TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance

December 31, 2018

Reference Number: 2019-30-018

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information

Phone Number / 202-622-6500
E-mail Address / TIGTACommunications@tigta.treas.gov
Website / http://www.treasury.gov/tigta

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

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.

FISCAL YEAR 2019 BIANNUAL INDEPENDENT ASSESSMENT OF PRIVATE COLLECTION AGENCY PERFORMANCE

Highlights

Final Report issued on December 31, 2018

Highlights of Reference Number: 2019-30-018 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The 2015 Fixing America's Surface Transportation (FAST) Act required the IRS to begin using private collection agencies (PCA) to collect inactive tax receivables from taxpayers.

WHY TIGTA DID THE AUDIT

This audit satisfies reporting requirements of the FAST Act, which requires an independent biannual assessment of PCA performance.

WHAT TIGTA FOUND

As of September 2018, the IRS has assigned more than 700,000 taxpayer accounts to private collectors. The PCAs collected approximately $88.8 million (2 percent) from the balance owed on these accounts. The PCAs also established more than 21,000 payment arrangements, but taxpayers later failed to make payments on more than half of them.

Both the IRS and the PCAs monitor performance using various attributes such as procedural accuracy and professionalism. All of the PCAs performed well under these attributes. However, the performance attributes focus almost entirely on the PCAs' telephone conversations with the taxpayers and do not measure other important aspects of case management, such as returning cases to the IRS when required and the accuracy of payment arrangements.

TIGTA learned that PCA payment calculators do not calculate interest and penalties accurately. The IRS reviews and approves payment arrangements over 60 months because the PCAs are prohibited by law from establishing agreements longer than 60 months. As of June 2018, the PCAs sent 2,547 such proposed payment arrangements to the IRS for approval. The PCAs' calculation of payment terms for 92 percent of the arrangements were inconsistent with IRS payment calculators. Payment terms were different than IRS calculations by an average of over four months, and some differed by more than four years. The inaccuracies included arrangements that the PCAs computed as both too long and too short. Most PCA payment arrangements are 60 months or shorter, and the IRS does not check shorter arrangements. TIGTA sampled 100 such arrangements and determined that 65 percent differed by at least one month.

The IRS also conducts quarterly and targeted quality reviews of PCA performance. These reviews identified various problems, such as mishandling of aged accounts and procedural errors on payment arrangements. The IRS made more the 60 recommendations to the PCAs to address these issues; however, these issues are not reflected in PCA quality scores.

In addition, the IRS supported one PCA's practice of encouraging taxpayers to borrow money from friends and family, which the law does not appear to allow because the practice involves collecting financial information about persons other than the taxpayer.

PCA customer satisfaction scores were high, routinely in the low– to mid–90 percent range. However, customer service is just one of several performance criteria, and high customer satisfaction scores may not be entirely reflective of high overall performance.

TIGTA determined that improving the payment process could increase PCA revenue and reduce the number of defaulted agreements. Taxpayers expressing a willingness to pay were unable to do so because of technical problems with the IRS's various payment options.

WHAT TIGTA RECOMMENDED

TIGTA made 13 recommendations to improve program efficiency and protect taxpayer rights. IRS agreed or partially agreed with nine of the recommendations and plans corrective actions.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 31, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance (Audit # 201830011)

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.[1] This audit was included in our Fiscal Year 2018 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 V.

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

---

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

Table of Contents

Appendices

Abbreviations

CSED	Collection Statute Expiration Date
FAST	Fixing America's Surface Transportation
FDCPA	Fair Debt Collection Practices Act
IAT	Integrated Automated Technology
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
PCA	Private Collection Agency
PDC	Private Debt Collection
PII	Personally Identifiable Information
PPG	Policy and Procedure Guide
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration

Background

On December 4, 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law.[1] Section 32102 includes a provision that requires the Internal Revenue Service (IRS) to use private debt collection (PDC) companies to collect taxes on cases involving inactive tax receivables. In April 2017, the IRS started delivering inventory to four private collection agencies (PCA): the CBE Group of Waterloo, Iowa; ConServe of Fairport, New York; Performant of Pleasanton, 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 private debt collectors 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 first of such reports was submitted by the IRS on March 23, 2018.[2] The law also requires an independent report with respect to contractor performance; the first of such reports is to be submitted to Congress in December 2018. 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. This is TIGTA's first biannual performance report related to contractor performance.

TIGTA has issued two prior reports related to the use of private debt collectors authorized under the FAST Act. In July 2018, TIGTA reported that PCA security over taxpayer data could be improved.[3] In September 2018, TIGTA reported numerous concerns with the IRS's implementation and execution of the PDC program.[4] This report focuses on PCA performance.

This review was performed with information obtained from the PDC Program Office in IRS Headquarters in Washington, D.C., and from PCA offices in Lathrop, California; Pleasanton, California; Waterloo, Iowa; Fairport, New York; Henrietta, New York; and Horseheads, New York, during the period February through November 2018. 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

---

[1] Pub. L. No. 114-94.
[2] Internal Revenue Code § 6306(j)(1)(A-E).
[3] TIGTA, Ref. No. 2018-20-039, *Private Collection Agency Security Over Taxpayer Data Needs Improvement* (July 2018).
[4] TIGTA, Ref. No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018).

based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Comparative Performance of Private Collection Agencies

Since it began delivering cases in April 2017, the IRS has assigned more than 700,000 taxpayer accounts to private collectors. As TIGTA previously reported, in addition to the collection of the taxes due, the PCA becomes responsible for many other aspects of the taxpayer's account, such as subsequent periods of noncompliance (both nonpayment and nonfilers), payment defaults, and taxpayer complaints. As of September 2018, the IRS reported that the PDC program collected $88.8 million (2 percent) of the $5.7 billion assigned to the PCAs. This compares with $66.5 million that the IRS has spent to implement and maintain the program (revenues were $22.3 million more than costs). Figure 1 shows the number of accounts assigned, dollar value, and amounts collected.

Figure 1: Assignment and Collections by Each PCA

PCA	Accounts Assigned	Amount	Collections	Percentage of Collections
CBE Group	182,589	$1,428,570,086	$26,339,318	1.8%
ConServe	182,589	$1,424,238,572	$20,823,881	1.5%
Performant	182,620	$1,426,108,607	$19,297,094	1.4%
Pioneer	182,217	$1,428,573,705	$22,314,380	1.6%
Total	**730,015**	**$5,707,490,970**	**$88,774,673**	**1.6%**

Source: TIGTA analysis of the PDC Scorecard as of September 13, 2018.

Each PCA has received approximately the same number of accounts and associated dollar values to attempt collection. As of September 2018, the CBE Group collected the most taxes, while Performant collected the least.

