

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance**

December 28, 2020

Report Number: 2021-30-010

The 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..

**HIGHLIGHTS: Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance**

Final Audit Report issued on December 28, 2020

Reference Number 2021-30-010

**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 Taxpayers**

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 include 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**

As of May 14, 2020, the IRS has assigned over 3.28 million taxpayer accounts totaling more than \$30.1 billion in delinquencies to private collectors since inception of the program. The PCAs have collected approximately \$498.4 million from these accounts. PCAs also established more than 130,000 payment arrangements, but taxpayers later defaulted on more than half of them. PCAs continue to perform well on telephone calls in terms of quality metrics. The four PCAs are averaging 99.4 percent for quality, and each PCA individually has a quality score close to 100 percent.

The IRS implemented a new payment method in Fiscal Year 2019 that it describes as the Pre-Authorized Direct Debit payment option. TIGTA identified a risk that too many PCA employees have access to taxpayer banking information, which increases the risk of fraud. Additionally, in Fiscal Year 2019, the IRS has not followed the plain language of Internal Revenue Code Section 6306(b)(1)(B) by allowing PCAs to take commissions on unstructured payments that are not associated with a qualified collection contract.

The IRS has already begun to exclude taxpayer cases with Social Security Disability Insurance from PCA inventory per the new requirements of the Taxpayer First Act. However, the IRS states that the Social Security Administration does not have the legal authority to provide Supplemental Security Income information in order for the IRS to exclude those taxpayers from PCA inventory. Therefore, the IRS is completely dependent on the PCAs to ensure that the accounts of taxpayers receiving Supplemental Security Income are returned to the IRS. Additionally, TIGTA determined that the methodology being used by the IRS to exclude low-income taxpayers at or below 200 percent of the Federal Poverty Level may not prevent all of these taxpayers from being assigned to PCAs.

Taxpayers under levy are exempt from PCA assignment. However, TIGTA identified 14,586 taxpayers subject to the State Income Tax Levy Program while assigned to PCA inventory. The IRS received levy proceeds from these taxpayers totaling \$6,228,806. TIGTA also identified seven taxpayers with levy payments totaling \$7,419 while in active payment arrangements with PCAs.

**What TIGTA Recommended**

TIGTA made seven recommendations to improve program efficiency and protection of taxpayer rights. The IRS agreed with two of the seven recommendations and disagreed with five recommendations. The IRS plans to review the PCAs' procedures during the annual security review to ensure compliance with the Policy and Procedure Guide and applicable security measures as they apply to the information needed for establishing pre-authorized direct debit payments. Additionally, the IRS plans to update the Policy and Procedure Guide and PDC Operations Guide and conduct reviews to ensure that PCAs protect against potential disclosure of taxpayer information.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**

**WASHINGTON, D.C. 20220**

December 28, 2020

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in black ink, appearing to read "M. Weir", is written over a horizontal line.

M. Weir for

**FROM:**

Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:**

Final Audit Report – Fiscal Year 2021 Biannual Independent Assessment  
of Private Collection Agency Performance (Audit # 202030015)

This report presents the results of our review to independently evaluate the performance of private collection agencies. This audit was conducted to satisfy reporting requirements of the Fixing America's Surface Transportation Act. This audit is included in our Fiscal Year 2020 Annual Audit Plan and addresses the major management challenge of *Improving Tax Compliance*.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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## Background

On December 4, 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law.<sup>1</sup> 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): the CBE Group of Waterloo, Iowa; ConServe of Fairport, New York; Performant of Livermore, California; and Pioneer of Horseheads, New York.

Congress has required information from the Department of the Treasury to determine whether the IRS can manage the use of PCAs in a cost-efficient and effective manner that does not harm taxpayers or injure tax administration. Under the 2017 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 officials in the Department of the Treasury, 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. This is TIGTA's second 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.<sup>2</sup> First, the law amends provisions related to income eligible for collection by PDCs. 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) which does not exceed 200 percent of the applicable poverty level. 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 PCAs can offer taxpayers from five years to seven. Finally, the law clarifies items that may be treated as program costs eligible for use of Special Compliance Personnel (SCP) Program Account funds for administering the qualified tax collection program. Newly eligible expenses include "communications, software, technology" (where the law used to reference "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 SCP Program Account took effect after enactment. All remaining changes to § 1205 of the Taxpayer First Act take affect after December 31, 2020.

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<sup>1</sup> Pub. L. No. 114-94.

<sup>2</sup> Pub. L. No. 116-25 (July 1, 2019).

## Results of Review

This audit addresses the reporting requirements of the FAST Act, which requires a biannual independent assessment of private collection agency (PCA) performance. The 2015 FAST 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 include 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.

**On July 1, 2019, the Taxpayer First Act was signed into law, which amended I.R.C. § 6306 for the PDC program.**

## Comparative Performance of PCAs

Since the IRS began delivering cases to PCAs in April 2017, more than 3.28 million taxpayer accounts have been assigned, with the value of those accounts totaling more than \$30.1 billion.<sup>3</sup> As of May 14, 2020, the IRS reported that PCAs had collected \$498.4 million in commissionable payments, or 1.79 percent of the total value of accounts assigned.<sup>4</sup> However, of the total commissionable payments collected by PCAs since inception of the program, \$222.7 million, or 45 percent, was collected in the first two-thirds of Fiscal Year (FY) 2020 (October 1, 2019, through May 14, 2020). This increase in collections in FY 2020 may be because all four of the PCAs hired new assistors, effectively increasing the number of assistors who worked the IRS case inventory in FY 2019 by 150 percent. The new assistors were hired because of the number of cases being sent to PCAs, which increased by 150 percent in FY 2019, from 4,000 cases per week to 10,000 cases per week.

Figure 1 shows the number of accounts assigned to PCAs, dollar value, and collection amounts attributable to each PCA from inception of the PDC program until May 14, 2020.

**Figure 1: Accounts Assigned to and Dollars Collected by the PCAs**

PCA	Accounts Assigned	Amount	Collections	Percentage of Collections
CBE Group	822,980	\$7,549,278,833	\$137,975,110	1.83%
ConServe	822,841	\$7,541,791,550	\$134,289,201	1.78%
Performant	822,320	\$7,539,777,885	\$128,797,479	1.71%
Pioneer	821,579	\$7,517,340,019	\$138,180,463	1.84%
<b>Total</b>	<b>3,289,720</b>	<b>\$30,148,188,287</b>	<b>\$539,242,253</b>	<b>1.79%</b>

Source: TIGTA analysis of the PDC Monthly Scorecard as of May 14, 2020.

<sup>3</sup> PDC Program Monthly Scorecard FY 2020 through May 14, 2020. FY is Fiscal Year.

<sup>4</sup> PDC Program Monthly Scorecard FY 2020 through May 14, 2020 (Commissionable Payments).

The number of accounts assigned, total amounts owed, and collections to date are similar for all four PCAs. Included in the collected amounts is \$40,831,958 dollars 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, \$10,531,067 was from accounts assigned to CBE Group, \$10,363,485 from Conserve, \$9,979,274 from Performant, and \$9,958,132 from Pioneer.

According to the IRS, it has incurred approximately \$193.7 million in costs since inception of the program, which includes just under \$98.6 million (51 percent) resulting from commissions paid to the PCAs.<sup>5</sup> Thus, the PDC program has had net revenues of approximately \$345.6 million since inception of the program.

### **PCA collections have allowed the IRS to hire additional collection staff, but FY 2021 hiring will be paused**

Provisions in the FAST Act require the IRS to establish an account to carry out an SCP program to hire, train, and employ SCP.<sup>6</sup> Under the law, the IRS is entitled to retain up to 25 percent of the amount collected by the PCAs to fund an account.<sup>7</sup> SCP are individuals employed by the IRS as Field Collection revenue officers or in a similar position or employed to collect taxes using the Automated Collection System (ACS).<sup>8</sup> SCP employees collect tax due on randomly selected accounts in collection status that are also available for collection by IRS Collection employees. ACS collection representatives (employed as SCP) receive calls from a toll-free number and assist taxpayers in resolving their outstanding tax debt. They also correspond with taxpayers and utilize administrative enforcement tools such as liens and levies as appropriate. ACS Support tax examiners (employed as SCP) resolve correspondence submitted by taxpayers on these collection status accounts.

The Taxpayer First Act clarified the types of costs the SCP Program Account may be used for, which includes all program costs associated with administering the qualified tax collection program.<sup>9</sup> Prior to this change, SCP program funds could only be used for contract administration and SCP program costs. Pursuant to I.R.C. § 6307(c), the IRS is required to report actual and estimated SCP program revenue, costs, the number of SCP hired and employed, and the SCP Program Account balance for the preceding, current, and following fiscal years prior to March of each year. SCP program costs consist of total salaries, benefits, and employment taxes for SCP employed or trained under the SCP program. SCP program costs also include the direct overhead costs relating to support staff and indemnities for SCP hired and employed. The latest IRS annual report on the SCP program was issued on September 14, 2020.

The first SCP employees were hired at the Philadelphia campus with an entry-on-duty date of September 30, 2018. SCP employees were first hired at the Memphis campus with an entry-on-duty date of November 10, 2019. As of September 10, 2020, 420 SCP employees

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<sup>5</sup> TIGTA Audit # 201930027 is currently in process and will determine whether the IRS is effectively tracking and reporting all costs related to the PDC program as required by I.R.C. § 6306.

<sup>6</sup> I.R.C. § 6307(a).

<sup>7</sup> I.R.C. § 6306(e)(2).

<sup>8</sup> I.R.C. § 6307(d)(1).

<sup>9</sup> I.R.C. § 6307(b) and 6307(d)(2)(B), amended by Taxpayer First Act, Pub. L. No. 116-25, § 1205(d).

were hired at both campuses in the ACS Operation.<sup>10</sup> After attrition, 383 SCP employees remain as of September 10, 2020.<sup>11</sup> As of the May 14, 2020, PDC Monthly Scorecard, SCP employees had collected almost \$218 million. From the start of the program through July 2020, the number of ACS SCP calls answered was 95,157 and the ACS SCP estimated Taxpayer Delinquent Account/Taxpayer Delinquency Investigation dispositions was 80,926.

In the latest *IRS Annual Report on the Special Compliance Personnel Program*, released on September 14, 2020, the Commissioner highlighted that, although funds are available to hire SCP, there are several factors that affect the onboarding of additional hires, which include seating limitations and a training pipeline that is at capacity. While taxpayers recover from the economic impact of the Coronavirus pandemic and are offered tax relief, a downward trend in revenue is expected to continue through this fiscal year and beyond. In FY 2021, additional SCP hiring will be paused as the IRS also considers the impact to the inventory available for assignment in the PDC program and the effect on commissionable payments, retained earnings, and the SCP Program Account balance. The IRS anticipates a reduction in commissionable payments, retained earnings, and the SCP Program Account balance in FY 2021 because of a decrease in available inventory and the additional inventory exclusions pursuant to the Taxpayer First Act. Exclusions pursuant to the Taxpayer First Act are discussed later in this report.

### **PCAs established thousands of payment arrangements**

I.R.C. § 6306(b)(1)(B) provides that PCAs may request full payment from taxpayers of an amount of Federal tax specified by the Secretary of the Treasury and, if such request cannot be met by the taxpayer, the PCA may offer the taxpayer an installment agreement providing for full payment of such amount during a period not to exceed five years. These agreements must meet 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.<sup>12</sup> For contracts entered into after July 1, 2019, the PCA may offer an installment agreement covering a period not to exceed seven years or by the Collection Statute Expiration Date (CSED), whichever is less. Currently, when taxpayers are unable to pay their balance in full within 10 days, they may be offered payment arrangement options that will satisfy their debt by the CSED or within seven years, whichever is less.

Figure 2 shows the number of taxpayers who entered into payment arrangements by PCAs from inception of the program through May 2020 and the average total module balance of those arrangements.

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<sup>10</sup> 116 SCP employees were hired at the Philadelphia Campus in Philadelphia, Pennsylvania, and 304 SCP employees were hired at the Memphis Campus in Memphis, Tennessee.

<sup>11</sup> 88 SCP employees remain at the Philadelphia Campus, and 295 SCP employees remain at the Memphis Campus.

<sup>12</sup> I.R.C. § 6306(b).

**Figure 2: Payments Arrangements Established by Each PCA**

PCA	Number of Taxpayer Entities	Average Total Module Balance
CBE Group	46,268	\$6,224
ConServe	32,498	\$5,708
Performant	24,667	\$6,392
Pioneer	27,241	\$6,070
<b>Total</b>	<b>130,674</b>	<b>\$6,095</b>

Source: TIGTA analysis of the IRS Full Program Length Operational Review through May 2020.

Since program inception, the CBE Group has established the highest number of payment arrangements in terms of taxpayer entities. Specifically, the CBE Group established over 35 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 has set up, 66 percent have resulted in the payment arrangement being terminated. Performant had the lowest termination rate at 44 percent. Additionally, Pioneer had the highest rate of payment arrangements with at least one commissionable payment, at 74 percent. CBE had the lowest rate at 59 percent; however, it had the most total payment arrangements with at least one commissionable payment. Figure 3 shows the number and percentage of entities with payment arrangements and terminated payment arrangements and those 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	46,268	30,459	66%	27,226	59%
ConServe	32,498	17,510	54%	22,405	69%
Performant	24,667	10,968	44%	16,766	68%
Pioneer	27,241	12,336	45%	20,093	74%
<b>Total</b>	<b>130,674</b>	<b>71,273</b>	<b>55%</b>	<b>86,490</b>	<b>66%</b>

Source: TIGTA analysis of the IRS Full Program Length Operational Review through May 2020.

In TIGTA’s initial report 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.<sup>13</sup> While the IRS does not agree that the national average collection rate is an appropriate comparison, when asked, IRS officials offered no other suitable comparisons on which to measure the PDC program’s performance. As a possible cause, we observed that the average age of cases was approximately four years and that cases this old are thought to be generally uncollectible. In order to increase the collection rate and reduce the age of cases assigned to the PCAs, TIGTA 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. The average age of PCA inventory has increased from 4.75 years, reported in the previous TIGTA biannual performance review report, to 5.31 years.<sup>14</sup> 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 PCAs.

**The IRS tracks the PCA’s 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 4 shows inventory management analytics through May 2020.

**Figure 4: Inventory Management Analytics**

Analytic	CBE Group	ConServe	Performant	Pioneer	Average
Taxpayer Accounts Available	823,169	823,015	822,491	821,638	822,578 <sup>15</sup>
Total Outbound Calls	27,026,797	8,310,407	12,333,164	28,586,701	19,064,267 <sup>16</sup>
Number of Unique Taxpayer Accounts Called	692,748	653,841	612,143	696,136	663,717
Percentage of Total Cases Called	84%	79%	74%	85%	81%
Number of Right-Party Contacts Through Inbound and Outbound Calls	102,065	98,339	102,656	99,269	100,582 <sup>17</sup>

*Source: TIGTA analysis of the IRS Full Program Length Operational Review through May 2020.*

Pioneer has made the most outbound calls (28,586,701) and has called the highest percentage of assigned cases (85 percent). ConServe and Performant placed significantly fewer outbound

<sup>13</sup> TIGTA, Ref. No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018).

