United States Government Accountability Office

GAO

Report to the Committee on Finance, U.S. Senate

September 2006

TAX DEBT COLLECTION

IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources

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GAO-06-1065

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IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources

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Highlights

Highlights of GAO-06-1065, a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

In 2005, the inventory of tax debt with collection potential had grown to $132 billion. The Internal Revenue Service (IRS) has not pursued some tax debt because of limited resources and higher priorities. Congress has authorized IRS to contract with private collection agencies (PCA) to help collect tax debts. IRS has developed a Private Debt Collection (PDC) program to start with a limited implementation in September 2006 and fuller implementation in January 2008. As requested, GAO is reporting whether (1) IRS addressed critical success factors before limited implementation, (2) IRS will assess lessons learned before fuller implementation, and (3) IRS's planned study will help determine if using PCAs is the best use of federal funds.

What GAO Recommends

GAO recommends that IRS complete establishing for the PDC program: (1) results-oriented goals and measures; (2) reliable, verifiable costs, (3) evaluation plans, and (4) criteria and processes for assessing the program before deciding whether to expand it. GAO also recommends that IRS ensure that its study reports all PDC costs and the best use of those federal funds.

In commenting on a report draft, IRS agreed with GAO's recommendations and outlined some actions it has initiated to respond to some of them.

www.gao.gov/cgi-bin/getrpt?GAO-06-1065.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

IRS made major progress in addressing the 5 critical success factors and 17 related subfactors for the PDC program before sending cases to PCAs. GAO reviewed program documents and interviewed officials to identify IRS's approaches and steps taken to address the factors. Taken together, IRS's actions were intended to ensure that the PCAs will be able to do the job and work the range of cases assigned, IRS will have the necessary resources and caseload ready, and taxpayer rights and data will be protected. Even with this progress, IRS has not completed work for three subfactors—setting results-oriented goals and measures, determining all PDC program costs, and evaluating the program based on the results-oriented goals and measures, once they are established. As a result, IRS risks not providing complete information that decision makers would find useful. Finishing work on the factors could help achieve but cannot guarantee program success, which also depends, in part, on how IRS addresses the factors and identifies and resolves any problems in the limited implementation phase.

Although IRS officials indicated that a purpose of the limited implementation phase is to assure readiness for full implementation to up to 12 PCAs, IRS has not yet documented how it will identify and use the lessons learned to ensure that each critical success factor is addressed before expanding the program starting in January 2008. Because program success will be affected by how well IRS makes adjustments, assessing the lessons learned in limited implementation is critical. Also, IRS has not documented criteria that it will use to determine whether the limited implementation performance warrants program expansion. IRS officials indicated that they are considering criteria that could trigger a go/no go decision, such as the amount of taxes collected and indications of PCAs abusing taxpayers or misusing taxpayer data. IRS has not decided on whether these targets will include comparing the taxes collected to program costs, which was a key reason for canceling a 1996 PCA pilot program. Finally, IRS will have a little more than a half year to identify the lessons learned before incorporating them into the next contract solicitation, which IRS intends to release in March 2007.

Related to such decisions on expansion is IRS's planned comparative study of using PCAs. That study is to compare using PCAs to investing IRS's PDC-related operating costs into having IRS staff work IRS's "next best" collection cases. Under the documented study design, IRS would exclude the fees paid to PCAs from the costs and subtract those fees from the tax debts collected by PCAs. While such a study might produce useful information, it will not compare the results of using PCAs with the results IRS could get if given the same amount of resources, including the fees to be paid to PCAs, to use in what IRS officials would judge to be the best way to meet tax collection goals. Adequately designing and implementing the study is important to ensure policymakers are aware of the true costs of contracting with PCAs and know whether PCAs offer the best use of federal funds.

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United States Government Accountability Office
Washington, DC 20548

September 29, 2006

The Honorable Charles E. Grassley
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Each year, the federal government does not collect billions of dollars of delinquent taxes. At the end of fiscal year 2005, the Internal Revenue Service's (IRS) inventory of delinquent tax debt with some collection potential was $132 billion (up from $122 billion in the previous year). Because of inadequate resources to deal with the workload and the need to work higher priority cases, IRS has shelved or delayed collection on billons of dollars of delinquent taxes due since 1999. In addition, voluntary compliance may be undermined to the extent taxpayers become aware that IRS is unable to collect taxes due.

Because of concerns about, and congressional consideration of, proposals that IRS use private collection agencies (PCA) to help collect more of the growing tax debt inventory, in May 2004 we issued a report on IRS's efforts to plan for a Private Debt Collection (PDC) program.[1] We identified 5 critical success factors and 17 related subfactors that should be addressed to help ensure that a PDC program achieves desired results and recommended that after gaining some experience with PCAs, IRS do a study to compare the use of PCAs to another collection strategy that IRS officials determine to be the most effective and efficient overall way of achieving collection goals.

In October 2004, Congress authorized PDC contracting authority in the American Jobs Creation Act of 2004.[2] Based on that authority, IRS has contracted with 3 PCAs as part of a planned limited implementation phase that started with delinquent tax cases being turned over to the PCAs on

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[1] GAO, *Tax Debt Collection: IRS Is Addressing Critical Success Factors for Contracting Out but Will Need to Study the Best Use of Resources*, GAO-04-492 (Washington, D.C.: May 24, 2004).

[2] Pub. L. No. 108-357 (2004).

September 7, 2006, and has plans to expand the program, beginning in January 2008, eventually to up to 12 PCAs. However, members of Congress, the National Treasury Employees Union, the National Taxpayer Advocate, and others continue to raise concerns about IRS using PCAs, such as the potential for misuse of taxpayer data, taxpayer mistreatment, or higher costs and lower effectiveness when compared to hiring more IRS employees.

Given our 2004 report and these concerns, you asked that we answer these questions:

- To what extent will IRS have addressed the critical success factors before turning over collection cases to PCAs for the limited implementation phase?
- How will IRS use the lessons learned from the limited implementation phase to assess critical success factors and program performance before full program implementation?
- Is the design of IRS's planned study of using PCAs adequate to provide useful information to help determine whether contracting is the best use of federal funds for achieving tax collection goals?

To answer these questions, we reviewed available IRS documents and interviewed responsible IRS officials to identify the steps taken. For example, to determine the extent to which IRS has addressed the critical success factors before sending cases for the limited implementation phase, we sought documentation on IRS's steps taken to address each of the 17 subfactors. For areas such as the contracting process, information systems, and cost tracking, we used generally accepted criteria. We focused on whether IRS would complete the steps to address each subfactor. We did not test or otherwise evaluate how well IRS's actions would work or address the factors. Appendix I summarizes the results of our work for each of the subfactors as well as the results of our work on the other two questions through a series of briefing slides. Appendix II offers more details on our scope and methodology overall. We did our work from August 2005 to September 2006 in accordance with generally accepted government auditing standards.

Background

IRS has two major programs to collect tax debts. First, IRS staff in the telephone function may attempt collection over the phone or in writing. Second, if more in-depth collection action is required, field collection staff may visit delinquent taxpayers at their homes or businesses as well as contact them by telephone and mail. Under certain circumstances, IRS staff can initiate enforced collection action, such as recording liens on taxpayer property and sending notices to levy taxpayer wages, bank accounts, and other financial assets held by third parties. Field collection staff also can be authorized to seize other taxpayer assets to satisfy the tax debt. However, as we have previously reported, IRS has deferred collection action on billions of dollars of delinquent tax debt and, until recently, IRS collection program performance indicators have declined, in part because of higher workload in other priority areas and unbudgeted cost increases (such as for rent or pay).[3] Although IRS data indicate that trends in collections have shown some improvements, the enforcement of the tax laws—including the collection of unpaid taxes—remains one of GAO's "high-risk" areas of government.[4]

To help address the growing tax debt inventory and declines in IRS's tax collection efforts, the Department of the Treasury proposed that Congress authorize IRS to use PCAs to help collect tax debts for simpler types of cases, paying them out of a revolving fund of tax revenues that they collect. IRS officials said that this proposal arose, in part, because of the belief that Congress was not likely to provide the increased budget to hire enough IRS staff to work the inventory of collection cases.

In 2004, Congress authorized IRS to use PCAs to take certain defined steps to collect tax debts—including locating taxpayers, requesting full payment of the tax debt or offering taxpayers installment agreements if full payment cannot be made, and obtaining financial information from taxpayers. PCAs are to have limited authorities and are not to adjust the amount of tax debts or to use enforcement powers to collect the debts, which are inherently governmental functions that are to be performed by IRS employees. IRS is authorized to pay PCAs up to 25 percent of the amount of tax debts collected and retain another 25 percent of taxes collected to fund IRS collection enforcement activities.

