
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



***Fiscal Year 2017 Statutory Review
of Compliance With Legal Guidelines
When Issuing Levies***

August 22, 2017

Reference Number: 2017-30-065

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HIGHLIGHTS

FISCAL YEAR 2017 STATUTORY REVIEW OF COMPLIANCE WITH LEGAL GUIDELINES WHEN ISSUING LEVIES

Highlights

Final Report issued on August 22, 2017

Highlights of Reference Number: 2017-30-065 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 authority to work directly with financial institutions and other third parties to seize taxpayers' assets. This action is commonly referred to as a "levy." The law requires the IRS to notify taxpayers at least 30 calendar days prior to the issuance of a levy and allows taxpayers the opportunity to request a Collection Due Process hearing prior to the first levy on a delinquent account.

WHY TIGTA DID THE AUDIT

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

WHAT TIGTA FOUND

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, systemic levies issued by revenue officers, and a judgmental sample of manual levies issued by revenue officers and determined that controls ensured that taxpayers were given notice of their

Collection Due Process rights at least 30 calendar days prior to the issuance of the levies. Tests of a statistical sample of 30 open notice of intent to levy appeal cases also showed that the IRS suspended or did not take levy actions that involved the same tax period as the notice of intent to levy that was under appeal.

However, an additional review of statistical samples of taxpayers' cases that were worked in the Automated Collection System and had additional tax assessed prior to the levies identified eight of 44 (18 percent) taxpayers with systemic and 10 of 41 (24 percent) taxpayers with manual levies who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy. A programming solution for this problem is scheduled to be implemented by June 2018.

In addition, a review of a statistical sample of 107 taxpayers whose cases were worked in Field Collection and had additional assessments prior to systemic levies identified nine taxpayers (8 percent) 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 made subsequent programming fixes in February 2016, June 2016, and January 2017 and plans to implement another programming fix by January 2019 to solve these problems.

WHAT TIGTA RECOMMENDED

Because management is taking corrective action for these issues, TIGTA is not making any recommendations. IRS officials were provided with an opportunity to review the draft report but did not provide any report comments.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 22, 2017

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED DIVISION

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2017 Statutory Review of
Compliance With Legal Guidelines When Issuing Levies
(Audit # 201730003)

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 to notify taxpayers and their authorized representatives of the right to a Collection Due Process hearing prior to issuing levies and to suspend levy action during the time frames required pursuant to Internal Revenue Code (I.R.C.) Section (§) 6330.¹ This review is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Protecting Taxpayer Rights.

Although we made no recommendations in this report, we provided IRS officials an opportunity to review the draft report. IRS management did not provide us with any report comments.

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

¹ I.R.C. § 6330 (providing right to Collection Due Process Hearing prior to levy) and I.R.C. § 7803(d)(1)(A)(iv) requiring an evaluation of the IRS's compliance with I.R.C. § 6330.



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Abbreviations

ACS	Automated Collection System
CDP	Collection Due Process
DCW	Data Center Warehouse
ICS	Integrated Collection System
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
RO	Revenue Officer
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 Form 668-A, *Notice of Levy*).¹ The Internal Revenue Code² (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 1998⁴ expanded upon this notice requirement by creating I.R.C. Section (§) 6330,⁵ which requires the IRS, in addition to giving the taxpayer 30 calendar days' notice of the IRS's intent to levy, to 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).⁶ These provisions also require that

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 at least 30 calendar days before initiating a levy action.

all levy actions be suspended during the 30 calendar days prior to the levy as well as throughout the entire period that a hearing (including any appeals from the hearing) is pending.⁷ CDP rights include the right to a fair and impartial hearing before the Office of Appeals. If taxpayers fail to request a CDP hearing within the 30-day period, taxpayers can request an equivalent hearing within one year of the date that the CDP notice is issued, and the IRS will grant an equivalent hearing.⁸ An equivalent CDP hearing is essentially the same as a regular CDP hearing except there is no right to seek judicial review of the Office of Appeals' decision.⁹

The notice required by I.R.C. § 6330 must include the amount of unpaid tax, the right to request a CDP hearing, and the proposed action the IRS intends to take, along with other important

¹ I.R.C. § 6331(a) and (b).

² See Appendix VII for a glossary of terms.

³ I.R.C. § 6331(d).

⁴ Pub. L. No. 105-206, 112 Stat. 685.

