Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance

December 27, 2022

Report Number: 2023-30-005

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.

TIGTACommunications@tigta.treas.gov | www.tigta.gov

HIGHLIGHTS: Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance

Final Audit Report issued on December 27, 2022 Report Number 2023-30-005

Why TIGTA Did This Audit

This audit satisfies reporting requirements of the Fixing America's Surface Transportation Act, which requires a biannual independent review of private collection agency (PCA) performance.

Impact on Tax Administration

The 2015 Fixing America's Surface Transportation Act required the IRS to begin using PCAs to collect inactive tax receivables from taxpayers. Additionally, on July 1, 2019, the President signed into law the Taxpayer First Act, which contains significant changes to the administration of the IRS's private debt collection program. These changes included adjustments to PCA case inventory criteria intended to protect certain low-income taxpayers from being subject to PCA collections as well as an increase in the maximum length of installment agreements that private collectors can offer taxpayers.

What TIGTA Found

Since the IRS began delivering cases to four PCAs in April 2017 as part of the first private debt collection contract, more than 4 million taxpayer accounts were assigned totaling more than $36.8 billion. As of the end of the first contract in September 2021, the IRS reported that the PCAs had collected over $1 billion in commissionable payments and had established more than 188,000 payment arrangements, but taxpayers later defaulted on more than half of them. The PCAs continue to perform well on telephone calls in terms of quality metrics. PCAs ConServe and CBE Group averaged 98.9 percent for quality.

During the second contract negotiation process, the IRS did not assign any new accounts to the PCAs for almost nine months, from December 2020 to September 2021. Two contractors from the first contract, Pioneer and Performant, were not selected for the second contract, and payment arrangements that were set up by these contractors were summarily cancelled at the end of the first contract, causing burden to those taxpayers. In total, the IRS terminated payment arrangements for 14,883 taxpayers with account balances of about $108 million. Although some taxpayers entered into other arrangements, the majority of the remaining taxpayers have not.

The Taxpayer First Act contains adjustments to PCA case inventory intended to protect certain low-income taxpayers from being subject to PCA collections. However, TIGTA identified 14,141 taxpayers with new tax years assigned to the PCAs on or after January 1, 2021, whose low incomes should have resulted in the IRS recalling their accounts. IRS management stated that the recall process should not apply to these low-income taxpayers, but TIGTA disagrees.

IRS contracts with the PCAs require background checks on all employees working on taxpayer accounts; however, information needed to determine if PCA employees had completed background checks prior to starting work on the IRS contract is not documented.

What TIGTA Recommended

TIGTA made 12 recommendations including to: 1) develop a solution to continue to service taxpayers in active payment arrangements when PCA contracts are ending and 2) ensure that programming is in place to recall accounts of taxpayers who reflect income beneath the legal amount required for PCA assignment but were initially assigned prior to January 1, 2021. IRS management agreed with eight of the 12 recommendations. IRS management disagreed with four of the 12 recommendations, including the recommendation to ensure that programming is in place to recall accounts of taxpayers with income beneath the legal amount required for PCA assignment but whose accounts were assigned prior to January 1, 2021. The IRS asserted that it excludes low-income taxpayers from assignment, effective after December 31, 2020. However, these taxpayers should be recalled and not be treated differently simply because they had previously assigned delinquent accounts with the PCAs.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

December 27 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance (Audit # 202230006)

This report presents the results of our review to independently evaluate the performance of private collection agencies. This review was part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap*.

Management's complete response to the draft report is included as Appendix IV. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Background ..... Page 1

Results of Review ..... Page 2

Comparative Performance of Private Collection Agencies ..... Page 2

Operational Reviews and Targeted Reviews ..... Page 8

The IRS Halted New Taxpayer Account Assignment to Private Collection Agencies During and After Contract Negotiations ..... Page 11

Recommendation 1: ..... Page 13

The IRS Terminated Active Payment Arrangements for Nearly 15,000 Taxpayers Due to Private Collection Agency Contracts Ending ..... Page 13

Recommendation 2: ..... Page 15

Recommendation 3: ..... Page 16

The IRS Did Not Always Exclude or Recall Cases From Private Collection Agency Inventory As Required by Law ..... Page 16

Recommendations 4 Through 6: ..... Page 21

Recommendation 7: ..... Page 22

Information Is Not Documented to Ensure That Private Collection Agency Employees Had Completed Background Checks Before They Started Working ..... Page 22

Recommendation 8: ..... Page 23

Recommendation 9: ..... Page 24

Private Collection Agency Employees Generally Followed Procedures When Talking to Taxpayers ..... Page 24

Recommendation 10: ..... Page 26

The IRS Does Not Ensure That Private Collection Agency Corrective Actions Have Been Completed for Reported Incidents ..... Page 27

Recommendation 11: ..... Page 29

Misdirected Payments Were Generally Processed Appropriately ..... Page 29

Recommendation 12: ..... Page 31

Appendices

Appendix I – Detailed Objective, Scope, and Methodology................................Page 32

Appendix II – Outcome Measures ....Page 34

Appendix III – Private Collection Agency Policy and Procedures
Guide Quality Attributes..Page 37

Appendix IV – Management's Response to the Draft Report............................Page 40

Appendix V – Glossary of Terms ....Page 50

Appendix VI – Abbreviations Page.52

Background

On December 4, 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law.[1] Section (§) 32102 includes a provision that requires the Internal Revenue Service (IRS) to use private debt collection (PDC) companies to collect taxes on cases involving inactive tax receivables. In April 2017, the IRS started delivering inventory to four private collection agencies (PCA) as part of the first PDC contract: the CBE Group of Waterloo, Iowa; Continental Service Group (ConServe) of Fairport, New York; Performant of Pleasanton, California; and Pioneer of Horseheads, New York. The first PDC contract expired in September 2021, and the IRS selected the following three PCAs to be part of the second PDC contract: the CBE Group of Waterloo, Iowa; ConServe of Fairport, New York; and Coast of Albion, New York.

Congress has required information from the Department of the Treasury (hereafter referred to as the Treasury Department) to determine whether the IRS can manage the use of the PCAs in a cost-efficient and effective manner that does not harm taxpayers or injure tax administration. Under this initiative, Congress requires an annual report with information that addresses the effectiveness of the program; the IRS submitted the first of such reports on March 23, 2018. The law also requires a biannual independent review of contractor performance. In discussions with Treasury Department officials, it was determined that the Treasury Inspector General for Tax Administration (TIGTA) would perform the biannual performance review. The first biannual performance review report was submitted to Congress on December 31, 2018; the second biannual performance review report was submitted to Congress on December 28, 2020. This is TIGTA's third biannual performance review related to contractor performance.

On July 1, 2019, the Taxpayer First Act was signed into law, which amended some of the FAST Act requirements for the PDC program.[2] First, the law amends provisions related to income eligible for collection by PDC companies. It exempts taxpayers from private collection activity whose income substantially consists of Social Security Disability Insurance (SSDI) benefits under § 223 of the Social Security Act or Supplemental Security Income (SSI) benefits under Title XVI of the Social Security Act as well as those with adjusted gross income (AGI) that does not exceed 200 percent of the applicable poverty level.[3] Second, the law changes the criteria for eligibility of inactive receivables by replacing "more than 1/3 of the period of the applicable statute of limitation has lapsed" with "more than 2 years has passed since assessment." Third, the law increases the maximum length of installment agreements that the PCAs can offer taxpayers from five years to seven years. Finally, the law clarifies items that may be treated as program costs eligible for use of Special Compliance Personnel Program Account funds for administering the qualified tax collection program. Newly eligible expenses include "communications, software, technology" (where the law previously referenced "telecommunications"). The change in the Act pertaining to the maximum length of an installment agreement that a PCA may offer is effective for contracts entered into after July 1, 2019. Additionally, the change in the Act pertaining to the use of the Special Compliance

[1] Pub. L. No. 114-94.

[2] Pub. L. No. 116-25 (July 1, 2019).

[3] Pub. L. No. 74-271. See Appendix V for a glossary of terms.

Personnel Program Account took effect after enactment. All remaining changes to § 1205 of the Taxpayer First Act took effect January 1, 2021.

PCA contract negotiation process

The first PDC contract (Contract 1) was in effect from September 23, 2016, through September 22, 2021. However, the negotiation process for the second PDC contract (Contract 2) began with a request for bids on September 30, 2020. The PCAs prepared and submitted bids to the IRS for review on October 27, 2020. The IRS received bids from six PCAs, including all of the PCAs from Contract 1 as well as two other PCAs. The IRS reviewed these bids and, on February 8, 2021, selected three PCAs to participate in Contract 2. One PCA that was not selected protested the decision, and the selection was sent to the Government Accountability Office for review. On June 1, 2021, the Government Accountability Office ruled that the selection was fair and would stand. For the purposes of this audit, we generally reviewed PCA performance through Contract 1.[4] However, we analyzed collection statistics through the second quarter of Fiscal Year (FY) 2022, which included both Contract 1 and Contract 2.

Results of Review

Comparative Performance of Private Collection Agencies

Since the IRS began delivering cases to the four PCAs in April 2017 as part of Contract 1, more than 4 million taxpayer accounts were assigned totaling more than $36.8 billion.[5] As of the end of the first PCA contract in September 2021, the IRS reported that the PCAs had collected over $1 billion in commissionable payments, or 2.78 percent of the total value of accounts assigned.[6] However, $441.8 million (43 percent) of the total commissionable payments collected by the PCAs since inception of the program were collected in FY 2021. This was likely due to the increasing number of cases that the PCAs had in open inventory as well as collections from payment arrangements set up in prior years continuing to pay while the PCAs continued to set up new payment arrangements as well.

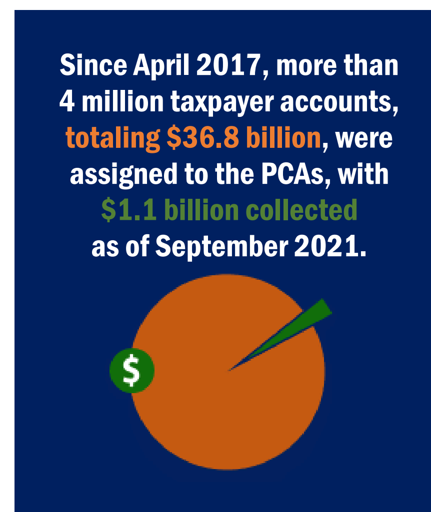


Figure 1 shows the number of accounts assigned to the PCAs, the dollar value, and the collection amounts attributable to each PCA from inception of the PDC program until the end of Contract 1.

---

[4] Contract 1 ended September 22, 2021; however, IRS PCA scorecard and collection data throughout the report are through September 30, 2021. Additionally, IRS management stated that, while the scorecard runs through September 30, 2022, most of the data end with the mid-month reporting cycle.

[5] PDC Program Monthly Scorecard through FY 2021.

[6] PDC Program Monthly Scorecard through FY 2021 (Commissionable Payments).

Figure 1: Accounts Assigned and Dollars Collected by the PCAs During Contract 1

PCA	Accounts Assigned	Amounts Assigned	Collections	Percentage of Collections
CBE Group	1,008,369	$9,226,867,234	$285,122,063	3.09%
ConServe	1,006,762	$9,208,813,238	$274,244,863	2.98%
Performant	1,005,725	$9,204,683,471	$261,696,935	2.84%
Pioneer	1,005,651	$9,174,961,789	$269,988,962	2.94%
Totals	4,026,507	$36,815,325,732	$1,091,052,823	2.96%

Source: TIGTA analysis of the PDC Monthly Scorecard as of September 30, 2021.

The number of accounts assigned, total amounts owed, and collections were similar for all four PCAs. As of September 30, 2021, CBE Group collected the most with $285.1 million in collections, while Performant has collected the least with $261.7 million in collections. Included in the collected amounts is $68.7 million in noncommissionable payments to the IRS, payments that are received within 10 days after the IRS notifies the taxpayer that the account has been assigned to a PCA. Of the noncommissionable payments, $17.9 million was from accounts assigned to CBE Group, $17.8 million from ConServe, $16.5 million from Performant, and $16.5 million from Pioneer.

According to the IRS, it has incurred approximately $370.2 million in costs since inception of the program, which includes just over $202 million (55 percent) resulting from commissions paid to the PCAs. Thus, the PDC program had net revenues of approximately $720.8 million for the duration of Contract 1.

Figure 2 shows the number of accounts assigned, dollar value, and collection amounts attributable to each PCA since the start of Contract 2 through the first two quarters of FY 2022.

Figure 2: Accounts Assigned and Dollars Collected by the PCAs During Contract 2[7]

PCA	Accounts Assigned	Amount Assigned	Collections
CBE Group	259,739	$2,423,470,905	$77,019,811
ConServe	259,847	$2,446,099,546	$68,686,845
Coast	197,279	$1,894,651,456	$15,540,084
Performant	n/a	n/a	$1,110,212
Pioneer	n/a	n/a	$1,544,043
Totals	716,865	$6,764,221,907	$163,900,995

Source: TIGTA analysis of the PDC Monthly Scorecard as of March 31, 2022.

[7] Collections in Figure 2 include collections for CBE and Conserve from inventory carried over from the first contract in addition to inventory assigned in the second contract, while collections for Coast include only collections from inventory assigned in the second contract.

CBE Group and ConServe continue to have comparable collection results; both PCAs were also on Contract 1. Collections attributable to Coast are significantly less than CBE Group and ConServe. CBE and ConServe retained inventory from Contract 1 and continued collecting on that inventory. In addition, Coast was not immediately receiving the same quantity of cases as CBE Group and ConServe at the start of the contract due to onboarding to the program. Although Performant and Pioneer were not selected for Contract 2, payments that were posted after September 22, 2021, were included in Contract 2 collections.

The PCAs established tens of thousands of payment arrangements

Figure 3 shows the number of taxpayer entities that entered into payment arrangements with the PCAs from inception of the program through the end of Contract 1 as well as the number and percentage of terminated payment arrangements and the number and percentage of entities with at least one commissionable payment received for each PCA.