IRS initially envisions using PCAs on simpler cases that have no need for IRS enforcement action and that involve individual taxpayers that (1) filed

[3]See GAO, *Tax Administration: Impact of Compliance and Collection Program Declines on Taxpayers*, GAO-02-674 (Washington, D.C.: May 22, 2002); *Compliance and Collection: Challenges for IRS in Reversing Trends and Implementing New Initiatives*, GAO-03-732T (Washington, D.C.: May 7, 2003); and *Internal Revenue Service: Assessment of Fiscal Year 2005 Budget Request and 2004 Filing Season Performance*, GAO-04-560T (Washington, D.C.: Mar. 30, 2004).

[4]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

tax returns showing taxes due but did not pay all those taxes and (2) made three or more voluntary payments to satisfy an additional tax assessed by IRS but have stopped the payments. To start, IRS plans to send cases to PCAs that have not recently been worked by IRS because of their lower priority, such as cases set aside because of inadequate IRS resources to work them or those in the queue to be worked but not yet assigned to IRS staff. After gaining some experience, IRS plans to expand the types of cases to be sent to PCAs to include those unassigned cases that IRS staff now may work, including those in which IRS attempts to find taxpayers that appeared to not file required tax returns, according to IRS officials.

IRS first attempted to contract collections with a pilot test in 1996 but abandoned the effort, in part, because the $3.1 million collected fell below the $4.1 million in direct costs plus the $17 million in lost revenues from using IRS staff to work on the pilot test rather than collect taxes. Also, limitations in IRS's computer systems and ability to transfer data hampered efforts to send appropriate cases to PCAs.[5]

The current PDC program differs from the 1996 pilot because IRS will require PCAs to try to resolve collection cases within guidelines rather than just remind taxpayers of their debt, will pay PCAs a percentage of dollars they collect rather than a fixed fee, and will electronically send and protect taxpayer data rather than send the cases manually. Appendix III provides some data and information about the PDC program in terms of costs, projected tax revenue to be collected, staffing, and cases to be sent to PCAs.

Our 2004 report identified and validated five critical success factors for contracting with PCAs to collect tax debt. Table 1 describes the critical success factors and their related subfactors.

[5]GAO, *Internal Revenue Service: Issues Affecting IRS's Private Debt Collection Pilot*, GAO/GGD-97-12R (Washington, D.C: July 18, 1997).

Table 1: Critical Success Factors and Related Subfactors for Contracting with PCAs for Tax Debt Collection

Critical success factor	Related subfactors
Results orientation	• Determine expected program goals, costs, and overall results for contracting with PCAs. • Establish contract provisions and operational expectations, measurable PCA performance evaluation standards, and PCA rewards and disincentives based on performance and ensure that the government agency and PCAs have a common understanding of these elements. • Give PCAs as much freedom as practical on how to achieve performance goals. • Use a contracting process that will help ensure that PCAs selected are able to meet operational and performance expectations.
Agency resources	• Provide sufficient staffs to do work associated with contracting with PCAs, including administrative functions, contract oversight, and working collection cases referred back by the PCAs. • Have management commitment to using PCAs. • Ensure that PCA employees receive appropriate training on such areas as taxes and case-handling procedures. • Ensure that computer systems will allow data to be exchanged electronically between PCAs and the government agency and that payments will be tracked and accounts updated. • Be aware of and control costs of functions related to contracting.
Workload	• Select the appropriate type and volume of cases for PCAs to work on. • Ensure that contractors work on the range of cases that they are assigned in terms of ease of collection and amounts due. • Provide PCAs appropriate, accurate information on taxpayers and accounts.
Taxpayer issues	• Ensure that taxpayers are treated properly by PCAs. • Ensure the security of taxpayer information provided to PCAs.
Evaluation	• Perform ongoing monitoring of PCAs in various aspects of operations and performance expectations. • Measure PCAs' performance in light of performance standards and distribute rewards/disincentives. • Evaluate whether the program meets its goals and expectations and adjust the program as needed.

Source: GAO analysis of selected GAO reports and interviews with officials from selected state and federal agencies and PCA firms.

To identify the critical success factors, we reviewed reports on contracting and interviewed parties with experience in contracting for debt collection, such as officials from 11 states, the Department of the Treasury's Financial Management Service, the Department of Education, and three PCA firms that IRS selected as subject matter experts for the program. To corroborate the factors, we interviewed officials from IRS who were developing the PDC program, the IRS Office of Taxpayer Advocate, and the National Treasury Employees Union, which represents IRS employees. As a validation tool, we asked for comments on our draft list of factors from those whom we consulted to identify the factors as well as from officials at four additional PCA firms. We made changes based on their comments where appropriate.

After receiving authority to use PCAs in 2004, IRS had planned to issue task orders to three PCAs in January 2006 as part of a limited implementation phase running through December 2007. However, IRS was delayed by a lawsuit and bid protest filed by certain PCAs to challenge IRS's request for and evaluation of bids from PCAs. Specifically:

- IRS issued a Request for Quotations (RFQ) to solicit debt collection services for the PDC program on April 25, 2005, under which IRS would start sending cases to three PCAs in January 2006. Because of a lawsuit filed in June 2005, IRS revised and reissued the RFQ on October 14, 2005, with plans to send cases to the PCAs in July 2006.
- IRS selected the three PCAs on March 9, 2006. Because one of the PCAs that were not selected filed a bid protest later in March 2006,[6] IRS stopped working with the three selected PCAs and pushed back the date to send cases to those PCAs to the August-September 2006 time frame.
- IRS prevailed in the bid protest in a decision issued on June 14, 2006, allowing it to resume its work with the selected PCAs. IRS sent cases to the three PCAs on September 7, 2006.

In addition to contracting with PCAs, the PDC program includes IRS's acquisition and deployment of an information system for automating case selection and managing the case workload. IRS plans to eventually also use this system to select and manage the caseloads for its telephone and field collection functions. IRS had originally planned to deploy the system with two limited-functionality subreleases concurrent with the limited implementation phase (in which IRS is contracting with three PCAs through December 2007) and begin ramping up the number of contractors (eventually to up to 12) with the third, fully functional information system subrelease in January 2008. However, IRS officials said that information systems budget constraints require IRS to change its information system plan. Although IRS has not yet finalized decisions on ramping up the

[6]Another PCA that was not selected also filed a bid protest that was later withdrawn by that protester.

number of PCAs and implementing the information system, the proposed plan IRS officials are considering is to begin increasing the number PCAs and deploy an interim subrelease with some enhancements in January 2008, but delay the full-function subrelease indefinitely.

Results

As shown in table 2, in preparation for turning over collection cases to PCAs, as of September 15, 2006, IRS has made major progress in addressing the 5 critical success factors and 17 related subfactors for contracting for tax debt collection, but nevertheless has more to do.

Table 2: Extent to Which IRS Has Taken Steps to Address the Critical Success Factors and Related Subfactors for Contracting for Tax Debt Collection as of September 15, 2006

		Status of step(s) to address the subfactor	
Critical success factor	**Related subfactor**	**Complete**	**Partial**
Results orientation	Determine expected program goals, costs, and overall results		X
	Establish contract provisions, operational expectations, and standards	X	
	Give PCAs freedom to achieve performance goals	X	
	Use a contracting process for selecting PCAs to meet expectations	X	
Agency resources	Provide sufficient staffs to do contract-related work	X	
	Have management commitment to using PCAs	X	
	Ensure appropriate PCA employee training	X	
	Ensure computer systems can exchange data, track payments, and update accounts	X	
	Be aware of and control costs of functions related to contracting		X
Workload	Select the appropriate type and volume of cases	X	
	Ensure that contractors work the range of cases	X	
	Provide PCAs appropriate and accurate information	X	
Taxpayer issues	Ensure that taxpayers are treated properly	X	
	Ensure the security of taxpayer information	X	
Evaluation	Perform ongoing monitoring of PCAs	X	
	Measure PCAs' performance and distribute rewards/disincentives	X	
	Evaluate whether program meets goals and expectations, make adjustments		X

Source: GAO analysis of IRS's data.

Note: Our analysis was not to determine the adequacy of IRS's actions to address the critical success factors and subfactors, but rather to determine whether IRS had completed steps to address the various factors.

IRS has completed steps to address 14 of the 17 subfactors. Although IRS has taken steps on the remaining 3 subfactors, IRS still has work to do to complete addressing them. For example, IRS had not yet documented all of its specific goals[7] and related measures to orient and evaluate the PDC program in terms of achieving desired results, such as goals and measures for improving the productivity of IRS staff. Also, IRS had not determined all historical program costs, that is, how much IRS has invested to date to develop and implement the PDC program. Finishing work to address the critical success factors could help achieve desired results—such as collecting tax debts—but cannot guarantee success, which depends, in part, on how well IRS addresses the factors, identifies problems, and resolves problems in the limited implementation phase.

