



*The Revised Private Debt Collection Request  
for Quotation Adequately Addressed Prior  
Deficiencies in the Solicitation Methodology*

**April 2006**

**Reference No: 2006-10-078**

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

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TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 28, 2006

**MEMORANDUM FOR** COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED  
DIVISION  
CHIEF, AGENCY-WIDE SHARED SERVICES

*Michael R. Phillips*

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

**SUBJECT:** Final Audit Report – The Revised Private Debt Collection Request for  
Quotation Adequately Addressed Prior Deficiencies in the Solicitation  
Methodology (Audit # 200610016)

This report presents the results of our review of the revised Private Debt Collection (PDC) Request for Quotation (RFQ). The overall objective of this limited-scope review was to determine whether the revised RFQ and associated procurement selection criteria adequately addressed the deficiencies cited by the United States Court of Federal Claims. We did not review the bid evaluations or the selection of the contractors for this program; accordingly, we do not express an opinion on such.

This was a special, limited-scope audit that, together with an ongoing series of companion audits conducted by the Office of Audit's Small Business and Corporate Programs and Information Systems Programs Business Units, provides coverage of a key initiative for which the Treasury Inspector General for Tax Administration committed resources as a high priority.

### Synopsis

On October 22, 2004, the President signed the American Jobs Creation Act of 2004<sup>1</sup> to permit private collection agencies (PCA) to help collect Federal tax debts. The purpose of the PDC program is to help reduce the significant and growing number of uncollectible cases and enable the Internal Revenue Service (IRS) to better focus existing resources on more difficult cases. The IRS issued a detailed RFQ for solicitation of debt collection services in support of the PDC

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



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program on April 25, 2005. However, this RFQ was canceled after the United States Court of Federal Claims filed an order on July 25, 2005, informing the IRS it intended to enjoin the solicitation. The order ruled that the IRS' restriction of the solicitation only to vendors with current Federal Government debt collection task orders was arbitrary and capricious. The IRS subsequently revised the RFQ and reissued it on October 14, 2005.

Overall, the revised RFQ adequately addressed the deficiencies cited by the United States Court of Federal Claims. The IRS deleted the requirement that PCAs must have a current Federal Government debt collection task order to be eligible for the solicitation. We did not identify any other restrictions in the RFQ which would have unnecessarily limited the procurement process. Further, the revised RFQ was reviewed by the IRS' Office of Procurement Policy Quality Assurance Branch and General Legal Services staff as required by IRS procurement procedures.

Also, the scoring criteria and review methodology documented in the evaluation plan were consistent with the revised RFQ and similarly did not contain any restrictions which would have unnecessarily limited the procurement process. The selection evaluation factors and their relative importance were clearly outlined in the revised RFQ and were consistent with the Federal Acquisition Regulation.<sup>2</sup> In our opinion, the evaluation criteria and process, if rigorously followed, fairly applied, and adequately documented, should provide a reasonable basis for selecting highly qualified vendors that will meet the needs of the PDC program. We briefed the IRS on the interim results of our review on February 2, 2006.

***...the evaluation criteria and process, if rigorously followed, fairly applied, and adequately documented, should provide a reasonable basis for selecting highly qualified vendors that will meet the needs of the PDC program.***

The IRS awarded contracts to three PCAs on March 9, 2006, under the terms of the revised RFQ. The IRS planned to begin delivering delinquent tax account cases to the selected PCAs by July 2006. However, on March 23, 2006, the IRS announced it had issued stop-work orders to the three PCAs after two unsuccessful bidders filed bid protests with the Government Accountability Office.

The Treasury Inspector General for Tax Administration plans to continue evaluating the implementation of this initiative as part of a continuing series of companion audits being conducted by the Office of Audit's Small Business and Corporate Programs and Information Systems Programs Business Units.

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<sup>2</sup> 48 C.F.R. ch. 1 (2005).



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*Recommendations*

We are making no recommendations in this report; however, key IRS management officials reviewed it prior to issuance and agreed with the facts and finding presented.

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



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## *Background*

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004<sup>1</sup> that created a new Section 6306 of the Internal Revenue Code to permit private collection agencies (PCA) to help collect Federal tax debts. The purpose of the program is to help reduce the significant and growing number of uncollectible cases and enable the Internal Revenue Service (IRS) to better focus existing resources to address more difficult cases. Department of the Treasury officials estimate that over the next several years the Private Debt Collection (PDC) program, formerly the Collection Contract Support program, will result in approximately \$1 billion more in revenue.

According to the IRS, the initiative to use PCAs will:

- Help reduce gross tax accounts receivables to the IRS which as of September 2005 were \$258 billion.
- Enable the IRS to focus its limited collection and enforcement resources on the most difficult cases and issues.
- Help maintain public confidence in the tax system.

The IRS issued a detailed Request for Quotation (RFQ) for solicitation of debt collection services from PCAs listed on the General Services Administration Federal Supply Schedule in support of the PDC program on April 25, 2005. The IRS planned to select three PCAs and begin issuing cases in January 2006. However, this RFQ was canceled after the United States Court of Federal Claims filed an order on July 25, 2005, informing the IRS it intended to enjoin the solicitation. The order ruled that the IRS' restriction of the solicitation only to vendors with current Federal Government debt collection task orders was arbitrary and capricious. The IRS subsequently revised the RFQ and reissued it on October 14, 2005. The IRS now intends to begin delivering delinquent tax account cases to the selected PCAs by July 2006.