Figure 3: Comparison of Payment Arrangements With No Payments or at Least One Payment

PCA	Number of Entities	Terminated Payment Arrangements	Percentage of Terminated Payment Arrangements	Payment Arrangements With at Least One Commissionable Payment	Percentage With at Least One Commissionable Payment
CBE Group	68,426	40,028	58%	41,049	60%
ConServe	46,195	22,858	49%	32,013	69%
Performant	36,768	18,962	52%	25,331	69%
Pioneer	37,397	19,800	53%	28,098	75%
Totals	188,786	101,648	54%	126,491	67%

Source: TIGTA analysis of the IRS Full Program Length Operational Review through September 30, 2021.

Since program inception, CBE Group has established the highest number of payment arrangements in terms of taxpayer entities. Specifically, CBE Group established over 36 percent of all payment arrangements. However, for various reasons, not all taxpayers are able to honor their commitments after establishing a payment arrangement. For example, of all the payment arrangements that CBE Group has set up, 58 percent have resulted in the payment arrangement being terminated. ConServe had the lowest termination rate at 49 percent. Additionally, Pioneer had the highest rate of payment arrangements with at least one commissionable payment, at 75 percent. CBE Group had the lowest rate at 60 percent; however, it had the most total payment arrangements with at least one commissionable payment.

Prior to the Taxpayer First Act being signed into law, Internal Revenue Code (I.R.C.) § 6306(b)(1)(B) allowed the PCAs to offer taxpayers installment agreements providing for full payment during a period not to exceed five years. These agreements must have met the law's definition of a qualified collection contract, which among other requirements must fully pay the liability within the length of the payment agreement.[8] However, for contracts entered into after

[8] I.R.C. § 6306(b).

July 1, 2019, the PCAs were allowed to offer payment arrangements covering a period not to exceed seven years or by the Collection Statute Expiration Date, whichever is less.[9] Currently, if the taxpayer cannot fully pay the tax debt immediately but can fully pay within the Collection Statute Expiration Date or seven years, whichever is less, the PCA will then offer a payment arrangement.

The overall percentage of taxpayers who made a payment was higher for accounts three years old or less

In our initial audit pertaining to the implementation of the PDC program, we reported that the PCAs were collecting approximately 1 percent of the accounts assigned to them, in contrast to the 9.9 percent national average collection rate of delinquent debt.[10] We reported that, while the IRS did not agree that the national average collection rate was an appropriate comparison, when asked, IRS officials offered no other suitable comparisons on which to measure the PDC program's performance. In order to increase the collection rate and reduce the age of cases assigned to the PCAs, we recommended that the IRS try to identify cases earlier in the collection process that it would not work due to resources, designate them as inactive, and assign them to the PCAs. The IRS disagreed with the recommendation.

However, the IRS began to assign cases with lower ages since the Taxpayer First Act was signed into law, which replaced criteria for eligibility of inactive receivables from cases in which "more than 1/3 of the period of the applicable statute of limitation has lapsed" with cases in which "more than 2 years has passed since assessment." For example, we found that the average age of PCA inventory has decreased from 5.3 years, reported in the previous TIGTA biannual performance review report, to 4.3 years.[11] Figure 4 illustrates our comparison of individual and business payment statistics on accounts greater than three years old when assigned to the PCAs to those equal to three years or less.

[9] I.R.C. § 6502(a) provides that generally the IRS has 10 years from the date of assessment to collect a delinquent tax.

[10] TIGTA, Report No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018). A study on *The Impact of Third-Party Debt Collection on the U.S. National and State Economies in 2016* (Nov. 2017) showed that third-party collection agencies returned 9.9 percent of total debt placed with them.

[11] TIGTA, Report No. 2021-30-010, *Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance* p. 5 (Dec. 2020). As of September 22, 2022, the average age of all modules assigned to the PCAs is 4.26 years.

Figure 4: Payment Statistics on Taxpayer Accounts Assigned to PCAs Greater Than Three Years Versus Less Than or Equal to Three Years for Contract 1[12]

Greater than 3 years

	Unique Taxpayers With No Payments	Unique Taxpayers With at Least One Payment	Percentage of Taxpayers Who Made a Payment	Sum of Payments	Number of Payments
Individual	1,824,270	4,912	0.27%	$12,425,610	16,011
Business	620,086	21,588	3.36%	$69,208,512	54,753
Totals	**2,444,356**	**26,500**	**1.07%**	**$81,634,122**	**70,764**

Less than or equal to 3 years

	Unique Taxpayers With No Payments	Unique Taxpayers With at Least One Payment	Percentage of Taxpayers Who Made a Payment	Sum of Payments	Number of Payments
Individual	1,262,059	4,552	0.36%	$10,602,288	7,315
Business	156,048	18,562	10.63%	$45,464,060	33,621
Totals	**1,418,107**	**23,114**	**1.60%**	**$56,066,348**	**40,936**

Source: TIGTA analysis of Individual Master File and Business Master File transactions from April 21, 2017, through September 22, 2021.

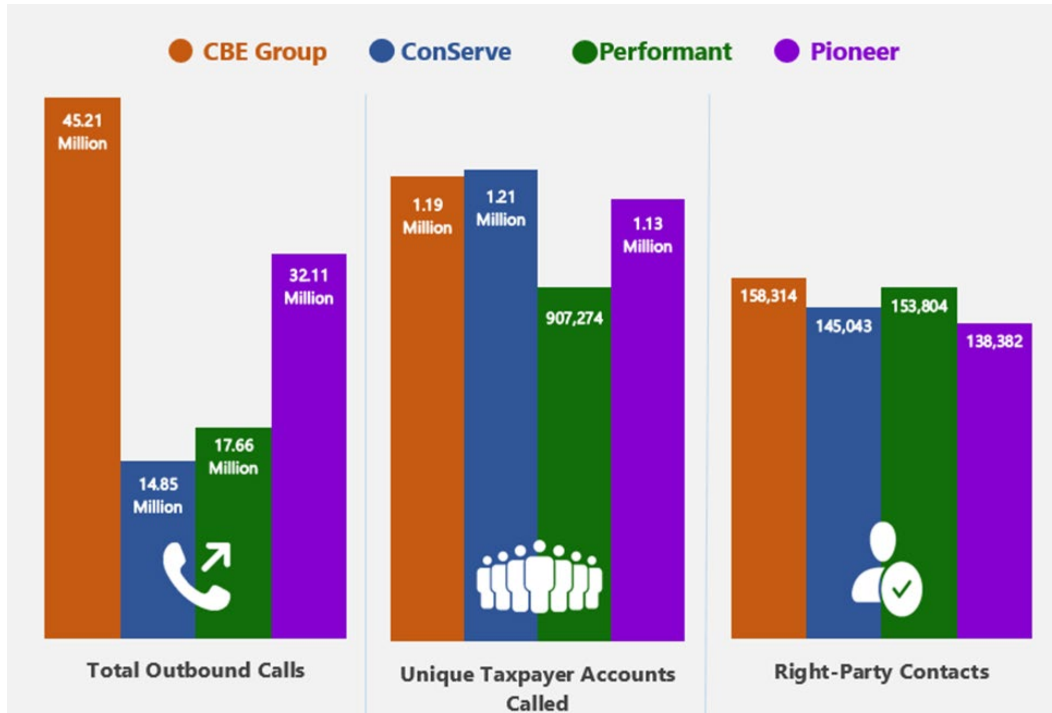
For the duration of Contract 1, the overall percentage of taxpayers with accounts assigned to the PCAs greater than three years old who made a payment was just over 1 percent. We also observed that business taxpayers made significantly more payments and made up a much higher percentage of taxpayers who made a payment than individual taxpayers. For accounts assigned to the PCAs that were equal to three years old or less, the total number of unique taxpayers with at least one payment was similar to accounts older than three years (23,114 compared to 26,500). However, the overall percentage of taxpayers who made a payment was higher—1.6 percent compared with 1 percent for older accounts. Again, we observed that business taxpayers made significantly more payments and made up a much higher percentage of taxpayers that made a payment than individual taxpayers. For the accounts equal to or less than three years old, over 10 percent of business taxpayers made a payment, compared with 3.4 percent for accounts greater than three years old. For individual taxpayers, the number of taxpayers who made a payment was relatively the same regardless of the age of the case (4,552 compared to 4,912). We continue to believe that the IRS should work to identify cases earlier in the collection process that it will not work due to resources, designate them as inactive, and assign them to the PCAs.

The IRS tracks PCA inventory management, taxpayer interactions, and resolutions

The IRS monitors PCA performance and tracks their efforts through program analytics. The various statistics pertain to inventory management, taxpayer interactions, and resolutions. Figure 5 shows inventory management analytics through the end of Contract 1.

[12] For Figure 4, we identified payments defined as 1) reserved (formerly PDC), 2) miscellaneous, or 3) designated payment indicator not present on posting voucher. IRS management later stated that additional types of payment codes could be included as payments, which we will review during the FY 2025 audit.

Figure 5: Inventory Management Analytics



Source: TIGTA analysis of the IRS Full Program Length Operational Review through September 30, 2021.

CBE Group made the most outbound calls, followed by Pioneer. ConServe and Performant placed significantly fewer outbound calls. However, Performant had the highest right-party contact rate of 17 percent (153,804 right-party contacts out of 907,274 unique taxpayer accounts called), followed by CBE Group, which had a right-party contact rate of 13 percent (158,314 right-party contacts out of 1.19 million unique taxpayer accounts called).[13] ConServe and Pioneer each had a right-party contact rate of 12 percent (145,043 right-party contacts out of 1.21 million unique taxpayer accounts called for ConServe, and 138,382 right-party contacts out of 1.13 million unique taxpayer accounts called for Pioneer). Figure 6 shows taxpayer interaction analytics for FY 2021.

Figure 6: Taxpayer Interaction Analytics for FY 2021

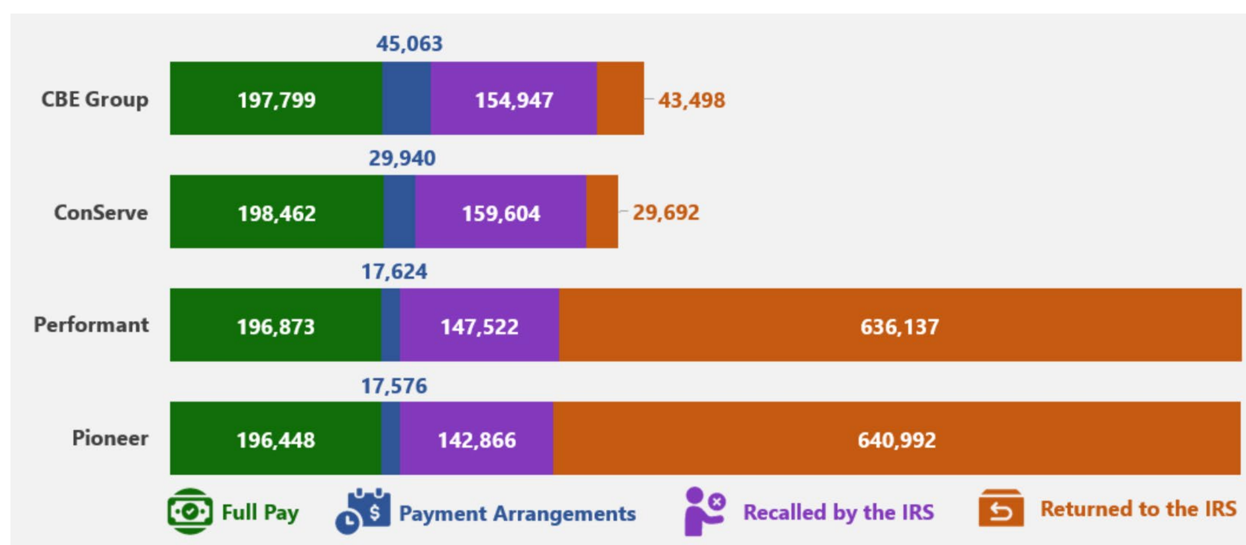
Analytic	CBE Group	ConServe	Performant	Pioneer
Average Number of Outbound Calls per Taxpayer Account	21	7	5	4
Average Number of Calls Until Outbound Right-Party Contact Reached	34	13	15	23
Average Number of Telephone Numbers Called per Taxpayer	3	4	4	6
Average Number of Days Until First Outbound Attempt to Taxpayer	53	72	61	53

Source: TIGTA analysis of the IRS Operational Review Workbook for FY 2021.

[13] Right-party contacts occur when the assistor spoke with and authenticated the primary (or secondary) taxpayer or authorized business taxpayer as defined in the Policy and Procedures Guide.

On average, CBE Group placed the most outbound calls per taxpayer account (21), averaged the most outbound calls until the right-party contact was reached (34), but averaged the least number of telephone numbers called per taxpayer (three). ConServe, on average, took the longest (72 days) in attempting the first outbound call to a taxpayer, and it had the lowest average for number of calls until an outbound right-party contact was reached (13). However, Pioneer averaged the least number of telephone numbers called per taxpayer (four) but also had the most number of telephone numbers called per taxpayer (six). Compared to similar analytics in our previous biannual performance review report, the average number of outbound calls per taxpayer for all four PCAs decreased. While Pioneer's average number of outbound calls decreased the most, from an average of 35 calls per taxpayer reported in the previous biannual performance review report to an average of four per taxpayer for FY 2021, this is most likely due to the offboarding of Pioneer from the PDC program. Figure 7 shows case resolution analytics by type through Contract 1.

Figure 7: Case Resolution by Type Analytics



Source: TIGTA analysis of the IRS Full Program Length Operational Review through September 30, 2021.

The total resolutions for Performant and Pioneer are skewed due to the entirety of their case inventory being returned to the IRS at the end of Contract 1. This can be seen in the number of cases returned to the IRS, which were significantly higher for Performant and Pioneer. However, all four PCAs accomplished a similar number of full-payment resolutions, with a difference of only about 2,000 between the highest (ConServe) and the lowest (Pioneer). CBE Group generated the most payment arrangements (45,063), which resulted in 10 percent of its total resolutions. Pioneer set up the fewest payment arrangements (17,576).

Operational Reviews and Targeted Reviews

The IRS performs operational and targeted reviews to evaluate PCA performance and make recommendations for improvements. These reviews evaluate PCA operations to determine how well the PCA is complying with IRS guidance and to assess overall PCA performance. They encompass a variety of program areas and change on a quarterly basis to provide an evolving assessment of the PCAs. The reviews also include follow-up items to ensure that

recommendations are incorporated. Due to the Coronavirus Disease 2019 (COVID-19) pandemic, the IRS did not complete any operational or targeted reviews from June through September 2020. Additionally, the IRS stated that no operational or targeted reviews were completed from February through September 2021 in order to focus on the transition from Contract 1 to Contract 2.