Although IRS officials indicated that a purpose of the limited implementation phase is to assure readiness for full implementation, IRS has not yet documented how it will identify and use the lessons learned to ensure that each critical success factor is adequately addressed before expanding the program. Because program success will be affected by how well IRS identifies and makes needed adjustments to resolve problems, tracking the lessons learned in the limited implementation phase is critical. According to IRS officials, during the limited implementation phase, they plan to collect information to provide baselines, trends, and a basis for making any necessary changes. However, officials did not have specifics on how IRS would ensure all factors had been adequately addressed before moving to full implementation in January 2008. Also, IRS has not documented criteria that it will use to determine whether limited implementation phase performance was sufficient to warrant program expansion. IRS officials indicated that they plan to further discuss performance criteria that could trigger a go/no go decision, and might consider criteria such as the amount of taxes collected and indications of PCAs abusing taxpayers or misusing taxpayer data. IRS has not decided on whether these targets will include the amounts of collected taxes compared to program costs, which was a key reason for canceling the 1996 PCA pilot program. Finally, IRS will have a little more than a half year to identify the lessons learned before incorporating them into the solicitation for the next contract, which IRS intends to release in March 2007 in order to begin expanding the number of PCAs in January 2008.

[7]As used in this report, a goal is the desired numerical value of a program performance measure, which can also be called a target.

IRS has begun work to design a study intended to respond to a recommendation in our May 2004 report. IRS plans to compare the net dollars collected through the PDC program (dollars paid by taxpayers less fees paid to PCAs) to the dollars IRS could expect to collect if it invested its PDC-related operating costs into having IRS staff work the "next best" cases under IRS's collection system. IRS is planning to define the cases it considers to be "next best;" gather data on PCA cases for 6-12 months; and do two iterations of the study, one in September 2006 and one in March 2007. In the documented study design, IRS would exclude the fees paid to PCAs from the costs and subtract those fees from the tax debts collected by PCAs. While such a study might produce useful information, it will not meet the intent of our recommendation. The study would not compare the results of using PCAs with the results IRS could get if given the same amount of resources, including the fees to be paid to PCAs (which are to be paid from federal tax receipts), to use in whatever fashion that officials determine would best meet tax collection goals.

Appendix I includes more information on the status of IRS's implementation of the PDC program.

As discussed in more detail below, we are recommending that IRS complete establishing for the PDC program results-oriented goals and measures; information on costs; plans for evaluations; and criteria and process for assessing the critical success factors and program performance. We also are recommending that IRS ensure that its planned comparative study of using PCAs informs decision makers of all the program costs and the best use of those federal funds. In providing written comments on a draft this report (see app. V) the Commissioner of Internal Revenue agreed with our recommendations and outlined some actions IRS has initiated to respond to some of them.

Conclusions

Although IRS's actions do not guarantee PDC program success, IRS made significant progress in addressing the 5 critical success factors and 17 related subfactors before sending cases to PCAs for the limited implementation phase. Taken together, these actions were intended to achieve such important ends as ensuring that the selected PCAs will be able to do the job and work the range of cases assigned, that IRS will have the necessary resources and caseload ready to do its part, and that taxpayers' rights and data will be protected. Even with this progress, IRS has not yet completed the related steps that it must take for 3 subfactors on setting goals and measures, determining all program costs, and evaluating the program. Having information on whether the program met its goals and desired results given the program costs would be critical for policymakers. In addition, IRS lacks clear criteria and processes for assessing how well it addressed the critical success factors and whether the program performance warrants expanding the number of PCAs and turning over more cases to them.

It is understandable that IRS officials have focused on rolling out this new program and dealing with many pressing concerns such as making sure that the PCAs are ready and that IRS can do its part, while delaying work on these three subfactors and on the criteria and processes for deciding on future program expansion. However, if it waits too long, IRS risks not having critical information in a timely and cost-effective manner in order to answer important questions about whether the PDC program is producing desired results at acceptable costs and whether the program should be expanded. Having plans to answer these questions is especially critical now that lawsuit and bid protest delays have reduced the time that IRS has to collect and analyze performance data before having to make decisions about expanding the PDC program. Therefore, it is all the more important that IRS determine program costs and make decisions about its goals and measures, evaluation plans, approach to assessing critical success factors, and program expansion decision criteria as soon as possible.

Related to such decisions on expansion is IRS's planned comparative study of using PCAs. If this study is not adequately designed and implemented, policymakers may not be aware of the true costs of contracting with PCAs—including the fees paid to PCAs. They also would not be aware of the potential impact of increasing IRS funding, and thereby miss the opportunity to know whether contracting with PCAs is the best use of federal funds for meeting tax collection goals.

Recommendations for Executive Action

To ensure that IRS decision makers will timely have the information needed to make informed, data-based decisions about the private debt collection program, we recommend that, as soon as possible, and certainly before any expansion of the PDC program beyond the initial round of cases sent to PCAs, the Commissioner of Internal Revenue complete establishing:

- results-oriented goals and measures for the program based on the best available information;
- reliable, verifiable information on all the costs of the program, to the extent possible;

- plans for evaluating the results of the program in terms of expected costs, goals, and desired results; and
- clear criteria and processes for assessing how IRS addressed the critical success factors in the limited implementation phase and whether PDC program performance warrants program expansion.

We also recommend that, as IRS continues planning its comparative study of using PCAs, the Commissioner of Internal Revenue ensure that the study methodology and the IRS reports on the study results will inform decision makers of the full costs of the PDC program, including the fees paid to PCAs and the best use of those federal funds.

Agency Comments and Our Evaluation

The Commissioner of Internal Revenue provided written comments on a draft of this report in letter dated September 20, 2006 (which is reprinted with its enclosures in app. V). The Commissioner noted that he was pleased that our report acknowledges IRS's accomplishments and steps to protect taxpayer data and rights.[8] The Commissioner also noted that IRS agreed with our recommendations and had initiated efforts to address them, as discussed below.

Recommendation 1: Establish Results-Oriented Goals and Measures for the Program Based on the Best Available Information

IRS agreed with the recommendation. In discussing our draft report with IRS officials, we clarified that the goals and measures should be logically linked to IRS's five desired results and that IRS should document any indirect links and why more direct linkages were not made. In turn, IRS's letter provided information on such linkages, including the indirect linkage for the desired result involving increased public confidence, and provided a revised version of our appendix IV (which we reprint with the Commissioner's letter in app. V) with columns added to show the linkages between the desired results and the proposed goals and measures as they appeared in our draft report. Although we did not have time to fully review IRS's information, we are gratified to see that IRS has established some program goals and measures and has made progress in developing the linkages. We look forward to IRS developing the related measures and data, such as for reducing the penalties and interest paid, better utilizing IRS staff, freeing up IRS staff to work more complex cases, and

[8]Although our report does document IRS's progress, it is important to note that our report points out that we did not assess the adequacy of IRS's actions or whether they would work, and that success would depend, in part, on how well IRS addressed the critical success factors, including identifying and resolving any problems.

significantly reducing case backlogs. We also look forward to IRS identifying specific goals—referred to as “targets” in IRS’s comments—that IRS will strive to achieve beyond those listed in appendix IV.

Recommendation 2: Establish a System for Tracking All Costs of the Private Debt Collection Program

IRS agreed with our recommendation. In response to our draft report, IRS provided us documentation that it had implemented a system to track PDC program costs going forward from July 2006. In discussing our draft report with IRS officials, they said that IRS will face difficulties in estimating some of the of the PDC program costs incurred before the tracking system was established. Based on this new information, we revised our recommendation to state that IRS should complete establishing verifiable, reliable information on all the costs of the program, to the extent possible. IRS’s comments state that it will furnish reconstructed historical costs as soon as they are compiled. Although we look forward to receiving such cost information, we encourage IRS to use the cost information to manage and evaluate the PDC program and inform policymakers.

Recommendation 3: Establish Plans for Evaluating the Results of the Program in Terms of Expected Costs, Goals, and Desired Results

IRS provided a combined response on this and the last recommendation dealing with the comparative study (which is discussed below). IRS agreed with our recommendation to evaluate the program, but did not provide any additional information on how it plans to do so. We look forward to IRS establishing and documenting specific plans for evaluating the program over time and reporting the evaluation results.

Recommendation 4: Establish Clear Criteria and Processes for Assessing How IRS Addressed the Critical Success Factors in the Limited Implementation Phase and Whether PDC Program Performance Warrants Program Expansion

IRS agreed with this recommendation and noted that its decision on whether to expand the PCA program will be driven by several factors, such as the composition of the inventory and cases to be worked by PCAs, IRS resource capacity, and PCA performance. We look forward to IRS finalizing and documenting the criteria and processes, which could consider factors listed in this report, such as PCAs’ treatment of taxpayers and taxpayer data, the tax amounts collected, and the cost of collecting the taxes. We also look forward to IRS documenting its criteria and processes for assessing the critical success factors.