<sup>14</sup> TIGTA, Ref. No. 2019-30-018, *Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance* p. 5 (Dec. 2018). The average age of all modules assigned to PCAs as of March 2020 is 5.31 years.

<sup>15</sup> This figure was rounded. The actual Average of taxpayer accounts available is 822,578.25.

<sup>16</sup> This figure was rounded. The actual Average of total outbound calls is 19,064,267.25.

<sup>17</sup> This figure was rounded. The actual Average of Number of Right-Party Contacts Through Inbound and Outbound Calls is 100,582.25.

calls (8,310,407 and 12,333,164, respectively), and both have made calls on under 80 percent of total assigned cases. Though the total number of outbound calls varied greatly among the four PCAs (between 8.3 million and 28.6 million), the difference in the total number of right-party contacts made by the PCAs was less than 5 percent (between 98,339 and 102,656). As of May 14, 2020, Pioneer has collected the most in commissionable payments (with \$128,222,331 in collections), while Performant has collected the least in commissionable payments (with \$118,818,205 collected). Figure 5 shows taxpayer interaction analytics through May 2020.

**Figure 5: Taxpayer Interaction Analytics**

Analytic	CBE Group	ConServe	Performant	Pioneer
Average Number of Outbound Calls per Taxpayer Account	33	10	15	35
Average Number of Calls Until Outbound Right-Party Contact Reached	55	12	15	34
Average Number of Telephone Numbers Called per Taxpayer	2	3	3	5
Average Number of Days Until First Outbound Attempt to Taxpayer	28	52	48	45

*Source: TIGTA analysis of the IRS Full Program Length Operational Review through May 2020.*

On average, Pioneer placed the most outbound calls per taxpayer account (35), while CBE Group averaged the most outbound calls until the right-party contact was reached (55). CBE Group, however, averaged the least number of telephone numbers called per taxpayer (2) and averaged the fewest number of days until the first outbound call attempt was made to the taxpayer (28). Conserve, on average, took the longest (52 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 (12). Compared to similar analytics in our previous biannual performance review report, the average number of outbound calls per taxpayer for three of the four PCAs decreased, while Pioneer’s average increased from 22.3 to 35. The CBE Group average decreased the most, from an average of 106.1 calls per taxpayer reported in the previous biannual performance review report to an average of 33 per taxpayer through May 2020. Figure 6 shows case resolution analytics by type through May 2020.

**Figure 6: Case Resolution by Type Analytics**

Analytic	CBE Group	ConServe	Performant	Pioneer	Average
<b>Total Resolutions</b>	243,101	227,820	225,133	236,182	233,059
<b>Full Pay</b> <i>(Percent of Total)</i>	82,854 <i>(34%)</i>	82,063 <i>(36%)</i>	81,155 <i>(36%)</i>	83,270 <i>(35%)</i>	82,336 <i>(35.3%)</i>
<b>Payment Arrangements</b> <i>(Percent of Total)</i>	30,121 <i>(12%)</i>	21,251 <i>(9%)</i>	17,094 <i>(8%)</i>	18,037 <i>(8%)</i>	21,626 <i>(9.3%)</i>
<b>Recalled by the IRS</b> <i>(Percent of Total)</i>	103,874 <i>(43%)</i>	106,878 <i>(47%)</i>	107,626 <i>(48%)</i>	104,483 <i>(44%)</i>	105,715 <i>(45.4%)</i>
<b>Returned to the IRS</b> <i>(Percent of Total)</i>	26,252 <i>(11%)</i>	17,628 <i>(8%)</i>	19,258 <i>(9%)</i>	30,392 <i>(13%)</i>	23,383 <i>(10%)</i>

Source: TIGTA analysis of the IRS Full Program Length Operational Review through May 2020.

The CBE Group had the most case resolutions (243,101), while Performant had the least case resolutions (225,133). All four PCAs accomplished a similar percentage of full-payment resolutions, with the average at just over 35 percent. The CBE Group generated the most payment arrangements (30,121); however, these payment arrangements only resulted in 12 percent of its total resolutions. Performant set up the fewest payment arrangements (17,094), which was 8 percent of its total resolutions.

**Taxpayers requesting to work with the IRS instead of the PCAs are not referred to IRS employees, and their accounts are not placed back into active IRS Collection inventory**

Accounts designated for recall fall into two categories, legislative (*i.e.*, I.R.C. § 6306 prohibits this type of case being worked by PCAs) and nonlegislative (*i.e.*, IRS procedure prohibits this type of case being worked by PCAs). The legislative recall reasons are identified in I.R.C. § 6306(d). The nonlegislative recall reasons were established considering two main factors, complexity of the account and the Information Technology (IT) information exchange capabilities. IRS PDC program management periodically analyzes returned accounts to ascertain anomalies in reporting and uses this information to plan for needed targeted reviews.

The IRS provided us the number of returns and recalled cases from the PCAs that covered the period from April 10, 2017, through May 14, 2020. The information provided both a recalled and a returned case report. Figure 7 shows the numbers of recalled and returned accounts as reported by the PCAs.

**Figure 7: PCA Recalled/Returned Inventory**

PCA Recalled and Returned Cases	CBE Group	ConServe	Performant	Pioneer
<b>Legislative Recalled Returns</b>	68,968	69,988	70,366	69,123
<b>Nonlegislative Recalled Returns</b>	38,934	40,767	40,568	39,511
<b>Total Recalled Returns</b>	107,902	110,755	110,934	108,634
<b>PCA Returned Inventory</b>	27,277	16,756	20,027	31,075

Source: TIGTA analysis of PCA reported recalled/returned inventory as of May 14, 2020.

All the PCAs have similar numbers of recalled cases since inception of the program. For PCA returned cases, Pioneer had the highest number of cases (31,075) and ConServe had the lowest (16,756).

During the time period a PCA is servicing inventory received from the IRS, cases may be returned or recalled (systemically or manually) for any reason, such as, but not limited to, the reasons below:

- A taxpayer requests in writing not to work with the PCA, per the Fair Debt Collection Practices Act (FDCPA).
- There is a substantiated taxpayer incident against a PCA.
- The PCA requests to return an account to the IRS.
- The PCA contract has expired.
- The account is fully paid through the Automated Levy Programs or IRS offsets.
- Other subsequent activity on the taxpayer's account no longer qualifies it for collection activity by the PCAs, such as when the a taxpayer has a pending or active offer in compromise, the IRS agrees the taxpayer does not owe the debt, or the IRS confirms that a bankruptcy automatic stay or discharge prohibits efforts to collect the debt.
- The Taxpayer Advocate Service (TAS) initiates a recall of the account.
- The Business Master File Employment Tax Entity exceeds \$10,000.

The IRS will issue a systemic request to cease all collection activity in certain situations and will recall the case back to the IRS. This systemic request will be present on the regular information files sent weekly or on the daily files (depending on the nature of the exact reason for the recall). Upon receipt of a recall record, the PCA will cease all collection activity on the account. There may also be instances when the Contracting Officer Representative (COR) or Technical Analyst will notify the PCA to cease collection action on an account. In this situation, the PCA must immediately cease collection activity until it receives a systemic recall or is contacted by the COR or Technical Analyst to resume collection activity. When an account is recalled or returned, the PCA must provide the taxpayer(s) and power of attorney a letter advising that the account has been returned to the IRS unless the tax period(s) has/have a zero balance due. The requirements listed in the Policy and Procedure Guide (PPG) § 5.6 must be followed by the PCAs for all recall and return letters.

There will be times that a PCA, after having exhausted all reasonable efforts to work the case, determines that it can do nothing further (*e.g.*, cannot locate the taxpayer, the PCA is unable to collect) and desires to return the case. Also, when taxpayers state that they are recipients of SSDI or SSI, the PCA must return the case to the IRS. The PCA will close these cases and initiate the return via the data exchange. The PCA is required to initiate the return of an account within five business days of identifying the return criteria unless instructed otherwise. The PCA will request input of a specific code on the primary Taxpayer Identification Number of the account. When the IRS receives this information, it will input a transaction code on the account to recall the case. The PCA will then follow the recall procedures as outlined in PPG § 13.1.

When asked whether the IRS has reviewed any of the cases that have been returned or recalled to determine whether they should be placed back into IRS Collection inventory, the IRS stated

that accounts are not manually reviewed to determine if they should be placed in IRS Collection inventory. However, depending on the reason an account is recalled, it could end up there. For example, if the taxpayer applies for an offer in compromise, the account is recalled and worked by offer in compromise staff. IRS management also stated that, for returns and most recalls, the accounts were in an inactive status prior to being assigned to a PCA and are placed back into that status when returned or recalled. Once the account is no longer assigned to a PCA and is in an inactive status, it is systemically evaluated on an annual basis to determine if the account should be placed in an IRS collection treatment stream such as the ACS.

During our PCA site visits, and more specifically at Performant, management disclosed to us that an increasing number of taxpayers were requesting to work directly with the IRS rather than with the PCA. At the time, Performant did not have any data to show how many taxpayers were requesting to work with the IRS. In our review of the reasons for returned cases provided by the IRS, there was no reason that clearly expressed that a taxpayer requested to work with the IRS. The IRS responded that these accounts are returned using the "Cease Contact" reason code and are not manually reviewed but are put back into inactive status. PCAs provide these taxpayers with information on IRS payment arrangements and return the accounts to the IRS.

In prior reports, we recommended that the IRS establish a referral unit that could receive the taxpayer accounts back from PCAs when those taxpayers want to pay something on their accounts but cannot afford to fully pay the liability. Referral unit personnel could offer those taxpayers partial-pay installment agreements or offers in compromise. Although we do not make the recommendation again since the IRS previously rejected it, we continue to believe that ignoring a taxpayer's desire to pay something does not promote tax compliance and is unfavorable to effective tax administration.

**Recommendation 1:** The Director, Collection, should create additional return reason codes to identify those taxpayers who express a willingness to work with the IRS.

**Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated they already have a process in place for returning accounts to the IRS when the taxpayer requests to no longer work with a PCA. These accounts are returned using the "Cease Contact" return category code, which allows the account to be excluded from possible future reassignment to a PCA. In addition, the PCA sends a letter to the taxpayer advising that the account is being returned to the IRS and provides guidance on accessing IRS.gov to continue a payment arrangement or locate information when assistance is needed.

**Office of Audit Comment:** The purpose of this recommendation is to ensure that the IRS knows and can take action when a taxpayer expresses a desire to work with it rather than the PCA. As noted previously in this report, recalled accounts are not manually reviewed to determine if they should be placed in IRS Collection inventory. The "Cease Contact" code does not help the IRS to know which taxpayers want to work with it. Based on IRS responses to previous PDC reports, we know that the IRS does not want to work with taxpayers whose accounts are returned from PCAs because it believes these accounts are unproductive, and adding IRS employees to assist these taxpayers only adds costs and reduces return on investment to its program. However, we believe that

additional return reason codes may assist future iterations of the PDC program that may take these taxpayers' desire to be tax compliant into consideration.

## **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. Additionally, the reviews include follow-up items to ensure that previous recommendations are incorporated.

### **Operational reviews**

The PDC Policy Administration Team completed two operational reviews in FY 2019 and one in FY 2020. The team conducted a review of the PCAs' operations to ensure that the PCAs were following the guidance provided in the PPG and the PCA contract. The focus of the reviews was on the policies and procedures related to taxpayer rights, data protection, and inventory management. The team conducted case reviews, listened to recorded calls, and discussed the data analysis completed by the Research, Applied Analytics, and Statistics (RAAS) team.

The first FY 2019 operational review was conducted between February and March 2019. Although there was some variance in how well each PCA performed with respect to the review criteria, some of the issues identified were common to more than one collector. For example, the PCAs did not always forward the taxpayer accounts to the Technical Analyst for approval when required. Instances that require Technical Analyst approval include payment arrangements that would fully pay the account within 90 days of the CSED and payment arrangements that are between 61 and 84 months. However, all PCAs followed IRS guidelines during the Government shutdown that occurred December 22, 2018, through January 25, 2019, with the exception of Performant. Performant sent Initial Contact Letters during the Government shutdown for the 10 accounts the IRS placed during that time frame. Performant stated that its IT department became aware of the Initial Contact Letter mailing on January 3, 2019, and updated its IT programming to prevent additional letters from being mailed during the shutdown. The IRS made 56 recommendations to address these issues and others, and the PCAs planned to take corrective actions.

The second FY 2019 operational review was conducted between July and August 2019 and covered the period March 15, 2019, through June 13, 2019. The review showed that generally the calls reviewed were worked appropriately. However, all four PCAs had issues following the appropriate authentication procedures. For example, it was identified in some instances that the assistors were not asking if the taxpayer wanted to continue verification with name, address of record, date of birth, and Taxpayer Identification Number or Social Security Number (SSN) when the Taxpayer Authentication Number (TAN) was not available. Other times, it was identified that the assistors were not verifying all other authentication elements prior to requesting the taxpayer's SSN when the TAN was not available. The IRS made 52 recommendations to address these issues and others, and the PCAs planned to take corrective actions.

The last operational review conducted during this audit time frame was conducted between February and March 2020 and covered the period September 13, 2019, through December 19,

2019. During this time, the IRS implemented two new payment initiatives for taxpayers, the Pre-Authorized Direct Debit (PADD) payment option and unstructured payments. There were some issues identified common to more than one collector during IRS review of these two payment initiatives. For example, assistors were formalizing unstructured payments by setting them up to make specific monthly payments on a specific date, frequently referring to them as unstructured agreements or arrangements instead of conveying to the taxpayer that unstructured payments can be made for any amount, at any time. Additionally, a review of the PADD payment option revealed that assistors could improve upon giving instructions to properly complete and return the PADD authorization form and ensure that the taxpayer's verbal consent is documented in the Record of Account. The IRS made 24 recommendations to address these issues and others, and the PCAs planned to take corrective actions.

### Targeted reviews

Between FY 2019 through the second quarter of FY 2020, the IRS performed various targeted reviews, including taxpayers with delinquent returns and with a disaster freeze code placed on their accounts. The delinquent return targeted review looked at delinquent return accounts to ensure that proper procedures were being followed, including ensuring that all delinquent returns were filed prior to the PCA establishing a payment arrangement. This review identified opportunities for improvement when issuing Initial Contact Letters on delinquent accounts, and the PCAs planned to take corrective actions. For example, [REDACTED] and took corrective action to ensure that proper programming is in place for Initial Contact Letters to be issued when subsequent modules are assigned, including modules for delinquent returns.