Operational reviews

IRS reviews of the PCAs' operations are conducted to ensure that the PCAs were following the guidance provided in the Policy and Procedures Guide (PPG) and the PCA contract. The IRS's PDC Policy Administration team completed two operational reviews of the PCAs, one in FY 2020 and one in FY 2021. The FY 2020 operational review was completed in March 2020 and was documented in our previous biannual report. Conducted in January 2021, the focus of the FY 2021 review was on the policies and procedures related to payment options, disaster impact, and the Taxpayer First Act provisions. The PDC team conducted case reviews and listened to recorded calls from each PCA, covering the period September 18 through November 12, 2020.

Although there was some variance in how well each PCA performed with respect to FY 2021 review criteria, some of the issues identified were common to more than one collector. For example, a review of the Pre-Authorized Direct Debit (PADD) payment option revealed that assistors could improve upon giving instructions to properly complete and return PADD authorization forms and ensure that the taxpayer's verbal consent is documented in the Record of Account. When discussing the PADD payment option, assistors obtained verbal consent on several telephone calls but did not explicitly document this in the Record of Account as required by the PPG.

Additionally, a sample review of call recordings showed that assistors gave taxpayers the impression that unstructured payments were payment arrangements and that the taxpayer should pay monthly. There were instances in which assistors referred to unstructured payments as "arrangements" or "agreements" or requested a monthly payment amount and payment date. The PPG instructions regarding these payments during the time of this operational review stated that, if the taxpayer indicates that they cannot fully pay immediately or meet the terms of a payment arrangement, then the call assistor may offer the taxpayer the opportunity to make unstructured payments. Yet the call assistor should not give the taxpayer the impression that unstructured payments are considered formal arrangements.

However, the law provides that a "qualified collection contract" involves the taxpayer's promise to fully pay the balance due, and the law requiring private tax collectors does not specifically allow for commissionable unstructured payments.[14] In the previous TIGTA biannual performance review report, we found that the IRS was allowing PCAs to take commissions on payments that are not associated with qualified collection contracts.[15] We recommended that the IRS comply with I.R.C. § 6306, which only allows PCAs commissions for qualified collection contracts, but IRS management disagreed.

After our prior report, on May 24, 2021, the IRS revised these PPG instructions to state that, if the taxpayer indicates that they cannot fully pay immediately or meet the terms of a payment

---

[14] I.R.C. § 6306(b).

[15] TIGTA, Report No. 2021-30-010, *Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance* p. 13 (Dec. 2020).

arrangement, the PCA will explain that payments can be made at any time in order to reduce their liability. It goes on to say that payments under this section are not considered formal payment arrangements. If the taxpayer is unable to make any payments, the PCA will explain the alternative collection resolutions to the taxpayer, such as an offer in compromise. If the taxpayer does not qualify or does not want to pursue alternative resolution, the PCA will initiate the return of the case. However, if the taxpayer does make a payment that is not part of a formal payment arrangement, the commission to the PCA on those payments is still not allowed under the law requiring private tax collectors.

Lastly, a sample review of call recordings showed that assistors generally verified whether the taxpayer was receiving SSI or SSDI; however, there were some accounts in which assistors did not ask and/or annotate the Record of Account that the taxpayer was receiving SSI or SSDI. The IRS made 15 recommendations, which included assistor refresher training on PPG procedures to address these issues and others, and the PCAs planned to take corrective actions.

The FY 2020 operational review, completed by the IRS and documented in the previous biannual TIGTA report, showed similar findings related to the PADD and unstructured payment reviews. The FY 2021 review showed an improvement in the PADD review in which errors decreased by 58 percent from the FY 2020 review. However, the FY 2021 unstructured payment review reflected an increase in errors of 7 percent compared to the FY 2020 review. The IRS made similar recommendations to the PCAs, which included conducting refresher training sessions on both unstructured payments and PADD procedures.

Targeted reviews

Between FY 2020 and FY 2021, the IRS performed various targeted reviews, including reviewing Initial Contact Letters (ICL) issued between May 15, 2020, and July 15, 2020.[16] The ICL review was conducted to determine whether the PCAs adhered to the guidance set forth in Alert No. 20A-014 issued on May 20, 2020, restricting contact due the COVID-19 pandemic. Results showed that ConServe, CBE Group, and Pioneer issued the following ICL letters in error during that time frame:

- CBE Group erroneously issued 718 ICLs for new modules on May 22, 2020.
- ConServe erroneously issued 3,138 ICLs for new modules, of which 585 were issued on May 21 and 22, 2020.
- Pioneer erroneously issued seven ICLs for new modules.

The IRS determined that, although the issuances were after the PDC Alert date, it appeared to be an inadvertent timing issue, *i.e.*, the letters were in process before the PDC Alert was issued; therefore, the IRS made no recommendations. All three PCAs updated their program system controls to limit or suspend letter issuances in the future.

The IRS also performed a targeted review on account payment arrangements between 81 and 84 months. This targeted review assessed whether each PCA's payment arrangement estimator was working properly and whether appropriate actions were taken in accordance with the PDC PPG. Because the IRS Integrated Automated Technology tool has a three-month buffer built in

[16] The IRS will first notify the taxpayer their overdue tax account has been assigned to a PCA. The PCA will send an ICL of their own. The letter has information on how to resolve the taxpayer's overdue taxes. The PCA will attempt to call the taxpayer to resolve the liability after sending letters.

to its programming, the IRS determined that three months would be the variance allowed when reviewing PCA payment arrangement calculators for accuracy. The IRS found the following results:

- For CBE Group, the payment arrangement calculations for ; therefore, the IRS did not make any recommendations related to CBE Group's payment arrangement estimator.
- For ConServe, the payment arrangement calculations for eight of 12 accounts differed by four months or more from IRS calculations. The remaining four were within three months of IRS calculations. The IRS determined the reason for the error was that ConServe was using the Assessed Module Balance in place of the Assessed Tax on its payment arrangement estimator. ConServe confirmed corrections would be made to the payment arrangement estimator.
- For Pioneer, the payment arrangement calculations for ; therefore, the IRS did not make any recommendations related to Pioneer's payment arrangement estimator.
- For Performant, the payment arrangement calculations for . The IRS did not make a specific recommendation related to Performant's payment arrangement estimator.

TIGTA's previous biannual performance review also analyzed the IRS's review of PCA payment arrangement estimators, but with terms of 60 months or less. Similarly to this targeted review, the number of cases with a payment arrangement variance with terms of 60 months or less had decreased significantly from what we found in our FY 2019 biannual review. However, there were still some arrangements with variances of over four months. TIGTA will continue to review the IRS's assessment of PCA payment arrangement calculators as well as conduct its own sample review of PCA payment arrangements in the next biannual performance review audit to ensure that the terms are consistent with the IRS's calculations.

The IRS Halted New Taxpayer Account Assignment to Private Collection Agencies During and After Contract Negotiations

During the Contract 2 negotiation process, the IRS did not assign any new accounts to any of the PCAs for almost nine months, from December 2020 to September 2021, but could have resumed assignment to the two returning PCAs almost four months earlier. In anticipation of the expiration of Contract 1 (September 22, 2021), the IRS entered into negotiations with the PCAs for the Contract 2 award. The following shows the timeline of the events for the Contract 2 process:

- September 30, 2020 – The IRS issued a request for quotes.

- October 27, 2020 – The IRS received six quotes.
- December 28, 2020 – The IRS stopped assigning new taxpayer accounts to the PCAs.
- February 8, 2021 – The IRS made the decision to award contracts to three companies, CBE Group Inc., ConServe, and Coast Professional Inc.
- February 18, 2021 – Pioneer filed a protest.
- June 1, 2021 – Pioneer's protest was denied by the Government Accountability Office.
- June 21, 2021 – The IRS began recalling the inventory of the two PCAs that were not awarded the second contract (Pioneer and Performant).
- September 23, 2021 – New accounts started to be assigned to the two returning PCAs (CBE Group and ConServe).
- October 18, 2021 – New accounts started to be assigned to the newly awarded PCA (Coast).

We reviewed Contract 1 and found that it does not specify that new accounts would not be assigned during Contract 2 negotiations, but it does state in § 2.3, *Account Inventory Distribution*, that the "IRS reserves the right to modify the actual placement volume up or down at its discretion and makes no warranty as to actual placement volume." Therefore, the amount of inventory, if any, assigned to the PCAs is at the IRS's discretion.

When questioned, IRS management stated that the IRS stopped assigning new taxpayer accounts to the PCAs in December 2020 for several reasons, including that COVID-19 caused processing delays in Service-wide operations, leading to a downstream impact on the availability of eligible inventory. The IRS believed that the PCAs had ample inventory to work as each PCA had about 670,000 open cases averaging $6.8 billion in balances due. Additionally, the IRS does not assign new work during the annual "dead cycle," which takes place from late December until early February; normally, case assignment would resume after this time. However, the IRS did not assign new taxpayer accounts to the PCAs until Contract 2 started on September 23, 2021. All levels of leadership up to the IRS Commissioner approved the decision to delay assignment of new accounts during the period December 28, 2020, until September 23, 2021.

Starting on December 28, 2020, the only cases assigned to the PCAs through the remainder of Contract 1 were additional tax periods related to taxpayer accounts that were already in the PCAs' inventory. The IRS assigned the PCAs 175,856 additional tax periods from December 2020 until the end of Contract 1 on September 22, 2021. CBE Group received 55,556 additional tax periods during that time, while ConServe received 56,629 additional tax periods. Performant received 32,241 additional tax periods, and Pioneer received 31,430 additional tax periods.

For Performant and Pioneer, which were not selected for Contract 2, the IRS's decision to initially stop assigning new accounts was reasonable; however, the IRS could have assigned new accounts to CBE Group and ConServe (the two incumbent PCAs) after the final determination was made on Contract 2 awards on June 1, 2021, and the protest had been resolved. Because the IRS did not assign new taxpayer accounts to CBE Group and ConServe until the start of Contract 2 on September 23, 2021, PCA-eligible taxpayer accounts were sitting in IRS inventory

receiving the standard annual notices and accruing penalties and interest.[17] If assigned in early June 2021, the two PCAs could have sent their ICLs and started their efforts to collect on these balances months earlier. IRS management informed us that the process to restart inventory assignment takes approximately six weeks. If IRS management restarted inventory assignment immediately after the dispute was resolved on June 1, 2021, then inventory could have been assigned starting in mid-July. Instead, inventory assignment did not restart until September 23, 2021, about 10 weeks later. Based on an average of 10,000 taxpayer accounts per PCA assigned each week before the IRS halted assignments, we estimate that 200,000 new taxpayer accounts could have been assigned to CBE Group and ConServe.

Recommendation 1: The Director, Collection, Small Business/Self-Employed Division, should restart assigning inventory to the incumbent PCAs as soon as possible after new contracts have been awarded and protests are resolved, if any.

> **Management's Response:** IRS management agreed with this recommendation, stating that they already have a process in place to restart assigning inventory as soon as possible after awarding new contracts. The process includes assessing readiness to receive inventory and developing an appropriate schedule for delivery to comply with the terms of the new contract that may include changes to the commission schedule.

The IRS Terminated Active Payment Arrangements for Nearly 15,000 Taxpayers Due to Private Collection Agency Contracts Ending

During our review, we learned that the payment arrangements that were set up by Pioneer and Performant were cancelled at the end of Contract 1. In total, the IRS terminated payment arrangements for 34,070 modules, or 14,883 taxpayers. These modules had a total module balance of about $108 million. The average total module balance was approximately $3,162. The terminated payment arrangements generally spanned from Tax Years 2005 to 2021.

Because the contracts for these two PCAs ended, the IRS recalled approximately 1.2 million taxpayer accounts assigned to them. Section 13(1) of the PPG states that accounts may be returned or recalled (systematically or manually) for any reason including the "expiration of the contract." The IRS reasoned that, whenever an account is recalled, the PCA payment arrangement is ended and the taxpayer's account is then subject to normal IRS collection case processing and business rules. IRS management stated that the IRS does not have the technological ability to reassign an account directly from one PCA to another. Further, IRS management stated that the Office of Chief Counsel advised them that PDC payment arrangements cannot be legally converted into IRS installment agreements. To address this issue:

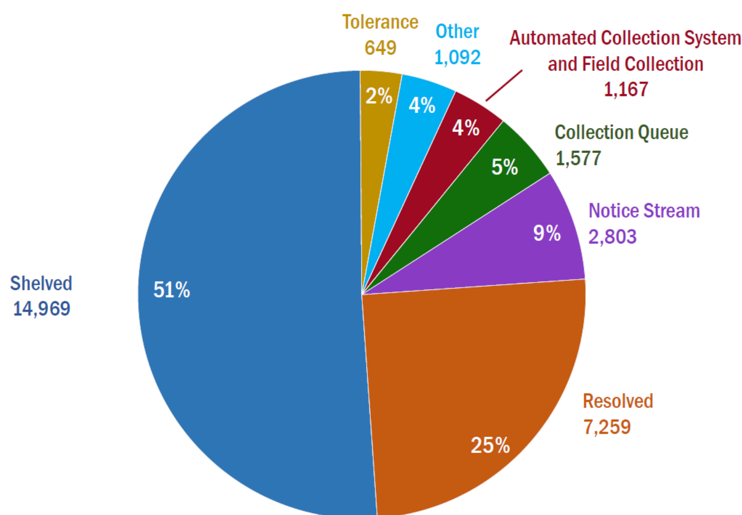
- The PCAs sent a letter informing the taxpayers their account was returned to the IRS, their payment arrangement had ended, and to contact the IRS to set up a new payment plan.

[17] PCA-eligible accounts are generally in the IRS's inactive collection inventory until they are assigned to the PCAs. Taxpayers that have inactive accounts are receiving, at a minimum, annual notices from the IRS asking for payment, presenting payment options, and informing taxpayers that failure to pay results in accruing interest and penalties. The accounts can be reactivated if they meet the eligibility requirements in I.R.C. § 6306 for assignment to the PCAs.

- The IRS followed up with three letters sent in November 2021, February 2022, and April 2022 reminding the taxpayers to contact the IRS to set up a new payment plan.
- To prevent further collection activity, the IRS held these accounts from the normal collection inventory stream and blocked the accounts from reassignment to another PCA.
- The IRS established a designated telephone number and mailing address for the taxpayers to work directly with the IRS.