Recommendation 5: Ensure the Comparative Study Informs Decision Makers of All PDC Costs, Including PCA Fees

In agreeing with this recommendation, IRS noted that it has structured the study so that data can be analyzed with and without the PCA fees. In discussing the draft report with IRS officials, the officials said that the study will include an analysis of the PCA fees as costs, not as a reduction of gross revenue, and the study will project what IRS would have collected had those costs been used to fund IRS's collection program. We look forward to receiving more information on IRS's study approach and the study results as IRS begins the first study iteration in September 2006.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies to the Chairman and Ranking Minority Member, House Committee on Ways and Means; the Secretary of the Treasury; the Commissioner of Internal Revenue; and other interested parties. Copies will be made available to others upon request. This report will also be available at no charge on GAO's Web site at http://www.gao.gov.

If you or your staff have any questions, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VI.

Michael Brostek

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Appendix I: Briefing on the IRS Private Debt Collection Program

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Review of IRS Private Debt Collection Program

**Briefing for
Senate Committee on Finance**

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Review Objectives

- To what extent will the Internal Revenue Service (IRS) have addressed the critical success factors before turning over collection cases to private collection agencies (PCA) for the limited implementation phase?
- How will IRS use the lessons learned from the limited implementation phase to assess critical success factors and program performance before full program implementation?
- Is the design of IRS's planned study of using PCAs adequate to provide useful information to help determine whether contracting is the best use of federal funds for achieving tax collection goals?

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Objective 1: Extent to Which IRS Will Have Addressed the Critical Success Factors and Subfactors Before Turning Over Cases to PCAs

- In preparation for turning over cases to PCAs for the limited implementation phase, IRS made major progress in addressing the five critical success factors. For example, IRS has addressed
  - results orientation issues by establishing expected costs and desired results for the program;
  - agency resources issues by estimating and funding IRS staffing needs to administer the program in the limited implementation phase;
  - workload issues by selecting and analyzing cases to identify the types that should not be sent to PCAs and make needed changes to case selection programming before sending the cases;
  - taxpayer issues by taking steps to obtain feedback on PCA employees' treatment of taxpayers, provide taxpayers information on how to contact the National Taxpayer Advocate, and monitor PCAs' phone calls with taxpayers; and
  - evaluation issues by planning various ways to monitor PCAs, such as site reviews of training records and information systems records to ensure PCAs comply with related requirements.
- The extent to which IRS has addressed the critical success factors and the 17 related subfactors before turning over the cases is summarized in table 1.

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Objective 1: The Extent to Which IRS Will Have Addressed the Critical Success Factors and Subfactors Before Turning Over Cases to PCAs (cont'd)

Table 1: The Extent to Which IRS Has Taken Steps to Address the Critical Success Factors and Related Subfactors for Contracting for Tax Debt Collection as of September 15, 2006

Critical success factor	Related subfactor	Status of step(s) to address the subfactor	
		Complete	Partial
Results orientation	Determine expected program goals, costs, and overall results		X
	Establish contract provisions, operational expectations, and standards	X	
	Give PCAs freedom to achieve performance goals	X	
	Use a contracting process for selecting PCAs to meet expectations	X	
Agency resources	Provide sufficient staffs to do contract-related work	X	
	Have management commitment to using PCAs	X	
	Ensure appropriate PCA employee training	X	
	Ensure computer systems data exchange, payment tracking, and account updating	X	
	Be aware of and control costs of functions related to contracting		X

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Objective 1: The Extent to Which IRS Will Have Addressed the Critical Success Factors and Subfactors Before Turning Over Cases to PCAs (cont'd)

Critical success factor	Related subfactor	Status of step(s) to address the subfactor	
		Complete	Partial
Workload	Select the appropriate type and volume of cases	X	
	Ensure that contractors work the range of cases	X	
	Provide PCAs appropriate and accurate information	X	
Taxpayer issues	Ensure that taxpayers are treated properly	X	
	Ensure the security of taxpayer information	X	
Evaluation	Perform ongoing monitoring of PCAs	X	
	Measure PCAs' performance and distribute rewards/disincentives	X	
	Evaluate whether program meets goals and expectations, make adjustments		X

Source: GAO analysis.
Note: our analysis was not to determine the adequacy of IRS's actions to address the critical success factors and subfactors, but rather whether IRS had completed steps to address the various factors.

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Objective 1: The Extent to Which IRS Will Have Addressed the Critical Success Factors and Subfactors Before Turning Over Cases to PCAs (cont'd)

- As table 1 shows, IRS has taken steps to address all subfactors but has more to do, as of September 15, 2006. Of the 17 subfactors, IRS has completed steps to address 14. Although IRS has taken steps to address the remaining 3 subfactors, IRS still has more work to do to complete addressing them.

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Objective 1: The Extent to Which IRS Will Have Addressed the Critical Success Factors and Subfactors Before Turning Over Cases to PCAs (cont'd)

- For the three subfactors for which IRS has remaining work, IRS has made progress but did not yet have
  - results-oriented performance goals and measures for the results IRS has said will come from the program;
  - reliable, verifiable information on all PCA-related costs; and
  - details on when and how evaluations would be done to determine whether the program met goals and expectations, in part because of a lack of complete results-oriented program goals and related performance measures.
- The following slides discuss IRS's actions to address each of the 17 subfactors.

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Objective 1: Results Orientation Subfactor: Determine Expected Program Goals, Costs, and Overall Results

- IRS has completed steps to establish expected costs (see app. III) and desired results for contracting with PCAs.
- IRS officials said they had established private debt collection (PDC) program goals and related measures but were unable to document a complete list of goals and measures and their approval. Based on our feedback since March 2006, IRS has been revising these goals and measures and provided an updated revision in July 2006. Because of their draft status and late development, we have not fully analyzed them (app. IV lists the proposed goals and measures) but observed that not all these proposed measures have goals. Some goals are to be established based on actual PDC program performance in 2007. IRS officials said they need to work with the PCAs to establish a PCA employee satisfaction goal.
- We also observed that the proposed measures are not fully linked to the five desired results for the PDC program (as identified in IRS documents and officials' statements). Because of the difficulty in directly making such linkages, using intermediate proxy measures is acceptable. IRS provided information in August 2006 on which measures were linked to the desired results but, as of September 15, 2006, had not yet documented the logic behind the linkages or whether more direct linkages could be made. Table 2 shows our preliminary observations on the extent to which the proposed measures link to the desired results.

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Objective 1: Results Orientation Subfactor: Determine Expected Program Goals, Costs, and Overall Results (cont'd)

Table 2: Preliminary Observations and Rationales on Whether IRS's Proposed PDC Program Measures Link to the Desired Results for Contracting with PCAs, as of September 15, 2006

Desired results	Preliminary observations and rationales on whether IRS's proposed measures link to desired results
Increased revenue	Yes; measures of dollars and percentage collected are linked.
Top quality service to all taxpayers through improved compliance, fairness, and taxpayer confidence in the tax system	Partial; the case quality measure links to service. Measures of how many PCA cases have been placed and closed can be linked to improved fairness and compliance for cases correctly resolved by PCAs. We have not seen a linkage through these measures or the taxpayer satisfaction survey with improved taxpayer confidence.
Top quality service to each taxpayer through increased case closure rates, speed and timeliness of service, handling more cases earlier, and reducing penalties and interest paid by taxpayers	Partial; measures on PCA case closure rates would link to increased case closure rates overall. The PCA cycle time measure would show speed and timeliness improvements if compared to all IRS collection cases. None of the measures show how more cases will be handled earlier or whether penalty and interest payments are reduced.
Productivity through a quality work environment, including better utilization of IRS staff and freeing up IRS staff to focus on more complex cases	Partial; the measures on PCA staff satisfaction, PCA cases placed, time taken to close PCA cases, and PCA case quality could be indicators of PCA productivity but do not clearly link to better utilization or freeing up of IRS staff.
Significant reduction in the backlog of delinquent/inactive tax inventory.	Partial; measures on PCA cases placed and closed link to backlog reduction but do not show the percentage of the backlog reduction or whether that reduction is significant.

Source: GAO analysis.

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Objective 1: Results Orientation Subfactor: Determine Expected Program Goals, Costs, and Overall Results (cont'd)

- Our previous work on high-performing organizations has shown that results-oriented measures are important for allowing organizations to track the progress they are making toward their goals and give managers crucial information on which to base their organizational and management decisions.

- Leading organizations recognize that performance measures can create powerful incentives to influence organizational and individual behavior and reinforce the connection between the goals outlined in strategic plans and the day-to-day activities of their managers and staff.

