



*Invoice Audit of Fees Paid Under the  
Private Debt Collection Initiative*

**December 26, 2007**

**Reference Number: 2008-10-054**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

December 26, 2007

**MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES**

*Michael R. Phillips*

**FROM:** Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Invoice Audit of Fees Paid Under the Private Debt Collection Initiative (Audit # 200710003)

This report presents the results of our review of the Internal Revenue Service's (IRS) fees paid under the Private Debt Collection initiative. The overall objective of this review was to determine whether selected invoices submitted and paid under task order numbers TIRNO-06-K-00179, TIRNO-06-K-00181, and TIRNO-06-K-00182 were appropriate and in accordance with the contract terms and conditions. We initiated this audit to determine whether the invoices submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

*Impact on the Taxpayer*

Contract expenditures represent a significant outlay of IRS funds. The Treasury Inspector General for Tax Administration has made a commitment to perform audits of these expenditures. To the extent our reviews assist the IRS in identifying and recovering inaccurate, unsupported, and unallowable charges, contract expenditures are reduced and taxpayer funds are saved.

*Synopsis*

Our review determined that the approximately \$2.7 million in fees charged on the 18 invoices we audited were accurate, supported, and allowable. We did identify minimal discrepancies in fee charges that were insignificant to our overall conclusion.<sup>1</sup> These charges were reported to the

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<sup>1</sup> These fee charges (32 of the 500 transactions reviewed) totaled \$297 and related to installment agreement costs that were initially included in the contractor's fee but were later recovered through offsets according to IRS officials.



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IRS under separate cover and the IRS later informed us that these charges were remedied in subsequent invoices outside the scope of this audit.

The Treasury Inspector General for Tax Administration Office of Audit Small Business and Corporate Programs staff is currently performing a program audit of this initiative.<sup>2</sup> The overall objective is to evaluate the effectiveness of the implementation of the Private Debt Collection initiative. Subobjectives include an evaluation of the appropriateness of case resolution through case reviews, contractor's compliance with laws and procedures, oversight and the Quality Review process, taxpayer satisfaction survey and results, Taxpayer Advocate Service referrals, and taxpayer complaints against the contractors. The results of that audit will be reported separately.

In performing this audit, we limited our audit procedures to conducting interviews with the Contracting Officer and the Contracting Officer's Technical Representative to determine whether the contractor's deliverables were satisfactory. Based on these limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with the deliverables associated with the contract. However, a final conclusion concerning contractor performance is contingent upon the results of the program audit.

### *Recommendations*

We made no recommendations in this report and, therefore, did not require a formal written response from the IRS. However, key IRS management officials reviewed the report prior to issuance and agreed with the results of our review.

Copies of this report are also being sent to the IRS managers affected by the report conclusions. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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<sup>2</sup> Private Debt Collection – Phase III (Audit # 200730009).



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*Abbreviations*

CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
IRS	Internal Revenue Service



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## *Background*

The American Jobs Creation Act of 2004,<sup>1</sup> signed by the President in October 2004, created Section 6306 of the Internal Revenue Code permitting private sector debt collection companies to collect Federal tax debts. As a result, the Internal Revenue Service (IRS) established a Private Debt Collection initiative.<sup>2</sup> The IRS implemented this initiative in two stages, a limited implementation in Fiscal Year 2006 and full implementation in Fiscal Year 2008.

In Calendar Year 2006, the IRS awarded three task orders against an existing General Services Administration Federal Supply Schedule contract, *Financial and Business Solutions, Special Item Number 520-4, Tax Collection Services*, on a fee-for-service basis to three individual contractors. Fees were to be paid at a rate specified in the designated pricing schedule.

During December 2004, the IRS had \$7.7 billion in delinquent tax debt classified as potentially available for the limited implementation phase of the initiative. Approximately \$5.5 billion of this amount was low-priority workload that would likely be eligible for placement with Private Collection Agencies (contractors). The IRS expected to use the additional \$2.2 billion as later referral accounts, since there was no likelihood of these debts being assigned to an IRS employee.

Under the initiative, the IRS is authorized to refer delinquent tax debts to the contractors for tax collection services. The IRS will refer delinquent tax receivables to the contractors only if it determines that a referral meets the terms of the contract. The debts will be for individual income taxes and may range from 30 days delinquent until 4 years prior to the expiration of the statute of limitations for collection on Federal tax debt. The statute of limitations for collection on Federal tax debt generally expires 10 years from the date of assessment. The debts will be comprised of tax assessments, penalties, interest, and other miscellaneous items. As of April 2007, the IRS processed 18 invoices from the 3 contractors involved in the Private Debt Collection initiative totaling approximately \$2.7 million.