As of April 11, 2022, the IRS stated that 5,632 (16.5 percent) of the 34,070 modules were in an installment agreement, were in a pending or active offer in compromise, or were placed in currently not collectible status. These modules had total balances due of about $21.4 million. The average balance for the modules was approximately $3,797. However, for the remaining 28,438 modules as of April 11, 2022 (of which 26,890 modules were for individuals and 1,548 were for businesses), the IRS had not reassigned any of the recalled modules to another PCA. Additionally, the IRS did not maintain a list of the modules with terminated payment arrangements that have since been fully paid. Figure 8 shows the current collection status for the remaining modules.

Figure 8: Current Collection Status for Remaining Modules in Terminated Payment Arrangements[18]



Source: IRS-provided data from the Unpaid Assessments database as of September 16, 2022.

Although some taxpayers entered into installment agreements or fully paid their tax balances, the majority of the remaining modules were not resolved.[19] For example, 51 percent of the

[18] The total modules in this figure are 29,516, which is more than our count of 28,438. The IRS-provided data include some subsequently assessed modules for the taxpayers who had payment arrangements set up with Pioneer and Performant that were terminated. We did not perform a validation of the data.

[19] Resolved includes modules that were in an installment agreement, offer in compromise status, or unable to pay status. Notice Stream includes modules for which a statutory balance due notice was issued or a first, second, or final balance due reminder notice was issued.

modules are now in shelved inventory.[20] Overall, of the total 34,070 modules in terminated payment arrangements, approximately 21,000 (62 percent) modules had not reentered into installment agreements or been fully paid as of September 16, 2022.[21]

The Taxpayer Advocate Service and tax practitioners have expressed concerns related to pulling back of taxpayer accounts from the PCAs that were in active payment arrangements and what the impact on these taxpayers will be. The former National Taxpayer Advocate, Nina Olson, stated that, when the IRS terminated PCA usage for the second time, the IRS recalled all of the accounts placed with the PCAs but did not terminate any of the payment arrangements that the PCAs had set up. The payment arrangements remained in force, and the IRS continued to collect the payments.[22] Additionally, the IRS stated that, during the prior PDC initiative, the PCAs helped to set up IRS installment agreements, and the taxpayers paid a user fee. When this initiative ended, the installment agreements were not terminated and the IRS continued to monitor them as long as taxpayers were making payments.

The Taxpayer Bill of Rights was created to ensure that the IRS fairly and impartially carries out tax administration.[23] Taxpayers whose payment arrangements were canceled because they were assigned to the PCAs for which contracts were terminated did not receive the same treatment as taxpayers assigned to the PCAs that continued in the PDC program. The nearly 15,000 taxpayers who had already set up payment arrangements were unfairly burdened because they must now contact the IRS to set up a new installment agreement if they did not already pay off the debt. Additionally, they may have to pay a fee for setting up the installment agreement with the IRS, as required by law, and may incur penalties and interest if the new installment agreement was not set up right away. This is potentially detrimental to taxpayer compliance for those who were trying to comply with payment terms but whose payment agreements were summarily canceled as well as a loss of tax revenue because the majority of these taxpayers are no longer in payment arrangements.

The Director, Collection, Small Business/Self-Employed Division, should:

Recommendation 2: Ensure that the IRS does not burden taxpayers in existing payment agreements when PCA contracts are ending by developing a solution to continue to service taxpayers in active payment arrangements.

> **Management's Response:** IRS management agreed with this recommendation, stating that they will develop a solution by January 15, 2026, to continue to service taxpayers in an active payment arrangement when a PCA contract ends.

---

[20] Shelved cases are delinquent unpaid accounts that have been removed from Collection function inventory because they are lower priority than other available cases. Cases are below tolerance when the balance due is less than a certain dollar amount.

[21] Of the original 34,070 modules, the IRS reported 5,632 that had been resolved as of April 11, 2022. As of September 16, 2022, the IRS identified another 7,259 modules that were resolved. However, the data provided on the status of the remaining modules as of September 16, 2022, contained some subsequently assessed modules for the taxpayers who had payment arrangements set up with Pioneer and Performant that were terminated. This left approximately 21,000 modules unresolved.

[22] Nina Olson, *IRS Violates Taxpayer Bill of Rights by Unilaterally Terminating Installment Agreements Entered into with Private Collection Agencies*, Procedurally Taxing website (Oct. 18, 2021).

[23] I.R.C. § 7803(a)(3).

Recommendation 3: For taxpayers whose payment arrangements were terminated due to Contract 1 ending, abate any penalties and interest that accrued between when the payment arrangement was terminated and when the taxpayer enters into a new payment resolution with the IRS.

Management's Response: IRS management disagreed with this recommendation, stating that an abatement of penalty is not warranted since the IRS already provided taxpayers in this situation the same reduced penalty rate from September 22, 2021, through June 30, 2022. Additionally, they stated that the IRS has no legal authority to abate interest under these circumstances.

Office of Audit Comment: The purpose of this recommendation is to ensure that taxpayers whose payment arrangements were terminated due to Contract 1 ending are not penalized based solely on the PCA that they were assigned to. As of July 29, 2022, IRS management applied a reduced penalty to taxpayer accounts for the period of September 22, 2021, through June 30, 2022, to allow taxpayers time to request an installment agreement. However, I.R.C. § 6404(e)(1)(a) states that "in the case of any assessment of interest on any deficiency attributable in whole or in part to any unreasonable error or delay by an officer or employee of the IRS in performing a ministerial or managerial act, the Secretary may abate the assessment of all or any part of such interest for any period." These taxpayers had active payment arrangements terminated by IRS management, causing a delay in payment not attributable to the taxpayers. We believe this to be an error by the IRS. Additionally, Treasury Regulation § 301.6404-2(c) and Internal Revenue Manual (IRM) 20.2.7.5 detail the situations in which the IRS may abate interest, which appear compatible with this situation.[24] Therefore, the IRS appears to have both legal authority and internal procedures for abating interest in certain situations such as this one. When asked the specific reasoning that the IRS could not abate interest in this situation, IRS management did not provide an explanation other than a generalized statement that the IRS could not do so.

The IRS Did Not Always Exclude or Recall Cases From Private Collection Agency Inventory As Required by Law

The Taxpayer First Act contains adjustments to PCA case inventory that are intended to protect certain low-income taxpayers from being subject to PCA collections.[25] After December 31, 2020, tax receivables identified by the Secretary of the Treasury (or the Secretary's delegate) are no longer eligible for collection by the PCAs for:

- A taxpayer who is an individual with AGI, as determined for the most recent taxable year for which such information is available, that does not exceed 200 percent of the applicable poverty level (as determined by the Secretary of the Treasury).[26]

---

[24] Treas. Reg. § 301.6404-2(c). IRM 20.2.7.5 (Nov. 2018).

[25] Pub. L. No. 116-25, § 1205(a) (amending I.R.C. § 6306(d)(3)).

[26] I.R.C. § 6306(d)(3)(F).

- A taxpayer whose income consists substantially of disability insurance benefits under § 223 of the Social Security Act (SSDI) or supplemental security income benefits under Title XVI of the Social Security Act (including SSI benefits of the type described in § 1616 of such Act or § 212 of Public Law 93-66).[27]

In addition, the FAST Act specifies certain IRS debts that are not eligible to be placed with the PCAs, including those debts:[28]

- Subject to a pending or active offer in compromise or installment agreement.
- Classified as an innocent spouse case.
- Involving a taxpayer who is: a) deceased, b) under the age of 18, c) in a designated combat zone, or d) a victim of tax-related identity theft.
- Currently under examination, litigation, criminal investigation, or levy.
- Currently subject to a proper exercise of a right of appeal under this title.
- Involving a taxpayer living in a presidentially declared disaster area who requests relief from collection.

IRS management stated that their system has procedures to address exclusions and recall conditions per the statute. There are also procedures in place in the PPG to address the rare situations in which a taxpayer meets an exclusion criterion but was not systemically excluded or recalled. We performed analysis to determine whether these controls were working and found that, in some cases, taxpayers were improperly assigned or not recalled.

Taxpayers with most recent returns meeting low-income criteria have not been recalled from PCA inventory

Using the most recent Low Income table (created on February 2, 2022) provided by the IRS, we performed an analysis to determine whether taxpayers identified as "low income" were excluded from PCA assignment on or after January 1, 2021, as required by the Taxpayer First Act provisions. We identified 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the law was put in place but whose accounts were not properly recalled. We determined that, as of March 31, 2022, the IRS had not recalled the identified accounts.

Twice a year, the IRS extracts any taxpayers meeting the criteria for the low-income exclusion from the Individual Master File and creates a Low Income table in the Unpaid Assessments database.[29] On a weekly basis, PDC-eligible Taxpayer Identification Numbers are matched against the Low Income table. If a matching Taxpayer Identification Number is found, the IRS will exclude that taxpayer from the PDC program. The IRS stated that tax receivables assigned after January 2, 2021, then subsequently identified as meeting the low-income criteria started to be recalled on February 20, 2021.

[27] I.R.C. § 6306(d)(3)(E).

[28] I.R.C. § 6306(d).

[29] The Low Income table is created using the taxpayer's most recent module with a filed tax return that is within the last 10 years and on which the AGI is less than or equal to the applicable value in the Department of Health and Human Services' 200 percent poverty tables.

Due to the volume of taxpayers identified, we selected a random sample of 100 cases for IRS management to review.[30] They responded that the taxpayer accounts provided in the sample were assigned to the PCAs prior to January 1, 2021, and the potential exceptions identified were subsequent tax years on those entities. IRS management stated that the recall process would not apply to those taxpayers because the account (entity) was assigned prior to January 1, 2021. However, the law clearly states that a tax receivable shall not be eligible for collection pursuant to a tax collection contract if such receivable involves a taxpayer who is an individual with AGI, as determined for the most recent taxable year such information is available, that does not exceed 200 percent of the applicable poverty level. Therefore, although these taxpayers were assigned to the PCAs prior to the Taxpayer First Act provision taking effect, they should be removed from PCA inventory because their AGI from the most recent return identifies them as low income.

IRS management provided us with a document that was issued to Congress on May 29, 2020, stating that they did not intend to recall cases based on the exclusion of taxpayers whose AGI is below 200 percent of the poverty level. They further stated that the change in the law specifically applies to tax receivables identified after December 31, 2020, and not to cases placed with the PCAs before that date. IRS management did not receive a congressional response, follow-up questions, or express concern with the approach outlined in the IRS Commissioner's letter sent to Congress over two years ago. However, these low-income taxpayers should be protected even if their account was originally assigned prior to the effective date of the law. If the IRS does not recall the 14,141 low-income taxpayers from PCA inventory, it is potentially burdening these taxpayers by PCA attempts to collect on debts that are not legally collectible by the PCAs under I.R.C. § 6306(d)(3)(F).

The IRS implemented programming to exclude SSDI and SSI recipients from PCA inventory

SSDI recipients were not always excluded due to a timing issue

Our analysis to determine whether taxpayers receiving SSDI were excluded from PCA assignment on or after January 1, 2021, identified 271 taxpayers who were assigned to the PCAs on or after January 1, 2021, while also receiving SSDI in Calendar Year 2021. While the IRS did recall these accounts, 243 accounts were not recalled until February 2022, and the remaining 28 accounts were recalled on June 6, 2022.

On January 24, 2020, the IRS implemented programming to systemically exclude accounts of SSDI recipients from being assigned to a PCA, as required, starting in January 2021. The IRS stated that the new programming reads the annual SSDI recipient file that the Social Security Administration (SSA) provides on a weekly basis (annually reported on Form SSA-1099, *Social Security Benefit Statement)*. If any individual taxpayer or their spouse in the IRS's Unpaid Assessments database is receiving SSDI income, the case is excluded from the PDC program.

When questioned about why there was a delay to recall these accounts, IRS management explained that there was no information available about the 243 taxpayers being recipients of SSDI until the SSA reported it in February 2022. The SSA sent an updated taxpayer list after the IRS built its SSDI table, which is why the other 28 accounts were not recalled initially. Because

[30] We selected a simple random sample to ensure that each case had an equal chance of being selected.

the SSA only provides Forms 1099-SSA to the IRS once a year, it appears there will always be taxpayers assigned to the PCAs who are not timely identified as receiving SSDI until the next report is received. Therefore, these taxpayers will be potentially burdened by PCA attempts to collect debts that should not be assigned to the PCAs.

Programming to exclude SSI recipients was completed in June 2022

The IRS determined that it could not obtain taxpayer SSI information without a change to the law; therefore, the IRS took steps to submit a request for a technical correction to the Taxpayer First Act on April 8, 2020.[31] The Consolidated Appropriations Act, 2021 was enacted on December 27, 2020, and amended § 1106 of the Social Security Act to require the SSA to enter into an agreement with the Treasury Department to provide an indicator as to whether an individual receives SSDI or SSI benefits. This agreement was solely for Treasury Department use in excluding such individuals from its PDC program.[32] Between February 2021 and June 2022, the IRS and the SSA developed programming and performed testing to ensure that taxpayer data could be exchanged properly and securely.

On June 13, 2022, the programming was completed, and SSI data were exchanged between the IRS and the SSA. Prior to the programming being completed to systemically exclude taxpayers from PCA inventory, the IRS relied on a manual process to implement the provision: the PCAs are required to ask taxpayers, after authentication on all initial contact calls, if they are currently receiving SSI or SSDI income and then document the Record of Account with the taxpayer's response. If the taxpayer is receiving SSI or SSDI income, the account is returned to the IRS.[33] However, prior to the programming being completed, taxpayer accounts with SSI or SSDI were still being assigned to the PCAs. IRS management stated that, as of June 24, 2022, SSI recipients were systemically excluded from placement with a PCA. Because the IRS recently completed the systemic programming, TIGTA did not perform an analysis to determine if taxpayers receiving SSI are now being systemically excluded from PCA inventory; however, we will test this programming during the next biannual audit.

Taxpayers with potential identity theft or levies were improperly assigned to the PCAs

Our analysis to determine whether the accounts that are not eligible to be placed with the PCAs were properly excluded from PCA assignment from October 1, 2020, through September 30, 2021, determined that the IRS generally complied with the law.[34] We identified 326 taxpayers who were subject to State Income Tax Levy Program (SITLP) levies and 44 taxpayers with potential identity theft indicators on their accounts that should be excluded from PCA inventory.