- Linking program performance to higher-level goals can provide a clear, direct understanding of how the achievement of the program's goals will lead to the achievement of the agency's strategic goals.

- We look forward to receiving more information from IRS officials as they work toward documenting the final, approved PDC program goals and related performance measures and the measures' linkages to the desired results.

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Objective 1: Results Orientation Subfactor: Establish Contract Provisions, Operational Expectations, and Measurable Performance Standards and PCA Rewards and Disincentives

- IRS has completed the tasks to establish contract provisions, performance standards, operational expectations, and rewards and disincentives.

- The Request for Quotations (RFQ, or contract solicitation) contains key contract elements of evaluation criteria, performance measurement, and compensation arrangements.

- IRS's review and approval of PCAs' operational plans, IRS meetings with PCAs in July 2006 and August 2006, and follow-up actions resulting from these meetings were to help clarify expectations.

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Objective 1:
Results Orientation Subfactor: Give PCAs Freedom to Achieve Performance Goals

- IRS has completed tasks intended to ensure PCAs have sufficient freedom to achieve performance goals. For example, IRS had meetings with the selected PCAs in July 2006 and August 2006 in part, to go over program administration and expectations. IRS officials said that the meetings allowed PCAs an opportunity to point out any restrictions that would adversely affect their performance.

- During development of the program, IRS officials consulted with selected PCAs and state and federal agencies that had contracted for debt collection, in part, to ensure IRS's program would be designed to provide PCAs adequate latitude to achieve goals. For example, IRS's contract will allow PCAs to vary in their practices, such as the frequency of attempted contacts with taxpayers, with the intent of enabling each PCA to utilize its competitive advantage.

- Also, IRS provided potential bidders for the PCA contract an opportunity to review and comment on any restrictions in the draft PCA procedural requirements. The PCAs provided no comments on the requirements.

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Objective 1
Results Orientation Subfactor: Contracting Process for Selecting PCAs

- IRS has completed contracting process tasks designed to ensure that the selected PCAs are able to meet operational and performance expectations.
- IRS sought proposals from preapproved vendors listed in the General Service Administration's (GSA) Federal Supply Schedule contract for tax collection services. GSA had already determined that listed vendors were capable of performing the work. The solicitation contained a detailed statement of work and required vendors to provide technical, past performance, and pricing information.
- IRS received 33 responsive proposals and evaluated all proposals using the three criteria specified in the solicitation: (1) relevant experience and past performance, (2) technical approach, and (3) management plan. These criteria are commonly used in government contracting.
- IRS selected three vendors to receive PCA contracts. The ninth-ranked vendor protested the evaluation, but GAO issued a decision on June 14, 2006, denying the protest and upholding the evaluation conducted by IRS.

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Objective 1: Agency Resources Subfactor: Providing Sufficient Staffs to Do Contract-Related Work

- IRS completed steps to hire the number of staff officials judge to be sufficient to do PDC contract-related work. Staffs were hired for the Oversight Unit that will oversee the PCAs (15 staff) and the Referral Unit that will refer cases to and receive cases from the PCAs (33 staff).
- IRS determined its estimated staffing needs based on what it identified as key workload drivers for similar functions. For example, IRS considered the workload drivers for the Oversight Unit to be the number of PCAs, number of teams and locations needed, and span of control (the number of employees to be supervised).

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Objective 1: Agency Resources Subfactor: Have Management Commitment to Using PCAs

- IRS has completed steps to ensure management commitment. IRS has three executive-level committees that meet regularly to oversee, coordinate, and provide guidance for program management, including the Filing and Payment Compliance Advisory Council and Taxpayer Relationship Management Executive Steering Committee. The program office also briefs the IRS Commissioner monthly.

- According to IRS officials, these committees serve as a means to inform IRS executives, including the Commissioner, and provide adequate assurance and opportunity for feedback on management's commitment to the PDC program.

- IRS officials said the executive briefings would continue throughout the limited implementation phase.

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Objective 1: Agency Resources Subfactor: Ensure Appropriate PCA Employee Training

- IRS has completed tasks to help ensure appropriate PCA employee training. For example, IRS developed the training curriculum that identifies the information that PCAs should use in developing training for their employees who will handle taxpayers' information.

- The RFQ task order requires PCAs to train all their employees before they begin any taxpayer collection activity, including training on taxpayer rights and privacy awareness.

- The RFQ requires the PCA employees to sign a form certifying that they completed the required training. The PCA must maintain these forms for review by IRS upon request.

- In response to our preliminary observations, IRS informed the PCAs that their employees must receive a proficiency score of 70 percent or better after training before being allowed to work on cases (as do IRS telephone collection employees) and plans to contractually require this test score threshold in future RFQs.

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Objective 1: Agency Resources Subfactor: Ensure Appropriate PCA Employee Training (cont'd)

- IRS plans to monitor PCAs' performance through quality review assessments to identify trends and gauge training effectiveness. IRS will use the same quality review process for PCA cases that it uses for cases worked by its own employees.

- Prior to turning over cases to the PCAs, IRS officials did site visits to monitor initial PCA training sessions to ensure the content and delivery of training followed PCAs' approved training plans. IRS officials developed a checklist for monitoring the PCA training.

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Objective 1: Agency Resources Subfactor: Ensure Computer Systems Data Exchange, Payment Tracking, and Account Updating

- IRS has completed the tasks for computer systems data exchange, payment tracking, and account updating.
- IRS's system for tracking payments and updating taxpayer accounts is the same as that used for other tax payments.
- In developing the management information system for handling PCA cases, IRS completed its system requirements, design, development, and testing activities in accordance with its approved methodology for acquisition of information systems.
- IRS began its "partial production phase" (a simulated version of the limited implementation phase using IRS staff rather than PCAs) in January 2006 to help test processes and procedures.
- Before turning cases over to PCAs, IRS tested its capability to electronically transfer encrypted case files to them.

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Objective 1: Agency Resources Subfactor: Be Aware of and Control Costs of Functions Related to Contracting

- IRS has begun, but not completed, work to determine all the costs of the PDC program.
- Beginning July 2006, IRS has an accounting system that can be used to track program costs and established codes and procedures to track private debt collection program costs. However, since prior costs were not systematically tracked, IRS would have to use available historical cost data to determine the costs that were incurred prior to systematic tracking, including such costs as those of planning the program beginning as far back as October 2001.
- IRS officials said they are working to use available data to determine the historical costs. IRS provided us documentation on some of the these costs, but without supporting information, it was not possible for us to assess whether it captured all costs or if the costs provided were reliable.

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Objective 1: Workload Subfactor: Select Appropriate Type and Volume of Cases for PCAs to Work

- IRS completed work to identify the appropriate type and volume of PCA cases for the limited implementation phase. IRS identified criteria intended to avoid sending cases that PCAs should not handle and used its information system to test the criteria for case selection. Beginning in January 2006, IRS officials tracked and analyzed the selected cases to ensure that they were appropriate for PCAs and to make any necessary changes to case selection programming.

- For the limited implementation phase, IRS will turn over to PCAs only cases that IRS currently is not working, including those “shelved” because of IRS’s inadequate resources to work them and those in the queue to be worked by IRS employees but not yet assigned. However, in full implementation, IRS officials said they may assign PCAs unassigned cases from the various types of cases that IRS employees might work.

- To reach case placement and collection goals for the limited implementation phase, IRS is increasing case age thresholds to 2 years since the case was put into its current status. IRS officials said they are planning more changes in the limited implementation phase, including further increasing case age and dollar thresholds.

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Objective 1: Workload Subfactor: Select Appropriate Type and Volume of Cases for PCAs to Work (cont'd)

- The impact of the changes in the age of cases on realizing revenue collection goals is uncertain. Some evidence suggests that PCAs are generally less successful as the age of debt increases. However, IRS officials said that the Financial Management Service within the Department of Treasury has been successful in using PCAs to collect debt in this age range.

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Objective 1: Workload Subfactor: Ensure Contractors Work the Range of Cases

- IRS has completed work on this factor with the following procedures:
  - the RFQ requires PCAs to mail a letter to each taxpayer within 10 days of receiving a case for cases for which IRS provides a valid address;
  - target PCA reimbursement rates reflect higher compensation for lower-dollar cases;
  - the *PCA Policy and Procedures Guide* clarifies that PCAs are to perform searches to locate all taxpayers that do not respond to initial contacts;
  - IRS's quality review procedures include a check that cases are being worked actively;
  - according to IRS officials, IRS plans to analyze these quality review data and other data reports to identify trends in working different types of cases; and
  - PCAs are allowed to return accounts after 6 months, and IRS officials said that before approving returns, they will check whether PCAs had taken the appropriate collection actions.