⁵ I.R.C. § 6330.

⁶ 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."

⁷ I.R.C. § 6330(e).

⁸ Treas. Reg. § 301.6320-1(i)(2) Q&A-I7.

⁹ Treas. Reg. § 301.6320-1(i)(2) Q&A-I6.



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information on topics such as collection alternatives. IRS policy also requires that a copy of the notice be sent to the taxpayer's authorized representative if the representative is specifically authorized to receive notices.¹⁰ Generally, only one notice and opportunity before levy is required per tax period. However, a new notice is required when an additional assessment occurs on a tax period after the original notice of intent to levy has been sent to the taxpayer and the additional assessment amount will be included in the levy.¹¹

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. § 6330.¹² TIGTA conducts multiple reviews each year focusing on different aspects of the IRS's implementation of I.R.C. § 6330. This review focuses on whether the IRS provides the taxpayer with a notice of CDP appeal rights at least 30 calendar days before taking levy action and, if the taxpayer requests a CDP hearing, whether levy action is suspended as required under I.R.C. § 6330. This is the nineteenth 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.¹³

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

- The Automated Collection System (ACS), through which collection representatives interact with delinquent taxpayers by telephone to collect unpaid taxes and secure tax returns.
- Field Collection, through which revenue officers (ROs) contact delinquent taxpayers in person. Delinquent cases assigned to ROs in the field offices are controlled and monitored on the Integrated Collection System (ICS).

However, there is a higher risk of not complying with I.R.C. § 6330 and its related regulations and procedures when ROs 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 ROs during our review period.

TIGTA audit reports issued prior to Fiscal Year 2005 reported that additional controls were needed over manual levies issued by ROs; however, since our Fiscal Year 2005 report, we have generally reported that ROs properly notified taxpayers of their right to a hearing when issuing

¹⁰ Internal Revenue Manual 5.1.23.3.2.3 (October 30, 2014).

¹¹ Internal Revenue Manual 5.19.4.3.1(5) (January 1, 2015).

¹² I.R.C. § 7803 (d)(1)(A)(iv).

¹³ 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.



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manual levies.¹⁴ Nevertheless, TIGTA still considers manual levies to be higher risk and will continue to thoroughly test them.

In Fiscal Year 2013, we reported that a required new notice of intent to levy was not sent to taxpayers when additional assessments were included on ICS systemic levies. The IRS agreed and made programming fixes for ICS systemic levies in January 2015, February 2016, June 2016, and January 2017. The problem also extended to the ACS. A programming fix for ACS levies was made in January 2013, and another was scheduled for January 2017. As a result, this year we continued testing both ACS and ICS levies with additional assessments to determine if the programming fixes had corrected the problems.

This review was performed with information obtained from the Small Business/Self-Employed Division National Headquarters Collection function office in Lanham, Maryland, during the period January through June 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.

¹⁴ See Appendix VI for a list of five previous audit reports related to this review.



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Results of Review

***Taxpayers Were Properly Notified Before Levies Were Issued*¹⁵**

Automated Collection System – 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 employees have the authority to issue levies.¹⁶

Nearly all levies issued by collection 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 CDP rights at least 30 calendar days prior to the issuance of any systemically generated levies.

Although the ACS primarily issues levies systemically, collection representatives may also request the issuance of manual levies by the ACS or by actually typing the notice of levy.¹⁷ Manual levies require the same advance notification to the taxpayer as systemic levies.

Our review of systemically generated and manually issued levies in the ACS function showed that taxpayers' rights were protected.¹⁸ In these cases, controls are in place to ensure that the IRS gives taxpayers notice of their CDP rights at least 30 calendar days prior to the issuance of the levies.

Specifically, statistical samples of 15 taxpayers with systemically generated levies and 15 taxpayers with manual levies issued through the ACS between October 1, 2015, and September 30, 2016, showed that all 30 taxpayers, and their authorized representatives, were timely notified of their CDP rights.¹⁹ In addition, in both the ACS systemic and manual levy samples, we did not identify any taxpayers who requested CDP hearings prior to levy issuance.

¹⁵ Represents cases for which additional assessments were not included in the levy.

¹⁶ Internal Revenue Manual 5.19.4.2 (August 4, 2014).

¹⁷ An example of when a manually typed levy may be requested is for levies on Individual Retirement Arrangements.