The PCAs established thousands of payment arrangements

When taxpayers are unable to pay their balance in full or within 120 days, they may be offered payment arrangement options that will satisfy their debt by the collection statute expiration date (CSED) or within seven years, whichever is less. Payment arrangements lasting five years or less do not require IRS approval, while payment arrangements that are between five and seven years require IRS approval. Figure 2 shows that, as of September 13, 2018, the PCAs established 21,377 payment arrangements, which were valued at $135,227,059 if paid in full.[5]

Figure 2: Payment Arrangements Established by Each PCA

PCA	Number of Entities	Dollar Value
CBE Group	7,825	$50,561,122
ConServe	6,042	$35,297,308
Performant	3,312	$21,985,632
Pioneer	4,198	$27,382,997
Total	**21,377**	**$135,227,059**

Source: TIGTA analysis of the PDC Scorecard as of September 13, 2018.

The CBE Group has established the highest number of payment arrangements in terms of both entities and dollar value. Specifically, the CBE Group established more than two times as many payment arrangements, involving more than twice as many dollars, as the PCA with the fewest payment arrangements (Performant). The CBE Group established more payment arrangements than Pioneer and Performant combined. However, for various reasons, not all taxpayers are able to honor their commitment after establishing a payment arrangement. Figure 3 shows the number and percentage of payment arrangements for which no payments were received for each PCA.

Figure 3: Payment Arrangements With No Payments Received[6]

PCA	Established	No Payments Received	Percentage
CBE Group	6,390	3,683	58%
ConServe	3,986	2,165	54%
Performant	1,774	766	43%
Pioneer	3,018	1,353	45%
Total	**15,168**	**7,967**	**53%**

Source: TIGTA analysis of Research, Applied Analytics, and Statistics Division program statistics (July 27, 2018).

As of July 2018, the CBE Group had the highest percentage of payment arrangements for which no payments were received, at more than one of every two agreements. Conversely, 43 percent

[5] Based on the PDC Scorecard as of September 13, 2018.
[6] Figures 2 and 3 do not reconcile based on the timing of the report cycle.

of the payment arrangements established by Performant resulted in no payments. These payment arrangements could potentially become defaulted. However, the IRS was unable to provide reliable information for payment arrangements that were ultimately defaulted, so we could not assess or report the default rates.[7]

In a recent report, TIGTA reported that the PCAs were collecting approximately 1 percent of the accounts assigned to them, contrasting to the average 9.9 percent national average collection rate.[8] As a possible cause, TIGTA 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. For this report, we recalculated the age of accounts assigned to the PCAs and determined the average age had increased to 4.75 years.[9]

The IRS tracks the PCAs' 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 2018.

Figure 4: Inventory Management Analytics

Analytic	CBE Group	ConServe	Performant	Pioneer	Average
Taxpayer Accounts Available	105,080	105,054	105,007	104,973	105,029
Total Outbound Calls	9,850,965	2,047,484	1,154,928	1,749,014	3,700,598
Number of Unique Taxpayer Accounts Called	99,625	76,920	47,950	78,878	75,843
Percentage of Total Cases Called	95%	73%	46%	75%	72%
Number of Right-Party Contacts Through Outbound Calls	8,712	6,838	4,592	4,131	6,068

Source: *TIGTA analysis of Research, Applied Analytics, and Statistics Division program analytics (July 27, 2018).*

[7] The IRS attempted to calculate default rates as of August 19, 2018, but the analysis was incomplete due to several compounding factors such as missing PCA data and various criteria differences. TIGTA was unable to reconcile the IRS default rates with the IRS's Scorecard or the PCAs' reported default rates.
[8] TIGTA, Ref. No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018).
[9] Average age of all modules assigned to the PCAs as of September 2018.

The CBE Group made the most outbound calls (9,850,865), reached the most right-party contacts (8,712 taxpayers), and called the highest percentage of assigned cases (95 percent). ConServe and Pioneer placed significantly fewer calls (2,047,484 and 1,749,014, respectively) but attempted contact with a majority of their assigned cases (73 percent and 75 percent, respectively). Performant made 1,154,928 outbound calls and attempted contact with 46 percent of its assigned cases.

Figure 5 shows taxpayer interaction analytics through May 2018.

Figure 5: Taxpayer Interaction Analytics

Analytic	CBE Group	ConServe	Performant	Pioneer
Average Number of Outbound Calls Per Taxpayer Account	106.1	27.3	24.1	22.3
Average Number of Calls Until Right-Party Contact Reached	11.6	13.4	9.0	11.6
Average Number of Telephone Numbers Found Per Taxpayer	2.4	4.1	3.6	3.4
Average Number of Days Until First Outbound Attempt to Taxpayer	37	42	101	41

Source: TIGTA analysis of Research, Applied Analytics, and Statistics Division program analytics (July 27, 2018).

On average, the CBE Group placed the most outbound calls per taxpayer (106.1) and made its first initial contact sooner than the other PCAs (37 days). The average time for ConServe and Pioneer to attempt contact was 42 and 41 days, respectively. Performant reached the right-party contact with the fewest calls (nine), but it also took an average of 101 days until attempting first contact with taxpayers.

Figure 6 shows case resolution analytics by type through May 2018.

Figure 6: Case Resolution by Type Analytics

Analytic	CBE Group	ConServe	Performant	Pioneer	Average
Total Resolutions	23,007	21,096	18,795	20,470	20,842
Full Pay ***(% of Total)***	5,659 *(25%)*	5,143 *(24%)*	5,037 *(27%)*	5,475 *(27%)*	5,329 *(25.6%)*
Payment Arrangements ***(% of Total)***	6,390 *(28%)*	3,986 *(19%)*	1,774 *(9%)*	3,018 *(15%)*	3,792 *(18.2%)*
Recalled by the IRS ***(% of Total)***	8,987 *(39%)*	8,863 *(42%)*	9,044 *(48%)*	8,835 *(43%)*	8,932 *(42.8%)*
Returned to the IRS ***(% of Total)***	1,971 *(9%)*	3,104 *(15%)*	2,940 *(16%)*	3,142 *(15%)*	2,789 *(13.4%)*

Source: TIGTA analysis of Research, Applied Analytics, and Statistics Division program analytics (July 27, 2018).

The CBE Group had the most case resolutions with 23,007, while ConServe, Pioneer, and Performant had 21,096, 20,470, and 18,795, respectively. All four PCAs accomplished a similar percentage of full payment resolutions. The CBE Group generated a larger number (6,390) of payment arrangements than the other three PCAs, and Performant generated the least (1,774).

The PCAs reported taxpayer complaints to TIGTA's Office of Investigations

Private collectors are expected to report to TIGTA's Office of Investigations when taxpayers make complaints against the PCA or when taxpayers use threatening language against PCA employees. As of July 25, 2018, 105 complaints have been received by TIGTA's Office of Investigations. Some facts about the complaint log include:[10]

- Of the 105 complaints, ConServe self-reported 35 (33 percent) complaints, while the CBE Group reported nine (9 percent) complaints.
- The highest category of any type of complaint (30) was made by PCA employees complaining about the taxpayers they called who were alleged to have made physical, bomb, or other similar threats. IRS procedures require PCA employees to report these types of threats.
- The next highest category of any single type of complaint (18) involved inadvertent disclosures of taxpayer information in violation of Internal Revenue Code (I.R.C.) Section (§) 6103, either because someone other than the taxpayer pretended to be the

[10] Note: The numbers do not total 105 because this list does not describe every type of complaint.

taxpayer or because the PCA employee inadvertently provided the information to a person other than the taxpayer.