---

[31] Technical correction was sought to § 1205(a) of Pub. L. No. 116-25 (Taxpayer First Act) (which amends I.R.C. § 6306(d)(3)).

[32] On December 27, 2020, the President signed into law H.R. 133, which became Pub. L. No. 116-260.

[33] Pub. L. No. 116-25, § 1205(a) (amending I.R.C. § 6306(d)).

[34] I.R.C. § 6306(d).

Some taxpayers with SITLP levies received **prior** to PCA assignment were not treated the same as taxpayers with SITLP levies received **after** PCA assignment

Taxpayer accounts cannot be assigned to a PCA while the taxpayer is currently subject to a proper exercise of appeal.[35] Our review identified 326 taxpayer accounts with SITLP levies that were improperly assigned to the PCAs within 25 days or less of a SITLP levy payment, pursuant to which a taxpayer is entitled to a post-SITLP levy Collection Due Process (CDP) hearing before the Office of Appeals.[36] The IRS can levy a State tax refund payment for a taxpayer account prior to assignment to a PCA or after assignment to a PCA. If the SITLP levy payment is received after the taxpayer account is assigned to a PCA, the PCA is required to place a 90-day hold on the account, which allows the taxpayer time to exercise their CDP rights. If the taxpayer files a CDP appeal, the IRS will then recall the case from the PCA. If the SITLP levy payment is received before the taxpayer account is assigned to a PCA, then the IRS applies a levy exclusion, which means that the account should not be assigned for at least eight cycles (56 days) after posting or until the taxpayer's CDP rights have been exhausted.

IRS management stated that, for these 326 cases, the SITLP levy payment was received while the taxpayer account was still with the IRS but after the case had been selected for assignment to a PCA. For accounts that have already been selected for assignment, the IRS does not apply the levy exclusion. Additionally, current PPG procedures do not require the PCA to put the account on hold because the levy payment was received prior to PCA assignment. Therefore, these taxpayers were not treated the same as taxpayers who had a SITLP levy payment received after being assigned to the PCAs.

I.R.C. § 6306(d)(4) provides that a tax receivable shall not be eligible for collection pursuant to a qualified tax collection contract if such receivable is currently under levy, which these clearly were. Although none of the 326 taxpayers filed for appeals, they were potentially burdened by the PCA attempting to collect from them before they were afforded a reasonable period of time to file for appeal of their CDP rights.

Taxpayers with potential identity theft indicators were assigned to the PCAs

Taxpayers who have potential identity theft indicators on their accounts are identified by specific transaction codes that cause the taxpayer's return to go into an unpostable status (meaning the taxpayer's return will not be processed until the problem causing the transaction codes is resolved) until the IRS resolves the question of identity theft. If assigned to a PCA for collection, the PCA will attempt to collect from a taxpayer who may be a victim of identity theft, such that the debt being collected upon may be the product of a false return filed by someone other than the taxpayer. The 44 taxpayer cases we identified with potential identity theft indicators were not resolved or not yet determined to be actual victims of identity theft prior to PCA assignment. However, there is a risk of burdening a taxpayer and/or violating the taxpayer's rights if the IRS determines that these are actual instances of identity theft after case assignment.

---

[35] I.R.C. § 6306(d)(5).

[36] I.R.C. § 6330(f)(2) provides that taxpayers may receive a post-levy CDP hearing within a reasonable period of time after the levy where the IRS has served a levy upon a State to receive a State tax refund. I.R.C. § 6330(c)(2)(A) provides that, in a CDP hearing (the determination of which is appealable to the U.S. Tax Court), a taxpayer can raise spousal defenses, the appropriateness of the collection actions, and collection alternatives to the levy.

IRS management stated that these cases were assigned to the PCAs because they were not identified as actual victims of identity theft (only potential victims). The law states that a victim of tax-related identity theft should be excluded from PCA placement. Although these taxpayers did not have actual identity theft indicators on their accounts, only potential identity theft indicators, they should have been treated as such for the purposes of PCA case assignment. The IRS should consider the impact upon a victim of identity theft as well as the intent of Congress in excluding such cases from PCA assignment.

The Director, Collection, Small Business/Self-Employed Division, should:

Recommendation 4: Ensure that programming is in place to recall accounts of taxpayers who reflect income beneath the legal amount required for PCA assignment but whose accounts were assigned prior to January 1, 2021.

> **Management's Response:** IRS management disagreed with this recommendation, stating that the law is very specific with the identification and exclusion of certain taxpayers, including low-income taxpayers. The IRS asserts that it excludes low-income taxpayers from assignment effective after December 31, 2020.
>
> > **Office of Audit Comment:** We agree that the law is very specific, but the IRS is not following the plain letter of the law which provides that "a tax receivable shall not be eligible for collection… if the adjusted gross income of the taxpayer does not exceed 200 percent of the applicable poverty level." For taxpayers who had accounts already assigned to PCAs before December 31, 2020, the IRS will continue to assign new delinquent debts to PCAs even if the taxpayer's income does not exceed 200 percent of the applicable poverty level. These low-income taxpayers whose accounts were already assigned to the PCAs before December 31, 2020, are being treated differently than taxpayers whose accounts were not assigned to the PCAs before December 31, 2020, simply because they had previously assigned delinquent accounts with the PCAs.

Recommendation 5: Ensure that programming is working to recall taxpayers who begin receiving SSI or SSDI after PCA assignment.

> **Management's Response:** IRS management agreed with the recommendation, stating that they already have working programming in place to recall accounts of taxpayers who begin receiving SSI or SSDI after PCA placement. In addition, there are procedures in place for the PCA to return these accounts when the IRS does not systemically recall them due to a timing issue. The IRS requires the PCA to ask every taxpayer upon initial contact if they are receiving SSI or SSDI. If the taxpayer responds affirmatively, the PCA will immediately return the account to the IRS.

Recommendation 6: Revise the PPG to require the PCAs, for taxpayers who have had a SITLP levy payment (whether before or after PCA assignment), to put a hold on the account for 90 days from the date of the levy payment.

> **Management's Response:** IRS management disagreed with the recommendation, stating that they have procedures in place for rare occasions when the timing and identification of an SITLP occurs after allocation.

Office of Audit Comment: The purpose of this recommendation is to ensure that I.R.C. §§ 6306(d)(4) and (5) are preventing PCA assignment while the account is under levy or appeal and to ensure fair and equal treatment of taxpayers with SITLP levy payments. Under current procedures, some taxpayers with SITLP levies have a hold put on their account so that they are not contacted by the PCAs for 90 days from the date of the levy payment, while others do not have that hold put on their account, depending solely on a timing issue of when the account was selected and assigned versus when the levy payment was received. This recommendation would ensure that all taxpayers with SITLP levy payments are treated the same, so that they are not contacted by PCAs during the period in which they may be exercising their CDP rights.

Recommendation 7: Ensure that programming is in place to prevent taxpayers with potential identity theft indicators from being assigned to the PCAs and recall from the PCAs the taxpayers' accounts that receive a potential identity theft indicator after PCA assignment.

Management's Response: IRS management disagreed with this recommendation, stating that they have programming in place to prevent assignment and to recall accounts involving taxpayers who were a victim of tax-related identity theft (when a known instance of identity theft occurred). They further stated that there are procedures in place for the PCA to place a hold on an account so the taxpayer can notify the IRS of a new claim or provide supporting documentation for a claim determination.

Office of Audit Comment: The purpose of this recommendation is to protect taxpayers with potential identity theft from being contacted by PCAs until their identity theft is determined to be actual or not. Taxpayers who suspect identity theft and have notified the IRS about potential tax-related identity theft may be suspicious of PCA contacts while their identity theft case is being resolved. Although the PPG provides a 60-day hold for identity theft cases, the IRS may not have resolved the case during this time, resulting in PCAs contacting taxpayers with potential identity theft cases still open.

Information Is Not Documented to Ensure That Private Collection Agency Employees Had Completed Background Checks Before They Started Working

During our review, we attempted to verify that PCA employees had completed background checks prior to starting work on Contract 1 and Contract 2. IRS contracts with the PCAs require background checks on all employees working on taxpayer accounts, checking factors such as a background investigation, historical tax compliance, citizenship, and criminal history. However, IRS management could not provide evidence from information that is tracked on business reports to confirm this. The IRS provided us with multiple reports containing information on the background checks for PCA employees for both Contract 1 and Contract 2; however, the reports did not have the information we needed to determine if PCA employees had completed background checks prior to starting work on the contracts. The IRS later explained that the report we were provided was incomplete. In addition, CBE Group does not track the date that its employees or contractors start working on the IRS contract.

The U.S. Government conducts background investigations and reinvestigations to ensure that individuals working under contract for the Government are suitable for the job, eligible for a public trust position, and/or eligible to have access to national security information. Initial investigations are performed prior to the contractor working on the contract and revalidated every five years thereafter. Section 2.1 of the PPG requires that background checks are performed for all individuals working for the Government. Therefore, PCA employees are required to pass their background check before they begin working on the IRS contract.

IRS management explained that PCA employees will be added systemically to an active status PCA employee report once their background check is complete. Additionally, they explained that they perform a monthly reconciliation of PCA staffing reports to the active status PCA employee report. However, as of May 2022, the IRS did not retain formal documentation of these reconciliations for both CBE Group and ConServe. IRS management stated that, moving forward, they will begin retaining the reconciliation of background checks with new employees added for all PCAs. When we discussed this reconciliation process with IRS management, they stated that the reconciliation does not take into account the date the clearance was granted or approved because this date is not in the system that management uses to perform the reconciliations. The reconciliation simply determines if the employees have an approved background check as of the date the report is pulled from the system. Because the reconciliation is completed at the end of each month, a PCA employee may have begun working on the IRS contract before the background check was completed, and the reconciliation would not catch if the background check was completed before the report is pulled at the end of the month. IRS management explained that, prior to May 2020, they used a different system known as the PIV Background Investigations Process that was able to track the date the clearance was granted or approved. However, that system is no longer available.

We also learned that CBE Group does not track the date that its employees or contractors begin working on the IRS contract. CBE Group explained that, once the support staff is granted interim clearance, they are required to complete mandatory briefings before they can start work on the contract. In addition to the mandatory briefings, the collection staff must also complete two weeks of additional training and go through a TIGTA training class prior to taking telephone calls and working on the collection floor.

It is problematic that CBE Group does not track the date that its employees or contractors start working on the IRS contract because there is no way to know if they began working on the contract before their background check was completed and before they have completed the necessary training requirements. It is important that all PCA employees pass their background check prior to working on this IRS contract for numerous reasons, including that taxpayer information could be at risk. PCA employees have access to a wealth of private information such as the taxpayer's name, Social Security Number, and address, and this information should be safeguarded to avoid identity theft issues from arising. Taxpayers may lose trust in the IRS if their personal information is potentially being shared with individuals who have not passed a background check and have not been found suitable to work with sensitive taxpayer information.

The Director, Collection, Small Business/Self-Employed Division, should:

Recommendation 8: Require the PCAs to track the date that employees begin working on the IRS contract.

Management's Response: IRS management agreed with this recommendation, stating that they will update the PCA PPG by March 15, 2023, to require the PCAs to track the date their employees begin working on the IRS contract.

Recommendation 9: Maintain documentation of the monthly reconciliation of PCA staffing reports to the active status PCA employee report performed for each PCA, and ensure that the reports contain the necessary information for background checks to provide a full audit trail.

Management's Response: IRS management agreed with this recommendation, stating that they will develop a process and update the Private Debt Collection Operations Guide by August 15, 2023, to maintain documentation of the monthly reconciliation and ensure that the reports contain the necessary information for background checks to provide a full audit trail.

Private Collection Agency Employees Generally Followed Procedures When Talking to Taxpayers

Our review of 100 randomly sampled telephone call recordings (50 each from CBE Group and ConServe) from October 1, 2019, through September 30, 2021, determined that, in general, assistors followed guidance and provided taxpayers with quality service.[37] For the 100 calls, all PCA employees complied with 21 of 30 quality attributes, including call summarization, professional communication, and timely actions. However, the attribute related to employee case documentation was missed 11 times, the attribute related to following established policies and guidelines was missed four times, and the attribute related to providing forms to the taxpayer was missed three times, while the other key attributes were only missed one or two times, including attributes related to disclosure. Additionally, we found that PPG § 6.3.4, *Cell Phones and Cordless Devices*, did not clearly state when the cell phone and cordless device disclosure is required to be given to taxpayers.

Telephone contact is the PCAs' primary method to reach taxpayers, request voluntary payments, and establish payment arrangements. There are 30 quality attributes in the PPG as of May 21, 2021, that measure whether PCA employees are following the procedures outlined when communicating with taxpayers. For example, the PPG includes attributes that assess whether the assistor properly determined if they were speaking to the correct taxpayer during the authentication process, whether the "mini-Miranda" was properly administered, and whether the assistor was professional during contact.[38] See Appendix III for a detailed list of all 30 quality attributes. Figure 9 shows the overall quality results for each PCA based on our call review.[39]

---

[37] All of the telephone calls we selected were five minutes or longer in duration.

[38] The "mini-Miranda" is a required debt collection disclosure in initial written or oral communications with the consumer that states the caller or writer is a debt collector, that the debt collector is attempting to collect a debt, and that any information obtained will be used for that purpose. Failure to provide this disclosure to the consumer is a violation of 15 U.S.C. § 1692e(11).

[39] Each of the 50 telephone calls can have up to 30 applicable attributes (1,500 total possible for each PCA), but not all attributes are applicable for every telephone call.

Figure 9: Results of Sampled PCA Taxpayer Calls Review

PCA	Applicable Attributes	Attributes Missed	Attributes Achieved	Percentage Achieved
CBE Group	1,150	12	1,138	98.96%
ConServe	1,095	13	1,082	98.81%
Totals	2,245	25	2,220	98.89%

Source: TIGTA analysis of 100 randomly selected PCA-recorded telephone calls between October 1, 2019, and September 30, 2021.

Both PCAs met the attributes for nearly all calls reviewed, with an overall 98.89 percent accuracy rate. However, some employee actions resulted in more than one missed attribute during the call. We determined that for both PCAs, 11 out of the 50 calls reviewed had at least one attribute missed.