The IRS also performed a targeted review on accounts with disaster freeze codes. This targeted review assessed whether the PCAs took appropriate actions (in accordance with the PPG) on disaster freeze accounts. PCAs must suspend all contacts with taxpayers who reside in a presidentially declared disaster area and has the –O freeze designation until the –O freeze is removed from the account. Taxpayers residing in areas designated with a –S freeze will continue to be assigned to PCAs, and the PCAs may continue collection efforts with extreme sensitivity to the taxpayer's personal circumstance. The IRS reviewed 15 accounts with either a –S or –O freeze for each PCA.<sup>18</sup> Results showed that:

- The CBE Group appropriately handled 11 (73 percent) of 15 reviewed cases.
- Performant appropriately handled 11 (73 percent) of 15 reviewed cases.
- Pioneer appropriately handled 13 (87 percent) of 15 reviewed cases.
- ConServe appropriately handled 10 (67 percent) of 15 reviewed cases.

The IRS found that, in the majority of the reviewed cases that were incorrectly handled, assistors did not assess the impact of the disaster with the taxpayer in speaking with taxpayers affected with a –S freeze on their account. All of the PCAs committed to provide additional training to

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<sup>18</sup> The IRS uses a –O or –S freeze to identify taxpayers affected in a presidentially declared disaster area. The freeze code is transmitted to the PCA in the entity file. Generally, the –O freeze will be applied only in the most catastrophic disasters and only to the areas that suffered the most damage within the area designated by the Federal Emergency Management Agency for Individual Assistance programs. The –S freeze is applied when the impact and scope of a declared disaster does not warrant use of the –O freeze.

the assistors on following appropriate –S freeze procedures, including assessing the impact of the disaster on a taxpayer when contact is made.

### **The IRS Is Allowing PCAs to Take Commissions on Payments That Are Not Associated With Qualified Collection Contracts**

I.R.C. § 6306(b)(1)(B) (qualified tax collection contracts) provides that the PCAs should request full payment from the taxpayer and offer the taxpayer a payment arrangement providing for full payment of such amount during a period not to exceed seven years. PCAs are permitted to retain up to 25 percent of amounts collected if collection is pursuant to a qualified collection contract. The law does not allow PCAs to earn commissions on any other type of payment arrangement.

The conference report accompanying the FAST Act described how collection activity pursuant to qualified collection contracts would unfold.<sup>19</sup> The report stated that, if the taxpayer could not pay in full immediately, the PCA would then offer the taxpayer an installment agreement providing for full payment of the taxes over a period of as long as five years. If the taxpayer was unable to pay the outstanding tax liability in full over a five-year period, the PCA would obtain financial information from the taxpayer and provide this information to the IRS for further processing and action.

**On August 30, 2019, the IRS updated the PPG to allow the PCAs to accept taxpayer payments outside of a formal payment arrangement.**

However, on August 30, 2019, the IRS revised the PPG, which allows PCAs to offer taxpayers the opportunity to make payments outside of a formal payment arrangement. Section 8.4 of the PPG was updated to allow PCAs to take commissions on payments even though they are not made pursuant to a qualified collection contract.

When speaking to the taxpayer, if the PCA assistor determines that the taxpayer cannot fully pay the debt immediately or meet the terms of a formal payment arrangement, the PCA may now offer the taxpayer the opportunity to make unstructured payments for up to one year from the discussion date. Unstructured payments are payments the taxpayer can make to reduce tax liability while attempting to improve his or her financial situation within a one-year period when no payment arrangement has been established. The PPG instructs the PCA that the taxpayer should not be given the impression that the opportunity to make unstructured payments is considered a formal payment arrangement. The PCA must also document in the taxpayer's Record of Account the date that the taxpayer indicates his or her situation could potentially improve enough to enter into a formal payment arrangement. In addition, the PCA can return the account to the IRS at any time, but no later than one year after the initial verbal discussion, unless the taxpayer enters into a formal payment arrangement. During the process of setting up a payment outside of a formal arrangement, the PCAs are not required to review any of the taxpayer's financial information to determine if the payments would create a financial hardship on the taxpayer.

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<sup>19</sup> Conference report H. Rept. 114-357 (2015).

We inquired as to how the IRS made the decision to allow PCAs to initiate payments outside of a formal arrangement. The IRS's PDC team requested the change beginning in May 2018, and the Deputy Commissioner for Services and Enforcement approved the change on June 6, 2019. IRS management stated that I.R.C. § 6301 provides that the Secretary of the Treasury shall collect the taxes imposed by the Internal Revenue laws and that all tax payments, whether collected by the IRS or PCAs, are submitted to the Department of the Treasury. If a taxpayer is not able to fully pay the liability, IRS employees routinely accept partial payments of tax liabilities. The IRS further stated that, although I.R.C. § 6306(b)(1)(B) provides that the PCAs should request full payment from the taxpayer or offer the taxpayer a payment arrangement providing for full payment, the language does not suggest that a taxpayer whose delinquent account is sent to a PCA cannot make a partial payment to the Department of the Treasury. Accordingly, the IRS believes that "accepting" partial payments from taxpayers (payments are made to Treasury, not the PCAs) who have accounts with PCAs lies within the complete discretion of the Service. The IRS also believes that its internal procedure that allows taxpayers who cannot fully pay their accounts within six years to be given up to one year to modify or eliminate excessive necessary expenses supports the decision to allow partial payments to PCAs.<sup>20</sup>

IRS Collection employees routinely accept payments outside of a formal installment agreement. If full payment cannot be achieved by the CSED, and taxpayers have some ability to pay, the IRS can enter into Partial Payment Installment Agreements.<sup>21</sup> The American Jobs Creation Act of 2004 amended I.R.C. § 6159 to provide this authority.<sup>22</sup> Before a Partial Payment Installment Agreement may be granted, equity in assets must be addressed and, if appropriate, be used to make payment.<sup>23</sup> However, PCAs are not permitted to enter into these arrangements and are not permitted to take commissions on payment arrangements that do not fully pay the taxpayer's balance due.

In the FY 2020 Operational Review Report, the IRS identified concerns with three of the four PCAs. This was the first operational review conducted following the PPG revision allowing PCAs to offer taxpayers the opportunity to make payments outside of a formal arrangement. In this report, the IRS found that:

- CBE assistors could improve the unstructured payments process by remaining cognizant that this is an informal payment option allowing the taxpayer to pay any amount at any time, and assistors should refrain from referring to unstructured payments as voluntary.
- Conserve assistors are not always conveying to taxpayers that unstructured payments are not a payment arrangement, and they are incorrectly stating to taxpayers that the IRS recommends a down payment and the taxpayer needs to make monthly payments. In addition, the assistors are using the terminology unstructured voluntary payment arrangement and unstructured arrangement, and that verbiage can imply there is an arrangement being setup.
- Pioneer assistors were formalizing unstructured payments by setting them up to make specific monthly payments on a specific date instead of conveying to the taxpayer that

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<sup>20</sup> Internal Revenue Manual (IRM) 5.14.1.4.1(2) (Jan. 1, 2016).

<sup>21</sup> IRM 5.14.2.2(1) (April 26, 2019).

<sup>22</sup> IRM 5.14.2.2(1) (April 26, 2019).

<sup>23</sup> IRM 5.14.2.2(2) (April 26, 2019).

unstructured payments could be made for any amount, at any time. In addition, assistors frequently referred to them as unstructured agreements or arrangements.

Performant was the only PCA that received positive feedback from the IRS. The IRS identified that Performant assistors effectively convey the unstructured payment option to taxpayers. The discussions did not imply these are payments arrangements but rather another way to help the taxpayer become compliant.

As a result of these reviews, the IRS recommended that all four PCAs conduct refresher training on unstructured payments. Each PCA acknowledged the additional training, including that, in conjunction with the National Emergency PDC Restart Plan, each assistor needed to complete the refresher training specified prior to any taxpayer contact.<sup>24</sup>

I.R.C. § 6306(b)(1)(B) only allows PCAs to take commissions on qualified collection contracts, which by definition must fully pay the liability within the time period before the CSED. The law for PCAs to solicit payments from taxpayers is clear on what PCAs are allowed to do, and the law does not provide for PCAs to offer taxpayers the opportunity to make unstructured payments. During our site visits and discussions with PCA management, they acknowledged that their employees have experienced circumstances in which taxpayers cannot meet the minimums to initiate a payment arrangement but can make reduced monthly payments. Continuing to allow PCAs to accept unstructured payments without a review of a taxpayer's financial situation increases the likelihood that these taxpayers will be put into a financial hardship situation and will eventually default.

The August 30, 2019, PPG revision allowed PCAs to offer taxpayers the opportunity to make unstructured payments. From that time through May 2020, 7,704 taxpayers had promised to make unstructured payments to PCAs. Of those taxpayers, 4,127 (54 percent) taxpayers have made no payments, 1,566 (20 percent) made only one payment, and 2,011 (26 percent) made multiple payments. Only 389 taxpayers who promised to make unstructured payments have entered into a formal payment arrangement.<sup>25</sup> We asked the IRS to provide us a breakdown of the total unstructured payment dollars collected by each PCA and the commissions paid out to each PCA on those payments. Although the IRS acknowledges that PCAs received commissions on those payments, it does not track that information.

The Director, Collection, should:

**Recommendation 2:** Comply with I.R.C. § 6306, which only allows PCAs commissions for qualified collection contracts.

**Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management believes they are in compliance with all aspects of the law. The IRS believes the definition of a "qualified tax collection contract" under I.R.C. § 6306 is not meant to be read as closed or exclusive. The Office of Chief Counsel advised that

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<sup>24</sup> Guidance from the National Emergency PDC Restart Plan stated that, on July 16, 2020, PCAs may resume making outbound calls and issuing letters to IRS taxpayers. As outbound calls resume, the PCA will be sensitive to the personal circumstance(s) of the taxpayer due to the National Emergency. Discussions with the taxpayer may provide an opportunity to defer action (*e.g.*, when monitoring payment arrangements) for a period of time or return the account to the IRS. The PCA must document the Record of Account regarding the conversation with the taxpayer.

<sup>25</sup> Taxpayers who ended up in a payment arrangement can also be counted in the zero, one, or multiple unstructured payment arrangements subgroups.

commissions can be paid on any payments received during the commissionable period, with certain exceptions that include judicial and levy payments and certain credit offsets.

**Office of Audit Comment:** By paying PCAs commissions on taxpayer voluntary payments which are not part of a qualified tax collection contract, the IRS is again finding a way to work around the plain meaning of the language in I.R.C. § 6306 for the benefit of PCAs, as it did previously when the statute allowed installment agreements of only 60 months but the IRS worked around the language to allow 84-month installment agreements. Our tax administration system depends on taxpayer voluntary compliance with the tax law as it is written and enacted, and the IRS should do the same.

**Recommendation 3:** Work with the PCAs to allow for them to obtain financial information from taxpayers who want to make partial payments and provide that information to the IRS for potential further interaction with the taxpayers.

**Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated that, under I.R.C. § 6306(b)(1)(C), PCAs are allowed to obtain financial information from taxpayers, but only as specified by the Secretary. They decided not to exercise this discretion, since having the PCAs obtain financial information would cause undue taxpayer burden as this information may not be applicable to the taxpayer's situation or useful to another IRS function.

**Office of Audit Comment:** Similar to the IRS's response to Recommendation 1 above, the IRS has no interest in financial information on these taxpayers assigned to PCAs because, if the PCAs cannot collect, the IRS does not want to have anything further to do with the accounts since it deems them unproductive and adding costs to its PDC program, even though the taxpayers may want to pay something to reduce their debt. The IRS's approach may increase the IRS's return on investment by reducing costs in the PDC program but may not make for effective tax administration in the long-run.

### **The IRS May Not Be Able to Identify Some Low-Income Taxpayers for Exclusion From PCA 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.<sup>26</sup> 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 PCAs for:

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

<sup>26</sup> Pub. L. No. 116-25, § 1205(a) (amending I.R.C. § 6306(d)(3)).

- A taxpayer who is an individual with adjusted gross income, 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).<sup>27</sup>

Our research on the IRS's actions taken to meet these new requirements showed the IRS has already begun to exclude SSDI taxpayer cases from PCA inventory; however, there is currently no legal way for the IRS to obtain the needed SSI taxpayer information from the Social Security Administration (SSA) to identify and exclude these taxpayers. In addition, the methodology being used by the IRS to exclude low-income taxpayers at or below 200 percent of the Federal Poverty Level may not prevent all low-income taxpayers who meet the threshold from future assignment to PCAs.

### **The IRS implemented programming to exclude SSDI recipients from PCA inventory**

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 informed TIGTA that the new programming reads the annual SSDI recipient file that is provided by the SSA on a weekly basis (annually reported on Form SSA-1099, *Social Security Benefit Statement*). If any Individual Master File (IMF) taxpayer or his or her spouse in the IRS's Unpaid Assessments database is receiving SSDI income, the case is excluded from the PDC program. TIGTA also inquired as to how the IRS would conduct reviews of the inventory to ensure that no SSDI cases are being assigned to PCA inventory. The IRS responded that it created unique reason codes to allow for tracking the recalled or excluded cases. In addition, the IRS verified that the system is programmed to monitor the PCA inventory on a weekly basis using the unique reason codes to ensure that SSDI accounts are not present. TIGTA will verify that this programming is effectively excluding these taxpayers in a future PDC audit.

Additionally, the IRS recalled a large volume of SSDI inventory from the PCAs on January 27, 2020, using the Information Return Master File processing, which stores the Form SSA-1099 records that are analyzed by the Unpaid Assessments database. When asked whether all SSDI cases in PCA inventory were recalled on January 27, 2020, including a total, the IRS responded that all SSDI cases in PCA inventory on that date had been recalled, totaling 107,261 accounts.

### **The IRS asserts it does not have legal authority to obtain SSI information from the SSA**

Beginning in January 2021, as discussed previously, the IRS is required to exclude tax receivables from PCA assignment for which substantially all of a taxpayer's income is attributable to SSI. The IRS initially tried to exclude SSI recipients from entering PCA inventory as early as FY 2017, before the Taxpayer First Act was passed in FY 2019. Since SSI benefits are not reported on Forms SSA-1099, as are SSDI benefits, the only way for the IRS to identify and exclude SSI recipients is for the SSA to provide the IRS with the Taxpayer Identification Numbers of SSI recipients on a regular basis.

In FY 2017, the IRS attempted to use an existing Computer Matching Agreement between the SSA and the Bureau of the Fiscal Service as the authority for the SSA to disclose the information

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<sup>27</sup> The IRS will use the Federal Poverty Level guidelines issued annually by the Department of Health and Human Services to determine the 200 percent threshold. Therefore, we use Federal Poverty Level throughout the report, except when using the language in the statute.

to the IRS; however, the SSA ultimately denied this request, citing that it did not have the legal authority in its statutes to disclose the SSI information to the IRS for the intended purpose.

