Treasury Inspector General for Tax Administration
Office of Audit

COLLECTION ACTIONS WERE NOT ALWAYS PURSUED ON CASES RETURNED FROM THE PRIVATE DEBT COLLECTION PROGRAM

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Highlights

Highlights of Report Number: 2011-30-114 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Private Debt Collection (PDC) Program collected approximately $98.2 million from delinquent cases that were considered low yield and generally not worked by the IRS. In March 2009, the IRS Commissioner discontinued the PDC Program, and cases that were assigned to the private collection agencies were returned to the IRS. However, the IRS's collection policies and inventory assignment practices will prevent many of these delinquent accounts, and similar accounts in the IRS's current inventory, from being worked. Taxpayers who do not voluntarily pay their share of taxes create unfair burden on taxpayers who timely pay their taxes in full and can diminish the public's respect for the tax system.

WHY TIGTA DID THE AUDIT

This audit was included in our Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives. The overall objective was to determine the effectiveness of collection actions taken by the IRS on taxpayer accounts returned from the PDC Program.

WHAT TIGTA FOUND

The IRS took appropriate collection actions on cases returned from the PDC Program in Fiscal Year 2007. The Fiscal Year 2007 recall included procedures that required employees to work each case that was returned. However, many of the cases returned in a larger recall in Fiscal Year 2009 were not worked.

TIGTA reviewed a statistical sample of 62 cases returned in Fiscal Year 2009 and found that collection actions were not taken for 29 (47 percent) of the 62 cases. These cases were not selected for collection action due to Collection policies and inventory assignment practices. TIGTA estimates potentially $30.7 million in collections will remain as outstanding liabilities. In addition, TIGTA estimates the IRS may not collect an additional $103.2 million per year, or $516 million over the next five years, from similar cases in its inventory that would have otherwise been assigned to the PDC Program.

TIGTA also reviewed a statistical sample of installment agreement cases returned during Fiscal Year 2009 and determined no collection actions were taken for six (10 percent) of 61 cases reviewed. TIGTA estimates potentially $58,000 in collections will remain as outstanding liabilities. Finally, the IRS did not capture or use PDC Program data and results to improve its own collection practices.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS 1) ensure Collection policy and procedures are reviewed for inventory assignment practices to determine if cases that otherwise would have been assigned to the PDC Program can be worked, or consider reinstituting the Program; and 2) evaluate private collection agency best practices and lessons learned for potential improvement of IRS collection processes.

In their response to the report, IRS officials partially agreed with the recommendations and stated they began taking steps to address TIGTA's concerns. The IRS implemented a process to improve balance due case prioritization and reviewed collection agency operations to identify potential best practices.

TIGTA is encouraged by the IRS's commitment to improving case selection and prioritization processes. However, it is still unclear how the IRS would actually work lower priority cases like those eligible for the Program.

IRS officials disagreed with the outcome measures. TIGTA maintains the outcome measures are reasonable and are based on actual PDC Program results.

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/201130114fr.pdf.