TIGTA's Office of Investigations had completed its review for 101 of the 105 cases that had been referred to it as of July 25, 2018. Of these 101 cases, 18 were sent back to the IRS for administrative action. Eleven of these cases involved improper disclosure of taxpayer information to unauthorized persons by PCA employees.

Internal Revenue Service and Private Collection Agency Quality Scoring Does Not Include Important Aspects of Case Management

The PCAs continue to perform well under the IRS's established quality metrics

The PCAs have continued to perform well under the IRS's established quality metrics. The IRS has implemented its own quality assessment program of the PCAs, and the PCAs are also required to maintain an internal quality assessment program. The PCAs use 21 quality attributes, including:[11]

- Customer accuracy.[12]
- Right-party contact determination.
- PCA identity disclosure.
- Cellular phone disclosure.[13]
- Fair Debt Collection Practices Act (FDCPA) disclosure or "mini-Miranda."[14]
- Taxpayer/IRS rights disclosure.
- Professional communication.
- Appropriate documentation of account.

These quality attributes largely mirror the attributes that the IRS uses to assess its own customer service representatives and fall under the five "buckets" of customer accuracy, professionalism,

[11] The other 13 quality attributes not listed are: right-party contact authentication, disclosure, authorized third-party contacts, payment procedures, payment arrangement information, telephone planning/system management, compliance accuracy, right-party talk-off, timeliness (two separate attributes), appropriate case closure, check annotation, and tax forms provided.
[12] This attribute assesses whether all of the taxpayers' issues are addressed in the contact.
[13] This disclosure alerts the taxpayer that if the telephone being used is cellular, the information discussed may not be secure.
[14] 15 United States Code § 1692e (11) requires a disclosure to be given to debtors explaining that the communication is for the purpose of collecting a debt and that any information obtained will be used for that purpose.

timeliness, regulatory accuracy, and procedural accuracy. The overall quality scores of the PCAs have been consistently high through August 2018, averaging approximately 99 percent. While this achievement is significant, the IRS's externally reported quality metric also focuses mainly on the telephone call with the taxpayer and not the handling of the case itself. Other important aspects of case management are not reflected in the IRS's externally reported quality scoring but should be, such as accuracy of the payment agreements and other issues uncovered in the IRS's operational reviews.

Many PCA payment agreements have incorrect terms

If taxpayers cannot fully pay but express a willingness to satisfy their balance due, they may be eligible for a payment arrangement. A payment arrangement allows monthly payments to satisfy the debt and requires no IRS approval if all of the following conditions are met:

- Full payment is made by the CSED or within five years (60 months), whichever is less.[15]
- The taxpayer filed all delinquent returns.
- Assessed tax, penalties, and interest are less than or equal to $100,000.

There are situations for which IRS approval is required before a payment arrangement may be established. IRS approval is required if:

- Full payment of the total balance will occur between 61 and 84 months.
- Full payment of the total balance will occur within 90 days of the CSED.

Each PCA developed its own payment arrangement calculator, which it uses to determine the number of months needed to pay off the debt.[16] The IRS approved each PCA calculator during the initial implementation of the PDC program. When payment calculators determine that the length of a proposed payment arrangement is longer than 60 months, the PCAs are supposed to send it to the IRS for approval.[17]

During the approval process, the IRS uses one of its Integrated Automated Technology (IAT) tools to analyze a taxpayer's current and future balance due information. The IAT tool uses IRS systems to incorporate penalties, interest, and recent tax payments to determine the number of months needed to satisfy the total tax balance due based on the proposed monthly payment terms agreed to by the PCA and taxpayer. The IRS will only approve payment arrangements that are less than 84 months and fully paid within 90 days of the CSED. The IAT tools are widely used

[15] Law prohibits the approval of any payment arrangement greater than 60 months.
[16] Total balance due based on the balance due information provided in the weekly transfer file received from the IRS.
[17] Beginning July 2017, the IRS criterion to review payment arrangements was between 58 and 60 months.

by IRS collection employees to determine payment arrangement terms and other taxpayer account information.

We compared the PCAs' payment arrangement terms with the IRS's IAT tool terms for 2,547 payment arrangements that the PCAs sent to the IRS for approval during Fiscal Year 2018, as of June 2018, to ensure that they were accurate. However, only 205 (8 percent) of the PCAs' proposed payment arrangements agreed with the IRS's IAT tool on the number of months needed to pay off the taxpayers' debt. IRS management told us that they believe the discrepancies may be due to the PCAs not having information such as the failure to pay penalty, original tax assessment, or current payment information. Although these errors would not affect the IRS's decision to approve the payment arrangement (unless the corrected terms disqualified it based on other approval criteria), taxpayers who comply with the proposed terms discussed with the PCA may be burdened when their debt is not paid off when expected.

Figure 7 shows that the payment arrangement inaccuracies were common among all four PCAs.

Figure 7: Proposed PCA Payment Agreements Over 60 Months With Incorrect Terms

Result	CBE Group	ConServe	Performant	Pioneer	Total
Matched IAT Tool	110	47	46	2	205
1 to 3 Months Difference	530	265	268	71	1,134
4 to 5 Months Difference	133	143	82	121	479
6+ Months Difference	53	201	18	457	729
Total Reviewed	826	656	414	651	2,547
Percentage Matching IAT Tool	13.3%	7.2%	11.1%	0.3%	8.0%
Maximum Difference	52	52	45	37	52
Average Difference	2.66	4.6	2.53	7.2	4.3

Source: TIGTA analysis of payment arrangements submitted by the PCAs for IRS approval as of June 2018.

Approximately 92 percent of the payment arrangements submitted by the PCAs contained payment time frames that were incorrect by at least one month.[18] The average difference from the correct time frame was 4.3 months, and some payment time frames were incorrect by as many as 52 months (more than four years). The CBE Group had a 13 percent accuracy rating, and 80 percent of its agreements were within five months of being correct. Pioneer had the most

[18] A 1 percent interest rate increase in the 2nd quarter of Fiscal Year 2018 played a factor into this variance. Once the PCAs were alerted to the increase, their calculators were updated to be more accurate.

payment arrangements that differed by six months or more. Specifically, 457 (63 percent) of the 729 total arrangements that differed by at least six months belonged to Pioneer. In fact, 70 percent of the arrangements submitted by Pioneer were incorrect by a minimum of six months. ConServe also had payment time frames that were incorrect by at least six months, with 201 (28 percent) belonging to them. More than 31 percent of the 656 arrangements submitted by ConServe were incorrect by six months or more.