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<sup>1</sup> Pub. L. No. 108-357, 118 Stat. 1418 (2004).

<sup>2</sup> Section 6306 of the Internal Revenue Code authorizes the IRS to enter into qualified tax collection contracts. A qualified tax collection contract is for the services of any person (other than an officer or employee of the Department of the Treasury) to locate and contact any taxpayer specified by the Secretary of the Department of the Treasury to request full payment from such taxpayer of an amount of Federal tax specified by the Secretary and, if such request cannot be met by the taxpayer, to offer the taxpayer an installment agreement providing for full payment of such amount during a period not to exceed 5 years. This Code further authorizes the Secretary to retain and use an amount not in excess of 25 percent of the amount collected under any qualified tax collection contract for the costs of services performed under such contract.



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Because contract expenditures represent a significant outlay of IRS funds, the Treasury Inspector General for Tax Administration made a commitment to perform audits of these expenditures. This audit was designed to determine whether amounts paid by the IRS under this initiative were accurate, supported, and allowable through a review of contractor invoices and supporting documentation.

This audit was performed at the Office of Procurement in the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, and the Private Debt Collection Oversight unit in the Office of Collection Filing and Payment Compliance Modernization in New Carrollton, Maryland, during the period April 2006 through November 2007. Opinions expressed in this report pertain only to invoices included in our sample. 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. In addition, we conducted our audit concurrently with a program audit of the Private Debt Collection initiative performed by the Treasury Inspector General for Tax Administration Office of Audit Small Business and Corporate Programs staff.<sup>3</sup> Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>3</sup> Private Debt Collection – Phase III (Audit # 200730009).



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## *Results of Review*

### ***Contract Charges and Invoice Verification Process***

We examined supporting documentation obtained from the IRS Office of Procurement and the Private Debt Collection Oversight unit for a random sample of 500 fee transactions selected from 18 invoices (see Appendix I for details). These 18 invoices had processing dates from September 2006 to March 2007, and involved \$2,677,192 in IRS payments.

The primary charges claimed by the contractors consisted of commissionable fees that were based on a set percentage of the collection amount recovered by the contractors.

#### ***Contract charges were accurate, supported, and allowable***

Our review determined that the approximately \$2.7 million in fees charged on the 18 invoices were accurate, supported, and allowable. We did identify minimal discrepancies in fee charges that were insignificant to our overall conclusion.<sup>4</sup> These charges were reported to the IRS under separate cover and the IRS later informed us that these charges were remedied in subsequent invoices outside the scope of this audit.

#### ***Invoice verification process was adequate***

Contracts may be entered into and signed on behalf of the Federal Government only by Contracting Officers (CO). The COs have the authority to administer or terminate contracts and make related determinations and findings. They are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the Government in its contractual relationships.

The requesting program office nominates a Contracting Officer's Technical Representative (COTR), who is the CO's technical expert and representative in the administration of a contract or task order. Usually, the CO will appoint the COTR by issuing a signed letter of appointment tailored to meet the needs of each contract. The CO and the COTR are required to jointly review all appointed duties. IRS guidance includes a sample letter of appointment that details responsibilities of the COTR. These responsibilities include reviewing the contractor's invoices to ensure they accurately reflect the work completed in accordance with the requirements of the contract, certifying acceptance, and forwarding a copy of the invoice to the CO.

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<sup>4</sup> These fee charges (32 of the 500 transactions reviewed) totaled \$297 and related to installment agreement costs that were initially included in the contractor's fee but were later recovered through offsets according to IRS officials.





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Additionally, IRS guidance provides a reference to the Office of Federal Procurement Policy document, *A Guide to Best Practices for Contract Administration*. The Guide offers, as a practical technique, that COTRs reviewing vouchers under cost-reimbursement contracts should review, among other things, contractor time cards to help assess the reasonableness of direct labor charges. The Guide also contains direction to review major cost categories, such as subcontractor charges, to again determine the reasonableness of the claimed costs. Though the Guide, which was published in October 1994, does not include a specific reference to fees-for-service based contracts, we believe it is reasonable to infer that administration requirements for cost-reimbursement contracts would also apply to contracts in which set rates for commissionable fees are the primary charges invoiced.

Three COTRs, one for each contract, were assigned to oversee technical and billing issues. Each month the COTRs received a download from the IRS Integrated Data Retrieval System<sup>5</sup> that allowed them to identify the number of valid and accurate billable fees for each contractor's collection recovery efforts. The COTRs used these computer results to prepare the invoices for payment to the contractors and to identify payment discrepancies that might need adjustments. This automated resource also served as a control for the IRS to track the status of contractor workloads and to evaluate their collection performance. In addition, it served as a viable tool for the IRS to verify that fee charges were accurate and accounted for as stipulated by the contract.

