



Treasury Inspector General for Tax Administration Office of Audit

FEDERAL GUIDELINES DO NOT PROHIBIT THE AWARDING OF CONTRACTS TO CONTRACTORS WITH DELINQUENT TAX LIABILITIES

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Highlights

Highlights of Report Number: 2010-30-120 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

President Obama and Congress view increased enforcement on tax evasion as a way to reduce the tax gap. However, all taxpayers must be treated equitably. Because federal guidelines allow the Internal Revenue Service (IRS) to conduct business with contractors that do not comply with the Nation's tax laws, it conveys to the American taxpayers an adverse message regarding the fairness of the system and the IRS's ability to administer tax laws fairly.

WHY TIGTA DID THE AUDIT

This audit was initiated because Federal Government contractors receive, on an annual basis, an estimated \$377.5 billion in federal payments. Our overall objective was to determine whether businesses contracting to provide services to the IRS are compliant with federal tax laws, including filing and paying federal income taxes and withholding and paying employment and withholding taxes.

WHAT TIGTA FOUND

IRS employees awarded contracts without completing tax checks and financial capability surveys. From a review of 135 contractors with an award equal to at least \$250,000, TIGTA identified 20 (15 percent) with delinquent tax liabilities totaling \$5.2 million. Tax checks were not completed for seven of the 20 contractors.

TIGTA believes IRS contractors should be held accountable to the same tax compliance requirements as IRS employees. If IRS employees fail to file accurate and timely income taxes, it can result in disciplinary action, and even loss of employment.

Guidelines do not require IRS employees to complete tax checks or financial capability surveys at the time a contract is up for renewal. Our analyses showed the IRS renewed the contracts for 17 contractors, of which six

had delinquent tax liabilities that totaled over \$943,000 at the time of the original award. As of March 2009, the delinquent tax liabilities increased by more than 500 percent to approximately \$4.9 million.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) convene its senior executives to discuss its response to the Administration's January 20, 2010, request to evaluate IRS contract award processes and make process improvement recommendations to ensure that contractors with serious tax delinquencies do not receive additional work from federal agencies; 2) ensure all required tax checks and financial capability surveys are performed before contracts are awarded; and 3) establish procedures requiring the Office of Procurement Policy to complete an annual tax check for all IRS contractors and to notify the Director, Collection Policy, when subsequent tax delinquencies occur after the initial contract is awarded.

IRS management agreed with the recommendations to evaluate the contract award process and to ensure tax checks and financial capability surveys are done before contracts are awarded. In addition, the IRS plans to include tax check responsibilities in future employee training workshops.

IRS management disagreed with the recommendation to establish procedures to conduct annual tax checks on all contractors to identify subsequent tax delinquencies. TIGTA continues to believe that this recommendation would help the IRS identify contractors that have a serious tax liability and possibly prevent them from receiving new contracts from the IRS.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201030120fr.pdf>

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500