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Objective 1: Workload Subfactor: Provide PCAs Appropriate, Accurate Information on Taxpayers and Accounts

- IRS has completed the necessary tasks for this subfactor. According to IRS officials, the taxpayer and account information to be provided to PCAs will be the authoritative data from IRS's own records—the most accurate available to IRS—and the data will be updated four times a week to ensure accuracy.

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Objective 1: Taxpayer Issues Subfactor: Ensure Taxpayers Are Treated Properly by PCAs

- IRS has completed the steps intended to ensure that taxpayers are treated properly.

- IRS has developed procedures to protect taxpayers and to ensure taxpayers are treated properly, including the following:

    - IRS will continue to require all new PCA employees to have background investigations, photo identifications, and training on taxpayer rights before they have access to taxpayer information;
    - IRS will conduct taxpayer satisfaction surveys;
    - IRS will monitor PCAs' compliance through quality reviews of PCAs' telephone calls and case documents; and
    - IRS developed a formal complaint process for taxpayers to use based on input and comment from the National Taxpayer Advocate.

- IRS completed background investigations and monitoring of PCA employees' training before turning over cases to PCAs.

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Objective 1: Taxpayer Issues Subfactor: Ensure the Security of Taxpayer Information

- IRS has completed the steps intended to ensure the security of taxpayer information. For example, IRS completed site visits of the PCAs and performed its safeguard computer security evaluations.

- The PCA contract statement of work addresses security requirements by referring to compliance with information security guidance and by requiring minimum system capabilities, such as end-to-end encryption.

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Objective 1: Evaluation Subfactor: Perform Ongoing Monitoring of PCA's in Various Aspects of Operations and Performance Expectations

- As pointed out in our earlier discussion of training, IRS completed steps to perform the one type of performance monitoring that was to be done before turning over cases to PCAs: monitoring PCAs' training of their own employees.

- As also discussed earlier, IRS has taken steps to implement various methods to monitor PCAs' performance in working cases, including

  - PCA scorecard scoring,
  - telephone monitoring and case quality reviews, and
  - taxpayer satisfaction surveys.

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Objective 1: Evaluation Subfactor: Measure PCAs' Performance and Distribute Rewards and Disincentives

- IRS's tasks are complete on this subfactor in preparation for turning cases over to PCAs. As noted earlier, the RFQ (contract solicitation) contains key contract elements of performance measurement and compensation arrangements.

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Objective 1: Evaluation Subfactor: Evaluate Whether Program Meets Goals and Expectations, Make Adjustments

- IRS must complete work on program goals and related results-oriented measures to enable it to evaluate program results. As noted earlier, IRS officials provided us proposed PDC program goals and related measures but were unable to document a complete list of goals and measures and their approval. Also, the proposed goals and measures IRS provided us were not linked to all the desired results for the PDC program.

- Our previous work has shown that evaluations are critical to ensuring that programs achieve desired results, government funds are well spent, and the agencies are held accountable for the performance and effectiveness of the programs they administer.

- As discussed on the next slides, IRS did not have specifics on how it will assess how critical success subfactors were addressed in the limited implementation phase. Without such assessments, IRS may lack information with which to better understand why goals (once they are established) were or were not achieved and to identify any needed adjustments.

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Objective 2: How IRS Will Use Limited Implementation Lessons Learned to Assess Critical Success Factors and Performance Before Full Implementation

- Although IRS officials said that a purpose of the limited implementation phase is to ensure readiness for full implementation of the program, it is not clear when IRS will decide, in terms of addressing critical success factors, if it is ready to proceed with full implementation. IRS officials said that they intend to establish a date and performance criteria that would trigger a go/no go decision, but have delayed such work until after limited implementation starts in order to finish the tasks that must be done to turn over cases to the PCAs.

- Generally, IRS officials said they will collect information during the limited implementation phase to establish baselines, identify trends, and provide a basis for making changes, if needed, to the program. However, IRS officials could not cite specific circumstances that would cause IRS to discontinue or delay full implementation of the program. Officials said that before expanding the program, they would consider a variety of data or criteria, such as the amounts of collected taxes and indications of PCAs mistreating taxpayers or misusing tax data. IRS has not decided whether these targets would include the amounts of collected taxes compared to program costs, which was a reason for canceling the 1996 PCA program pilot.

- IRS did not have specifics on how and when collected information would be reviewed to identify and use the lessons learned from the limited implementation phase to ensure that the critical success factors have been addressed before IRS expands to full implementation.

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Objective 2: How IRS Will Use Limited Implementation Lessons Learned to Assess Critical Success Factors and Performance Before Full Implementation (cont'd)

- IRS's management guidance requires IRS managers to "get behind the numbers" to determine the reasons for program performance levels. Since critical success factors may be key to why desired results were or were not achieved, assessments of critical success factors could provide information with which IRS can take action to make adjustments to improve performance.

- Specific plans for how and when IRS will make decisions about readiness on critical success factors and program expansion can help ensure that IRS has the data it will need in time to make those decisions. Because of implementation delays caused by a contract award lawsuit and bid protest, IRS will have 16 instead of 24 months to identify any needed adjustments and make decisions on expanding the program. For limited implementation, IRS will have 7 months experience—from September 2006 to March 2007—before issuing its next contract solicitation under its plans to have more PCAs working more cases by January 2008. As originally planned, IRS would have rolled out cases in January 2006.

- Our previous work has shown that data-based decision making is important for improving government operations and programs. Collecting and reviewing data, whether qualitative or quantitative, to help make decisions about expanding the PDC program will require resources as well as consideration of how to balance the costs and benefits of the data collection and review, including the risks of not ensuring that the critical success factors are adequately addressed or of ill-advised or premature expansion of the PDC program.

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Objective 3: IRS's Planned Study Of Using Pcas

- In the planned comparative study, IRS will compare the net dollars collected by PCAs to the gross dollars that would be collected if IRS (1) took no further action on the cases or (2) worked the "next best" cases in IRS's own telephone collection program with funding equal to IRS's annual budget for administering the PDC program.

- IRS is planning to define the cases it considers to be "next best" and plans to gather data on PCA cases for 6 to 12 months. IRS plans to do two iterations of the study, one in September 2006 and one in March 2007.

- The study design indicates that IRS will not count the fees paid to PCAs as program costs. IRS will subtract these fees from the tax debts collected and report the net dollars collected by PCAs.

- For example, if the study found that IRS's PDC program administration costs were $6 million, PCAs collected $100 million in tax debt, and PCAs were paid $24 million in fees, the study would compare only the net $76 million dollars that PCAs collected to all the dollars IRS could be expected to collect if the $6 million were spent on IRS's collection program.

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Objective 3: IRS's Planned Study of Using PCAs (cont'd)

- Although IRS officials said that data on fees to PCAs—$24 million as shown in the above hypothetical results—could be made available to decision makers in the study results, the study plan document is not clear on that point or whether the total costs of the program, to include the PCAs' fees, will be made apparent in the study.

- While the study may produce useful information, it will not compare the results of using PCAs with the results IRS could get if it was given the same amount of resources, including the fees to be paid by the government to the PCAs. As a result, the IRS study will not meet the intent of our recommendation. Our previous work has shown that for informed decision making, agency managers and other stakeholders need reliable, valid data on the costs of government programs. Economic principles and government cost analysis criteria suggest that federal government costs and social costs should be considered in analyzing programs and policies.

- For example, a study that would meet the intent of our recommendation would compare the dollars collected by PCAs to the dollars that IRS could be expected to collect if the true costs to the government—such as the $6 million from the PDC program administration budget plus the $24 million in PCA fees (which are paid out of federal tax receipts) as shown in the above hypothetical example—were spent by IRS on working its next best cases, using the most effective strategy for identifying and working such cases.

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Objective 3: IRS's Planned Study of Using PCAs (cont'd)

- IRS officials said that such a comparison is not realistic because Congress would not approve such a budget increase. As noted in our 2004 report, IRS officials said that the proposal that Congress authorize IRS to use PCAs arose, in part, because of the belief that Congress was not likely to provide the increased budget to hire enough IRS staff to work on the inventory of collection cases.

- IRS's proposed study approach—by netting PCA fees from dollars collected by PCAs—apparently adopts IRS's assumption about potential funding increases. However, unless Congress is fully informed on the true costs of the PDC program, and the potential impact of increasing collections funding, it will lack key information with which to make decisions on how federal funds can best be spent to meet tax collection goals, in concert with other information about trade-offs with other government programs.

- IRS officials stated that supplemental research efforts are being designed to identify the best use of PCAs among all cases in the collections inventory. The status and methodologies of these efforts are not clear because IRS has not yet provided us documents on them.