¹⁸ A taxpayer could have more than one levy. Throughout this audit, we reviewed all levies issued during the audit period for each sampled taxpayer.

¹⁹ TIGTA identified 210,183 taxpayers with systemic levies and 83,806 taxpayers with manual levies issued through the ACS from October 1, 2015, through September 30, 2016. See Appendix I for details.



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Field Collection – Sometimes notices do not successfully resolve delinquent accounts, and cases have to be assigned to ROs in Field Collection offices for face-to-face contact with the taxpayers. Cases assigned to ROs are controlled on the ICS. ROs 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.²⁰ Internal Revenue Manual procedures also require employees to send a copy of the CDP rights notice to the taxpayer's authorized representative.²¹

ROs 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 ROs issue manual levies.

Our review of systemically generated and manually prepared levies by Field Collection showed that taxpayers' rights were protected. The IRS gave taxpayers notice of their CDP rights at least 30 calendar days prior to the issuance of the levies in these taxpayer cases.

Specifically, a judgmental sample²² of 30 taxpayers with manually prepared levies and a statistical sample of 15 taxpayers with systemically generated levies through the ICS between October 1, 2015, and September 30, 2016, showed that all 45 taxpayers were timely notified of their CDP rights.²³ In addition, we did not identify any taxpayers who requested CDP hearings prior to levy issuance.

However, in three of the levy cases for which taxpayers had authorized representatives, there was no documentation that the taxpayer's representatives were notified of the IRS's intent to levy as required by internal IRS policy. IRS management agreed that these were procedural errors by employees.

Taxpayers Were Not Always Properly Notified of Levies With Additional Assessments

Automated Collection System – Tests of statistical samples of 85 taxpayers (41 with manual levies and 44 with systemic levies) for whom new tax assessments were added to a module prior

²⁰ The ICS does not block the levy action for Disqualified Employment Tax or Federal Contractor levies.

²¹ Internal Revenue Manual 5.1.23.3.2.3 (October 30, 2014).

²² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

²³ TIGTA identified 67,083 taxpayers with systemic levies issued through the ICS from October 1, 2015, through September 30, 2016. Since the ICS does not control manual levies prepared by ROs, it is difficult to reliably determine their exact number. However, TIGTA searched case history comments from October 1, 2015, through September 30, 2016, for any reference to a manual levy and identified 56 potential taxpayer cases from which we reviewed a judgmental sample of 30 taxpayer cases. See Appendix I for details.



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to the levy identified 10 (24 percent) manual levy cases and eight (18 percent) systemic levy cases for which an additional assessment was made on a tax period covered by the levy, but the IRS did not provide the taxpayers with a new notice of intent to levy.²⁴

In January 2013, IRS management implemented a systemic control intended to prevent 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, testing during audits performed in Fiscal Years 2014 through 2016 continued to identify the same issue. As a result, management implemented a temporary manual process to monitor incoming ACS inventory to identify any additional assessments that required a new CDP notice. However, IRS management informed us they have determined that past programming to address ACS levies with additional assessments was not identifying transactions that post to a module after it leaves the ACS and later returns to the ACS. Therefore, a programming fix for ACS levies similar to the one in the ICS is scheduled for implementation in either January or June 2018, depending on other programmer commitments. Because the IRS is taking corrective action, we will not be making a recommendation for this issue.

Based on the results of our review from a population of 5,662 manual levy taxpayer cases and 8,060 systemic levy taxpayer cases with additional assessments, we estimate that 2,846 taxpayers had their rights potentially violated because they were not sent a new notice of intent to levy as required.²⁵

Field Collection – Tests of an additional statistical sample of 107 taxpayers for whom new tax assessments were added to a module prior to a systemic levy identified nine (8 percent) cases for which an additional assessment was made on a tax period covered by the levy, but the IRS did not provide the taxpayers with a new notice of intent to levy.²⁶

In January 2015, IRS management made changes to the ICS programming for systemic levies intended to prevent levies from being issued on tax periods with additional assessments when a new notice of levy had not been sent. However, our Fiscal Year 2016 review determined that the

²⁴ TIGTA identified and tested subpopulations from the ACS levy population consisting of 5,662 taxpayers (manual levies) and 8,060 (systemic levies) with additional assessments potentially included in levies in the ACS from October 1, 2015, through September 30, 2016. We could not be certain that the additional assessment amount was included in the levy in these populations until we reviewed the actual levy information for each sample case. See Appendix I for details.