The inaccuracies included payment time frames that were both too long and too short. Specifically, 1,570 arrangements would be fully paid before the PCA's original calculation, and 772 arrangements would be fully paid after the PCA's original calculation. Taxpayers whose arrangements were paid faster than expected could potentially be burdened because they may have preferred to make a lower monthly payment over a longer period of time to meet other expenses. Taxpayers whose arrangements were not paid off when expected could potentially be burdened because they expected payments to stop but still owed taxes and may have to pay additional interest and penalties.

Payment arrangements 60 months or shorter do not require IRS approval, so the IRS did not have data available about the accuracy of the overwhelming majority of PCA payment arrangements of that duration. As of June 2018, the PCAs established 14,572 payment arrangements, but the IRS approved only 2,547. While there may be some minor differences due to timing, we estimate that more than 12,000 payment arrangements did not require IRS approval. For all of these arrangements, the IAT tool would not have been used to check or approve the terms, so taxpayers' only information related to payment term accuracy would come from the PCA, and the length of the arrangements were determined by each PCA's payment calculator. The IRS does not keep track of these agreements.[19]

To test the accuracy of payment arrangements under 60 months, we requested 25 of the most recent payment arrangements from each PCA on July 24, 2018.[20] Figure 8 shows that although these arrangements were more accurate than the longer agreements, most of them were still incorrect.

---

[19] To account for the variance between the IAT tool and PCA calculators, in July 2017, the IRS began to require review of payment arrangements between 58 and 60 months in duration to ensure that all arrangements over 60 months were approved.

[20] **1**************************************

Figure 8: Proposed PCA Agreements Less Than 60 Months With Incorrect Terms

Result	CBE Group	ConServe	Performant	Pioneer	Total
Matched IAT Tool	17	8	10	0	35
1 to 3 Months Difference	6	13	13	18	50
Over 3 Months Difference	1	4	2	7	14
Total Reviewed	24	25	25	25	99
Percentage Correct	71%	32%	40%	0%	35%
Maximum Difference (months)	10	10	24	17	24
Average Difference (months)	< 1	2.2	2.3	3.5	2.2

Source: TIGTA analysis of 100 most recent payment arrangements established by the PCAs as of June 24, 2018.

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 with the arrangements over 60 months, some arrangement terms were too short and others were too long. The CBE Group had the highest accuracy, with 17 (71 percent) of 24 arrangements that matched the IRS's IAT tool. Conversely, none of Pioneer's arrangements agreed with the IAT tool's calculation, and seven (28 percent) were established with terms that differed by more than three months. The reasons for inconsistency were similar to those for agreements over 60 months (the IRS had information not available to the PCAs, such as additional liabilities, interest, and penalties). IRS management speculated that shorter arrangements were more accurate than longer arrangements for one or more of the following reasons:

- Shorter term payment arrangements have lower module balances with shorter payment terms; therefore, the differences in penalty and interest could be minimized.
- The larger the balance and longer the payment terms, the more likely penalty and interest variances would be magnified.
- The larger the balance and longer the payment terms, the more likely it is that multiple modules are present in the calculation. Multiple modules create additional complexity in penalty and interest accrual calculations.
- The PCAs do not estimate the accrual of penalties and interest separately. The longer the payment terms, the more likely that penalties and interest are disparate because the PCA calculates the penalties and interest as a single rate rather than different rates.

- The PCAs do not assume the failure to pay penalty cap. The longer the payment terms, the more likely a taxpayer is to reach the failure to pay penalty cap. If the PCAs do not take the cap into consideration, the penalty will continue to accrue and create larger differences.

In addition, IRS management advised us that the IAT tool provides a three-month "buffer" in its calculations, so they believe the PCA terms were accurate in 85 of the 99 applicable payment arrangements because they were within the three-month buffer. However, management explained that the IRS and the PCAs each included buffers in their calculators. The IRS uses a general three-month buffer to ensure that taxpayers fully pay their liability by the CSED. The buffer assumes that a taxpayer may miss payments or that there may be slight variations in penalty and interest calculations. For example, if a taxpayer's CSED will expire in 60 months and the calculated terms are 60 months, the IAT tool will adjust the terms to 57 months. Both the IRS and the PCAs include a buffer in their calculations; therefore, our analysis still indicates inaccuracies between the two.

In June 2018, TIGTA raised concerns about the discrepancies between PCA and IRS payment arrangement calculations. The IRS agreed that there were discrepancies, and it has developed a plan to reduce the risk of calculation errors. The IRS's Research, Applied Analytics, and Statistics Division is working with the PCAs to create new payment arrangement calculators and has targeted early Fiscal Year 2019 for implementation. We asked the IRS whether it had plans to correct payment agreements with incorrect terms, particularly those not reviewed. IRS management stated that beyond the IRS's current approval system, the IRS has no plans to identify and correct taxpayer agreements with incorrect terms.

Quarterly operational reviews provided feedback and recommendations for improvement; however, results are not reflected in quality scores

The IRS performs both quarterly operational reviews and daily quality reviews of each PCA's work. These reviews evaluate PCA operations to determine how well the PCA is complying with IRS guidance and to assess overall PCA performance. The IRS has a PDC operations team that provides oversight to the PCAs and performs operational and targeted reviews to evaluate PCA performance and make recommendations for improvements. The quarterly reviews 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. The IRS has performed quarterly or targeted reviews of the PCAs since they began receiving inventory in April 2017.

Fiscal Year 2018 first quarter operational reviews. The IRS completed its first quarter review in February 2018, covering the period October 1, 2017, through December 31, 2017. 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 sometimes mishandled taxpayer accounts with disaster area freeze codes.[21] Other times, the PCAs did not return taxpayer accounts to the IRS when required. The IRS made 33 recommendations to address these issues and others, and the PCAs planned to take corrective actions.

Targeted reviews. Instead of a second quarter operational review in Fiscal Year 2018, the IRS conducted two targeted reviews, one on aged accounts and one on payment arrangements. The aged accounts review identified opportunities for processing improvements for these accounts and others, and the PCAs planned corrective actions. For example, one collector planned to provide employee training to improve case documentation.

The second targeted review assessed whether the PCAs took appropriate actions on payment arrangements, in accordance with the Policy and Procedure Guide (PPG). The IRS reviewed between 40 and 45 payment arrangements for each PCA. Results showed:

- The CBE Group correctly handled 43 (96 percent) of 45 reviewed cases.
- Performant correctly handled 33 (83 percent) of 40 reviewed cases.
- Pioneer correctly handled 28 (70 percent) of 40 reviewed cases.
- ConServe correctly handled 27 (66 percent) of 41 reviewed cases.