We questioned the IRS in September 2019 as to whether it had explored any other alternatives for identifying taxpayers who may receive SSI benefits. IRS management responded that their alternative to securing the SSI information from the SSA was to have the PCAs return cases if taxpayers indicated they are receiving SSI. In the PPG effective January 27, 2020, the IRS added the requirement that PCAs ask the taxpayer up front, during initial contact, if they are a recipient of SSI or SSDI. However, the IRS does not require the PCAs to explain why they are asking this question. Without understanding the reason for the question about being an SSI or SSDI recipient, a taxpayer understandably may be reluctant to provide that information to a debt collector. If the taxpayer acknowledges they receive either SSI or SSDI, the account is returned to the IRS. Therefore, the IRS is completely dependent on the PCAs to ensure that taxpayer's cases are returned.

The IRS later made us aware of another step it took in November 2019 to solve this problem. After enactment of the Taxpayer First Act, the IRS coordinated with Privacy, Governmental Liaison, and Disclosure and asked that the SSA reconsider the original Computer Matching Agreement request because the SSA is the only source for the information needed to comply with the Taxpayer First Act. Additionally, the IRS disclosed that the SSA denied the request on November 8, 2019, citing that it does not have the legal authority to provide the IRS the requested information without the number holder's consent.<sup>28</sup>

Ultimately, the IRS determined that it could not obtain the SSI information without a change to the law. Therefore, the IRS took steps to submit a request for a technical correction for I.R.C. § 1205(a) to Congress on April 8, 2020. The IRS and the SSA agree that, when the technical correction is passed, it will legally allow the SSA to exchange the SSI data. IRS management informed us that, as of April 23, 2020, they have received the majority of the technical programming requirements needed to exchange SSI data with the SSA in anticipation of Congress passing the technical correction. However, as the effective date approaches, the IRS must ensure that there are no programming flaws for the SSI data transfer. If Congress does not pass the technical correction before January 1, 2021, the IRS will not be able to timely comply with § 1205(a) of the Taxpayer First Act. Since the IRS is taking corrective action, we will not be making a recommendation for this issue.

### **The methodology for identifying taxpayers with AGI at or below 200 percent of the Federal Poverty Level does not include the most recent third-party income data**

In its 2019 Annual Report to Congress, TAS determined that, as of September 12, 2019, there were an estimated 1,162,606 taxpayer accounts in PCA inventory of IMF taxpayers whose AGI was at or below 200 percent of the Federal Poverty Level.<sup>29</sup> To identify the taxpayers whose income fell within this range, TAS Research used the AGI from the most recent return on file from the past two tax years (Tax Year (TY) 2017 or TY 2018). In cases for which there was either no return on file or the most recent return on file fell outside the past two-year time frame, TAS Research used third-party income information reported to the IRS to determine a taxpayer's AGI.

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<sup>28</sup> The sections of the Privacy Act the SSA referenced in its reply are: 5 U.S.C. § 552a(b)(3), 42 U.S.C. § 1306, and 20 C.F.R. § 401.150.

<sup>29</sup> National Taxpayer Advocate, *2019 Annual Report to Congress* p. 98 (Jan. 2020).

If no return was filed for the two previous tax years and no third-party income data were available for the past two tax years (TY 2017 or 2018), the taxpayer's AGI was considered to be \$0. Using this methodology, TAS found that about 13 percent of the identified taxpayers had no AGI or third-party data for the current tax year (TY 2018) or the previous tax year (TY 2017). However, the IRS applied a different calculation than TAS to determine the number of taxpayers with AGI at or below 200 percent of the Federal Poverty Level by using only the most recent return on file to determine a taxpayer's AGI. The IRS approach identified 783,046 IMF accounts in PCA inventory as of the same date, September 12, 2019. Based on the two different approaches used, the IRS's calculation retains about 379,000 more IMF accounts in PCA inventory compared to the total TAS identified.

After the TAS report was released, the IRS consulted with its Chief Counsel for feedback on the TAS methodology of using third-party information reporting if a return was not filed within the last two tax years. [REDACTED]

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The IRS then updated its methodology in February 2020 and will now look back 10 years to identify the most recent tax return filed. This updated methodology will be used to identify those taxpayers whose AGI is at or below 200 percent of the Federal Poverty Level and exclude them from PCA inventory when required, beginning January 1, 2021.<sup>31</sup> In March 2020, the RAAS team completed an analysis comparing the methodology outlined in the TAS 2019 Annual Report to Congress (discussed above) and the IRS updated methodology. The results showed that 98.8 percent of taxpayers identified in the RAAS PDC inventory were in the TAS inventory list. Additionally, RAAS queried income data from TYs 2010 through 2018 tax returns and identified 191,836 more PDC taxpayers between 50 and 199 percent of the Federal Poverty Level than the TAS methodology. However, for taxpayers whose income was below 50 percent of the Federal Poverty Level, the TAS methodology identified 33,708 more PDC taxpayers than the IRS's updated methodology.

While this section of the law is not effective until January 1, 2021, TIGTA is concerned that the differences in methodologies used to identify low-income taxpayers by TAS and the IRS shows that some low-income taxpayers may still be assigned to PCAs. Using just the most recent tax return information may not portray the taxpayer's current financial situation, especially if the taxpayer has not filed a return in several years. We acknowledge that certain self-employed taxpayers may not have third-party information reported in the last two tax years; therefore, it may be necessary to look back for a period of years for the most recent return filed in these situations. A combined approach of the IRS and TAS methodologies would ensure that as many low-income taxpayers as possible are being excluded from PCA inventory.

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<sup>30</sup> I.R.C. § 6306(d)(3)(F) – 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).

<sup>31</sup> As of October 8, 2020, the IRS has not excluded or recalled taxpayers whose income is at 200 percent of the Federal Poverty Level from PCA inventory.

**Recommendation 4:** The Director, Collection, should consider using both last return filed information and third-party income information in its methodology to exclude low-income taxpayers from PCA inventory.

**Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated that, pursuant to I.R.C. § 6306(d)(3)(F), they will not assign a taxpayer account to a PCA when an individual with AGI, as determined by the most recent taxable year for which such information is available, does not exceed 200 percent of the applicable poverty level. The IRS believes that it is acting consistent with the statute by applying the annual poverty level for a given year to the corresponding AGI determined by the filed tax return for the same year to determine if the account will be excluded from PCA assignment.

**Office of Audit Comment:** In electing to use the most recent income tax return information going back as far as 10 years (depending on when the last income tax return was filed) and excluding the use of recent information returns (such as Form W-2s and Form 1099s), the IRS risks using outdated information since taxpayers' economic circumstances can change (for the worse or the better) over a 10-year period. The IRS's approach thus may both exclude taxpayers whose accounts should be assigned to PCAs and include those accounts that should not be assigned to PCAs.

### **A Direct Debit Payment Option Has Been Implemented for Taxpayers Working With PCAs, but Protecting Taxpayer Information Is a Concern**

In January 2018, the IRS began devising a direct debit option for taxpayers working with the PCAs. In the initial meeting with the online payment group within the IRS, it was determined that the Collection Policy function would need to agree to allow the direct debit payment option for PCA accounts because it makes the policy for the IRS Direct Debit Installment Agreement, which is coded with a Status 60 (Installment Agreement). The problem identified was that, if a PDC account goes into Status 60, it automatically recalls the account back to the IRS. Therefore, in May 2018, the PDC Operations team explored direct debit options with the Bureau of the Fiscal Service and the online payment group. The PDC Operations team determined there were two possible options the PCAs could use to initiate a direct debit on behalf of a taxpayer so the account would not be recalled.

1. Option 1: Allow the PCAs to accept payments from the taxpayer via preauthorized debits with the express verifiable written/oral consent of the taxpayer. The PCA would create an actual paper check containing the taxpayer's account information made out to the U.S. Treasury, and the checks would be sent to an IRS lockbox via courier within 24 hours.
2. Option 2: Allow the PCAs to initiate direct debits from the taxpayer's account via the Electronic Federal Tax Payment System (EFTPS) as a batch provider. The IRS already provides the EFTPS payment option for its taxpayer accounts.

For both options, the PCAs would be required to secure written disclosure authorization from the taxpayer to initiate the direct debits and would require the following from the taxpayer:

- Number of debits.
- Date and amount of each debit.
- Taxpayer's billing and account information.
- Date of taxpayer's oral authorization.

The PDC Operations team ultimately recommended Option 1 (PCAs creating checks on behalf of taxpayers), mainly due to IT limitations for initiating Option 2 in a timely manner. It was determined that Option 2 would require PDC IT staff to change programming to provide AGI information to the PCAs, and according to the PDC business requirement's team, the earliest date the AGI data could be sent to the PCAs was January 2020.

In early November 2018, the PPG draft guidance for the direct debit option was developed, and by the end of that month, the IRS received initial feedback from the PCAs. Due to the partial Government shutdown that took place for 35 days in December 2018 and January 2019, the IRS was unable to update and perfect the procedures. Throughout early 2019, the IRS continued to work on perfecting procedures and guidance, and on June 6, 2019, the Deputy Commissioner for Services and Enforcement approved the new PADD implementation. The PCAs were given another opportunity to provide feedback on the PPG update, and the new PADD was implemented with the August 30, 2019, PPG revision.<sup>32</sup> The guidance allows taxpayers to select the PADD payment option to make one or a series of payments to pay his/her Federal tax debt. When a taxpayer chooses this option, he or she must submit a signed, written authorization for the PCA to draft checks on his or her behalf and provide specific information outlined further in PPG § 9.1. Additionally, the PCAs are to explain the following:

- The taxpayer must provide his or her verbal consent and submit a completed and signed PADD Authorization Form to the PCA address or fax number provided before the PADD can be processed.
- The authorization permits the PCA to draft a check on the taxpayer's behalf, made payable to the United States Treasury for the amount specified. The check will contain the taxpayer's Taxpayer Identification Number, first four letters of his/her last name, the tax form, and the tax year to ensure that the payment is applied correctly to the taxpayer's account.
- The PCA will change or cancel the direct debit payment(s) when the taxpayer contacts their office within one business day before the scheduled payment date.

In the FY 2020 Operational Review Report (discussed previously), the IRS reviewed whether the PCAs were accurately discussing and initiating PADD payments with the taxpayer on established payment arrangements in accordance with PPG § 9.1.<sup>33</sup> As a result, the PDC Policy Administration team identified some improvements that could be made at each of the four PCAs as follows:

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<sup>32</sup> PPG § 9.1, *Pre-Authorized Direct Debit* (Aug. 30, 2019).

<sup>33</sup> The IRS methodology for the reviews consisted of selecting a random sample of twenty call recordings and PADD records from the Cycle 201951 PADD Monthly Report. Cycle 201951 began on December 13, 2019, and ended December 19, 2019.

- CBE assistors were not consistently apprising taxpayers of the time frames relative to the PADD.
- Conserve assistors were not consistently instructing the taxpayer to return the PADD authorization form to the PCA within three business days prior to the scheduled payment.
- Performant assistors did not always follow procedures in the up-front discussions with the taxpayers or accurately document the taxpayer’s verbal consent for a PADD.
- Pioneer assistors did not always give instructions to taxpayers to properly complete the PADD authorization form or ensure that verbal consent is documented in the taxpayer’s Record of Account.

As a result, the PDC Policy Administration team recommended that CBE, ConServe, Performant, and Pioneer conduct refresher training to review areas of concern that the team identified. In conjunction with the National Emergency PDC Restart Plan, each assistor needed to complete the refresher training specified prior to any taxpayer contact. Conserve and Performant were provided additional recommendations, including that Conserve provide updated PADD scripting to the IRS to include the time frame to return the authorization form, and that Performant review its systemic process and update programming to allow taxpayers on an existing payment arrangement to change their payment method to a PADD without Performant assistors having to terminate the existing payment arrangement. The PDC Policy Administration team also informed ConServe and Performant of its intention of following up on the recommendations made. Figure 8 shows the PADD totals from October 1, 2019, through May 28, 2020.<sup>34</sup>

**Figure 8: PDC PADD Payments**

Description	CBE Group	ConServe	Performant	Pioneer	Total
Total Number of PADD Payments	3,522	1,707	1,896	1,295	8,420
Total PADD Dollars Collected	\$783,298	\$373,998	\$496,492	\$300,612	\$1,954,850
Total Number of Taxpayers With at Least One PADD Payment	1,084	503	641	361	2,589

Source: TIGTA analysis of IRS data provided through May 28, 2020.

### Further action could be taken to help protect taxpayers’ bank account information

In January 2020, members of Congress expressed concerns about the new PADD process being used by the PCAs because it requires taxpayers to disclose their bank account information, which is then used by the PCA to draft the preauthorized check made payable to the U.S. Treasury.<sup>35</sup> The concern was related to potential fraudulent handling of taxpayer’s bank information by the PCAs and the fact that the Federal Trade Commission had previously banned telemarketing companies using this direct debit paper check process. The IRS responded to congressional concerns stating that the IRS requires the PCAs to handle and protect all taxpayer

<sup>34</sup> Though the PADD was implemented with the August 30, 2019, PPG revision, it was not effective until 30 days from the issuance (effective) date. Therefore, the PADD payment method started on September 30, 2019, with the first payment due on October 10, 2019.

<sup>35</sup> January 8, 2020, letter from Senators Elizabeth Warren and Sherrod Brown to Charles Retting, Commissioner, Internal Revenue Service.

information following the security guidelines detailed in Publication 4812, *Contractor Security & Privacy Controls*.<sup>36</sup> The IRS conducts Contractor Security Assessments annually to ensure compliance with these guidelines, and the IRS could terminate a PCA's contract if it finds a PCA to be in noncompliance with these protocols. In addition, the IRS stated that its oversight of the PDC program mitigates potential risks to taxpayers and includes measures to prevent potential violations of taxpayer rights or related identity theft. Also, the IRS stated that it holds the PCAs to the same standards as it holds itself, and any willful disclosure of taxpayer information could result in criminal and civil actions against the PCA employee.