***... the United States Court of Federal Claims ... ruled that the IRS' restriction of the solicitation to vendors with current Federal Government debt collection task orders was arbitrary and capricious.***

This limited-scope, follow-up audit focused on the IRS' efforts to address the issues raised by the United States Court of Federal Claims. We did not review the bid evaluations or the selection of the contractors for this program; accordingly, we do not express an opinion on such.

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



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This review was performed at the Small Business/Self-Employed Division in New Carrollton, Maryland, in the Office of Filing and Payment Compliance, and at the Agency-Wide Shared Services Division in Oxon Hill, Maryland, in the Office of Procurement Business Operations, during the period November 2005 through February 2006. The audit was conducted in accordance with *Government Auditing Standards*. This was a special, limited-scope audit that, together with companion audits being conducted by the Office of Audit's Small Business and Corporate Programs and Information Systems Programs Business Units, provides coverage of a key initiative for which the Treasury Inspector General for Tax Administration committed resources as a high priority. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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## *Results of Review*

### ***The Revised Request for Quotation and Associated Selection Documents Adequately Addressed the Deficiencies Cited by the United States Court of Federal Claims***

Overall, the revised RFQ adequately addressed the deficiencies cited by the United States Court of Federal Claims. The IRS deleted the requirement that PCAs must have a current Federal Government debt collection task order to be eligible for the solicitation. Our review did not identify any other restrictions which would have unnecessarily limited the procurement process. Further, the revised RFQ was reviewed by the IRS' Office of Procurement Policy Quality Assurance Branch and General Legal Services staff as required by IRS procedures for acquisitions of this size. The purpose of these reviews is to ensure the legal sufficiency and regulatory compliance of the RFQ.

Also, the scoring criteria and review methodology documented in the evaluation plan were consistent with the revised RFQ and similarly did not contain any restrictions which would have unnecessarily limited the procurement process. The selection evaluation factors and their relative importance were clearly outlined in the revised RFQ and were consistent with the Federal Acquisition Regulation.<sup>2</sup>

Specifically, the RFQ notes that in evaluating vendor proposals, the IRS will consider three key factors: 1) relevant experience and past performance, 2) technical approach to satisfying the requirements outlined in the RFQ, and 3) management plan regarding the organization of staff and work to meet the RFQ requirements. The IRS ranked relevant experience and past performance as having the highest importance, which is consistent with the extreme sensitivity of the PDC program. The IRS ranked technical approach as having the next highest importance, followed by the management plan. In our opinion, the evaluation criteria and process, if rigorously followed, fairly applied, and adequately documented, should provide a reasonable basis for selecting highly qualified vendors that will meet the needs of the PDC program. We briefed the IRS on the results of our review on February 2, 2006.

***... the evaluation criteria and process, if rigorously followed, fairly applied, and adequately documented, should provide a reasonable basis for selecting highly qualified vendors that will meet the needs of the PDC program.***

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<sup>2</sup> 48 C.F.R. ch. 1 (2005).





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The IRS awarded contracts to three PCAs on March 9, 2006, under the terms of the revised RFQ. The IRS informed us it planned to begin delivering delinquent tax account cases to the selected PCAs by July 2006 as part of the first phase of the PDC program. The second phase will be the full-scale implementation involving up to 12 PCAs. The IRS plans to issue another RFQ after evaluating the results of the initial phase and begin the full-scale implementation in January 2008. However, on March 23, 2006, the IRS announced it had issued stop-work orders to the three PCAs after two unsuccessful bidders filed bid protests with the Government Accountability Office. The IRS also announced that during the resolution of the protests it will continue to prepare for debt collection work to begin.

The Treasury Inspector General for Tax Administration plans to continue evaluating the implementation of this initiative as part of a continuing series of companion audits being conducted by the Office of Audit's Small Business and Corporate Programs and Information Systems Programs Business Units.



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## **Appendix I**

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

The overall objective of this limited-scope review was to determine whether the revised Request for Quotation (RFQ) and associated procurement selection criteria adequately addressed the deficiencies cited by the United States Court of Federal Claims. We did not review the bid evaluations or contractor selections that were made. To accomplish our objective, we:

- I. Reviewed the Federal Acquisition Regulation<sup>1</sup> regarding vendor selection procedures.
- II. Determined whether the IRS has taken effective actions to address concerns regarding the unnecessary restrictiveness of the original solicitation.
  - A. Obtained the latest version of the RFQ and identified the changes from the initial version of the RFQ.
  - B. Evaluated the changes made to the RFQ to address the concerns and deficiencies cited by the United States Court of Federal Claims on the prior RFQ.
  - C. Analyzed the reason and justification for any other significant changes to the RFQ.
  - D. Determined whether the revised RFQ and evaluation plan were reviewed by IRS legal counsel.
- III. Determined whether the scoring criteria and methodology to be used by the evaluation team was consistent with the revised RFQ and did not unnecessarily restrict the selection process.

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<sup>1</sup> 48 C.F.R. ch. 1 (2005).



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**Appendix II**

*Major Contributors to This Report*

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**Appendix III**

*Report Distribution List*

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