None of these determinations, which reflect the quality of case handling, are considered as part of the overall quality of PCA performance. The IRS made several recommendations for improvement, and the PCAs committed to taking corrective actions. For example, all PCAs must develop strategies to monitor and improve management of payment arrangements with missed payments. The strategy must include monitoring payments, addressing missed payments, and terminating payment arrangements within the time frames listed in the PPG.

Fiscal Year 2018 third quarter operational reviews. The IRS completed its third quarter review in September 2018, covering the period April 1, 2018, through June 30, 2018. The IRS reviewed each PCA's operating plan and table of material changes, conducted focus groups with PCA frontline employees, reviewed inadvertent disclosure logs, and observed mailroom processing procedures. The PCAs reported a total of 26 inadvertent disclosures, which varied in severity. For example, Performant identified a situation in which multiple taxpayer Social Security Numbers (SSN) were vulnerable, but it resolved the issue to prevent further incidents. The IRS made 36 recommendations to address these issues and others, and the PCAs planned to take corrective actions.

The IRS also reviewed samples to ensure that PCA employees received background clearances and had required training certifications and to ensure that separated employees' system access

[21] The IRS uses disaster area freeze codes to identify taxpayers affected in a presidentially declared disaster area.

was revoked. The IRS did not identify issues at any PCA. The IRS also reviewed licensing, bonding, and insurance documents and determined that all PCAs were current with their requirements as appropriate.

The IRS's quality review attributes were not aligned with the PCAs' quality review systems

In addition to the quarterly reviews, the IRS's Campus Quality team reviews two telephone calls per PCA each day (10 calls for most weeks). To evaluate PCA performance, the IRS uses criteria and attributes that pertain to the PDC program. The IRS's attributes focus on five primary measures—customer accuracy, professionalism, timeliness, regulatory accuracy, and procedural accuracy. The team assesses quality related to these measures by evaluating 36 unique quality attributes. Using these criteria, as of August 16, 2018, the PCAs' cumulative Fiscal Year 2018 quality score is high (99 percent).[22]

Separately, the PPG requires the PCAs to internally monitor and report quality attributes that focus on the same five primary measures used by the IRS's quality review team. However, the PPG required the evaluation of only 21 unique quality attributes (not 36) for these measures. For example, the IRS assessed whether the PCA properly authenticated taxpayers' identity using five unique attributes; meanwhile, the PPG combined those five attributes into one attribute. The disparity among attributes made it difficult to make direct comparisons regarding performance.

Management Action: IRS management advised us that Collection Campus Quality and PDC Operations led an initiative to align PCA attributes with IRS attributes. The IRS implemented the new system on October 1, 2018.

Quality review conclusions were usually accurate, but some quality attributes were inconsistently evaluated

We randomly selected 40 telephone call recordings (10 per each PCA) between October 2017 and March 2018 that the IRS's Campus Quality team previously reviewed to determine whether the IRS properly applied the quality metrics. We agreed with the IRS's determinations for most attributes, but we identified some inconsistencies. For some cases, the IRS incorrectly determined that attributes were achieved, while in other cases attributes that were applicable were not assessed but should have been. Figure 9 shows the accuracy of the IRS's quality review results.[23]

---

[22] Due to IRS reporting, scores include September 15, 2017, to August 16, 2018.

[23] Each call can include up to 36 attributes, for a total of 1,440 possible attributes for the 40 cases. However, every call is unique and not all attributes apply to each call.

Figure 9: Accuracy of the IRS's Quality Review Assessments

Quality Determination	Total Opportunities
Attributes Were Correctly Considered Achieved or Not Applicable	1,306
Attributes Were Considered Achieved, but TIGTA Could Not Perform an Analysis[24]	80
Attributes Were Correctly Considered Not Achieved	4
Attributes Were Incorrectly Considered Achieved, but Attribute Was Not Achieved	21
Attributes Were Incorrectly Considered Achieved, but Attribute Was Not Applicable	6
Attributes Were Incorrectly Considered Not Applicable, but Attribute Was Achieved	21
Attributes Were Incorrectly Considered Not Achieved, and Attribute Was Achieved	1
Attributes Were Incorrectly Considered Not Achieved, and Attribute Was Not Applicable	1
Total	**1,440**

Source: TIGTA analysis of IRS Campus Quality Team's PDC Data Collection Instruments (Oct. 1, 2017, through March 27, 2018).

Analysis showed many of the inaccuracies involved IRS Attributes 226 and 704. Specifically, IRS reviewers considered Attribute 226 (whether the assistor confirmed the taxpayers' receipt of Publication 1, *Your Rights as a Taxpayer*) achieved in 12 instances, but we disagreed because the assistors did not specifically ask the taxpayer.[25] In addition, the IRS believed that attribute 704 (whether the assistor verified the best telephone number with the taxpayer) was not achieved in 10 instances, but we disagreed because the assistors did confirm the best telephone number.[26] The IRS should clarify the expectations for considering and achieving these attributes as part of the Collection Campus Quality and PDC Operations initiative to align IRS and PCA quality attributes.

Because of the inaccuracies, we believe the total quality scores were reported higher than they should have been. Specifically, based on the telephone calls we retested, TIGTA's overall quality review metric for this period was 97 percent, which is 2 percent lower than the 99 percent reported by the IRS.

[24] Review of two attributes would require access to each PCAs' electronic systems. TIGTA was unable to provide an analysis of these IRS attributes.
[25] This finding and related recommendation is further detailed in a separate section of this report.
[26] This attribute is not currently coded in the PCA PPG. The related recommendation to align the attributes is detailed in this section of the report.

PCA employees usually followed PPG procedures when talking to taxpayers

Telephone contact is the PCAs' primary method to reach taxpayers, receive voluntary payments, and establish payment arrangements. The 21 quality attributes in the PPG provide instructions that PCA employees are supposed to follow when contacting 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. See Appendix IV for a detailed list of all 21 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 21 quality attributes.[27] The PCAs summarize and report to the IRS the results of these quality assurance reviews in monthly *Performance Management Reports*. The PCAs also use the results of these quality reviews to assess employee performance and bonus compensation. Assistors' bonuses are supposed to be based on the quality of service provided to taxpayers, not on the dollars they collect.

We sampled 100 telephone call recordings (25 from each PCA) from October 1, 2017, to March 21, 2018, to determine whether assistors followed PPG guidance and the related quality attributes.[28] In general, assistors followed guidance and provided taxpayers with quality service. For all 100 calls, PCA employees complied with 10 of the 21 attributes, including identifying themselves appropriately, requesting full payment, and properly resolving the case. Other key attributes had only one or two exceptions, including attributes related to confirming next actions in the call closing and properly referring taxpayers to IRS resources such as IRS.gov. Figure 10 shows the overall quality results for each PCA based on our review.[29]

---

[27] As described earlier in this report, the 21 attributes do not align with the 36 attributes used by the IRS during the daily quality reviews.

[28] We selected 10 telephone calls between five and 10 minutes in duration, five telephone calls between 10 and 15 minutes in duration, five telephone calls between 15 and 20 minutes in duration, and five telephone calls longer than 20 minutes in duration.