After the IRS Commissioner responded to the congressional inquiries about the PADD, we requested from each PCA its process for handling PADD cases to make sure taxpayer information was secured safely during the process. We identified a concern with the controls for handling of the verbal consent after a taxpayer acknowledges interest in the PADD. For example, Pioneer is the only PCA that discusses bank account information with the taxpayer during the verbal consent stage, stating that an assistor obtains the information and a senior collection specialist or member of management verifies that the information is correct and obtains the verbal consent from the taxpayer. However, PPG § 9.1.1 does not state that the PCAs should discuss or obtain bank account information from the taxpayer during the verbal consent stage but rather should explain to the taxpayer that they must complete the bank and contact information on the written authorization form then sign and return it to the PCA by mail or fax. CBE, ConServe, and Performant responded that bank account information is not requested during the verbal consent stage. Additionally, after a signed PADD form is returned to the PCA, each of the PCAs have designated employees responsible for inputting bank and routing account information. At Performant, only the senior clients account management representative is responsible for the task of entering the banking information into the collection system for processing. At CBE group, only designated administrative/quality control employees are responsible for input. At Conserve, only the operations services team is responsible for input, and at Pioneer, only two dedicated collection support staff are responsible for input. After input of the bank and routing information, all four of the PCAs mask the data, which prohibits employees from accessing the full account information. Overall, three of the four PCAs seem to have adequate controls in place for limiting employee access to bank account information. However, Pioneer's controls during the verbal consent stage should be modified to further protect taxpayer's bank account information, similar to those at the other three PCAs. This would protect taxpayers by reducing the risk of fraud.

**Recommendation 5:** The Director, Collection, should review each PCA's procedures for acquiring bank information from taxpayers to determine whether modifications are warranted and align them with the guidance in the PPG to reduce the risk of potential fraud.

**Management's Response:** The IRS agreed with this recommendation. In their response, IRS management stated that, prior to delivering any data to the PCAs, they ensure the PCAs have processes in place to safeguard sensitive taxpayer data and to protect taxpayer rights. They will review the PCAs' procedures during the annual security review to ensure compliance with the PPG and applicable security measures as they apply to the information needed for establishing PADD payments. In addition, the IRS has issued preliminary guidance to the PCAs to clarify that bank account information

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<sup>36</sup> Publication 4812 (Rev. 10-2019). The Publication is designed to identify security requirements for contractors and any subcontractors supporting the primary contract.

cannot be requested verbally. This guidance will be included in the PPG update issued for the second quarter of FY 2021.

## **PCAs Self-Reported a Majority of Incidents in Fiscal Year 2019**

Incidents can include an allegation of rude or unprofessional behavior, intimidation, or harassment or a statutory violation of laws and regulations such as the FDCPA, the Taxpayer Bill of Rights, and privacy or disclosure laws. 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 the TIGTA Office of Investigations (OI) and the COR or other designated IRS representatives, including TAS employees. The PCA Incident Report is delivered to the COR in electronic format (Excel) no later than the seventh business day after the end of the monthly reporting cycle.<sup>37</sup> The COR and corresponding senior tax analyst from the PDC Policy Team also reconcile the Incident Reports against the monthly PCA Corrective Action Reports to ensure that all corrective actions were taken and logged appropriately. The contract administration manager reviews the full incidents log monthly and provides feedback as appropriate.

In FY 2019, significant changes were made to the PDC Incident Report process. TIGTA OI requested changes to the process and actively participated in its development and collaborated with the PDC team. The final terms of the procedure guide were approved by TIGTA OI before being published in the August 30, 2019, revision of the PPG. Since the August 2019 revisions, the IRS has further updated the incidents process, with the most recent change occurring August 5, 2020.

TIGTA OI is now only responsible for receiving Misconduct/Tax Integrity incidents. 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.<sup>38</sup> Misconduct or tax incident categories include: bribery, threat/assault, impersonation, loss/theft of taxpayer records, and intentional unauthorized disclosure or unauthorized access.<sup>39</sup> The COR will notify the PCA when an incident is investigated by TIGTA. 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.

The IRS will immediately revoke the clearances of any PCA employee who commits a statutory violation validated by the IRS. The PCA must take immediate action to permanently remove the

<sup>37</sup> Section 16.2.1 (*Incident Report*) of the PPG provides what is to be included in the Incident Reports, including monthly and cumulative data. There are five CORs assigned to the Contract Administration Team, one for each of the four PCAs plus one lead COR.

<sup>38</sup> The PDC incident analyst and/or backup will monitor the incidents mailbox and the E-trak system. The incidents will be distributed to the individual CORs assigned to the PCA noted on the incident.

<sup>39</sup> Definitions of each Misconduct and Tax Integrity category are found in PPG § 15.2.2 (Aug. 30, 2019).

violating employee from all access to contract data and the contract worksite and from working on the contract in any capacity. Contract activity on the taxpayer's account can resume only after the IRS determines the PCA has taken corrective action(s) to prevent further validated statutory incidents and to the extent authorized in writing by the COR. Depending on the severity and frequency of the misconduct, additional actions may include criminal referral by TIGTA OI for prosecution of the offender and subsequent termination of the contract. If the COR and PDC team determine that the complaint is valid, the commission for that PCA will be discounted 1 percent according to the terms of the PCA's task order.

We reviewed all incidents reported for FY 2019 that were provided by the IRS on January 7, 2020. Our review identified missing data in many fields. For example, the initial data showed there were 755 reported incidents; however, there were 412 incidents in FY 2019 that did not have a "yes" or "no" response in the "PCA Returned To IRS" column, and there were 428 incidents in FY 2019 for which the "TIGTA Response" column was left blank. When we asked IRS management why these columns were left blank, they responded that the FY 2019 incidents log was under a different set of procedures, and the PDC team completed a validation process in an effort to ensure that all incident records were accurate and complete. A revised incident log was provided to us in July 2020; we noted the total number of incidents had gone down by four since the prior submission. This was due to corrections to the dates and the removal of erroneously duplicated incident reports. For the "TIGTA response" field, management explained it was left blank because, prior to the new PDC incident process, TIGTA OI declined to investigate a large portion of PDC complaints.<sup>40</sup> For all complaints received from the PCAs, including those for which TIGTA OI declined to investigate, the lead COR would now review the call recordings and the PCA Record of Account to identify if the case should be returned/recalled or if any corrective action was warranted. If not, the COR would close the complaint and notify the PCA via e-mail to resume collection.

In the updated data provided in July 2020, there were 751 reported incidents made against the PCAs in FY 2019. The PCAs self-reported 724 of those incidents, while TIGTA reported 22, and five were reported by the IRS. Of the 751 total complaints reported, Pioneer had 458 complaints, with 447 of them being self-reported, while the CBE Group had 70 complaints, with 66 being self-reported. We asked the IRS why Pioneer had reported a majority of complaints in FY 2019, and it stated that Pioneer was the most conservative PCA in interpreting "any form of dissatisfaction" from the contract (§ III, 4.4.1), which states "A complaint is defined as any communication received from a taxpayer, power of attorney, or third party that expresses any form of dissatisfaction with the PCA's handling of their account." Almost 71 percent of incidents (531 of 751) resulted from three categories. Those categories were Harassment, Threat/Assault, and Unprofessional Conduct. Only 58 incidents reported were classified as scams. PCAs took corrective actions in only 71 incidents, with 40 resulting in additional training or retraining and four involving written warnings. Only 218 (29 percent) of recorded cases with incidents were returned from PCA inventory to the IRS in FY 2019. The most returned incidents were Threat/Assault (159), and the [REDACTED]

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<sup>40</sup> TIGTA OI informed us that prior to the new PDC incident process, they declined to investigate a large portion of PDC complaints, due to the complaint not meeting the criteria of potential Misconduct or Tax Integrity, which falls under their investigative jurisdiction.

Threat/assaults were returned more than any other incident because many involved the taxpayer threatening harm, including suicide.<sup>41</sup>

### **More IRS incident responsibility and minimal independent IRS oversight illustrate the need for a complaint panel**

In the previous PDC initiative, which was in place from September 2006 until March 2009, PDC program management identified the need to provide assistance and consistency to the validation process and established a PDC Complaint Panel to perform that role. The group consisted of PDC program managers, Small Business/Self-Employed Division program managers, contract specialists, and a TAS representative. The Panel was responsible for the following:

- Ensuring the consistency of adjudication of complaints against the PCAs.
- Reviewing Type 1 (rude behavior) complaints for trends.
- Reviewing Type 2 (intimidation) and Type 3 (FDCPA violations) complaints for validation purposes.

In the PDC implementation report, we made a recommendation that the Commissioner, Small Business/Self-Employed Division, establish a complaint panel made up of a cross-functional group of IRS managers to ensure that complaints are acted upon and that systemic problems with the program are identified and addressed. The IRS disagreed and, in its response, stated that TIGTA OI triages all PDC complaints and determines if the complaint will be accepted for further evaluation. However, since changes were made to the incidents process, as previously discussed, TIGTA OI will no longer be triaging all PDC incidents. For example, if the current incident procedures were in effect for all of FY 2019, TIGTA OI would have received just over 22 percent of the incidents for review.<sup>42</sup> For incidents from October 1, 2019, through December 27, 2019, of the total 189, only 43, or about 22.8 percent, were categorized as Tax Integrity incidents.<sup>43</sup> As a result, there is more responsibility on the IRS to investigate reported incidents and take corrective actions.

Additionally, the COR is responsible for much of the incident review process. Once incidents are distributed to the individual CORs assigned to the applicable PCA, the CORs review the incident, listen to any related call recordings, and review the Record of Account in order to make a determination on the appropriate incident category and any corrective/follow-up action needed. If applicable, the COR closes the incident, sending a response to the PCA and the incident analyst. However, there appears to be limited oversight of the COR, as there is no cross-functional review of COR incident determinations, which increases the likelihood that some more serious incidents may be overlooked. As discussed above, the COR and

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<sup>41</sup> In the PPG, the IRS requires the PCA to initiate the return of the account when the taxpayer has threatened suicide using return category "Threat Suicide." The PCA is to ask the caller to clarify any vague statements they may have made and to keep the caller on the line and document the caller's address/location. The PCA is to use all means available at their site, including the telephone or Internet access, to gather the necessary information to contact the required local law enforcement or government suicide prevention authority. Finally, the PCA is to report the threat and the caller's location to the local authorities. In situations involving life and health of an individual, providing the name and address of the caller is considered an authorized disclosure.

<sup>42</sup> For FY 2019, 167 of the 751 total incidents were categorized as Misconduct/Tax Integrity, which under the current procedures are the only ones TIGTA OI is responsible for receiving. The exact percentage is 22.24 percent.

<sup>43</sup> The exact figure is 21.43 percent.

corresponding senior tax analyst from the PDC Policy Team reconcile the Incident Reports against the monthly PCA Corrective Action Reports to ensure that all corrective actions were taken and logged appropriately, and the contract administration manager reviews the full incidents log monthly and provides feedback as appropriate to the COR.

Due to the concerns of increased responsibility by the IRS, we believe a complaint panel would provide numerous benefits. These benefits include IRS leadership being made aware of the types of issues taxpayers are complaining about; taking consistent action on similar types of complaints, rather than leaving decisions up to different contracting officers; and ensuring that the PCAs are reporting complaints based on the same set of standards. Additionally, a complaint panel could help identify FDCPA or Fair Tax Collection Practices violations and recommend changes be made to help mitigate further potential violations. For example, in September 2020, TIGTA reported on FY 2019 potential violations by PCA employees when contacting taxpayers and identified 51 potential FDCPA violations and six potential Fair Tax Collection Practices violations.<sup>44</sup>

The business of debt collections involves call campaigns once a viable telephone number is thought to be found for a given taxpayer. The PCAs earn a commission on what is collected, so they are incentivized to maximize telephone contacts. In previous reports, we recommended that the IRS establish a complaint panel made up of a cross-functional group of IRS managers who would 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. The IRS rejected the recommendation. While we will not formally repeat the recommendation, we continue to believe that a panel of objective IRS managers would serve effective tax administration.

### **PCA Employees Generally Followed Procedures When Talking to Taxpayers**

PCAs continue to perform well under the established quality metrics. Telephone contact is the PCAs' primary method to reach taxpayers, request voluntary payments, and establish payment arrangements. There are 28 quality attributes in the PPG that measure whether the 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 he or she was speaking to the correct taxpayer during the authentication process, whether the "mini-Miranda" was properly administered, and whether the assistor was professional during contact.<sup>45</sup> See Appendix IV for a detailed list of all 28 quality attributes.

Each PCA is required to perform monthly quality assurance reviews of taxpayer telephone calls and other case actions for each PCA employee using these 28 quality attributes. The PCAs summarize and report to the IRS the results of these quality assurance reviews in monthly Performance Management Reports.

We randomly sampled 200 telephone call recordings (50 from each PCA) from October 1, 2018, to September 30, 2019, to determine whether assistors followed PPG guidance and the related

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<sup>44</sup> TIGTA, Ref. No. 2020-30-053, *Fiscal Year 2020 Statutory Review of Potential Fair Tax Collection Practices Violations* (Sept. 2020).

<sup>45</sup> The "mini-Miranda" is the initial written or oral communication with the consumer, where the debt collector must disclose that the debt collector is attempting to collect a debt and that any information obtained will be used for that purpose. Failure to disclose this communication to the consumer is a violation of 15 U.S.C. § 1692e(11).

quality attributes.<sup>46</sup> In general, assistors followed guidance and provided taxpayers with quality service. For the 200 calls, all PCA employees complied with 19 of 28 attributes, including call summarization, professional communication, and timely actions. Other key attributes only had one or two exceptions, including attributes related to employee case documentation. Figure 9 shows the overall quality results for each PCA based on our review.<sup>47</sup>

**Figure 9: Results of TIGTA’s Review of Sampled PCA Taxpayer Calls**

PCA	Applicable Attributes	Attributes Missed	Attributes Achieved	Percentage
CBE Group	832	4	828	99.5%
ConServe	759	3	756	99.6%
Performant	905	4	901	99.6%
Pioneer	732	8	724	98.9%
<b>Total</b>	<b>3,118</b>	<b>19</b>	<b>3,099</b>	<b>99.4%</b>

Source: TIGTA analysis of 200 randomly selected PCA recorded telephone calls between October 1, 2018, and September 30, 2019.

All four PCAs met the attributes for nearly all calls reviewed, with an overall 99.4 percent accuracy rate. However, some employee actions resulted in more than one missed attribute during the call. Figure 10 shows how many taxpayer calls involved at least one attribute that was not met.

**Figure 10: Taxpayers Affected by Missed Attributes**

PCA	Calls Reviewed	At least One Attribute Missed	Percentage
CBE Group	50	4	8%
ConServe	50	2	4%
Performant	50	2	4%
Pioneer	50	5	10%
<b>Total</b>	<b>200</b>	<b>13</b>	<b>7%</b>

Source: TIGTA analysis of 200 randomly selected PCA recorded telephone calls between October 1, 2018, and September 30, 2019.

Although the total number of attributes missed was less than 1 percent, 7 percent of reviewed taxpayer calls experienced at least one missed attribute. There was some variance between the

<sup>46</sup> We selected 10 telephone calls between one and five minutes in duration, 15 telephone calls between five and 15 minutes in duration, and 25 telephone calls longer than 15 minutes in duration.