Although the overall total number of attributes missed was about 1 percent, 22 percent of reviewed taxpayer calls had at least one missed attribute for each PCA. Figure 10 shows the three most frequent attributes that PCA employees did not meet.

Figure 10: Most Commonly Missed Attributes

Source: TIGTA analysis of 100 randomly selected PCA recorded telephone calls between October 1, 2019, and September 30, 2021.

More than half of the errors involved the three attributes in Figure 10. The attribute most frequently missed by PCA employees was employee case documentation. This attribute is used to ensure that the PCA accurately documented the Record of Account. Forty-four percent of all errors involved this attribute. All 11 of these errors related to the PCA employee not accurately documenting what occurred during the call. Per § 4.2.1 of the PPG, it is vital that the Record of Account accurately reflect the conversation with the taxpayer to promote quality and

consistency in working cases. If the case documentation is not accurate, PCA employees will not know what decisions were made, why those decisions were made, what actions were taken, and what further actions are required to resolve the case.

Additionally, the attribute related to following established policies and guidelines was missed four times. This attribute is used to determine if the employee followed appropriate procedures for resolving the taxpayer's issue. For example, an error noted for this attribute is that the employee did not properly return the taxpayer's account to the IRS after the taxpayer explicitly requested to work directly with the IRS. Section 13.2 of the PPG states that, once the PCA determines it can do nothing further, the account will be returned to the IRS within five business days. It is important that PCA employees follow the guidance in the PPG to ensure that taxpayers are being treated appropriately.

Finally, the attribute related to providing forms to the taxpayer was missed three times. This attribute is used determine if the employee mailed forms or referred the taxpayer to an IRS website for forms or self-help method information to resolve the taxpayer's issue. For example, an error noted for this attribute is that a taxpayer needs to update a mailing address and informs the employee, but the employee fails to explain the importance of using Form 8822, *Change of Address*. Section 6.7 of the PPG explains that, if a taxpayer or representative provides the employee with a new address, the employee should inform the taxpayer to complete Form 8822 to ensure that all IRS mail will be received at the new address. If the employee is not providing taxpayers with forms that they need to update their address, then the taxpayer might not receive important IRS correspondence in the future.

The PCAs provided various reasons for the missed attributes, including human error and the assistor failing to follow the script. As a result of our review, both CBE Group and ConServe stated that they would provide additional retraining to those employees who missed the attributes, and in some cases, provide additional retraining to all the employees. As of August 2022, all ConServe and all CBE Group employees who missed the attributes have completed this retraining.

While listening to telephone calls for both CBE Group and ConServe, we also observed seven instances in which the assistor did not provide the cell phone or cordless device disclosure.[40] Both PCAs pointed out that, in the quality attribute exhibits of the most current PPG revision, issued on May 24, 2021, there is a note stating that the disclosure is only required once per telephone number.[41] However, it is not clear in PPG § 6.3.4, *Cell Phones and Cordless Devices*, that the disclosure is only required once per telephone number as this section of the PPG states that the disclosure must be provided for all inbound and outbound calls prior to authentication. The IRS should assess the risk of providing the cell phone or cordless device disclosure only once per telephone number versus during every call. To avoid any confusion, § 6.3.4 of the PPG should be updated to ensure consistency between the PCAs.

Recommendation 10: The Director, Collection, Small Business/Self-Employed Division, should assess the risk of providing the cell phone or cordless device disclosure only once per telephone

[40] When the employee provides the cell phone or cordless device disclosure, they are informing the taxpayer of the potential security risks when using a cell phone or cordless device.

[41] Exhibits L(2), FY 21 PCA Quality Attributes, and O(2), FY 21 CQ Quality Attributes.

number versus during every call, then update PPG § 6.3.4 to clarify the frequency with which the disclosure is required to be given.

> **Management's Response:** IRS management agreed with the recommendation, stating that they will assess the risk of providing the cell phone or cordless device disclosure only once per telephone number versus during every call. The IRS will update the PPG by August 15, 2023, to clarify the frequency and reflect their findings.

The IRS Does Not Ensure That Private Collection Agency Corrective Actions Have Been Completed for Reported Incidents

We reviewed all 149 incidents reported for CBE Group and ConServe in FY 2021 that the IRS provided on November 24, 2021. Our review identified that the majority of the incidents are self-reported by the PCAs, with only three incidents reported by taxpayers. In addition, we identified 60 incidents on the TIGTA Office of Investigations (OI) complaint log that were reported directly by the PCAs.[42]

Incidents can include an allegation of rude or unprofessional behavior, intimidation, or harassment or a statutory violation of laws and regulations such as the Fair Debt Collection Practices Act, the Taxpayer Bill of Rights, and privacy or disclosure laws.[43] Incidents may be identified through any form of communication, including in-person or by telephone, mail, e-mail, fax, or the Internet. Currently, after an incident has been identified, the PCA will complete and forward the PCA Incident Referral Form to the appropriate function(s) depending on incident type. The PCA must maintain a PCA Incident Report of all incidents, including nonsubstantive and minor incidents, detailing any PCA corrective or administrative actions taken. The PCA Incident Report must always be accessible by TIGTA OI and the Contracting Officer's Representative (COR) or other designated IRS representatives, including Taxpayer Advocate Service employees. The PCA Incident Report is delivered to the COR in electronic format no later than the seventh business day after the end of the monthly reporting cycle.[44] The PCA COR is responsible for reconciling the monthly incident and corrective action reports submitted by the PCAs. The contract administration manager reviews the full incidents log monthly and provides feedback as appropriate.

In our PDC implementation audit, we reported that TIGTA OI recommended that the IRS develop a complaint panel made up of a cross-functional group of IRS managers to ensure that the persons in charge of reviewing complaints against the PCAs are not the same people who are responsible for the success or failure of the PDC initiative as well as to ensure consistency in how complaints are self-reported by the PCAs.[45] Additionally, we recommended that the IRS establish a complaint panel to ensure that complaints are acted upon and that systemic problems with the program are identified and addressed. The IRS disagreed with that recommendation, stating that the current process ensures that substantiated complaints are

---

[42] Some of the incidents reported to TIGTA OI may have also been reported to the IRS.

[43] 15 U.S.C. §§ 1692-1692p.

[44] Section 16.2.1 *(Incident Report)* of the PPG provides what is to be included in the PCA Incident Reports, including monthly and cumulative data.

[45] TIGTA, Report No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018).

acted upon and that systemic problems are identified and addressed. However, we found that the IRS was not addressing substantiated complaints.

There are four types of incident categories on PCA incident reports, as follows:

- Inadequate customer service.
- Inadvertent disclosure.
- Regulatory.
- Misconduct/Tax Integrity.

Misconduct/Tax integrity incidents are the only incidents that are referred directly to TIGTA OI by the PCAs or taxpayers. Potential violations of the Fair Debt Collection Practices Act would be considered regulatory incidents and would not necessarily be reported to TIGTA OI.

Our review of the TIGTA OI complaint log showed 60 incidents in FY 2021, of which 100 percent were self-reported by the PCAs. In these cases, either the taxpayer threatened self-harm or the taxpayer threatened the PCA. When the PCA identifies an incident involving misconduct or tax integrity concerns from a taxpayer, a taxpayer's power of attorney, or a third party in connection with a taxpayer assigned to a PCA, the PCA will report the incident to the Small Business/Self-Employed Division PDC Incidents e-mail box and TIGTA OI using the PCA Incident Referral Form. Misconduct or tax incident categories include: bribery, threat/assault, impersonation, loss/theft of taxpayer records, and intentional unauthorized access. The COR will notify the PCA when TIGTA investigates an incident. The PCA must immediately suspend collection activity on an account whenever a written or verbal incident regarding the PCA is investigated by TIGTA OI. Failure to suspend collection activity will result in the IRS recalling the account. Actions on an account may resume only after the PCA's notification from the COR that the incident has been resolved and collection activity may resume.

We also reviewed all incidents reported for CBE Group and ConServe in FY 2021 that the IRS provided on November 24, 2021. Our review identified that the majority of incidents are self-reported by the PCAs. Of 149 incidents reported in FY 2021, only three incidents (2 percent) were reported to the IRS by taxpayers. . In all three incidents, the PDC team recommended additional PPG training for the assistors.

Of the 149 incidents reported on the IRS incident log, we reviewed all of the incidents categorized as "Inadequate Customer Service." .

For all incidents reviewed, the IRS documented on the incident log what the PCAs stated as the corrective action they intended to take; however, there was nothing on the incident log to show the corrective actions were ever taken. For example:

- For one PCA, the corrective actions were documented as "This matter has been escalated to Operations Management and Corporate Compliance for the appropriate retraining to be provided to the corresponding Manager, and to review for any potential further action."
- For the other PCA, the corrective actions were left blank.

When we questioned whether the IRS discusses or has input on PCA corrective actions, IRS management stated that they ensure that the corrective actions are commensurate with the PCA's Penalty Guide. However, there was no documentation on the IRS incident log of any type of follow-up to ensure that the PCAs took the proper corrective actions or what corrective actions were taken. When asked if there are any monitoring requirements or whether the IRS PDC team follows up with the PCAs to verify that the PCA has completed a corrective action, IRS management stated that there is no monitoring requirement, and they do not verify completion of PCA corrective actions.[46]

Because the majority of incidents are self-reported by the PCAs, it is imperative that the IRS is following up on PCA incidents to ensure that the PCAs are completing corrective actions, especially when it directly affects taxpayers' rights. Because there is no IRS follow-up or review on what type of corrective actions were taken, and whether or not they are commensurate with PCA's Penalty Guide, it is being left up to the PCA to properly take corrective actions.

Recommendation 11: The Director, Collection, Small Business/Self-Employed Division, should conduct a follow-up review and document PCA corrective actions for reported incidents to ensure that they have been completed.

> **Management's Response:** IRS management agreed with the recommendation and they will conduct a follow-up review of the PCAs' corrective actions for reported incidents and document completion by August 15, 2023.

Misdirected Payments Were Generally Processed Appropriately

Our analysis of a random sample of 30 misdirected payments (*i.e.*, all payments through the PDC program should be sent directly to the IRS; if the payments are sent to the PCAs, they are considered "misdirected") received from October 1, 2019, to September 30, 2021, showed that the PCAs followed policies and procedures in handling misdirected payments for 22 of 30 misdirected payments.[47] The remaining eight payments contained errors for one of the following reasons:

[46] IRS management later stated that the PDC program does maintain a Corrective Action Report that lists the employee names and corrective actions taken by the PCA to address the incident. However, there are only two types of incidents that are reflected on the Corrective Action Report: 1) Fair Debt Collection Practices Act and 2) Intentional Unauthorized Disclosure or Unauthorized Access. The report does not contain Inadequate Customer Service incidents, which were the incidents that we reviewed. We determined that the Corrective Action Report does not document whether the corrective actions were reviewed or reconciled.

[47] We reviewed 15 payments from CBE Group and 15 payments from ConServe, the PCAs that were both awarded Contract 1 and Contract 2.

- .
- .
- In five instances, the IRS did not post the payment to either the taxpayer or the tax year that was listed on the Forms 3210 and 4287 prepared by the PCAs. The total of the misapplied payments was over $6,300.

When submitting payments on a tax module by mail, taxpayers must send payments directly to the IRS regardless of whether their account is assigned to a PCA. A misdirected payment occurs when a taxpayer payment on an IRS case is erroneously received at a PCA location. Upon discovery of a misdirected payment, the PCAs must adhere to IRS policies and procedures to properly document, safeguard, and forward all misdirected payments to the IRS. The PPG states that, upon receipt of payment from a taxpayer, the PCA must prepare Form 4287 to document payments on a daily basis with the remittance and that the PCA must also prepare Form 3210.[48] Form 3210 must be sent the same day the payment is discovered using overnight traceable mail.[49] The PPG goes on to state that Form 4287 and acknowledged Form 3210 for all misdirected payments must be maintained by the PCA for three years.[50] The PPG also states that if IRS acknowledgement of Form 3210 of this misdirected payment is not received within 10 business days, the PCA should initiate an inquiry of the status of the misdirected payment through the technical analyst using a technical referral.[51]

IRS management stated that they were unable to acknowledge receipt of the misdirected payments in a timely manner because the Submission Processing Centers where the payments were mailed were closed in March 2020 due to the declared state of national emergency as a result of COVID-19. The Submission Processing Centers were reopened in late April 2020 at 50 percent capacity, and they did not reopen at 100 percent capacity until June 2020. The IRS did not post the payments to the taxpayer or tax year that was listed on Forms 3210 and 4287 because the taxpayer did not include all of the information on their check or money order to identify where to post the payment. The IRS also explained that the Form 4287 is used internally by the PCAs and is not mailed to the IRS. The Form 3210 and the checks or money orders that are mailed are separated upon receipt at the IRS.

Additionally, the IRS stated that there is no requirement to transfer the information on the Form 3210 (which explains where the money should be posted) to the check or money order, so IRS employees who post the payments do not have access to the Form 3210 or the information on the Form 3210 that instructs them where to post the payment. Instead, these employees have to determine where to post the payment based on the information included on the check or money order and their Integrated Data Retrieval System research. When payments are posted to the incorrect taxpayer or tax year, this can have serious consequences to the taxpayer.

---

[48] PPG § 11.3.1.

[49] PPG § 11.3.3.

[50] PPG § 11.3.1.

[51] PPG § 11.3.3.

The taxpayer will continue to accrue interest on the outstanding tax balance despite making a payment in an attempt to reduce the balance.

ConServe management also stated that the IRS was unable to acknowledge receipt of the misdirected payments in a timely manner due to the impact of COVID-19 on IRS operations. CBE Group management stated that, in March 2020, the IRS instructed them that they would no longer be required to send technical referrals for missing or late Form 3210 acknowledgements to their senior tax analysts. Instead, they were told to track the missing or late Forms 3210 on a log that would be provided to the IRS.

Our review of the log of missing or late Forms 3210 for CBE Group and the log of all misdirected payments for ConServe showed that nine misdirected payments took close to a year or more from the date the PCA received them to be acknowledged by the IRS. When the nine payments were reviewed further, . Although the payments were posted nearly three months later, the IRS backdated the payments so that they appeared to be posted one day after the PCA prepared the Form 3210.