[29] Each of the 25 telephone calls can have up to 21 applicable attributes (525 total possible), but not all attributes are applicable for every telephone call.

Figure 10: Results of TIGTA's Review of Sampled PCA Taxpayer Calls

PCA	Applicable Attributes	Violations	Attributes Achieved	Percentage
CBE Group	410	18	392	95.6%
ConServe	394	14	380	96.4%
Performant	312	2	310	99.4%
Pioneer	361	3	358	99.2%
Total	**1,477**	**37**	**1,440**	**97.5%**

Source: TIGTA analysis of 100 randomly selected PCA recorded telephone calls between October 1, 2017, and March 21, 2018.

All four PCAs met the attributes for nearly all cases. Note that some employee actions resulted in more than one violation of an applicable attribute during the call. For example, if a PCA asked a taxpayer about borrowing from friends and family, we considered it to be a violation of Attribute 4 (taxpayer rights) and Attribute 15 (professionalism). Figure 11 shows how many taxpayer calls involved at least one attribute that was not met.

Figure 11: Taxpayers Affected by Missed Attributes

PCA	Calls Reviewed	At Least One Attribute Missed	Percentage
CBE Group	25	12	48%
ConServe	25	7	28%
Performant	25	1	4%
Pioneer	25	3	12%
Total	**100**	**23**	**23%**

Source: TIGTA analysis of 100 randomly selected PCA recorded telephone calls between October 1, 2017, and March 21, 2018.

Although the total number of attribute violations was only 3.4 percent, 23 percent of reviewed taxpayer calls experienced at least one violation. There was some variance between the PCAs for some of the attributes, and certain attributes were more problematic. Figure 12 shows the three most frequent attributes that PCA employees did not meet.

Figure 12: Most Commonly Missed Attributes

Attribute	Violations
IRS Taxpayer Rights Notification (1st Contact): Ensure that the collector verified with the taxpayer receipt of notice of rights to representation/Taxpayer Advocate Service/TIGTA as received in PCA initial notice or IRS CP40[30] during initial telephone call.	9
Right-Party Contact Authentication: Ensure that the collector verified the taxpayer's Taxpayer Authentication Number, Name, Date of Birth, Address of Record, or SSN with taxpayer consent.	6
Documentation: Ensure that the collector accurately documented the record of account or handled incoming correspondence, returns, or remittances appropriately.	5
Total	20

Source: TIGTA analysis of 100 randomly selected PCA recorded telephone calls between October 1, 2017, and March 21, 2018.

More than half of all exceptions involved these three attributes. We brought these issues to the attention of the IRS and the PCAs, and corrective actions have mostly been taken. For example, all nine violations related to taxpayer rights violations occurred when the CBE Group did not ask taxpayers if they had received IRS Publication 1 because this requirement was not in its scripts. We verified that the CBE Group updated the script based on updated guidance in the April 2018 PPG to include this question.

In addition to the issues involving attributes, we observed other conditions present during telephone calls for which corrective actions should be taken to improve quality or taxpayer privacy. These conditions were unique to each of the PCAs and not reflective of the entire PDC program.

CBE Group: We observed 19 instances in 25 telephone calls in which other assistors could be heard in the background of the call speaking to other taxpayers. ********1********* *************1***************** The CBE Group should consider other telephone headset options to reduce the risk of Personally Identifiable Information (PII) being disclosed during contact. The CBE Group stated that it has turned on a "white noise" system in the call center area and is also testing other noise reducing equipment to reduce the possibility of background noise.

Additionally, we observed 19 instances in 23 applicable situations in which taxpayers were given the cordless device disclosure after the authentication process. Though not a violation of the PPG, the order in which the disclosure is given creates certain risks. The cordless device

---

[30] IRS Notice issued to indicate the taxpayer's account has been assigned to a PCA.

disclosure is intended to warn the taxpayer of the risks associated with discussing sensitive matters. The authentication process involves taxpayers providing PII, such as name, address, date of birth, SSN, or Taxpayer Authentication Number. 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. TIGTA believes the call scripts should be updated to provide the cordless device disclosure prior to authentication to properly inform taxpayers of their risks prior to disclosing any PII.

ConServe: We observed nine instances in 14 applicable situations in which authenticated taxpayers were not asked to participate in the customer satisfaction survey. ConServe should ask all authenticated taxpayers who have not yet participated in the survey if they would like to complete the customer satisfaction survey. ConServe could not provide any justification for why the survey was not offered.

Performant: We observed seven instances in eight applicable situations in which taxpayers who wanted to discuss payment arrangement options were placed on hold for unspecified periods of time. Performant stated that it is a professional practice and provides the assister the needed time to review the account for accuracy prior to presenting payment options. However, TIGTA believes that assistors could be trained to use the payment calculator while speaking to taxpayers in order to avoid hold times. If placed on hold, taxpayers could hang up and may be difficult to contact in subsequent calls. Performant stated that it would continue to provide training and feedback to help shorten hold times.

Additionally, we observed 13 instances in 16 applicable situations in which taxpayers were given the cordless device disclosure after the authentication process. Performant stated that the PPG does not specifically provide guidance as to the timing of the disclosure and that the IRS previously approved the scripts and the order in which the disclosure is given. TIGTA believes the call scripts should be updated to provide the cordless device disclosure prior to authentication to properly inform taxpayers of their risks prior to disclosing any PII.

Pioneer: ******************************1**********************************
**************************************1*************************************
******1*****. However, Pioneer should consider other telephone headset options to reduce the risk of PII being disclosed during contact. ********************1*******************
**************************************1************************************
**************************************1*************************************
**************************************1**************************************
**************************************1**************************************
*****************1****************

The observations, results, and conclusion of our independent review of PCA telephone calls were consistent with the findings and observations of the PCAs reported in the monthly *Performance Management Reports*.[31]

Some PCAs encouraged borrowing money from friends, family, and retirement accounts

While listening to taxpayer telephone calls, we identified two PCAs that suggested taxpayers borrow money from 401(k) retirement plans or consider other loan sources.[32] *******1******* *************************************1** ***********************1************************ In five cases, Pioneer employees suggested that taxpayers could use 401(k) retirement plan funds, take out loans, or borrow money from other sources. We did not observe discussions of this nature during telephone calls by ConServe or Performant, and their scripts did not include any language recommending such borrowing.

The CBE Group advised us that it no longer uses these collection tactics, and the IRS instructed it to remove this language from its scripts. We confirmed this language is no longer present in the scripts.