²⁵ 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 630 and 2,132 for manual levies, and we are 95 percent confident that the point estimate is between 539 and 2,392 for systemic levies. See Appendix IV for more details on how the projections were calculated.

²⁶ TIGTA identified and tested a subpopulation from the ICS systemic levy population consisting of 8,056 taxpayers with additional assessments potentially included in systemically generated levies in the ICS from October 1, 2015, through September 30, 2016. 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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problem was still occurring. IRS management advised us that subsequent programming fixes were implemented in February 2016, June 2016, and January 2017 to correct these problems. However, the changes did not prevent all of the exceptions that we identified in this year's review. In response, IRS management advised us of another problem. Specifically, when a levy is going to be issued, the ICS has a pop-up box that alerts the RO of an additional assessment and then asks if the levy is for a Federal contractor. Levies for Federal contractors do not require a CDP notice until after the levy is issued.²⁷ If the RO answers yes in error, the levy will be issued without the required CDP notice. The IRS has requested a programming fix to solve this problem by requiring a Federal contractor indicator be present on the case to generate a levy for a Federal contractor. The expected implementation date is January 1, 2019. Because the IRS is taking corrective action, we will not be making a recommendation for this issue.

Based on the results of our review from a population of 8,056 taxpayer cases with additional assessments potentially included in levies, we estimate that 678 taxpayers' rights were potentially violated because they were not sent a new notice of intent to levy as required.²⁸

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

Taxpayers have the right to request a CDP hearing, at which they can raise various issues with respect to the proposed levy (CDP rights).²⁹ When taxpayers exercise these rights, the IRS must suspend all levy action during the 30 calendar days prior to the levy as well as throughout the entire period that the hearing (including any appeals from the hearing) is pending.³⁰

Tests of a statistical sample of 30 CDP levy appeal cases as of October 3, 2016, showed that the IRS suspended or did not take any levy action that involved the same tax period as the notice of intent to levy under appeal as required by I.R.C. § 6330(e).

²⁷ Internal Revenue Manual 5.7.9.5.1 (January 20, 2017).

²⁸ 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 255 and 1,100. See Appendix IV for more details on how the projection was calculated.

²⁹ 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."

³⁰ I.R.C. § 6330(e).



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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 to notify taxpayers and their authorized representatives of the right to a CDP¹ hearing prior to issuing levies and to suspend levy action during the time frames required pursuant to I.R.C. § 6330.

We conducted the following audit tests to accomplish the overall objective.

- I. Determined whether manual levies issued by both ROs and ACS personnel complied with legal guidelines for notification to taxpayers prior to levy issuance.
 - A. Identified a population of 56 taxpayers with potential manual ICS levies, with the assistance of the TIGTA Applied Research and Analytics group, by querying the ICS history table text field from the Data Center Warehouse (DCW) for references to manual levies issued between October 1, 2015, and September 30, 2016.
 1. Selected a judgmental sample of 30 taxpayer cases. We selected a judgmental sample because there is no way to determine the true population of manual ICS levies as the IRS does not track them.
 2. Reviewed all levies issued to the 30 taxpayers during our audit period for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies.
 3. Identified whether taxpayers in our sample cases had requested a CDP hearing after receiving their CDP rights for intent to levy and verified the CDP hearing was resolved prior to levy issuance.
 - B. Identified a population of 83,806 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, 2015, and September 30, 2016.
 1. Selected a statistical sample of 30 taxpayer cases. We selected a statistical sample to ensure that each taxpayer case had an equal chance of being selected.
 2. Reviewed all levies issued to the first 15 sampled taxpayers during our audit period for evidence that CDP rights were sent to the taxpayers (and their

¹ See Appendix VII for a glossary of terms.



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authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies. We stopped testing after the first 15 taxpayers because no errors were identified.

3. 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.

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 67,083 ICS and 210,183 ACS taxpayers with systemic levies issued between October 1, 2015, and September 30, 2016, by querying the ICS and ACS databases of open cases maintained in the DCW.