<sup>47</sup> Each of the 50 telephone calls can have up to 28 applicable attributes (1,400 total possible), but not all attributes are applicable for every telephone call.

PCAs for some of the attributes, and certain attributes were more problematic. Figure 11 shows the two most frequent attributes that PCA employees did not meet.

**Figure 11: Most Commonly Missed Attributes**

Attribute	Attributes Missed
<b>Taxpayer's telephone number secured and verified (1<sup>st</sup> Contact):</b> Ensure that the collector secured the taxpayer's telephone numbers during the initial telephone call.	7
<b>Confidentiality:</b> Determine if the collector protected the confidentiality of the taxpayer and the taxpayer's information by ensuring the collector received consent from the taxpayer using a wireless device prior to authentication.	4
<b>Total</b>	<b>11</b>

*Source: TIGTA analysis of 200 randomly selected PCA recorded telephone calls between October 1, 2018, and September 30, 2019.*

More than half of all exceptions involved these two attributes. For example, all four missed attributes related to confidentiality occurred when the taxpayers were given the cordless device disclosure after the authentication process or were not notified of the risks of speaking on a wireless device. The cordless device disclosure is intended to warn the taxpayer of the risks associated with discussing sensitive matters. The authentication process involves taxpayers providing Personally Identifiable Information (PII), such as name, address, date of birth, SSN, or TAN. If the disclosure is given after authentication, the taxpayer already provided PII before being made aware of the risks associated with the telephone conversation, which is the sole intention of the cordless device disclosure. This risk was addressed during the previous biannual performance review audit, and the PPG was updated in February 2019 to add the requirement that all inbound and outbound calls must provide the cell phone or cordless device disclosure prior to authentication. One PCA stated that the cause for the missed attributes was due to the fact it was in the process of getting approval for script changes as a result of the PPG updates (therefore the assistors were using outdated scripts). The remaining eight attributes missed only had one or two exceptions per attribute, including attributes related to taxpayer's rights and recorded call verification. Both ConServe and Pioneer stated that they would provide additional coaching or retraining to those employees.

In addition to the issues involving quality attributes, we observed other conditions present during telephone calls that were common to more than one collector. For example, we observed three instances in which authenticated taxpayers were not asked to participate in the customer satisfaction survey. PCAs should ask all authenticated taxpayers who have not yet participated in the survey if they would like to complete the customer satisfaction survey according to the survey schedule. The PCAs concurred that the survey was not offered but did not provide a cause.

During our previous review of PDC performance, there were instances identified in which other assistors could be heard in the background of the call speaking to other taxpayers. It was recommended, and IRS management agreed, to direct the PCAs to update their operational plans to minimize telephone background noise. The IRS stated that it would monitor the corrective action as part of its internal management system of controls. However, there is no guidance in the PPG or the Operations Guide for quality reviewers to monitor for telephone

background noise or potential disclosure of taxpayer PII while listening to PCA calls.<sup>48</sup> While listening to telephone calls for Performant, we observed five instances in which other assistors could be heard in the background of the call speaking to other taxpayers. We could not discern any PII; however, there is still the risk to taxpayers' privacy. Performant purchased sound reducing headsets as a result of the previous biannual performance review audit and also stated that it did not believe the background noise on the calls to be excessive and that this noise is not uncommon in a call center. Although PII was not heard on these calls, there is still a possibility that information could be disclosed on other calls, and the IRS does not have guidance in place to monitor for this risk.

**Recommendation 6:** The Director, Collection, should update the PDC Operations Guide and PPG to include guidance for quality reviewers to ensure that telephone background noise cannot be heard and that taxpayer PII and tax return information remains protected from potential disclosure per I.R.C. § 6103.

**Management's Response:** The IRS agreed with this recommendation. In their response, IRS management stated that they will add guidance to the PPG and PDC Operations Guide to ensure that PCA telephone background noise cannot be heard to protect against potential disclosure of taxpayer PII or tax return information. Quality reviewers will incorporate the updated procedures into their reviews.

## Campus Quality Reviewers Generally Rate Customer Calls Accurately

IRS Collection Campus Quality (CQ) reviews measure adherence to the PCA operational plans, the PPG, some aspects of the FDCPA, and the protection of taxpayer rights.<sup>49</sup> CQ uses the National Quality Review System (NQRS) for rating the accuracy of the call using the applicable attributes, and the quality review information is entered and recorded in an online Data Collection Instrument (DCI).<sup>50</sup> Attributes within the NQRS are mapped to one of five metrics. These are Customer Accuracy, Regulatory Accuracy, Procedural Accuracy, Professionalism, and Timeliness.<sup>51</sup> The IRS quality measures are designed to achieve estimates of 5 percent precision with 90 percent confidence. This means there can be 90 percent confidence that the actual quality in the population is within plus or minus 5 percent of the sample estimate.

The CQ reviews of each PCA include listening to telephone calls involving right-party contacts that are five to 30 minutes long. Each PCA must provide CQ access to accounts maintained on the PCA's computer and call monitoring systems. The access must provide the capability for CQ to listen to "recorded" PCA telephone interaction with taxpayers and for viewing the Records of Account. CQ will use the system data to monitor and rate the compliance with the procedures of calls selected for review. CQ selects calls from each PCA daily, with a sample selected from a

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<sup>48</sup> The PDC Operations Guide is used by the CORs and tax analysts as a procedural guide and as a reference for all IRS contract support personnel, including but not limited to the Planning and Performance Analysis Office and Private Debt Collection (PDC) Team.

<sup>49</sup> PPG § 17.3, *IRS Collection Campus Quality (CQ) Reviews* (Sept. 30, 2018).

<sup>50</sup> The NQRS tool is used by quality reviewers to capture national program review data obtained through case reviews. NQRS data are used to report the official organizational business quality results. The DCI consists of a header section for entering identifying and tracking information, an attribute section for capturing the outcome of applicable actions, and a remarks section containing open text fields for narratives.

<sup>51</sup> IRM 21.10.1.7.3(1) (October 1, 2013).

predefined daily statistically valid sample using a random selection method that manually spreads the sample among the designated call population each day. The calls are reviewed by CQ daily, and if errors are identified, a copy of the DCI is provided to the point of contact at each PCA. If the PCA disagrees with defect(s) identified by CQ, there is a two-level rebuttal process, with the requirement that the rebuttal be submitted using the PDC Quality Review Rebuttal Form. Level one must be submitted to the CQ Manager listed on the e-mail within 10 business days from the date the DCI is e-mailed to the PCA. CQ will evaluate the rebuttal and respond within five business days. If the PCA disagrees with the level one response, a second level can be requested within five business days from the response date. The rebuttal must be resubmitted to CQ and the PDC quality Technical Analysts.

In FY 2019, CQ sampled and reviewed 3,546 calls for Customer Accuracy. For FY 2019, there were 32 potential attributes that CQ was tasked with identifying; however, each call is unique, and not all attributes apply.<sup>52</sup> We randomly sampled 40 (10 per PCA) of those telephone call recordings and reviewed them to determine whether the IRS properly applied the quality metrics. Two attributes, however, required access to each PCAs' electronic systems, so TIGTA was unable to provide an analysis of those IRS attributes.<sup>53</sup>

Of the 1,200 potential attributes that could occur in the 40 calls we listened to, we agreed with the IRS on 1,122 determinations (93.5 percent). The IRS determined there to be zero attributes in the 40 calls that were not met; however, we identified 21 instances in which an attribute was not met. The IRS also determined there to be 569 instances in which an attribute was inapplicable; however, we determined there to be 493 instances in which an attribute was inapplicable. For only nine of the 40 calls we listened to did we agree with all of the attribute determinations made by the IRS. The average attribute disagreement with the IRS per call was 1.95.<sup>54</sup> Figure 12 shows the accuracy of the IRS's quality review results.

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<sup>52</sup> PPG Exhibit O(2) – *FY 2019 CQ Quality Attributes* (Aug. 30, 2019). Reviewers code the attributes on each DCI. Attributes can be coded 'Yes' or 'No' or left as 'Inapplicable' depending on whether there was an opportunity to evaluate the action taken that meets the attribute definition.

<sup>53</sup> TIGTA could not provide an analysis on Attribute 100 – Complete Research of Account-Related Systems (Procedural Accuracy) or Attribute 617 – Input/Update to Specialized Systems (Procedural Accuracy).

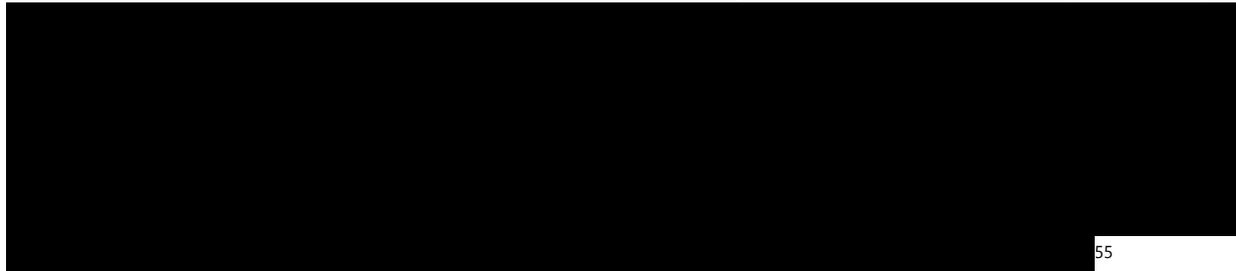
<sup>54</sup> The Average Attribute Disagreement includes the nine calls for which we agreed with all of the attribute conclusions made by the IRS and does not take into account the two attributes per call that TIGTA could not perform.

**Figure 12: Accuracy of the IRS’s Quality Review Assessments**

Quality Determination	Total Opportunities
TIGTA Agreed With IRS Determination	1,122
IRS Marked Attribute Inapplicable, but TIGTA Determined Attribute Was Met	35
IRS Marked Attribute Inapplicable, but TIGTA Determined Attribute Was Not Met	5
IRS Marked Attribute Met, but TIGTA Determined Attribute Was Not Met	16
IRS Marked Attribute Met, but TIGTA Determined Attribute Was Inapplicable	22
<b>Total</b>	<b>1,200</b>

Source: TIGTA analysis of CQ PCA call reviews.

Further analysis showed that, of the 78 disagreements, 25 arose from calls occurring at Conserve, 23 from CBE, and 15 from both Pioneer and Performant. Of the 21 disagreements for which we determined the attribute to have not been met, 13 occurred at Conserve, six at CBE,



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Additionally, 26 (one-third) of the 78 disagreements with IRS determinations arose from just three attributes. Of those three, one attribute (Disclosure Met), involving 11 disagreements, fell under the Regulatory Accuracy metric; one attribute (Balance Due/Payoff Computation), involving eight disagreements, fell under the Procedural Accuracy metric; and one attribute (Timely Employee Actions), involving seven disagreements, fell under the Timeliness metric.<sup>56</sup>

It is important that IRS CQ employees correctly identify when attributes are met or not so PCAs can be made aware of any trends that harm taxpayer rights and attempt to reduce the risk of any regulatory defects. Though no recommendation will be made in this report, we will continue to monitor CQ reviews in future biannual performance reviews to make sure taxpayer rights continue to be protected.

<sup>55</sup> The referral unit is discussed in more detail further below.

<sup>56</sup> IRM 21.10.1.7.3(3), (4), and (6) (Oct. 1, 2013).

## Some Taxpayers Assigned to PCAs Were Later Subject to Levy Action

The law specifies certain IRS debts that are not eligible to be placed with PCAs, including debts:<sup>57</sup>

- 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.

TIGTA performed an analysis to determine whether the IRS debts that are not eligible to be placed with PCAs were excluded from PCA assignment from October 1, 2018, to September 30, 2019. TIGTA's overall analysis determined that the IRS complied with the FAST Act by not assigning the debts listed above to PCAs, including taxpayers living in a federally declared disaster area and taxpayers subject to a pending or active offer in compromise. However, TIGTA identified 14,586 taxpayers subject to State Income Tax Levy Program levies while assigned to PCAs.<sup>58</sup> The IRS received State Income Tax Levy Program levy proceeds from these taxpayers totaling over \$6 million.

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 examination, litigation, criminal investigation, or levy. IRS management was aware that taxpayers potentially subject to State Income Tax Levy Program levies were assigned to PCAs; however, the IRS does not consider the taxpayer "currently under levy" until a State levy payment posts to the taxpayer's account.<sup>59</sup> Although the taxpayer accounts were not currently under levy when assigned to the PCAs, those taxpayers were still potentially subject to levy action at any given time, creating a potential risk of violating I.R.C. § 6306(d) and the taxpayers' rights.

According to the PPG, a taxpayer included in an Automated Levy Program such as the State Income Tax Levy Program will have already received or will receive a notice from the IRS stating either that the IRS intends to levy or has levied his or her funds and that certain appeal rights apply. This notice advises the taxpayer to contact the IRS; however, the taxpayer may instead contact the PCA on accounts assigned to the PCA. This can create confusion for many taxpayers who are under the impression they are working with a PCA to resolve their tax debt and are then directed to contact the IRS. Also, if the taxpayer raises any issues regarding the IRS's intent to

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<sup>57</sup> I.R.C. § 6306(d).

<sup>58</sup> The State Income Tax Levy Program levies are a type of automated levy whereby selected Federal tax debts are matched with funds disbursed from Federal, State, and local authorities (*e.g.*, refund, salary, dividend) in an effort to satisfy all or part of the Federal tax debt through an IRS levy.

<sup>59</sup> IRS management provided TIGTA with a Counsel opinion (April 18, 2016) which stated that, once the State or municipality makes a match, Counsel's view is that the receivable is "currently under levy" until the payment posts to the subject taxpayer module.

levy or the actual levy that the PCA employee cannot address, the taxpayer must be directed to contact the telephone number on the notice, once again requiring the taxpayer to spend additional time contacting both the PCA and the IRS.

Prior to January 2020, when a State Income Tax Levy Program levy was received, the IRS would recall the taxpayer account, and the PCA would issue a recall letter to the taxpayer. According to the most recent PPG update, when the Daily Payment Transaction File provided to the PCA contains a pending State Income Tax Levy Program payment, the PCA will place a 90-day hold on the account to allow time for taxpayers to exercise their appeal rights. The PCA can resume working the account once the 90-day hold period expires. If all the modules are paid, then the PCA's follow the Paid-in-Full procedure in the PPG and close the account. If one or more modules remain unpaid, then the PCAs follow the PPG regarding the payment arrangement that currently exists until the remaining modules are paid in full.