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Appendix II: Scope and Methodology

To determine to what extent the Internal Revenue Service (IRS) addressed the critical success factors before turning over collection cases to the private collection agencies (PCA) we reviewed program documents and interviewed IRS officials. IRS agreed with the critical success factors we identified. We identified the approaches/methods IRS intended to use to address the factors and related subfactors and identified any steps IRS had remaining to address each factor before turning over cases to PCAs. We analyzed interviews and documents to identify any gaps in IRS's approach, such as factors for which IRS lacked intended approaches/methods to address a factor, documented plans for completing steps, or details on how intended approaches/methods would be implemented. For selected subfactors related to areas for which we had related expertise and readily available criteria (government acquisition, information technology development and security, and financial management), we analyzed IRS's program documents and compared IRS's approach for addressing the subfactor to the criteria. For example, our information security staff reviewed IRS's approach for addressing information security issues in light of Federal Information Security Management Act and National Institute of Standards and Technology requirements. We did not attempt to analyze how well IRS addressed the factors or whether IRS made the right decisions on issues such as PCA employees' training or taxpayer protections.

To determine how IRS will use the lessons learned from the limited implementation phase to assess the critical success factors and program performance before full program implementation, we interviewed IRS officials and reviewed available agency documents and plans. We focused on when and how, if at all, IRS would determine whether its approaches/methods for addressing the factors worked as intended; if program performance warrants program expansion; and what changes, if any, should be made before fully implementing the program.

To determine whether IRS's planned approach to study using PCAs will provide useful information with which to determine if contracting is the best use of federal funds for achieving tax collection goals, we reviewed program documents and interviewed officials from IRS supported by contractor staff assisting them in developing the study.

We used data only as background for reporting and did not formally assess their reliability. To the extent possible, we corroborated information from interviews with documentation and, where not possible, we report the information as attributed to IRS officials. Although we obtained documentation that IRS had completed steps to address the critical success subfactors, we did not do detailed verification of the documents, in part due to the limited time we had between IRS completing and documenting some steps taken in preparation for turning the cases over to PCAs on September 7, 2006, and the due date of this report.

We did our work from August 2005 to September 2006 in accordance with generally accepted government auditing standards.

Appendix III: Selected Data Related to IRS's Expectations for Elements of the Private Debt Collection Program

Element	In the limited implementation phase[a]	In full program implementation (inclusive of limited implementation phase)[b]
Revenue collected	$55.8 million to $92 million	$1.4 billion[c]
Number of IRS staff	Referral Unit: 33	Referral Unit: 70
	Oversight Unit: 15	Oversight Unit: 35
	Other: 17	Other: 15
Costs[d]	$61.16 million[e]	$77.58 million[f]
PCAs contracted	3	Up to 12[g]
Case placements	158,000	Not available[h]
Dollar value of case placements	$615.6 million to $1.01 billion	Not available[h]

Source: IRS.

Note: The data are based on IRS's expectations. We did not verify the data.

[a]Unless otherwise noted, date range is from September 2006 (date of turning over cases to PCAs) through December 2007.

[b]Unless otherwise noted, date range is from September 2006 (date of turning over cases to PCAs) through September 30, 2009.

[c]This is a 10-year estimate with no date range provided. According to IRS officials, this is a Department of Treasury estimate. IRS did another estimate based on a different methodology for its information systems investment document which is being revised.

[d]This includes information systems acquisition, maintenance, and IRS staff costs.

[e]Costs are from IRS's information systems investments document, which includes costs that precede case rollout and data organized by information system subrelease with a date range from October 1, 2004, through May 30, 2007, and is being revised with changes that may affect program costs.

[f]Costs are from IRS's information systems document, which has cost data organized by information system subrelease with a date range from October 1, 2004 through September 30, 2009 and is being revised with changes that may affect program costs.

[g]No date range was provided. However, IRS officials said they expect to increase the number of PCAs beginning in January 2008.

[h]IRS officials said that inventory estimates for full implementation cannot be made until decisions are made about information system releases.

Appendix IV: Proposed Private Debt Collection Program Performance Measures and Goals for Fiscal Year 2007

IRS category	Proposed private debt collection program performance measure	Goal
Operations		
Cases placed	Number of cases placed with PCAs in first 12 months	100,000
Resolutions	Percentage of cases placed with PCAs that are resolved	63
Recalls	Number/percentage of PCA cases recalled to IRS	[a]
Not collectible	Number/percentage of PCA cases that are deemed currently not collectible	[a]
Bankruptcies and decedents	Number/percentage of cases involving bankruptcies or decedents	[b]
Cycle time	PCA time to close the case	[a]
Financial		
Dollars placed	Amount of unpaid tax debts that are placed with PCAs	[b]
Collections	Amount of unpaid tax debts that are collected	[b]
Collection percent	Percentage of unpaid tax debts placed with PCAs that is collected	6
Collections retained by IRS	Amount of PCA collections that IRS retains to fund collection enforcement activities	[b]
Full payments	Cases closed as fully paid	[a]
3-5 year installment agreements	Cases closed with an agreement to satisfy the taxpayer's unpaid tax debt in 3 to 5 years	[a]
5-year installment agreements	Cases closed with an agreement to satisfy the taxpayer's unpaid tax debt in more than 5 years	[a]
Quality		
Taxpayer satisfaction	Percentage of surveyed taxpayers responding that they were satisfied	67.5
IRS employee satisfaction	Satisfaction score for IRS employees in PDC program	3.72 of 5
PCA employee satisfaction	Satisfaction score for PCA employees working cases	to be set
Accuracy	Accuracy score for PCA cases	[c]
Timeliness	Timeliness score for PCA cases	[c]
Professionalism[d]	Professionalism score in PCA cases	[c]
Complaints	Verified major complaints against PCA employees[e]	0
Case quality	Overall percentage quality score for cases worked by PCAs	90[f]

Source: IRS information as of September 15, 2006.

[a]Goals will be determined using experiences with PCA cases over the first year.

[b]Goals will be developed using IRS's revenue projection model.

[c]Goals will be based on those used in the IRS telephone collection function.

[d]Includes various types behavior of when interacting with taxpayers, such as promoting a positive image by using effective communication techniques.

[e]These major complaints could be reported by taxpayers and government employees and include intimidation, heavy-handed behavior, or similar activity by a PCA employee (type 2 complaint) or statutory violations by a PCA employee, such as those of the Taxpayer Bill of Rights, Fair Debt Collection Practices Act, Privacy Act, taxpayer information disclosure statutes, or other applicable laws (type 3 complaint).

[f]PDC program officials said this is an approximate goal that could be revised based on experience in IRS's telephone collection function.

Appendix V: Comments from the Internal Revenue Service

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

COMMISSIONER

September 20, 2006

Mr. Michael Brostek
Director, Tax Issues
Strategic Issues Team
United States Government Accountability Office
Washington, DC 20548

Dear Mr. Brostek:

Thank you for the opportunity to respond to your draft report entitled "Tax Debt Collection - IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources," GAO-06-1065.

I am pleased that your report acknowledges the many accomplishments we have made with this very important project. As you noted, we have made major progress in addressing the five critical factors for the successful implementation of the Private Debt Collection (PDC) program. Although we experienced delays due to contractual issues, we took the necessary steps to ensure that all actions relating to the transfer of work to the Private Collection Agencies (PCA) were successfully completed by August 14, 2006. As a result, the PCAs were prepared to begin working the assigned cases consistent with our program guidelines. Additionally, IRS resources were in place to fully support this program. Most importantly, as acknowledged in your report, we have taken all steps to ensure that taxpayer data and taxpayer rights are protected.

We agree with the audit recommendations, which focus on the three remaining action items. In fact, we have initiated efforts to address each of these. Our comments on the draft report's specific recommendations are enclosed.

If you have any questions, please contact me or Kevin Brown, Commissioner, Small Business/Self-Employed Operating Division, at (202) 622-0600.

Sincerely,

Mark W. Everson

Enclosure

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Enclosure

Comments of the Internal Revenue Service on the GAO report entitled, "Tax Debt Collection - IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources" (GAO-06-1065):

RECOMMENDATION 1
Establish results-oriented goals and measures for the program based on the best available information.

RESPONSE
We agree that results-oriented goals and measures are necessary to track the performance of the Private Collection Agencies (PCAs) and to evaluate the success of the Private Debt Collection (PDC) program. The following describes each of the overarching results-oriented goals and the measures to track these goals.

1. A goal of this program is to increase collections of unpaid, undisputed taxes owed the U.S. government that would not otherwise be resolved due to IRS resource constraints. Therefore, the IRS will measure the additional dollars collected. This measure provides a direct link to the goal.

2. Another goal of this program is to provide top quality service to all taxpayers through improved compliance, fairness, and taxpayer confidence in the tax systems. A fundamental premise of this program is that delinquent tax accounts that otherwise would not be worked will be resolved and will improve compliance. This, in turn, enhances the public's confidence in the fairness of the tax system. We recognize that this premise requires adherence to quality standards for its success.

