



Treasury Inspector General for Tax Administration Office of Audit

EXISTING PRACTICES ALLOWED IRS CONTRACTORS TO RECEIVE PAYMENTS WHILE OWING DELINQUENT TAXES

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Highlights

Highlights of Report Number: 2011-30-013 to the Internal Revenue Service Deputy Commissioner for Operations Support and Commissioner, Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service's (IRS) mission is to provide American taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness. TIGTA believes contractors that contract with the IRS should be held to a higher compliance standard than other contractors that conduct business with the Federal Government because of the IRS's mission to enforce tax laws and ensure everyone meets their obligation to pay Federal taxes.

WHY TIGTA DID THE AUDIT

President Obama directed the Department of the Treasury and the Office of Management and Budget to evaluate agencies' contract award processes and make recommendations to ensure that contractors with serious tax delinquencies do not receive new work from Federal agencies. Our overall objective was to determine why IRS contractors, owing millions of dollars in delinquent taxes and previously selected for the Federal Payment Levy Program, have accounts blocked from levy.

WHAT TIGTA FOUND

The IRS blocked 11 contractors with delinquent tax liabilities totaling approximately \$4.3 million from inclusion in the Federal Payment Levy Program. These contractors received more than \$356 million in payments from the IRS and approximately \$3.7 billion in payments from other Federal agencies. For eight of these contractors, the amount of delinquent taxes that could have been collected if the tax accounts had not been blocked from inclusion in the Federal Payment Levy Program totaled \$3.8 million.

Although delinquent taxes may indicate serious issues that could jeopardize contract performance, it alone rarely precludes a contractor from obtaining a contract. Three of these contractors owed \$3.7 million in

delinquent taxes at the time their contracts were awarded. Furthermore, seven of the 11 contractors did not properly follow Federal guidelines to notify the General Services Administration when they had a tax delinquency.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS review its current process to identify opportunities to expedite levying Federal contractor cases in a blocked status and ensure timely enforcement of those in a suspended collection status.

The IRS agreed with our recommendations, but did not agree with our reported outcome measure of \$3.8 million. The IRS stated that the calculation TIGTA used to determine the revenue considers cases in a suspended collection status as available for levy through the Federal Payment Levy Program. The IRS stated it has a responsibility to investigate the merit of a taxpayer's claim before initiating enforced collection activity.

TIGTA agrees the IRS should investigate the merit of a taxpayer's claim before initiating enforced collection activity. However, our results showed that the contractors were in a suspended collection status for an average of eight months while the IRS evaluated whether the information the contractor provided would resolve the tax liability. TIGTA believes the IRS could improve the timeliness of these cases by taking a more active enforcement approach to suspend payments to contractors if they are not making attempts to resolve their tax liability within a reasonable time period.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2011reports/201130013fr.pdf>

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