There are potential risks to taxpayers' rights if the taxpayer is subject to a State Income Tax Levy Program levy, which can reduce their overall liability owed, while also in an active payment arrangement with the PCA. Under I.R.C. § 6343(a)(1)(C), a levy is required to be released if the IRS entered into an installment agreement with the taxpayer. Additionally, IRM 5.14.1.5 states that no levy may be made on taxpayer accounts while installment agreements are in effect.<sup>60</sup> Of the 14,586 taxpayers with State Income Tax Levy Program levy payments, there were seven with levy payments totaling \$7,419, while in active payment arrangements with PCAs. IRS management stated that, once the PCA payment arrangement indicator is on the taxpayer's account, they are removed from the levy list that is sent to the States. However, if the levy was already in process by the State before the new file is received, the levy proceeds are sent to the IRS (which happened on all seven cases). Although IRS management's response indicates the levies were due to a timing issue, these could be potential violations of the taxpayer's rights because the taxpayers were in an active payment arrangement with the PCAs prior to the levy payment being processed.

**Recommendation 7:** The Director, Collection, should, in compliance with I.R.C § 6306, return to its previous procedure of recalling taxpayer accounts that incur an Automated Levy Program levy while in PCA Inventory, since those accounts are no longer eligible for collection pursuant to a qualified tax collection contract.

**Management's Response:** The IRS disagreed with this recommendation. In their response, IRS management stated that they believe they are in compliance with all aspects of the law and that they already exclude all taxpayer accounts that are currently under levy from PCA assignment. Under the State Income Tax Levy Program, a taxpayer is not considered to be "under levy" unless and until the IRS receives a State levy payment. If a State levy payment is received, the taxpayer is then afforded Collection Due Process (CDP) rights to challenge the levy. The Office of Chief Counsel has opined that the IRS is not required to recall these accounts as long as a hold is placed to afford the taxpayer time to exercise their CDP rights. The PPG provides guidance to the PCAs to implement a 90-day hold on these accounts. If the taxpayer files for a CDP, the IRS then recalls the account to work the appeal.

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<sup>60</sup> IRM 5.14.1.5 (March 4 2011).

**Office of Audit Comment:** The IRS is not in compliance with I.R.C. § 6306(d)(4) when an Automated Levy Program levy occurs on a taxpayer who is in PCA inventory. The plain language of the statute is clear in that a tax receivable shall not be eligible for collection pursuant to a qualified tax collection contract if such receivable is currently under levy. The clearest way to comply with the law is to return those accounts from the PCAs to the IRS.

## Misdirected Payments Were Generally Processed Appropriately

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. Proper handling of misdirected payments not only protects taxpayers' sensitive data but also ensures that payments are properly credited to taxpayer accounts.

TIGTA performed an analysis of misdirected payments to determine whether misdirected mail and payments received by the PCAs were properly and timely routed to the IRS. We obtained the total population of all misdirected payments received from October 1, 2018, to September 30, 2019, and analyzed a random sample of 100 misdirected payments (25 from each of the four PCAs). TIGTA's overall analysis showed that the PCAs followed policies and procedures in handling misdirected payments for 99 of 100 payments. However, there was one instance in which a misdirected payment letter was not mailed to the taxpayer as required per the PPG.

The PPG states that, upon receipt of payment from a taxpayer, the PCA must send a letter to the taxpayer with the proper address for mailing payments. When questioned, the PCA stated that the cases were on hold and the taxpayers were not to receive communications. [REDACTED]

[REDACTED] IRS management stated that one payment appears to have been misapplied and will require additional research to determine the reason it was misapplied. They will work with the Kansas City Service Center to locate and properly apply the payment. IRS management stated that the other payment was not applied to the earliest tax period since only accruals were remaining when the payment was received, which caused the tax module to show a zero balance. The IRS applied the payment to the next balance due tax period and stated that the misapplied payment had minimal impact on the taxpayer since the remaining balance on the earlier tax period was fully paid by August 19, 2019, a month after the misapplied payment was received.

## The IRS Payment Calculator Has Been Improved

In the previous biannual performance review audit, TIGTA recommended that the IRS work with the PCAs to implement a consistent payment arrangement calculator because TIGTA found that the PCA's payment arrangement terms were inaccurate when compared to the payment arrangement terms using the IRS's Integrated Automated Technology (IAT) tool. Approximately 92 percent of the payment arrangements with terms over 60 months submitted by the PCAs

contained payment time frames that were incorrect by at least one month, and payment arrangements established by the PCAs that were 60 months or less differed by at least one month for 65 percent of sampled cases.

As a result, in February 2019, IRS RAAS implemented a more consistent payment arrangement calculator for all four of the PCAs to use, which is closer in accuracy to the IRS IAT tool. Because the IRS IAT tool has a three-month buffer built in to its programming, the IRS determined that three months would be the variance allowed when reviewing the PCA payment arrangement calculators for accuracy. For the first six months following implementation, the IRS PDC policy team performed monthly reviews of 12 payment arrangements with terms of 57 months and under from each PCA. The IRS also reviewed all payment arrangements with terms of 58 or 59 months during the same time period as a part of an established business practice. By August 15, 2019, 1,046 reviews of payment arrangements with terms under 60 months were completed. Analysis of the results revealed that the PCA estimator tools' average variance was less than two months from the IRS IAT calculation for all but 22 cases (2 percent) for which explainable variances existed. For example, the variances typically involved situations in which there was a refund offset, an additional credit, or in some cases, an additional assessment, which had the effect of either shortening or lengthening the duration of the payment arrangements. The IRS concluded that, based on the results of the review, the new PCA estimator tools were working properly by accurately calculating payment arrangement terms consistent with the IRS IAT tool.

The IRS continued to review a sample of payment arrangements with terms of 60 months or less in addition to reviewing all payment arrangements with terms between 61 and 84 months as part of an established business practice. The IRS PDC program office reviewed 316 payment arrangements originated by PCAs with terms of 60 months or less between October 2019 and April 2020. For 309 of the cases reviewed (98 percent), calculations were within a variance of plus/minus three months between the PCA calculations versus IAT calculations, and the variance was four months or greater on seven cases (2 percent). Of those seven cases, six had an explainable variance such as a refund offset, an older fully paid module added to the payment arrangement, or an incorrect assessed balance was used in the PCA estimator tool. The IRS made a request to one PCA to review PPG § 4.3 with all assistors to ensure that they are reviewing the most recent data file to obtain the most current balances to enter in the tool, which was confirmed as completed by the PCA. The IRS concluded that, based on the results of the review, the PCA estimator tools were working properly by accurately calculating payment arrangement terms consistent with the IRS IAT tool.

Although the number of cases with a payment arrangement variance with terms of 60 months or less decreased by 97 percent, there are still some arrangements with variances of over four months. TIGTA will continue to review the IRS's assessment of the PCA's payment arrangement calculators as well as conduct its own sample review of the PCA's payment arrangements in the next biannual performance review audit to ensure that the terms are consistent with the IRS's calculations

## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective was to independently evaluate the performance of PCAs. As part of this overall objective, we evaluated the PCAs to determine whether the PCA payment arrangement calculators have been improved. In addition, we reviewed the recommendations from the previous audit that were implemented by the IRS and PCAs to determine whether there have been improvements in process, effectiveness, and efficiency.<sup>1</sup> To accomplish this objective, we:

- Identified current guidance, procedures, and applicable laws and determined the planned updates to laws and procedures used by PCAs during all aspects of third-party collection.
- Calculated collection statistics for each PCA using scorecard data to identify trends and significant outliers.
- Evaluated IRS and PCA oversight of PCA collection and operational actions by evaluating internal reviews, including operational and targeted reviews.
  - Reviewed a random sample of 40 telephone calls (10 from each PCA) previously worked by IRS CQ to determine if it properly applied the quality metrics using attribute guidance. The sample was obtained from a total population of 3,546 reviewed telephone calls from October 1, 2018, to September 30, 2019. We selected a random sample to ensure that each telephone call had an equal chance of being selected.
- Determined whether the implementation of the PCA payment arrangement estimator tool provided consistent payment terms with the IRS IAT tool.
- Determined whether the PCAs are performing collection and operational actions in accordance with the PPG and IRS procedures.
  - Determined if misdirected mail and payments received by the PCAs were properly and timely routed to the IRS. We reviewed a random sample of 100 misdirected payments (25 from each PCA) from a total population of 2,635 received payments from October 1, 2018, and September 30, 2019. 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 200 telephone calls (50 from each PCA) from a total population of 820,664 telephone calls from October 1, 2018, and September 30, 2019. We selected a random sample to ensure that each telephone call had an equal chance of being selected.

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<sup>1</sup> TIGTA, Ref. No. 2019-30-018, *Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance* (Dec. 2018).

- Determined whether the IRS debts that are not eligible to be placed with PCAs per the FAST Act were excluded from PCA assignment.
- Determined whether TIGTA OI had received taxpayer complaints that are consistent examples of PDC taxpayer mistreatment. 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 Lanham, Maryland, and information requested from all four PCAs during the period September 2019 through November 2020. 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; Richard Viscusi, Audit Manager; Jon-Michael Socaris, Lead Auditor; Danielle Marchetta, 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 IMF and Business Master File systems as well as outside data obtained from the PCAs. We evaluated the data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the systems 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, monthly performance reports, and customer satisfaction surveys. We evaluated these controls by reviewing monthly scorecard data, incident complaint logs, and operational and targeted reviews. Additionally, for the four 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 for each PCA, and reviewing the complaints and incidents 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 Rights and Entitlements – Potential; seven taxpayers were subject to State Income Tax Levy Program levies while in active payment arrangements with PCAs. Levy proceeds from these taxpayers totaled \$7,419 (see Recommendation 7).

#### **Methodology Used to Measure the Reported Benefit:**

From a population of 14,586 taxpayers subject to State Income Tax Levy Program levies between October 1, 2018, and September 30, 2019, we identified seven taxpayers subject to State Income Tax Levy Program levies while in active payment arrangements with PCAs.

**Management's Response:** The IRS disagreed with this outcome measure, stating that these taxpayers entered into a payment arrangement after the IRS sent the levy list to the respective States. While the States were processing the levies, the taxpayers entered into a payment arrangement with a PCA. As a result, due to the timing of these actions, the IRS believes that the levy payments were received after the payment arrangements were established. The IRS believes that the taxpayers were not in an active payment arrangement when included in the State Income Tax Levy Program.

**Office of Audit Comment:** The IRS focuses on when these taxpayers entered into the installment agreements; however, this fact is immaterial. These taxpayers were levied upon after they entered into payment agreements with PCAs and while the agreements were in place, in contravention of I.R.C. § 6306(d)(4).

## Appendix III

### PCA Policy and Procedure Guide Quality Attributes

<u>Attribute</u>	<u>Description</u>
1	Employee Identification – Use this field to determine if the collector(s) identified themselves and their company appropriately during every phone contact.
2	Taxpayers Issue(s) Identified/Addressed – Use this field to rate whether the collector appropriately addressed all the taxpayer/representative issues raised during the contact.
3	Disclosure Met – Use this field to identify if the collector verified the taxpayer’s TAN (SSN with taxpayer’s consent), name, address of record, and date of birth.
4	Verify Power of Attorney/Third Party – Use this field to determine if the collector accurately authenticated a third-party representative or Tax Information Authorization for the modules being discussed during the phone conversation.
5	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.
6	Taxpayer Rights – Use this field to determine if the employee advised the taxpayer and power of attorney of all rights
7	Mini-Miranda – Use this field to identify if the employee delivered mini-Miranda rights pursuant to the FDCPA.
8	Recorded Call Verification – Use this field to identify if the employee advised the taxpayer of 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 information.
10	Appropriate Referral/Case Transfer – Use this field to identify if the employee transferred the taxpayer/representative as appropriate.
11	Following Established Policies and Guidelines – Use this field to determine if the employee followed appropriate procedures when the taxpayer disputes or requests cease and desist.
12	Determine the Taxpayer’s Ability to Pay – Use this field to determine if the collector demanded immediate full payment before determining if the taxpayer may be eligible for a payment arrangement.
13	Defaults/Restructure/Terminate Determination – Use this field to identify if the employee made the correct determination when working a payment arrangement default, restructuring, or termination.

- 14 Balance Due/Payoff Computation – Use this field to identify if the employee provided the correct balance due and computed the correct payoff amount to the correct date.
- 15 Input/Update to Specialized Systems – Use this field to identify if the employee input or updated specialized systems per the PPG guidelines.
- 16 Provide Forms – Use this field to rate if the collector is required to mail forms or referred the taxpayer to an IRS website for forms or self-help information to resolve the taxpayer’s issue.
- 17 Telephone Number Secured/Verified – Use this field to identify if the employee secured and verified the taxpayer’s and representative’s telephone number(s) and input to or updated the appropriate system.
- 18 Check Annotation/Payment Requirements and Options – Use this field to rate if the employee advises the taxpayer of check annotation and mailing addresses.
- 19 Employee Case Documentation – Use this field to rate if the collector accurately documented the record of account or handled incoming correspondence, returns, or remittances appropriately.
- 20 Correct/Complete Response/Resolution – Use this field to identify if the employee provided the taxpayer and representative with the correct response or resolution to the account or issue and took the necessary actions or disposition to provide the response or resolution.
- 21 Professional Closing – Use this field to identify if the employee appropriately closed the contact with the taxpayer or representative.
- 22 Confidentiality – Use this field to determine if the employee protected the confidentiality of the taxpayer’s and representative’s information when using a cell phone or cordless device.
- 23 Provided Mailing Address/Phone Number – Use this field to identify if the employee provided the customer with the correct address/phone number.
- 24 Call Summarization – Use this field to identify if the employee correctly summarized the call.
- 25 Clear/Professional Communication – Use this field to identify if the employee used clear and appropriate language to ensure that communication is completed.
- 26 Effective Listening – Use this field to identify if the employee listened to the taxpayer or representative in an effective manner to maximize employee understanding.
- 27 Appropriate Timely Actions – Use this field to determine if appropriate, timely actions were taken to resolve the case or issue.
- 28 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

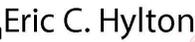


COMMISSIONER  
SMALL BUSINESS/Self-EMPLOYED DIVISION

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

December 17, 2020

MEMORANDUM FOR MICHAEL E. McKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Eric C. Hylton  Eric C. Hylton  
Commissioner, Small Business/Self-Employed Division

Digitally signed by Eric C. Hylton  
Date: 2020.12.17 12:08:22 -05'00'

SUBJECT: Draft Audit Report – Fiscal Year 2021 Biannual Independent Assessment of Private Collection Agency Performance (Audit # 202030015)

Thank you for the opportunity to review and comment on the above subject draft audit report. The 2015 Fixing America's Surface Transportation (FAST) Act required the Internal Revenue Service (IRS) to begin using private collection agencies (PCAs) to collect inactive tax receivables from taxpayers. Since April 2017, the IRS has been assigning eligible cases to PCAs in the Private Debt Collection (PDC) program to collect on tax debts that the IRS is not otherwise pursuing. From April 2017 through September 30, 2020, we assigned nearly 3.5 million accounts to the PCAs. The PCAs have assisted over 392,000 taxpayers to pay in full and are currently managing over 50,000 payment arrangements.