   To assess this result, we have established a suite of quality measures as well as operational measures that will include the number of cases that would not otherwise be worked. While this latter measure is not a direct measure of "public confidence" it serves as an indirect link. As noted in discussions with the GAO auditors, it may not be possible to precisely measure "public confidence" in a cost effective manner. Therefore, we will use the measures described herein to assess the desired result for this goal.

3. A third goal of this program is to provide top quality service to each taxpayer through increased case closure rates, speed and timelessness of

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service, handling more cases earlier, and reducing penalties and interest paid by taxpayers.

To assess this result, the IRS will measure the number of case closures and the PCA time to close the case. Since these cases would otherwise remain unworked in the IRS queue, each case assigned is a direct measure of earlier case handling. The earlier case handling will have a direct bearing on reducing the penalties and interest paid by taxpayers. To better quantify penalties and interest, the IRS is designing a research sampling project to periodically capture the actual penalty and interest data for PCA cases.

4. A fourth goal of this program is to improve productivity through a quality work environment, including better utilization of IRS staff and freeing up IRS staff to focus on more complex cases.

   The use of PCAs will allow the IRS to improve productivity by working additional cases in the queue. The increase in delinquent account resolutions will be tracked as a direct link to this goal. It should be noted that the current implementation plans provide for the placement of cases with PCAs that IRS can not otherwise work due to resource constraints. Therefore, we do not anticipate that IRS staff will be freed up to focus on more complex cases in the program's early stages. If in the future the program is expanded, measures will be established to track the inventories and types of cases worked by both IRS and PCA staff.

5. Another goal of this program is to produce a significant reduction in the backlog of delinquent/inactive tax inventory. Therefore, the IRS will measure the number of additional cases closed as a result of PCA efforts. This will provide a direct link to the goal. The IRS will assess the composition of the inventory and track the specific impact of PCA closures on that total inventory. It should be noted that a reduction or increase in delinquent/inactive tax inventory is the result of many variables, with PCA closures representing but one of the variables.

Additionally, the IRS has established a suite of private debt collection program measures with appropriate targets. These measures are reflected in Appendix IV of the report. We have provided a revised Appendix IV indicating the linkage between each program performance measure and the related results-oriented goals (as described above). These comprehensive results-oriented goals, performance measures, and targets, are based on the best available information and address this recommendation.

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RECOMMENDATION 2
Establish a system for tracking all costs of the private debt collection program.

RESPONSE
We agree with this recommendation. The Chief Financial Officer (CFO) of the IRS has established a system for tracking all costs of the private debt collection program. The Integrated Financial System (IFS) of the IRS has been adapted through the establishment of specialized codes to track and report costs related to the private debt collection contracts. The CFO's office has taken steps to set up a cost center to separately track costs related to the PCA program. This tracking system was implemented in June 2006. Our ability to reconstruct cost information prior to this date will be limited to actual contract expenditures and estimates of IRS staff costs. We will furnish the reconstructed historical costs as soon as compilation is completed.

RECOMMENDATION 3
Establish plans for evaluating the results of the program in terms of expected costs, goals, and desired results and ensure the comparative study informs decision makers of all PDC costs, including PCA fees.

RESPONSE
We agree with this recommendation.

In the audit GAO-04-492, Tax Debt Collection, GAO recommended the following:

> *"If Congress authorizes the use of PCAs, as soon as practical after experience is gained using PCAs, the IRS Commissioner should ensure that a study is completed that compares the use of PCAs to a collection strategy that officials determine to be the most effective and efficient overall way of achieving collection goals."*

The results of the program will be evaluated based on a review of the results-oriented goals and measures and the cost tracking as identified in recommendations 1 and 2 above. Additionally, we have implemented data gathering as part of a cost effectiveness study

We will perform a thorough analysis of the PDC program's cost effectiveness and its impact on the collection of delinquent taxes as part of this study. We have planned to include expenses and receipts for operating PDC as tracked in our cost accounting system. We have structured the study so that we will be able to analyze the data with and without the PCA fees. The analysis of both approaches will yield useful information.

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RECOMMENDATION 4
Establish clear criteria and processes for assessing how IRS addressed the critical success factors in the limited implementation phase and whether PDC program performance warrants program expansion.

RESPONSE
The PCA program enables the IRS to supplement its resources to resolve delinquent tax debts. The statute authorizes the PCA firms to locate taxpayers, solicit full payments and prepare payment agreements. Assessment of the program will be part of a dynamic process driven by several critical factors. The IRS will be continually evaluating the composition of the delinquent accounts inventory, identifying cases appropriate for PCAs, determining IRS resource capacity, and reviewing PCA performance. Each of these will impact future decisions regarding whether to expand the PCA program.

RESPONSIBLE OFFICIAL
The Director, Collection, Small Business/Self-Employed Division.

Appendix IV: Proposed Private Debt Collection Program Performance Measures and Goals for PCA Cases Worked During Fiscal Year 2007, as of September 15, 2006

IRS Category	Proposed PDC Program Performance Measure	Goal	1 *	2 *	3 *	4 *	5 *
OPERATIONS							
Placements	Number of cases placed with PCAs in first 12 months	100,000		X			X
Resolutions	Percent of cases placed with PCAs that are resolved	63 percent			X	X	X
Recalls	Number/Percent of PCA cases recalled to IRS	[a]					
Not Collectible	Number/Percent of PCA cases that are Currently Not Collectible	[a]		X			X
Bankruptcies and Decedents	Number/Percent of PCA cases involving bankruptcies and decedents	[b]		X			X
Closure Time	PCA Time to Close the Case	[a]			X	X	
FINANCIAL							
Placements	Amount of unpaid tax debts that are placed with PCAs:	[b]	X				X
Collections	Amounts of unpaid tax debts that are collected	[b]	X				
Collection Percent	Percent of unpaid tax debts placed with PCAs that are collected	6 percent		X			
Collections Retained by IRS	Balance of the amount of PCA collections of tax debts that IRS retains for collection enforcement activities	[b]					
Full Payments	Amount of unpaid tax debts in cases closed as fully paid	[a]	X	X			
3-year Installment Agreements	Amount of unpaid tax debts in cases closed with an installment agreement of less than 3 years	[a]	X	X			
5-year Installment Agreements	Amount of unpaid tax debts in cases closed with an installment agreement of more than 5 years	[a]	X	X			
QUALITY							
Taxpayer Satisfaction	Taxpayer satisfaction survey score	67.5 percent			X	X	
IRS Satisfaction	Satisfaction score for IRS employees in PDC program	3.72 of 5					
PCA Satisfaction	Satisfaction score for PCA employees working cases	to be set					
Accuracy	Accuracy score in PCA cases	[c]			X	X	
Timeliness	Timeliness score for PCA cases	[c]			X	X	

Professionalism[d]	Professionalism score in PCA cases	[c]			X	X	
Complaints	Verified major complaints against PCA employees[e]	0		X	X	X	
Case Quality	Overall quality scores for cases worked by PCAs	90 percent[f]		X	X	X	

Source: IRS.

[a]Goals will be determined using experiences with PCA cases over the first year.

[b]Goals will be developed using IRS's revenue projection model.

[c]Goals will be based on those used in the IRS telephone collection function.

[d] Includes various types of behavior when interacting with taxpayers, such as respect and tone.

[e]These major complaints could be reported by taxpayers and government employees and include intimidation, heavy-handed behavior, or similar activity by a PCA employee (type 2 complaint) or statutory violations by a PCA employee, such as those of the Taxpayer Bill of Rights, Fair Debt Collection Practices Act, Privacy Act, taxpayer information disclosure statutes, or other applicable laws (type 3 complaint).

[f]PDC program officials said this is an approximate goal that could be revised based on the experiences of staff in IRS's telephone collection function.

* This portion of the chart was added by the IRS and numbers 1 through 5 correspond to the Desired Results as identified in the GAO power point presentation. These are as follows: (1) Increased Revenue; (2) Top quality service to all taxpayers through improved compliance, fairness, and taxpayer confidence in the tax system; (3) Top quality service to each taxpayer through increased case closure rates, speed and timeliness of service, handling more cases earlier, and reducing penalties and interest paid by taxpayers; (4) Productivity through a quality work environment, including better utilization of IRS staff and freeing up IRS staff to focus on more complex cases; (5) Significant reduction in the backlog of delinquent/inactive tax inventory.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Michael Brostek, (202) 512-9110 or brostekm@gao.gov

Acknowledgments

In addition to the contact named above, Tom Short, Assistant Director; John Davis; Charles Fox; Timothy Hopkins; Ronald Jones; Jeffrey Knott; Veronica Mayhand; Edward Nannenhorn; Cheryl Peterson; and William Woods made key contributions to this report.

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