When payments are posted several months after being received, taxpayers could be burdened and frustrated if they do not see the payments being reflected in their balance due. Proper handling of misdirected payments not only protects taxpayers' sensitive data but also ensures that payments are properly credited to taxpayer accounts.

The Director, Submission Processing, Wage and Investment Division, should:

Recommendation 12: Develop a process to ensure that misdirected payments from the PCAs are applied to the proper taxpayer account after the Form 3210 is separated from the payment.

Management's Response: IRS management agreed with the recommendation, stating that they will update the procedures in IRM 3.10.72 to keep a copy of Form 3210 attached to misdirected payments. Additionally, IRM 3.8.45 will be updated to ensure that misdirected payments received from a PCA are applied to the proper taxpayer account. They will implement the IRM changes by March 15, 2023.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to independently evaluate the performance of the PCAs. To accomplish our objective, we:

- Identified current guidance, procedures, and applicable laws and determined if there are any planned updates to laws and/or procedures used by the PCAs during all aspects of third-party collection.
- Determined whether employees working on the IRS contracts had the proper approved background checks since the implementation of the PDC program for the current PCAs.
- Obtained an understanding of how PCA contracts are negotiated and how inventory is assigned during contract negotiations.
- Calculated collection statistics for each PCA using scorecard data and Operational Review workbooks to identify trends or significant outliers. We also analyzed and compared the collection results of cases that were three years old or less when they were assigned to the PCAs for collection to those cases that were greater than three years old. Additionally, we determined the number of cases from Contract 1 for which the payment arrangement was cancelled due to the case being returned to the IRS for the PCAs whose contracts were not renewed and determined what happened to those taxpayer cases.
- Evaluated IRS and PCA oversight of their collection and operational actions by reviewing internal reviews, including operational and targeted reviews.
- Determined if the PCAs are performing collection and operational actions in accordance with PPG and IRS procedures.
  - Determined if misdirected mail and payments received by the PCAs are properly and timely routed to the IRS. We reviewed a random sample of 30 misdirected payments (15 from CBE Group and 15 from ConServe) from a total population of 3,362 payments received from October 1, 2019, to September 30, 2021. We selected a random sample to ensure that each misdirected payment had an equal chance of being selected.
  - Determined if PCA telephone contacts made with taxpayers or their representatives were in accordance with PCA guidance and laws that govern private collection. We reviewed a random sample of 100 telephone calls (50 from CBE Group and 50 from ConServe) from a total population of 361,762 telephone calls from October 1, 2019, to September 30, 2021. We selected a random sample to ensure that each telephone call had an equal chance of being selected.
- Determined if ineligible accounts per the FAST Act and the Taxpayer First Act were correctly excluded from PCA inventory or were properly recalled and if eligible accounts were correctly included for the PCAs whose contracts were renewed.

- Reviewed the taxpayer complaint process and incident reporting process for each of the current PCAs. We also identified any trends in the type of complaints.

Performance of This Review

This review was performed with information obtained from the Small Business/Self-Employed Division National Headquarters Collection function located in New Carrolton, Maryland, and information requested from CBE Group, ConServe, Coast, Pioneer, and Performant during the period November 2021 through October 2022. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Phyllis Heald London, Director; Autumn Macik, Audit Manager; Danielle Marchetta, Lead Auditor; Stephanie Finlay, Senior Auditor; and Lance Welling, Information Technology Specialist (Data Analytics).

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data from the Individual Master File and Business Master File systems and the Taxpayer Service Returns Processing Category system as well as outside data obtained from the PCAs, the IRS, and TIGTA OI. We evaluated the data by 1) performing electronic testing of required data elements, 2) reviewing existing information about the data and the system that produced them, and 3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: policies and guidance found in the PPG, guidance used to audit the collectors' telephone calls and letters, and monthly performance reports. We evaluated these controls by reviewing monthly scorecard data, incident complaint logs, and operational and targeted reviews. Additionally for the PCAs, we determined that the following internal controls were relevant to our audit objective: the policies and guidance found in the PPG, the guidance used to audit the collectors' telephone calls and letters to ensure the identification of potential errors or violations, and the procedures for reporting taxpayer complaints and incidents. We evaluated these controls by interviewing management and employees, listening to a sample of 50 calls each for CBE Group and ConServe, and reviewing the complaints and incident reports.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 14,883 taxpayers with payment arrangements that were set up by Pioneer and Performant and then terminated at the end of Contract 1 (see Recommendation 3).

Methodology Used to Measure the Reported Benefit:

The population of all modules with payment arrangements that were set up by Pioneer and Performant under Contract 1 and subsequently terminated was 34,070 modules. We determined that there were 14,883 taxpayers in the population of 34,070 modules who were potentially burdened when their payment arrangements were terminated.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the Taxpayer First Act was put in place but whose accounts were assigned to the PCAs on or after January 1, 2021, and were not properly recalled (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

From a population of 606,758 taxpayers assigned to the PCAs between October 1, 2019, and September 30, 2021, we identified 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the Taxpayer First Act was put in place but whose accounts were assigned to the PCAs on or after January 1, 2021, and were not properly recalled.[1] As of March 31, 2022, the IRS had not recalled any of the identified accounts.

Management's Response: IRS management disagreed with this outcome measure, stating that they implemented the law as written and exclude low-income taxpayers identified after December 31, 2020. In addition, since the start of the program, the IRS requires the PCA to return the account to the IRS when a taxpayer cannot pay or does not want to work with a PCA.

Office of Audit Comment: The methodology used to quantify the outcome was appropriate and provides the number of taxpayers whose incomes fell beneath the threshold for PCA assignment after the Taxpayer First Act was put in place

[1] Of the 14,141 taxpayers whose income fell beneath the threshold for PCA assignment, as well as the 271 taxpayers who were receiving SSDI in Calendar Year 2021, the 326 taxpayer accounts with SITLP levies, and the 44 taxpayers with potential identity theft indicators, there were 15 duplicate taxpayers in these results.

but whose accounts were assigned to the PCAs on or after January 1, 2021, and were not properly recalled.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; 271 taxpayers were assigned to the PCAs on or after January 1, 2021, while also receiving SSDI in Calendar Year 2021 (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

From a population of 95,614 taxpayers assigned to the PCAs on or after January 1, 2021, we identified 271 taxpayers who were also receiving SSDI in Calendar Year 2021. While the IRS did recall these accounts, 243 accounts were not recalled until February 2022, and the remaining 28 accounts were recalled on June 6, 2022.

Management's Response: IRS management disagreed with this outcome measure, stating that they have procedures in place to handle accounts that were not recalled due to the timing of the systemic process and being awarded SSI or SSDI. Upon initial contact, the PCA is required to ask all taxpayers if they receive SSI or SSDI, and if they respond affirmatively, the PCA is required to return the account.

Office of Audit Comment: The methodology used to quantify the outcome was appropriate and provides the number of taxpayers who were assigned to the PCAs on or after January 1, 2021, while also receiving SSDI in Calendar Year 2021.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 326 taxpayer accounts with SITLP levies that were improperly assigned to the PCAs within 25 days or less of a SITLP levy payment (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

From a population of 606,758 taxpayers assigned to the PCAs between October 1, 2019, and September 30, 2021, we identified 326 taxpayer accounts with SITLP levies that were improperly assigned to the PCAs within 25 days or less of a SITLP levy payment, which could result in the PCA attempting to collect from these taxpayers before they were afforded a reasonable period of time to file for appeal of their CDP rights.

Management's Response: IRS management disagreed with this outcome measure, stating that they have procedures in place for rare occasions when the timing and identification of certain criteria occurs after allocation, such as a SITLP payment.

Office of Audit Comment: The methodology used to quantify the outcome was appropriate and provides the number of taxpayer accounts with SITLP levies that were improperly assigned to the PCAs within 25 days or less of a SITLP levy payment.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 44 taxpayer cases with potential identity theft indicators that were not resolved or the taxpayers were not yet determined to be actual victims of identity theft prior to PCA assignment (see Recommendation 7).

Methodology Used to Measure the Reported Benefit:

From a population of 606,758 taxpayers assigned to the PCAs between October 1, 2019, and September 30, 2021, we identified 44 taxpayers with potential identity theft indicators that were not resolved or the taxpayers were not yet determined to be actual victims of identity theft prior to PCA assignment.

Management's Response: IRS management disagreed with this outcome measure, stating that they have programming in place to prevent assignment and to recall accounts involving taxpayers who were a victim of tax-related identity theft (when a known instance of identity theft occurred). They further stated that there are procedures in place for the PCA to place a hold on an account so the taxpayer can notify the IRS of a new claim or provide supporting documentation for a claim determination. If the account indicator changes from "potential" to "actual" identity theft, programming is in place to immediately recall the account.

Office of Audit Comment: The methodology used to quantify the outcome was appropriate and provides the number of taxpayer cases with potential identity theft indicators that were not resolved or for which the taxpayers were not yet determined to be actual victims of identity theft prior to PCA assignment.

Type and Value of Outcome Measure:

- Taxpayer Burden – Actual; five taxpayers did not have their payment posted to the taxpayer or tax year that was listed on Forms 3210 and 4287. The total of misapplied payments was $6,381 (see Recommendation 12).

Methodology Used to Measure the Reported Benefit:

We selected random sample of 30 misdirected payments received from October 1, 2019, to September 30, 2021, from the population of 3,362 misdirected payments received by both PCAs.[2] We identified five taxpayers for whom the IRS did not post the payment to either the taxpayer or the tax year that was listed on the Forms 3210 and 4287 prepared by the PCAs.

[2] We reviewed 15 payments from CBE Group and 15 payments from ConServe, the PCAs that were both awarded Contract 1 and Contract 2.

Appendix III

Private Collection Agency Policy and Procedures Guide Quality Attributes

Attribute	Description
1	Employee Identification – Use this field to identify if the employee identified him/herself as required (name and identifier number).
2	Taxpayer Issue(s) Identified/Addressed – Use this field to indicate if the employee identified and addressed all taxpayer/customer issues.
3	Disclosure Met – Use this field to identify if the collector verified the taxpayer's Taxpayer Authentication Number (Social Security Number with taxpayer's consent), name, address of record, and date of birth.
4	Ceasing Disclosure to Unauthorized Third Party – At the moment an unauthorized third party identifies themselves or is discovered through research, did the employee properly stop disclosing sensitive information?
5	Security Guidelines Followed – Use this field to determine if the employee followed proper security responsibilities.
6	Taxpayer Rights – Use this field to determine if the employee advised the taxpayer/power of attorney of all rights.
7	Mini-Miranda – Use this field to identify if the employee delivered mini-Miranda rights pursuant to the Fair Debt Collection Practices Act.
8	Recorded Call Verification – Use this field to identify if the employee advised the taxpayer on the possibility of the call being recorded.
9	Complete Research of Account-Related Systems – Use this field to identify if the employee properly researched account-related systems such as the Integrated Data Retrieval System, Corporate Files On-Line, Automated Collection System, Report Generating Software, *etc.,* correctly.
10	Appropriate Referral/Case Transfer – Use this field to identify if the employee referred, routed, or transferred the taxpayer's/customer's case or inquiry to the appropriate function (including Form 4442, *Inquiry Referral*, and call transfers where one or more of the customer's issues were resolved).
11	Verification Completed – Use this field to identify if the verification has been completed.
12	Following Established Policies and Guidelines – Use this field to determine if the employee followed appropriate procedures for resolving the customer's issue.
13	Determine the Taxpayer's Ability to Pay – Use this field to identify if the employee determined/analyzed the taxpayer's eligibility for an installment agreement or ability to pay. This includes full pay, partial pay, short-term

extension, non-streamline, streamline, currently not collectible, or offer in compromise.

14	Defaults/Restructure/Terminate Determination – Use this field to identify if the employee made the correct determination when working with an installment agreement default, reinstatement/revision, or suspension.
15	Balance Due/Payoff Computation – Use this field to identify if the employee provided correct balance due/computed the corrected payoff amount to the correct date.
16	Input/Update to Specialized Systems – Use this field to identify if the employee input or updated specialized systems per the IRM guidelines. This does not include the Integrated Data Retrieval System.
17	Provide Forms – Use this field to identify if the employee provided the taxpayer/customer with the appropriate forms. This includes inputting a correct form order and providing the self-help methods for obtaining forms.
18	Telephone Number Secured/Verified – Use this field to identify if the employee secured and/or verified the taxpayer's/representative's telephone number and input/updated on the appropriate system.
19	Check Annotation/Payment Requirements and Options – Use this field to identify if the employee properly explained the requirements for submitting payments, including check annotation, mailing addresses, and credit card/electronic options.
20	Employee Case Documentation – Use this field to identify if the employee completed the required case documentation per IRM guidelines, including accurate, clear, and concise preparation of internal documents. For Tax Exempt and Government Entities Correspondence, this includes case history documentation.
21	Correct/Complete Response/Resolution – Use this field to identify if the employee provided the taxpayer/customer with the correct response or resolution to their case or issue and, if appropriate, took the necessary case actions or case disposition to provide this response or resolution.
22	Professional Closing – Use this field to identify if the employee appropriately closed the contact with the taxpayer or representative.
23	Offered Survey Participation – Use this field to identify whether the employee offered to transfer the taxpayer to the Customer Satisfaction Survey line (phones) or ensured the customer was offered a customer satisfaction survey card (in person).
24	Confidentiality – Use this field to determine if the employee protected the confidentiality of the taxpayer and or the taxpayer's information.
25	Providing Mailing Address/Phone Number – Use this field to identify if the employee appropriately provided the customer with the correct address/fax number for submitting returns, return information, or other documents.

26	Call Summarization – Use this field to identify if the employee correctly summarized the call.
27	Clear/Professional Communication – Use this field to identify if the employee used clear and appropriate language with no jargon to ensure that communication is completed. Required on all calls.
28	Effective Listening – Use this field to identify if the employee listened to the taxpayer/customer in an effective manner to maximize employee understanding.
29	Appropriate Timely Action – Use this field to determine if appropriate timely actions were taken to resolve the case or issue. For the purpose of coding this attribute, do not take into consideration whether the cases or issue was worked accurately.
30	Timely Employee Actions – Use this field to identify whether the employee took timely actions on the account.