In July 2019, the Taxpayer First Act (TFA) amended the eligibility criteria for assignment to a PCA. We appreciate you recognizing the steps we have taken to implement Section 1205(a) of the TFA, requiring the exclusion of receivables from taxpayers whose adjusted gross income does not exceed 200% of the poverty level and the recipients of Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) from the PDC program. Since the start of the program, we have been committed to excluding the recipients of SSI and SSDI from PDC inventory and have required the PCAs to cease collection activity and return an account when the taxpayer indicates they receive SSI or SSDI.

We make safeguarding sensitive information and protecting taxpayers from fraud a priority. While there are safeguards in place to protect against misuse of this information, we will review the procedures for acquiring bank information as it relates to pre-authorized direct debt payments to determine whether modifications are warranted. We will also update our procedures to have the quality reviewers monitor to ensure telephone background noise cannot be heard in order to further protect taxpayer information.

In this year's audit report, your team expressed concerns with activities permissible under I.R.C. § 6306. We believe we are in compliance with all aspects of the law. We consider it a permissible practice for the PCAs, having attempted to secure full payment either immediately or over time, to advise the taxpayer that making partial payments to pay down their debt may be beneficial in mitigating the continued accrual of interest and penalties. In addition, we believe having the PCAs obtain financial information when a taxpayer is unable to meet the terms of a formal arrangement would cause undue burden to the taxpayer as this information may not be applicable to the taxpayer's situation or useful to the IRS.

We also believe assigning taxpayers to PCAs who are subject to the State Income Tax Levy Program to be in compliance with I.R.C. § 6306. We exclude from PCA assignment all taxpayer accounts that are currently under levy. Under the State Income Tax Levy Program, a taxpayer is not considered to be "under levy" unless and until the IRS receives a state levy payment. The PCAs input a 90-day hold to allow the taxpayer time to challenge the levy whenever a state levy payment is received. If the taxpayer files an appeal, the account is recalled by the IRS.

We do not agree with the stated outcome measure regarding seven taxpayers subject to State Income Tax Levy Program levies while in active payment arrangements with PCAs. These taxpayers entered into a payment arrangement after the IRS sent the levy list to the respective states. While the states were processing the levies, the taxpayers entered in a payment arrangement with a PCA. As a result, due to the timing of these actions, the levy payments were received after the payment arrangements were established. From the transactional history of these seven accounts, it is clear that the taxpayers were not in an active payment arrangement when included in the State Income Tax Levy Program.

Beginning after December 31, 2020, the IRS will exclude from the PDC program receivables from taxpayers whose adjusted gross income does not exceed 200% of the poverty level. We fully considered the methodology to identify and exclude taxpayers with adjusted gross income (AGI) below 200% of the applicable poverty level as required in the Taxpayer First Act. We believe the best approach is to apply the statute in a straightforward manner, using actual AGI rather than third-party income information. Consistent with the statute, we will apply the annual poverty level for a given year to the corresponding AGI determined by the filed tax return for the same year.

Our oversight of the PDC program helps prevent potential risks to taxpayers, especially for vulnerable populations. It also includes measures to prevent potential violations of taxpayer rights and related identity theft and scams. We will continue to partner with stakeholders and revise processes, when appropriate, to ensure we fully implement the law, protect taxpayer rights, and safeguard taxpayers' sensitive information.

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

Attachment

**RECOMMENDATION 1:**

The Director, Collection, Small Business/Self-Employed Division should create additional return reason codes to identify those taxpayers who express a willingness to work with the IRS.

**CORRECTIVE ACTION:**

We already have a process in place for returning accounts to the IRS when the taxpayer requests to no longer work with a PCA. These accounts are returned using the "Cease Contact" return category code, which allows the account to be excluded from possible future reassignment to a PCA. In addition, the PCA sends a letter to the taxpayer advising the account is being returned to the IRS and provides guidance on accessing IRS.gov to continue a payment arrangement or locate information when assistance is needed.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

**RECOMMENDATION 2:**

The Director, Collection, Small Business/Self-Employed Division should comply with I.R.C. § 6306 which only allows PCAs commissions for qualified collection contracts.

**CORRECTIVE ACTION:**

We believe we are in compliance with all aspects of the law. The definition of a "qualified tax collection contract" under I.R.C. § 6306 is not meant to be read as closed, or exclusive. The PCAs receive commissions for any payment received 11 calendar days or more after the account is transferred to the PCA, and up to 10 calendar days after the date the account is returned to the IRS (known as the commissionable period). The Office of Chief Counsel advised that commissions can be paid on any payments received during the commissionable period, with certain exceptions, which include judicial and levy payments and certain credit offsets.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

**RECOMMENDATION 3:**

The Director, Collection, Small Business/Self-Employed Division should work with the PCAs to allow for them to obtain financial information from taxpayers who want to make partial payments and provide that information to the IRS for potential further interaction with the taxpayers.

**CORRECTIVE ACTION:**

Under IRC 6306(b)(1)(C), PCAs are allowed to obtain financial information from taxpayers but only as specified by the Secretary. We decided not to exercise this discretion, since having the PCAs obtain financial information would cause undue taxpayer burden as this information may not be applicable to the taxpayer's situation or useful to another IRS function.

**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 consider using both last return filed information and third-party income information in its methodology to exclude low income taxpayers from PCA inventory.

**CORRECTIVE ACTION:**

Pursuant to IRC Section 6306(d)(3)(F), we will not assign a taxpayer account to a PCA when an individual with adjusted gross income (AGI), as determined by the most recent taxable year for which such information is available, does not exceed 200% of the applicable poverty level. Consistent with the statute, the IRS will apply the annual poverty level for a given year to the corresponding AGI determined by the filed tax return for the same year, to determine if the account will be excluded from PCA assignment.

The proposed methodology to use third-party information reporting data as a proxy when AGI is not available would not allow the IRS to accurately perform the comparison

called for in the amended statute. Without a complete picture of income and adjustments to income, the IRS cannot determine AGI. Further, the lack of a reported household size for the period in question prevents a comparison to the appropriate poverty level computation.

This change in the law specifically applies to tax receivables identified after December 31, 2020. As a result, we do not intend to recall cases already assigned to a PCA based on this exclusion. However, we will continue to require the PCAs to return accounts whenever a taxpayer is unable to pay or indicates that payment would cause economic hardship.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

**RECOMMENDATION 5:**

The Director, Collection, Small Business/Self-Employed Division should review each PCA's procedures for acquiring bank information from taxpayers to determine whether modifications are warranted, and align them with the guidance in the PPG, to reduce the risk of potential fraud.

**CORRECTIVE ACTION:**

Prior to delivering any data to the PCAs, we ensure the PCAs have processes in place to safeguard sensitive taxpayer data and to protect taxpayer rights. We will review the PCAs' procedures during the annual security review to ensure compliance with the Policy and Procedures Guide (PPG) and applicable security measures as it applies to the information needed for establishing pre-authorized direct debit payments.

Preliminary guidance has been issued to the PCAs to clarify that bank account information cannot be requested verbally. This guidance will be included in the PPG update issued for second quarter FY2021.

**IMPLEMENTATION DATE:**

October 15, 2021

**RESPONSIBLE OFFICIAL:**

Director, Headquarters Collection, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 6:**

The Director, Collection, Small Business/Self-Employed Division should update the PDC Operations Guide and PPG to include guidance for quality reviewers to ensure that telephone background noise cannot be heard and that taxpayer PII and tax return information remains protected from potential disclosure per I.R.C. § 6103.

**CORRECTIVE ACTION:**

We will add guidance to the PPG and PDC Operations Guide to ensure PCA telephone background noise cannot be heard to protect against potential disclosure of taxpayer Personally Identifiable Information (PII) or tax return information. Quality reviewers will incorporate the updated procedures into their reviews.

**IMPLEMENTATION DATE:**

February 15, 2021

**RESPONSIBLE OFFICIAL:**

Director, Headquarters Collection, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 7:**

The Director, Collection, Small Business/Self-Employed Division should, in compliance with I.R.C § 6306, return to its previous procedure of recalling taxpayer accounts that incur an Automated Levy Program levy while in PCA Inventory, since those accounts are no longer eligible for collection pursuant to a qualified tax collection contract.

**CORRECTIVE ACTION:**

We believe we are in compliance with all aspects of the law. We already exclude all taxpayer accounts that are currently under levy from PCA assignment. Under the State Income Tax Levy Program, a taxpayer is not considered to be “under levy” unless and until the IRS receives a state levy payment. If a state levy payment is received, the taxpayer is then afforded Collection Due Process (CDP) rights to challenge the levy. The Office of Chief Counsel has opined that the IRS is not required to recall these accounts as long as a hold is placed to afford the taxpayer time to exercise their CDP rights. The PPG provides guidance to the PCAs to implement a 90-day hold on these

accounts. If the taxpayer files for a CDP, the IRS then recalls the account to work the appeal.

**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL:**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

## Appendix V

### Glossary of Terms

<b>Term</b>	<b>Definition</b>
Adjusted Gross Income	As defined by Section 62 of the Internal Revenue Code, 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 businesses. These include employment taxes, income taxes on businesses, and excise taxes.
Campus Quality	CQ measures adherence to the PCA operational plans, the PPG, some aspects of the FDCPA, and the protection of taxpayer rights. CQ reviews include telephone calls to right-party contacts that are five to 30 minutes long.
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.
Daily Payment Transaction File	The Daily Payment Transaction File includes pending transactions that have not yet posted to the Master File but have been input into the IRS systems. This processing would most likely be on Friday, Monday, Tuesday, and possibly Wednesday each week.
Data Exchange	The PCA will be required to send specific information to the IRS in a data exchange file (XML). Information to be sent includes, for example: payment arrangement information, date of death, primary Taxpayer Identification Number, input of transaction type values, and initiate the return of an account to the IRS.
Direct Debit Installment Agreement	A monthly payment plan, to pay off delinquent amounts, in which funds are automatically debited from a taxpayer's checking account for the agreed upon installment amount.
Disaster Freeze Code	The IRS uses a –O or –S freeze to identify taxpayers impacted in a presidentially declared disaster area; this information is transmitted to the PCA in the entity file. A major disaster is defined as any catastrophe (including any hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, or drought) or, regardless of cause, any fire, flood, or explosion in any part of the United States that causes sufficient damage to warrant major disaster assistance.

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Electronic Federal Tax Payment System	The EFTPS is a free tax payment system that allows taxpayers to schedule payments for withdrawal from the taxpayer's checking or savings account up to 365 days in advance.
E-trak System	An IRS web-based data tracking application that enables meaningful data management, tracking, retrieval, and reporting.
Entity	The "entity" is defined as the primary Taxpayer Identification Number and all associated Master File Tax and tax periods.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Information Return Master File	Contains information return data for the current year and prior six tax years.
Information Returns Processing	Information Returns Processing identifies taxpayers who have underreported their income by matching information documents received by third parties to the income reported on the individual's tax return.
Innocent Spouse	When a taxpayer believes he or she should not be required to pay the total amount due (including tax, penalty, and/or interest) for a tax year in which he or she filed a joint return, the taxpayer may be eligible for relief from joint and several liability by requesting Innocent Spouse Relief.
Installment Agreement	Arrangement in which a taxpayer agrees to pay his or her tax liability over time.
Levy	A method used by the IRS to collect outstanding taxes from sources such as bank accounts and wages.
Lien	An encumbrance on property or rights to property as security for outstanding taxes.
Module	Refers to one specific tax return filed by the taxpayer for one specific tax period (year or quarter) and type of tax.
National Quality Review System	A part of an integrated IRS-wide system of balanced performance measures. Performance is evaluated using attributes that identify actions that move cases toward closure through appropriate and timely case activity.
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.
Partial Payment Installment Agreement	An installment agreement that the IRS can use when the taxpayer has some ability to pay, but the monthly payment amount will not fully pay the amount owed by the CSED.
Policy and Procedures Guide	Guide that provides policies, procedures, and contractual responsibilities that PCAs must adhere to.
Recall of Taxpayer Account	An event that triggers the IRS to initiate a removal of a taxpayer's account from the PCA's inventory.
Record of Account	A chronological history of case actions taken by the PCA on a taxpayer's account.
Return of Taxpayer Account	An event that causes the PCA to initiate a return of an account to the IRS.

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Revenue Officer	Employees in the field who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the IRS campuses (formerly known as service centers) or the ACS.
Social Security Number	The identifying number required on tax returns and other documents submitted to the IRS by an individual. An SSN is composed of nine digits separated by two hyphens; for example, 123-45-6789.
Taxpayer Delinquency Investigation	An unfiled tax return(s) for a taxpayer. One Taxpayer Delinquency Investigation is issued for each delinquent tax period for a taxpayer.
Taxpayer Delinquent Account	A balance due account of a taxpayer. One Taxpayer Delinquent Account exists for all delinquent tax periods for a taxpayer.
Taxpayer Identification Number	Every taxpayer on the Master File has a permanent number for identification of the tax account.
Tax Period	Refers to each tax return filed by the taxpayer for a specific period (year or quarter) during a calendar year for each type of tax.
Tax Year	The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Advocate Service	The TAS is an independent organization within the IRS, led by the National Taxpayer Advocate.
Taxpayer Authentication Number	Unique ten-digit number that is used to verify the taxpayer's identity instead of using the Taxpayer Identification Number/SSN.
Technical Analyst	IRS official who acts as a liaison between the contractor and IRS and handles technical and processing guidance.
Unpaid Assessments	Database that consists of all tax modules that show a debit balance on the Individual Master File, Business Master File, and Automated Non-Master File.

## Appendix VI

### Abbreviations

ACS	Automated Collection System
AGI	Adjusted Gross Income
CDP	Collection Due Process
COR	Contracting Officer Representative
CQ	Campus Quality
CSED	Collection Statute Expiration Date
DCI	Data Collection Instrument
FAST	Fixing America's Surface Transportation
EFTPS	Electronic Federal Tax Payment System
FDCPA	Fair Debt Collection Practices Act
FY	Fiscal Year
IAT	Integrated Automated Technology
IMF	Individual Master File
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
NQRS	National Quality Review System
OI	Office of Investigations
PADD	Pre-Authorized Direct Debit
PCA	Private Collection Agency
PDC	Private Debt Collection
PII	Personally Identifiable Information
PPG	Policy and Procedure Guide
RAAS	Research, Applied Analytics, and Statistics
SCP	Special Compliance Personnel
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income
SSN	Social Security Number

TAN	Taxpayer Authentication Number
TAS	Taxpayer Advocate Service
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



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