However, Pioneer defended this practice, and the language is still in its scripts. Specifically, Pioneer's script tells the assistor to first ask the taxpayer if it is possible to fully pay the balance within 30 days. The assistor is then encouraged to explain the advantage of paying in full because penalties and interest will continue to accrue. If a taxpayer is still unable to pay, the assistor is supposed to suggest that liquidating assets or borrowing money may be advantageous. The job aid directs the assistor to give the taxpayer ideas on where or how to borrow money. The listed options are:

- Borrowing Against a 401(k)
- Employer Loan
- Credit Union
- Credit Card
- Cosigner
- Family/Friends
- Stocks
- Bonds
- Bank or Finance Company
- 2nd Mortgage
- Certificate of Deposits

We asked the IRS why it requested that the CBE Group remove the information about borrowing from friends, family, and retirement assets but supported Pioneer's use of the tactic. The IRS stated that the CBE Group was collecting financial information to determine the taxpayers'

[31] As of September 2018, the CBE Group's performance was rated at 99.6 percent, ConServe's performance was rated at 95.9 percent, Performant's performance was rated at 99.9 percent, and Pioneer's performance was rated at 99.5 percent.

[32] See prior section regarding telephone call recording sampling methodology.

ability to pay their liability; therefore, it was asked to remove this process from its scripts. IRS management further stated that they have not changed their stance on Pioneer's scripts, and the PCAs are allowed to give taxpayers options on how to satisfy their liability. IRS management advised us that paying outstanding liabilities in the shortest time possible is consistent with the guidance on IRS.gov, which also encourages taxpayers to explore the options of securing loans, liquidating assets, or obtaining cash advances on credit cards to avoid the additional penalty and interest charges. In its response to an earlier TIGTA report that addressed PCA employees being able to determine whether taxpayers were able to pay the debt, the IRS stated, "The report implies that PCAs collect income or asset information from taxpayers, which is not correct."

Not only are some PCA employees collecting information from taxpayers, they are collecting financial information on their friends and family. The IRS approved Pioneer's telephone contact scripts on March 3, 2017. Subsequently, the *New York Times* published a story that raised concerns about this practice, including the possible negative economic consequences of such borrowing.[33] In anticipation of the release of the *New York Times* article and on the day before it was published, the IRS provided Pioneer with an internal opinion supporting its collection practices:

> *The IRS encourages people to look into options for paying their tax debt, including things such as installment agreements. How they pay is a personal choice. Giving taxpayers ideas of possible borrowing sources to pay their tax liability is consistent with fair debt collection practices as well as IRS practice. For example, the IRS allows payment by credit cards and lets taxpayers know that it may be more economical to borrow money to pay their taxes rather than to enter into an installment agreement. We encourage people to look into their options, understand the implications and make the best choice for their personal situation.*

IRS procedures do not allow for inquiry into the financial information of friends and family, IRS collection procedures reflect that borrowing money from alternative sources such as retirement plans may be a legitimate option for some taxpayers.[34] Additionally, I.R.C. § 6306(b)(1)(C) only allows the PCAs to collect financial information with respect to the taxpayer and does not allow it to inquire and collect financial information about family and friends.

[33] Cowley, Stacy; Silver-Greenberg, Jessica, *Outside Collectors for I.R.S. Are Accused of Illegal Practices*, New York Times (June 2017).
[34] Internal Revenue Manual 5.19.13.2.4 (July 22, 2016).

Recommendations

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

Recommendation 1: Update PCA operational plans to ensure that the PCAs reduce telephone background noise and potential disclosure of taxpayer PII or tax return information protected under I.R.C. § 6103.

> **Management's Response:** IRS management agreed with this recommendation. The IRS will direct all PCAs to update their operational plans to minimize telephone background noise. The IRS will monitor this corrective action as part of its internal management system of controls.

Recommendation 2: When applicable, update the PPG and the quality attributes to ensure that PCA scripts requiring cellular phone disclosures require that the disclosure be given before taxpayer authentication and that the PCAs inform the taxpayer of the risks of the conversation.

> **Management's Response:** IRS management agreed with this recommendation. The IRS stated that although the PCAs are not required to give the cell phone disclosures on every call, it agreed to update the PPG and quality attribute coding guidance to ensure that, when applicable, PCA scripts require that the cellular phone disclosures be given before taxpayer authentication and that the PCAs inform the taxpayer of the risks of the conversation. The IRS will monitor this corrective action as part of its internal management system of controls.

Recommendation 3: When applicable, ensure that the PCAs provide training to their assistors to minimize hold times while they calculate monthly payment options.

> **Management's Response:** IRS management agreed with this recommendation. The IRS will direct the PCAs to incorporate training for their assistors to minimize hold times while they calculate monthly payments. The IRS will monitor this corrective action as part of its internal management system of controls.

Recommendation 4: Prohibit the PCAs from asking taxpayers to borrow money from friends and/or family.

> **Management's Response:** IRS management disagreed with this recommendation. The IRS stated that in many situations, this type of borrowing can be in the taxpayer's best interest. The IRS disagreed that merely asking a taxpayer if he or she could borrow money from friends or family and recording the occurrence of this suggestion by the PCAs into the taxpayer's Record of Account amounts to a collection of financial data on nonliable parties. The IRS stated that the practice does not violate I.RC. § 6306(b)(1)(C). It believes the PCAs are not otherwise collecting financial information on taxpayers' friends and family.

Office of Audit Comment: I.R.C. § 6306(b)(1)(C) permits PCA employees to collect financial information only with respect to the taxpayer. The practice of asking whether taxpayers have friends and family who are willing and able to loan the taxpayer money to pay off the tax debt would likely lead to taxpayers describing the financial situation of friends and family and is at least inconsistent with the law's directive to only collect information about the taxpayer. Moreover, this practice is inconsistent with the IRS's own PPG that requires that the PCAs return taxpayer accounts to the IRS when taxpayers cannot pay the tax debt. Those procedures do not allow for an exception if taxpayers have friends and family who can pay the tax debt.

Recommendation 5***:*** Work with the Director, Research, Applied Analytics, and Statistics Division, to implement a consistent payment arrangement calculator that all four PCAs use which is closer in accuracy to the IRS IAT tool.

Management's Response: IRS management agreed with this recommendation. The IRS stated that prior to this audit, it identified inconsistencies between the IRS IAT tool and the PCAs' payment arrangement estimators and has been working with the Research, Applied Analytics, and Statistics Division to develop a new estimator tool for use by all PCAs. The IRS will place the estimator tool into production in early 2019. The IRS will monitor this corrective action as part of its internal management system of controls.

Recommendation 6: Require IRS approval for all payment arrangements until the consistent calculator is implemented; this includes recalculating all submitted payment arrangements and providing updated terms to taxpayers when the PCAs receive approval.

Management's Response: IRS management disagreed with this recommendation. The IRS stated that prior to this audit, it identified inconsistencies between the IRS IAT tool and the PCAs' payment arrangement estimators and has been working with the Research, Applied Analytics, and Statistics Division to develop a new estimator tool for use by all PCAs. This new PCA payment arrangement estimator tool will be in production in January 2019. The IRS further stated that recalculating the approximately 20,000 prior-established payment arrangements would require significant resources to complete and would negatively affect PDC taxpayers. Sending taxpayers with prior-established payment arrangements a new calculation would cause unnecessary confusion and yield limited benefit. The taxpayers expecting to set up a new payment arrangement would have to wait an extended period of time to secure IRS approval. Additionally, the IRS would be unable to implement this recommendation as the IAT tool does not have the functionality to compute a payment arrangement from a prior point in time.