Appendix IV

Management's Response to the Draft Report

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

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

December 12, 2022

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lia Colbert Amalia C. Colbert Digitally signed by Amalia C. Colbert Date: 2022.12.12 14:49:48 -05'00'
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2023 Biannual Independent Assessment of Private Collection Agency Performance (Audit # 202230006)

Thank you for the opportunity to review and comment on the subject draft audit report. As noted in your report, the private collection agencies (PCAs) continue to perform well on telephone calls in terms of quality metrics (98% accurate), while also collecting over $1 billion in overdue taxes and establishing more than 188,000 payment arrangements. These statistics demonstrate that PCAs are positively engaging taxpayers who are also overwhelmingly satisfied (97%) with the services the PCAs provide.

Notwithstanding the successful measures identified in your report, we have completed or will complete the following corrective actions to address your concerns:

- Restart assigning inventory as soon as possible after new contracts are awarded.
- Assist taxpayers who were in a payment arrangement and returned to the IRS at the end of a PCA contract.
- Ensure programming is working to recall accounts of Supplemental Security Income (SSI)/Social Security Disability Insurance (SSDI) recipients after assignment.
- Maintain documentation of PCA staffing and background investigations.
- Assess the risk of providing cordless device disclosures once per phone call versus every call.
- Ensure PCA corrective actions for incidents are completed.
- Ensure misdirected payments are applied correctly to the taxpayer account.

We also have existing processes and procedures in place that address some of your concerns:

- Taxpayers who established a payment arrangement received the full benefit of penalty reduction for an additional nine months after the PCA contracts ended, therefore a penalty abatement is unnecessary. We do not have the authority to abate interest.
- We exclude low-income taxpayers identified after December 31, 2020.
- In a few rare and discrete cases, indicators such as State Income Tax Levy Program (SITLP) or identity theft that trigger the IRS to systemically exclude a case, appear after allocation. This is an uncommon timing situation that appeared in less than .02% (370 of 1.6 million) of cases assigned in fiscal year (FY) 2021. In situations like this, the IRS has procedures in place where the PCA will pause collection to afford taxpayers time to exercise their collection due process rights, challenge a levy, or submit an identity theft claim with the IRS.

You expressed concerns with activities permissible under Internal Revenue Code § 6306. We believe we comply with all aspects of the law and can pay commissions on any payments received during the commissionable period with certain exceptions that include judicial and levy payments and certain credit offsets.

Attached are our comments and proposed actions to address your recommendations. If you have any questions, please contact me, or Frederick W. Schindler, Director, Collection, Small Business/Self-Employed Division.

Attachment

Attachment

RECOMMENDATION 1:
The Director, Collection, Small Business/Self-Employed Division, should restart assigning inventory to the incumbent PCAs as soon as possible after new contracts have been awarded and protests are resolved, if any.

CORRECTIVE ACTION:
We already have a process in place to restart assigning inventory as soon as possible after awarding new contracts. The process includes assessing readiness to receive inventory and developing an appropriate schedule for delivery to comply with the terms of the new contract that may include changes to the commission schedule.

IMPLEMENTATION DATE:
Completed

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

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 2:
The Director, Collection, Small Business/Self-Employed Division, should ensure that the IRS does not burden taxpayers in existing payment agreements when PCA contracts are ending by developing a solution to continue to service taxpayers in active payment arrangements.

CORRECTIVE ACTION:
We will develop a solution to continue to service taxpayers in an active payment arrangement when a PCA contract ends.

IMPLEMENTATION DATE:
January 15, 2026

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

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 3:
The Director, Collection, Small Business/Self-Employed Division, should for taxpayers whose payment arrangements were terminated due to Contract 1 ending, abate any penalties and interest that accrued between when the payment arrangement was terminated and when the taxpayer enters into a new payment resolution with the IRS.

CORRECTIVE ACTION:
An abatement of penalty is not warranted since the IRS already provided taxpayers in this situation the same reduced penalty rate from September 22, 2021, through June 30, 2022. The IRS has no legal authority to abate interest.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 4:
The Director, Collection, Small Business/Self-Employed Division, should ensure that programming is in place to recall taxpayers who reflect income beneath the legal amount required for PCA assignment, but were initially assigned prior to January 1, 2021.

CORRECTIVE ACTION:
The law is very specific with the identification and exclusion of certain taxpayers, including low-income taxpayers. Pursuant to the law, we identify and exclude low-income taxpayers from assignment, effective after December 31, 2020. Although we did not recall cases assigned prior to that date, there are procedures in place to ensure PCAs return the account to the IRS when taxpayers are unable to pay or choose to not work with a PCA. We will continue to assign inventory per the statutory requirements.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
N/A

3

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 5:
Director, Collection, Small Business/Self-Employed Division, should ensure that programming is working to recall taxpayers who begin receiving SSI or SSDI after PCA assignment.

CORRECTIVE ACTION:
We already have working programming in place to recall accounts of taxpayers who begin receiving SSI or SSDI after PCA placement. We also provided TIGTA with the testing verifications to confirm the programming is working as intended. In addition, there are procedures in place for the PCA to return these accounts when the IRS does not systemically recall them due to a timing issue. We require the PCA to ask every taxpayer upon initial contact if they are receiving SSI or SSDI. If the taxpayer responds affirmatively, the PCA will immediately return the account to the IRS.

IMPLEMENTATION DATE:
Completed

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

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 6:
The Director, Collection, Small Business/Self-Employed Division, should revise the Policy and Procedures Guide (PPG) to require the PCAs for taxpayers who have had a SITLP levy payment, whether before or after PCA assignment, to put a hold on the account for 90 days from the date of the levy payment.

CORRECTIVE ACTION:
We have procedures in place for rare occasions when the timing and identification of State Income Tax Levy Program (SITLP) occurs after allocation.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 7:
The Director, Collection, Small Business/Self-Employed Division, should ensure that programming is in place to prevent taxpayers with potential identity theft indicators from being assigned to the PCAs and recall from the PCAs the taxpayers' accounts that receive a potential identity theft indicator after PCA assignment.

CORRECTIVE ACTION:
We have programming in place to prevent assignment and to recall accounts involving taxpayers who were a victim of tax-related identity theft (when a known instance of identity theft occurred). There are procedures in place for the PCA to place a hold on an account so the taxpayer can notify the IRS of a new claim or provide supporting documentation for a claim determination.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 8:
The Director, Collection, Small Business/Self-Employed Division, should require the PCAs to track the date that employees begin working on the IRS contract.

CORRECTIVE ACTION:
The IRS will update the PCA Policy and Procedures Guide (PPG) to require the PCAs to track the date their employees begin working on the IRS contract.

IMPLEMENTATION DATE:
March 15, 2023

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

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 9:
The Director, Collection, Small Business/Self-Employed Division, should maintain documentation of the monthly reconciliation of PCA staffing reports to the active status PCA employee report performed for each PCA, and ensure that the reports contain the necessary information for background checks to provide a full audit trail.

CORRECTIVE ACTION:
We will develop a process and update the Private Debt Collection Operations Guide (POG) to maintain documentation of the monthly reconciliation and ensure the reports contain the necessary information for background checks to provide a full audit trail.

IMPLEMENTATION DATE:
August 15, 2023

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

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 10:
The Director, Collection, Small Business/Self-Employed Division, should assess the risk of providing the cell phone or cordless device disclosure only once per telephone number versus during every call, then update PPG Section 6.3.4 to clarify the frequency with which the disclosure is required to be given.

CORRECTIVE ACTION:
We will assess the risk of providing the cell phone or cordless device disclosure only once per telephone number versus during every call. The IRS will update the PPG to clarify the frequency and reflect our findings.

IMPLEMENTATION DATE:
August 15, 2023

6

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

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 11:
The Director, Collection, Small Business/Self-Employed Division, should conduct a follow-up review and document PCA corrective actions for reported incidents to ensure they have been completed.

CORRECTIVE ACTION:
We will conduct a follow-up review of the PCAs' corrective actions for reported incidents and document completion.

IMPLEMENTATION DATE:
August 15, 2023

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

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

RECOMMENDATION 12:
Director, Submission Processing, Wage and Investment Division, should develop a process to ensure that misdirected payments from the PCAs are applied to the proper taxpayer account after the Form 3210 is separated from the payment.

CORRECTIVE ACTION:
We will update our procedures in Internal Revenue Manual (IRM) 3.10.72 to keep a copy of Form 3210, *Document Transmittal* attached to misdirected payments. IRM 3.8.45 will be updated to ensure misdirected payments received from a Private Collection Agency (PCA) are applied to the proper taxpayer account.

IMPLEMENTATION DATE:
March 15, 2023

RESPONSIBLE OFFICIAL
Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN:
We will monitor this corrective action as part of our internal management system of controls.

OUTCOME MEASURE:
Taxpayer Burden – Potential; 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the Taxpayer First Act was put in place, but whose accounts were assigned to PCAs on or after January 1, 2021, and whose accounts were not properly recalled (see Recommendation 4).

IRS RESPONSE:
We implemented the law as written and excludes low-income taxpayers identified after December 31, 2020. In addition, since the start of the program, we require the PCA to return the account to the IRS when a taxpayer cannot pay or does not want to work with a PCA.

OUTCOME MEASURE:
Taxpayer Burden – Actual; 271 taxpayers were assigned to PCAs on or after January 1, 2021, while also receiving SSDI in calendar year 2021 (see Recommendation 5).

IRS RESPONSE:
We have procedures in place to handle accounts that were not recalled, due the timing of the systemic process and being awarded SSI or SSDI. Upon initial contact, the PCA is required to ask all taxpayers if they receive SSI or SSDI and if they respond affirmatively, the PCA is required to return the account.

OUTCOME MEASURE:
Taxpayer Burden – Potential; 326 taxpayer accounts with SITLP levies that were improperly assigned to PCAs within 25 days or less of a SITLP levy payment (see Recommendation 6).

IRS RESPONSE:
We have procedures in place for rare occasions when the timing and identification of certain criteria occurs after allocation such as State Income Tax Levy Program (SITLP) or identity theft (approximately .02%).

8

OUTCOME MEASURE:
Taxpayer Burden – Potential; 44 taxpayer cases we identified with "potential" identity theft indicators that were not resolved or not yet determined to be actual victims of identity theft prior to PCA assignment (see Recommendation 7).

IRS RESPONSE:
We have programming in place to prevent assignment and to recall accounts involving taxpayers who were a victim of tax-related identity theft (when a known instance of identity theft occurred). There are procedures in place for the PCA to place a hold on an account so the taxpayer can notify the IRS of a new claim or provide supporting documentation for a claim determination. If the account indicator changes from "potential" to "actual" identity theft, programming is in place to immediately recall the account.

Appendix V

Glossary of Terms

Term	Definition
Adjusted Gross Income	As defined by I.R.C. § 62, in the case of an individual, means gross income minus deductions allowed by this chapter.
Automated Collection System	A telephone contact system through which telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.
Business Master File	The IRS database that consists of Federal tax-related transactions and accounts for business. These include employment taxes, income taxes on businesses, and excise taxes.
Collection Statute Expiration Date	The date the statute expires for collection of tax, penalty, or interest. It is generally 10 years from the date the IRS assessed the tax, penalty, or interest.
Contracting Officer Representative	Government representative who ensures that contractors meet the requirements of their contracts.
Dead Cycle	Period of time where there is a delay in posting transactions to the IRS's Master File. This occurs at the beginning of the calendar year and continues through the first three weeks of January. No new accounts will be assigned to the PCA during the dead cycle.
Field Collection	The unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Innocent Spouse	When a taxpayer believes they should not be required to pay the total amount due (including tax, penalty, and/or interest) for a tax year in which they filed a joint return. The taxpayer may be eligible for relief from joint and several liability by requesting Innocent Spouse Relief.
Installment Agreement	An arrangement in which a taxpayer agrees to pay their tax liability over time.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Levy	The legal seizure of a taxpayer's property to satisfy a Federal tax debt.

Term	Definition
Module	All information contained on the Master File for a specific type of tax for one tax period for one taxpayer. A module is a portion of a Master File tax account.
Offer in Compromise	An agreement between a taxpayer and the IRS that settles a taxpayer's tax liabilities for less than the full amount owed.
Policy and Procedures Guide	Guide that provides policies, procedures, and contractual responsibilities that the PCAs must adhere to.
Recall of Taxpayer Account	An event that triggers the IRS to initiate a removal of the taxpayer's account from the PCA's inventory.
Record of Account	A chronological history of case actions taken by the PCA on the taxpayer's account.
Return of Taxpayer Account	An event that causes the PCA to initiate a return of an account to the IRS.
Tax Period	The period of time for which a return is filed. The IRS uses a six-digit code to indicate the end of the tax period for a given return. The first four digits represent the year and the next two digits represent the ending month (YYYYMM).
Tax Year	The 12-month period for which tax is calculated. For most individuals, the tax year is synonymous with the calendar year.
Taxpayer Advocate Service	An independent organization within the IRS, led by the National Taxpayer Advocate.
Taxpayer Identification Number	Every taxpayer on the Master File has a permanent number for identification of the tax account. A business taxpayer has an Employer Identification Number. An individual taxpayer has a Social Security Number.
Taxpayer Service Returns Processing Category system	Taxpayer Service Returns Processing Category system records are created as part of the Accounts Receivable Dollar Inventory Service Center Accounts Receivable. Taxpayer Service Returns Processing Category system records are created monthly by the IRS for those tax modules for which the Assessed Module Balance is a debit and the current status is a 10, 12, or 29 or for which the Total Module Balance is debit for any other status.
Technical Analyst	IRS official who acts as a liaison between the contractor and IRS, and handles technical and processing guidance.
Technical Referral	A PCA referral to the IRS for a technical issue or inquiry.
Unpaid Assessments Database	A database that consists of all tax modules that show a debit balance on the Individual Master File, Business Mater File, and Automated Non–Master File.

Appendix VI

Abbreviations

AGI	Adjusted Gross Income
CDP	Collection Due Process
COR	Contracting Officer's Representative
COVID-19	Coronavirus Disease 2019
FAST	Fixing America's Surface Transportation
FY	Fiscal Year
ICL	Initial Contact Letter
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OI	Office of Investigations
PADD	Pre-Authorized Direct Debit
PCA	Private Collection Agency
PDC	Private Debt Collection
PPG	Policy and Procedures Guide
SITLP	State Income Tax Levy Program
SSA	Social Security Administration
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income
TIGTA	Treasury Inspector General for Tax Administration

To report fraud, waste, or abuse,
call our toll-free hotline at:

(800) 366-4484

By Web:

www.tigta.gov

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.