



## Treasury Inspector General for Tax Administration Office of Audit

### THE INTERNAL REVENUE SERVICE AND CONTRACTORS ARE GENERALLY FOLLOWING PROCEDURES ESTABLISHED FOR THE PRIVATE DEBT COLLECTION PROGRAM, BUT IMPROVEMENTS ARE NEEDED

Issued on September 10, 2008

## Highlights

Highlights of Report Number: 2008-30-157 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

### IMPACT ON TAXPAYERS

The Internal Revenue Code authorizes the Internal Revenue Service (IRS) to enter into contracts with private collection agencies (PCAs or contractors) to assist in the collection of delinquent Federal taxes. Although many of the Private Debt Collection program (Program) procedures were being followed, improvements can be made in how a taxpayer's identity is authenticated, how contractors handle taxpayer requests to opt out of the Program, the quality control system, and case processing. These improvements will help ensure that taxpayer rights are protected during the collection process.

### WHY TIGTA DID THE AUDIT

This audit was initiated because several parties, including members of Congress and the National Taxpayer Advocate, had expressed concerns regarding the risks involved in contracting out tax collection activity. These risks include the potential for disclosure of taxpayer information and violation of taxpayer rights. In addition, this audit was conducted as part of the TIGTA Fiscal Year 2007 Annual Audit Plan.

The overall objective of this review was to determine whether the IRS and contractors have been following required procedures in the Program since implementation on September 7, 2006.

### WHAT TIGTA FOUND

Overall, the IRS and contractors have generally taken actions consistent with the procedures developed for the Program. For example, the IRS and the PCAs generally followed required procedures for recalled accounts, took appropriate actions to obtain full payment from taxpayers, and

took timely and appropriate actions to address reported complaints.

While the IRS and contractors appropriately handled several processes, TIGTA identified some issues that needed to be addressed. The IRS and the PCAs were inconsistent about what issues they considered to be complaints. The Complaint Panel's role was not defined. Also, contractors were not always able to verify the identity of the taxpayer over the telephone.

In addition, the results of quality reviews were unreliable because skip intervals for selecting cases were improperly calculated and applied, sampling methodologies were merged, results were not properly weighted, telephone monitoring and case action reviews were not conducted on a regularly scheduled basis, and the quarterly sampling requirements were not met for telephone monitoring and case action reviews. Also, the semiannual meeting with the Statistics of Income Division staff to assess the results and modify the sampling plan was delayed by 6 months.

After TIGTA brought these issues to the attention of IRS management, they took corrective actions to address the conditions. However, the following issue requires further management action: the contractors administered the taxpayer satisfaction survey to the taxpayers, which could influence the results and produce low participation rates.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Collection, Small Business/Self-Employed Division: 1) continue to monitor the contractors' authentication process and continue to implement improvements as necessary to assist contractors in increasing the number of authenticated taxpayer contacts; 2) ensure that the Quality Unit continues to provide statistically valid, weighted estimates of quality, to conduct the required number of case action reviews, and to ensure that the quality analysts meet with the Statistics of Income Division staff semiannually; 3) ensure that the Quality Unit establishes a procedure for backup quality analysts to conduct telephone monitoring and case action reviews as needed; and 4) identify how to improve the response rate for the taxpayer satisfaction survey.

In their response to the report, IRS officials agreed with the recommendations. The IRS has taken several appropriate corrective actions and is in the process of taking additional steps to address TIGTA's concerns.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200830157fr.pdf>.

Email Address: [inquiries@tigta.treas.gov](mailto:inquiries@tigta.treas.gov)  
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500