### ***Contract Deliverables Were Acceptable***

The Treasury Inspector General for Tax Administration Office of Audit Small Business and Corporate Programs staff is currently performing a program audit of this initiative. The overall objective is to evaluate the effectiveness of the implementation of the Private Debt Collection initiative. Subobjectives include an evaluation of the appropriateness of case resolution through case reviews, contractor's compliance with laws and procedures, oversight and the Quality Review process, taxpayer satisfaction survey and results, Taxpayer Advocate Service referrals, and taxpayer complaints against the contractors. The results of that audit will be reported separately.

In performing this audit, we limited our audit procedures to conducting interviews with the CO and COTRs to determine whether the contractor's deliverables were satisfactory. Based on these limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with the deliverables associated with the contracts. However, a final

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<sup>5</sup> The Integrated Data Retrieval System is a system which enables employees in IRS offices to have instantaneous visual access to certain taxpayer accounts. Some capabilities of the System include researching account information and requesting returns; entering transactions such as adjustments and entity changes; entering collection information for storage and processing in the System; and automatically generating notices, collection documents, and other outputs.



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conclusion concerning contractor performance is contingent upon the results of the program audit.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether selected invoices submitted and paid under task order numbers TIRNO-06-K-00179, TIRNO-06-K-00181, and TIRNO-06-K-00182 were appropriate and in accordance with the contract terms and conditions. To accomplish this objective, we:

- I. Analyzed the IRS invoice verification process prior to certifying payment to the contractors.
  - A. Interviewed the CO and COTRs to confirm our understanding of the invoice verification process.
  - B. Documented invoice processing risks including accuracy, supportability, and allowability of invoice charges and concluded as to the overall control environment.
  - C. Interviewed IRS personnel involved in the administration of the contract to identify any concerns that existed regarding the contractor, its billing practices, or any specific invoices.
- II. Verified that invoice charges submitted by the contractors and paid by the IRS were accurate, supported, and allowable.
  - A. Identified a sample selection universe from the Private Collection Agency Payment Summary Reports that reflected all the itemized expenses that corresponded to all 18 invoices the IRS paid under the Private Debt Collection initiative as of April 2007. This universe contained 6,039 expense transactions totaling \$2,677,192 that were processed between September 2006 and March 2007. We randomly selected 500 transactions totaling \$234,660 that represented approximately 8.8 percent of the \$2,677,192 paid by the IRS. A random selection process was used to ensure all transactions had an equal chance of being selected.

This audit did not include audit procedures to obtain evidence that computer-processed data, which were the basis for the Private Collection Agency Payment Summary Reports, were valid and reliable. Though used during this audit, the data in general were not considered significant to the audit's objective or resultant findings. We only used the data to reasonably verify the universe from which we selected our sample of transactions for substantive testing of their accuracy, supportability, and allowability. We only concluded and reported on those substantive tests. Therefore, there was no adverse effect on the audit as a result of not including audit procedures addressing the reliability of computer-processed data.



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- B. For the transactions in the sample, obtained the actual invoice and all supporting documentation from the IRS.
1. Verified the mathematical accuracy of each invoice and any supporting documentation.
  2. Traced all invoice charges to supporting documentation.
  3. Verified whether all invoice charges were allowable under the terms and conditions of the task orders.
  4. Traced the claimed collection amounts to the amounts posted to the taxpayers' accounts through the use of the IRS Integrated Data Retrieval System.<sup>1</sup>
- III. For the invoices included in our sample, verified through interviews with responsible officials and reviews of project files whether the contractors' performance and deliverables were acceptable, as stipulated in the task orders.

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<sup>1</sup> The Integrated Data Retrieval System is a system which enables employees in IRS offices to have instantaneous visual access to certain taxpayer accounts. Some capabilities of the System include researching account information and requesting returns; entering transactions such as adjustments and entity changes; entering collection information for storage and processing in the System; and automatically generating notices, collection documents, and other outputs.



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**Appendix II**

*Major Contributors to This Report*

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)  
Alicia P. Mrozowski, Director  
Thomas J. Brunetto, Audit Manager  
Gary D. Pressley, Lead Auditor  
James S. Mills, Senior Auditor  
Melvin Lindsey, Auditor  
Niurka M. Thomas, Auditor



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**Appendix III**

*Report Distribution List*

Acting Commissioner C  
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Director, Collection, Small Business/Self-Employed Division SE:S:C  
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