



## Treasury Inspector General for Tax Administration Office of Audit

### VENDORS HAD MILLIONS OF DOLLARS OF FEDERAL TAX DEBT

Issued on September 25, 2013

## Highlights

Highlights of Report Number: 2013-10-116 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### IMPACT ON TAXPAYERS

Federal Law prohibits covered agencies from using Fiscal Year 2012 appropriated funds to enter into a contract with an entity that has an unpaid Federal tax liability unless the suspension and debarment official has considered suspending or debarment and determines that further action to protect the interests of the government is not required. There is no similar tax compliance requirement for nonprocurement vendors. TIGTA found that IRS contract and nonprocurement vendors had millions of dollars of unpaid Federal taxes. When the IRS conducts business with vendors that do not comply with Federal tax laws, it conveys a contradictory message in relation to its mission to ensure compliance with the tax laws.

### WHY TIGTA DID THE AUDIT

The overall objective of this review was to determine whether the IRS had adequate controls over the integrity and validity of vendors receiving payments from the IRS. TIGTA's review focused on vendor tax compliance, suspension and debarment, and controls over the Vendor Master File.

### WHAT TIGTA FOUND

The vast majority of vendors that conduct business with the IRS meet their Federal tax obligations. However, TIGTA found that 1,168 (7 percent) IRS vendors had a combined \$589 million of Federal tax debt, of which \$587 million associated with 1,118 vendors was not part of a current payment plan as of July 2, 2012.

TIGTA previously recommended that the IRS should establish procedures requiring an annual tax check for all IRS contractors. The IRS disagreed with this recommendation and did not implement it. TIGTA continues to believe the IRS should establish procedures requiring periodic (annual) tax compliance checks for all contractors. Because TIGTA has already recommended expanded tax checks for IRS contractors, TIGTA is

making no additional recommendations regarding IRS vendor tax compliance at this time.

The IRS had controls in place to prevent suspended and debarred vendors from receiving IRS contracts that generally appeared effective. However, TIGTA found that the IRS improperly awarded four new contracts or exercised additional option years on existing contracts, valued at \$2.6 million, to three vendors that were excluded (suspended) from doing business with the Federal Government.

Further, the overall control environment over the IRS Vendor Master File could be improved. There was insufficient oversight and a lack of monitoring over the vendor file operation and maintenance.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS determine why its searches did not identify the suspended vendors within the Excluded Parties List System. In addition, TIGTA made several recommendations to improve the controls over the IRS Vendor Master File maintenance and operation.

In its response, the IRS management agreed with all of our recommendations and plans to take corrective actions.

### READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201310116fr.pdf>.