews may be unscheduled (cold calls) or scheduled, depending upon the case. This is done as part of the investigative process of collecting delinquent taxes and securing delinquent tax returns.
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	The period of time for which a return is filed. The IRS uses a four-digit code to indicate the end of the tax period for a given return. (The first two digits represent the year and the second two digits represent the month.)



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Appendix VIII

Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

SEP 02 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Karen Schiller 
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2014 Statutory Review of
Compliance With Legal Guidelines When Issuing Levies
(Audit # 201430003)

Thank you for the opportunity to review your draft report titled "Fiscal Year 2014 Statutory Review of Compliance With Legal Guidelines When Issuing Levies". We agree with your recommendation and we appreciate you acknowledging that we generally follow procedures and notify taxpayers of their right to a hearing when we issue a levy.

This is the sixteenth consecutive year that you have reviewed our compliance with statutory and internal guidelines when levies are issued. Since 2005, you have found that we have proper controls in place to ensure statutory and internal guidelines are followed when levies are issued. Over that same period, you found that we are notifying taxpayers of their right to a hearing when we issue a levy. Our record of compliance generally remained intact in Fiscal Year 2013 and we are proud of this record of compliance.

However, during this audit you determined that we did not always send the taxpayer a new notice of intent of levy before we included an additional assessment in the levy. We should be providing taxpayers with a new notice of intent to levy before we include the additional assessment in the levy. As you acknowledge, as of October 1, 2013, we modified our Automated Collection System (ACS) manual and systemic levy processes to no longer include modules with additional assessments in which the taxpayer had not been sent a new notice of intent to levy at least 30 days prior to levy issuance. We also established a control in the Integrated Collection System (ICS) that prevents systemic levies from being issued unless the taxpayer has been provided notice of their appeal rights at least 30 calendar days prior to the issuance of the levy.

We are committed to treating taxpayers fairly and will address those situations in which we included an additional assessment in the levy before we sent the taxpayer a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*. We are currently reviewing cases to identify any instances in which an additional



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assessment was included in the levy without issuing a new letter and we will take corrective actions as needed in the cases we identify. We also will remind our Field Collection group managers and revenue officers that levies should not include periods where an additional assessment was made but a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.

Attached is a detailed response with our corrective action to your recommendation. If you have any questions, please contact me, or a member of your staff may contact Darren John Guillot, Director, Enterprise Collection Strategy at (202) 317-3583.

Attachment



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Attachment

RECOMMENDATION 1:

The Director, Collection Policy, Small Business /Self-Employed Division, should issue interim guidance and retrain Revenue Officers on the requirement to prevent levy issuance on tax periods for which an additional assessment has been made and a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.

CORRECTIVE ACTION:

We will issue guidance to our Field Collection group managers and update our fiscal year 2015 continuing professional education for revenue officers to emphasize the requirement that levies not include periods for which an additional assessment was made but a new Letter 1058, *Final Notice of Intent to Levy and Notice of Your Right to a Hearing*, has not been sent to the taxpayer.

IMPLEMENTATION DATE:

September 15, 2015

RESPONSIBLE OFFICIAL:

Director, Collection Policy, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:

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