1. Selected statistical samples of 60 taxpayer cases with ICS systemic levies for review.² We selected statistical samples to ensure that each taxpayer case had an equal chance of being selected. We verified cases met ICS systemic levy criteria in random selection order until we reached 30 cases for review.
 - a) Reviewed all levies issued to the first 15 sampled taxpayers with ICS systemic levies during our audit period for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies. We stopped testing after the first 15 taxpayers because no errors were identified.
 - b) 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.
2. Selected statistical samples of 30 taxpayer cases with ACS systemic levies for review. We selected statistical samples to ensure that each taxpayer case had an equal chance of being selected.
 - a) Reviewed all levies issued to the first 15 sampled taxpayers with ACS systemic levies during our audit period for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance, including those tax periods with additional assessments included in the levies. We stopped testing after the first 15 taxpayers because no errors were identified.

² We oversampled by 30 cases because ICS manual levies are also included in ICS systemic levies and there is no way to identify them without looking at each ICS history.



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- b) 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.
- 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 three subpopulations (from the original levy populations in Steps I.B and II.A) of 5,662 taxpayers with ACS manual levies, 8,060 taxpayers with ACS systemic levies, and 8,056 taxpayers with ICS systemic levies in which additional assessments were potentially included in levies. We matched 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 CDP rights sent to the taxpayer prior to the date of the additional assessment.
1. Selected statistical samples of 60 ACS manual, 60 ACS systemic, and 180 ICS systemic taxpayers.³ We selected statistical samples to ensure that each taxpayer case had an equal chance of being selected. We reviewed cases in random selection order until we reached 41 ACS manual (30 for which the additional assessments were included in a tax period covered by the levy and 11 that were not included in the levy), 44 ACS systemic (27 for which the additional assessments were included in a tax period covered by the levy and 17 that were not included in the levy), and 107 ICS systemic cases (30 for which the additional assessments were included in a tax period covered by the levy and 77 that were not included in the levy) cases.
 2. Reviewed all levies in the three samples from Step III.A.1 in which additional assessments were included in the levies issued to the 30 ACS manual, 27 ACS systemic, and 30 ICS systemic taxpayers for evidence that CDP rights were sent to the taxpayers (and their authorized representatives) at least 30 calendar days prior to levy issuance.
 - a) Projected the error cases to the ACS manual population based on a 6.8 percent error rate, a 13.3 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 41 taxpayers. This was due to our original sample containing 11 taxpayer cases for which additional assessments were not included in the levies.

³ We oversampled in each population because there is no way to know if additional assessments are included in levies without reviewing case histories or other levy module data.



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- b) Projected the error cases to the ACS systemic population based on a 5.9 percent error rate, an 11.5 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 44 taxpayers. This was due to our original sample containing 17 taxpayer cases for which additional assessments were not included in the levies.
 - c) Projected the error cases to the ICS systemic population based on a 2.7 percent error rate, a 5.2 percent precision, and a two-sided 95 percent confidence interval. Our sample size in the projection was 107 taxpayers. This was due to our original sample containing 77 taxpayer cases for which additional assessments were not included in the levies.
- IV. Determined whether the IRS controls ensured that levy actions are stopped for the required time period when a taxpayer requested a levy CDP hearing.
- A. Identified a population of 14,076 taxpayers with open CDP levy hearings by querying the Appeals cases table in the DCW.
 - 1. Selected a statistical sample of 60 taxpayer cases with open CDP levy hearings. We selected a statistical sample to ensure that each taxpayer case had an equal chance of being selected. We verified that cases met open CDP criteria in random selection order until we reached 30 cases for review.
 - 2. Reviewed Integrated Data Retrieval System transcripts for all tax modules included in the CDP levy hearing to identify whether any levy actions were taken after the CDP levy hearing start date.
- V. Validated the manual and systemic levy data from the ACS and the ICS and the CDP levy hearing data from the Appeals table by relying on the DCW site procedures that ensure that data received from the IRS were valid. The DCW performs various procedures to ensure that it receives all the records in the ACS, the ICS, and other various IRS databases. In addition, we scanned the data in each population for reasonableness, and we verified the levy, additional assessment, and CDP levy hearing date for each sample case by comparing to Integrated Data Retrieval System transcripts. All the levies identified are in the appropriate period, and the data appeared to be logical. We are satisfied that the data are sufficient, complete, and relevant to the review.
- VI. Used the TIGTA contract statistician to assist with reviewing sampling plans and calculating projections.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the



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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 who request CDP levy hearings. We evaluated these controls by reviewing samples of taxpayer levy and CDP levy hearings.



