



Treasury Inspector General for Tax Administration

THE PRIVATE DEBT COLLECTION PROGRAM WAS EFFECTIVELY DEVELOPED AND IMPLEMENTED, BUT SOME FOLLOW-UP ACTIONS ARE STILL NECESSARY

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Highlights

Highlights of Report Number: 2007-30-066 to the Internal Revenue Service (IRS) Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

To implement the Private Debt Collection program (Program), the IRS will use private collection agencies (PCAs or contractors) as an additional resource to help collect delinquent Federal taxes. In July 2004, the Department of the Treasury estimated the IRS will collect \$1.4 billion through the Program in Fiscal Years 2006-2015. Balance-due cases were first placed with three PCAs on September 7, 2006. Overall, the IRS effectively developed and implemented several aspects of the Program, thus providing better assurance that taxpayer rights are protected and Federal tax information is secure. However, the IRS needs to follow up on computer security issues, update procedure guides, and update the application used to calculate projected revenue.

WHY TIGTA DID THE AUDIT

This audit was initiated because several parties, including members of Congress and the National Taxpayer Advocate, had expressed concern 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. The overall objective of our review was to evaluate the effectiveness of the IRS' implementation of the Program.

WHAT TIGTA FOUND

The IRS took proactive measures to effectively develop and implement the Program: PCA employees were adequately trained, background investigations were completed, telephone call monitoring and oversight procedures were established, and computer and physical security procedures were established before cases were assigned.

However, the IRS still needs to address some issues. One contractor maintained Federal tax information on a shared computer server. One contractor used Telnet to transmit Federal tax information. Also, one contractor had not loaded antivirus software on its operating system or encryption software on its laptops. These factors, as well as other computer and physical security issues, increase the risk that Federal tax information may be inadvertently disclosed, lost, stolen, or corrupted.

Some sections in the Program guides and handbooks need to be strengthened and/or clarified. The conditions could result in untimely suspension of contractor collection action, unsatisfactory customer service, and unidentified or untimely identified taxpayer complaints.

There is no requirement for contractors to have scripts. Taxpayer rights would be better protected if contractors were required to use scripts for all types of telephone contacts with taxpayers and provide them to the IRS for review and approval. Finally, the IRS hired a contractor to develop a revenue model to calculate projected revenue based on inventory the IRS plans to place with contractors. The IRS is continuously updating this model and the revenue projection goals; in doing so, it should consider the impact of taxpayers who opt out of the Program, the age of the cases that will be assigned to the contractors, and the actual percentage of dollars being collected.

WHAT TIGTA RECOMMENDED

The Director, Collection, Small Business/Self-Employed Division, should include a requirement in the Request for Quotation for PCAs to maintain Federal tax information on a separate server; follow up to ensure PCAs have completed their efforts to resolve computer and physical security concerns; update procedures to ensure consistency and completeness; include a requirement in the Request for Quotation for PCAs to provide a copy of scripts for all telephone contacts with taxpayers to the IRS; and continue updating and/or modifying the revenue model to ensure the IRS appropriately accounts for the impact of taxpayers opting out of the Program, the age of the balance due, and the actual collection rate.

In their response to the report, IRS officials agreed with the recommendations and stated they will address security issues in the next contract negotiations and PCA security reviews, update policies to provide consistent and complete instructions regarding taxpayer complaints, strengthen control of taxpayer contacts, and address concerns in the revised revenue model.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2007reports/200730066fr.pdf>

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