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Appendix II

Major Contributors to This Report

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Appendix III

Report Distribution List

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



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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

1. Taxpayer Rights and Entitlements – Potential; 1,381 taxpayer accounts affected (see page 5).
2. Taxpayer Rights and Entitlements – Potential; 1,465 taxpayer accounts affected (see page 5).
3. Taxpayer Rights and Entitlements – Potential; 678 taxpayer accounts affected (see page 5).

Methodology Used to Measure the Reported Benefit:

ACS¹

1. From a statistical sample of 41 taxpayers with manual levies issued through the ACS between October 1, 2015, and September 30, 2016, and with an additional assessment prior to these levies, we identified 10 cases for which an additional assessment was made on a tax period covered by the levy, but the IRS did not send the taxpayer a new final notification letter for the additional assessment before issuing the levy. We projected the 10 error cases to the total population of 5,662 taxpayers.² We estimate that 1,381 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy as required. We are 95 percent confident that the point estimate is between 630 and 2,132.
2. From a statistical sample of 44 taxpayers with systemic levies issued through the ACS between October 1, 2015, and September 30, 2016, and with an additional assessment prior to these levies, we identified eight cases for which an additional assessment was made on a tax period covered by the levy, but the IRS did not send the taxpayer a new

¹ See Appendix VII for a glossary of terms.

² Our sample size was 41 taxpayers, 30 for which the additional assessment was included on a tax period covered by the levy (11 for which the additional assessment module was not included). Oversampling was necessary because there is no way to know if additional assessments are included in levies without reviewing case histories or other levy module data.



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final notification letter for the additional assessment before issuing the levy.³ We projected the eight error cases to the total population of 8,060 taxpayers. We estimate that 1,465 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy as required. We are 95 percent confident that the point estimate is between 539 and 2,392.

ICS

3. From a statistical sample of 107 taxpayers with systemic levies issued through the ICS between October 1, 2015, and September 30, 2016, and with an additional assessment prior to these levies, we identified nine cases for which an additional assessment was made on a tax period covered by the levy, but the IRS did not send the taxpayer a new final notification letter for the additional assessment before issuing the levy.⁴ We projected the nine error cases to the total population of 8,056 taxpayers. We estimate that 678 taxpayers had their rights potentially violated when they were not sent a new notice of intent to levy as required. We are 95 percent confident that the point estimate is between 255 and 1,100.

³ Our sample size was 44 taxpayers, 27 for which the additional assessment was included on a tax period covered by the levy (17 for which the additional assessment module was not included). Oversampling was necessary because there is no way to know if additional assessments are included in levies without reviewing case histories or other levy module data.

⁴ Our sample size was 107 taxpayers, 30 for which the additional assessment was included on a tax period covered by the levy (77 for which the additional assessment module was not included). Oversampling was necessary because there is no way to know if additional assessments are included in levies without reviewing case histories or other levy module data.



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Appendix V

Example of a Form 668-A, Notice of Levy

Form 668-A(c)(DO) (January 2015)	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 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 _____

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 (not on a detachable stub.)
3. Complete the back of Part 3 of this form and mail it to us with your payment in the enclosed envelope.
4. Keep Part 1 of this form for your records and give the taxpayer Part 2 within 2 days.

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

Signature of Service Representative	Title
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Appendix VI

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

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).

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).



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Appendix VII

Glossary of Terms

Term	Definition
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.
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 Due Process Rights	I.R.C. § 6330 gives the taxpayer the right to appeal before the proposed levy action and after a jeopardy levy, a disqualified employment tax levy, a levy on a Federal contractor, and a levy on State tax refunds. The IRS notifies taxpayers of their CDP rights by issuing a notice explaining their right to request a hearing.
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 are securing, verifying, and updating levy sources entity information and timely issuing notices of tax levy.
Data Center Warehouse	An online database maintained by TIGTA. The DCW pulls data from IRS system resources, such as IRS Collection and Examination files, for TIGTA access.
Field Collection	The unit in the Area Offices consisting of ROs 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.



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Term	Definition
Integrated Collection System	An information management system designed to improve revenue collections by providing ROs 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.
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 an RO. A manual ACS levy is initiated through the ACS by a collection representative, resulting in levy preparation and issuance by the system.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
Revenue Officer	Conducts face-to-face interviews with taxpayers (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 ROs resulting in levy preparation and issuance by the system.
Tax Period	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.