Office of Audit Comment: Pursuant to I.R.C. § 7803(a)(3)(C), taxpayers have the right to pay only the correct amount of tax. Our report establishes that the PCAs have put many taxpayers in erroneous installment agreements, some requiring the taxpayer to pay more each month than is necessary. Taxpayers also have the right to be informed and the right to quality service. The IRS is compromising these rights by its unwillingness to fix the erroneous agreements or to notify the impacted taxpayers of the error. If the IRS's IAT tool cannot compute the payment terms from a prior point in time, the IRS could at least compute the agreements using current information to establish more accurate payment terms.

Recommendation 7***:*** Require the PCAs to determine which existing payment arrangements contain terms inconsistent with the IRS's IAT tool and provide taxpayers with the corrected payment terms.

Management's Response: IRS management disagreed with this recommendation for the same reasons as stated under Recommendation 6.

Office of Audit Comment: Correcting the erroneous payment agreements for the taxpayers who have been erroneously told to pay more each month than they owe or at least informing them of the errors would be consistent with the three taxpayer rights previously described, *i.e.*, the right to pay only what is owed, the right to be informed, and the right to quality service.

Recommendation 8: Include payment arrangements of less than 60 months in quality reviews to ensure that the new calculator is working properly.

Management's Response: IRS management partially agreed with this recommendation. IRS quality reviewers are not qualified to identify the specific payment arrangement calculator issues noted in this report. IRS quality reviewers are responsible for evaluating whether PCA employees are properly applying the established policies and procedures in their telephone interactions with taxpayers. To address the concerns raised in this audit report, the IRS will review a statistically valid selection of payment arrangements of less than 60 months for the first six months of implementation of the new estimator tool to ensure that it is working properly. The IRS will monitor this corrective action as part of its internal management system of controls.

Office of Audit Comment: The IRS has warranted to Congress in its annual report that the quality of PCA work is high, close to 100 percent. However, those quality scores omit serious case management performance issues, such as the erroneous payment agreement issue. In order for the quality scores to be reliable, they need to reflect all material aspects of the PCAs' performance.

Payment Agreement Terms Favored Taxpayers Assigned to the Private Debt Collection Program, and Some Taxpayers Receive Incomplete Letters

Payment agreement terms favored taxpayers assigned to the PDC program

Although the Internal Revenue Manual limits installment agreements to 72 months (six years) for all taxpayers, IRS management issued a memorandum that provided a temporary deviation from this criterion. Specifically, taxpayers who owe between $50,000 and $100,000 may qualify for an IRS installment agreement up to 84 months.[35] However, taxpayers who owe less than $50,000 may still only establish installment agreements up to 72 months.

TIGTA previously reported that the IRS had proposed allowing the PCAs to establish payment arrangements up to the CSED date (normally 10 years), which provided PCA-managed taxpayers favorable treatment over IRS-managed taxpayers.[36] In response to that report, IRS management claimed that TIGTA misrepresented the payment arrangement options for PDC taxpayers because the IRS later made changes to the program to ensure that taxpayers assigned to the PCAs were treated identically to taxpayers working with the IRS. Specifically, IRS management responded that PCA procedures "mirror IRS procedures for similarly situated taxpayers."

While it is true that 84 months is the maximum payment arrangement for both IRS and PCA payment plans, the qualifications for obtaining such an agreement are different in that taxpayers who owe less than $50,000 may not obtain an 84-month installment agreement from the IRS. However, there is no such restriction for PCA payment arrangements. TIGTA reviewed 2,547 payment arrangements that the PCAs sent to the IRS for approval during Fiscal Year 2018 to determine if the IRS approved any payment arrangements with 84-month payment terms for taxpayers that owed less than $50,000. As of June 2018, we identified 88 (3 percent) PCA payment arrangements with 84-month payment terms for which the taxpayers owed less than $50,000. The IRS approved all of these arrangements.

Payment agreement letters were sufficiently designed and mailed to right-party contacts, but the letters need updated language

Once the PCA and taxpayers agree on payment arrangement terms during telephone contact, the PCAs must provide the taxpayer(s) and any taxpayer representative with an IRS-approved letter confirming the terms, conditions, due date, payment amount, and payment options within

[35] Subject to other conditions.

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

five business days. Payment arrangement letters should be addressed to the taxpayer who is entering into the arrangement.

We selected and reviewed a random sample of 60 total payment arrangement letters (15 from each of the PCAs) sent between October 1, 2017, and March 21, 2018. We determined that all payment arrangement letters from each of the PCAs were issued in accordance with agreed-upon IRS and PPG guidance, were issued to required parties, contained only IRS-approved language, contained the correct modules, and were issued within guidance time frames. However, as previously described, the payment arrangements did not always contain accurate information about the length of the agreement.

Recommendations

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

Recommendation 9*:* Revise the PPG for payment arrangement options to be consistent with IRS policy for taxpayers who owe less than $50,000.

> ***Management's Response:*** IRS management partially agreed with this recommendation. The IRS stated that installment agreement options for IRS taxpayers will sometimes vary based on the taxpayer's financial situation. The IRS agreed to review its policies and procedures to determine if any changes are needed to the payment arrangement terms. The IRS will monitor this corrective action as part of its internal management system of controls.
>
> ***Office of Audit Comment:*** The basis for this recommendation is that taxpayers working with the IRS cannot obtain an 84-month installment agreement unless the balance due exceeds $50,000, while all taxpayers working with the PCAs are entitled to 84-month installment agreements. The recommendation is meant to ensure that taxpayers working with the PCAs are not obtaining more favorable terms than taxpayers working with the IRS. Pursuant to I.R.C. § 7803(a)(3)(J), taxpayers have the right to a fair and just tax system. This right is compromised when taxpayers working with the IRS and the PCAs are subject to different treatment. The IRS's response does not agree to ensure, with respect to payment terms, that all similarly situated taxpayers are treated equally.

Recommendation 10: Ensure that PCA letters include language to inform taxpayers that they may need to make additional payments beyond the initial agreed-upon terms.

> ***Management's Response:*** IRS management agreed with this recommendation. The IRS will update the PPG to direct the PCAs to include language that informs taxpayers they may need to make additional payments beyond the initial agreed-upon terms in their payment arrangement letters. The IRS will monitor this corrective action as part of its internal management system of controls.

Recommendation 11*:* Ensure that quality scores reported in annual reports to Congress include attributes related to all five major performance measures, including customer accuracy, professionalism, timeliness, regulatory accuracy, and procedural accuracy.

> ***Management's Response:*** IRS management partially agreed with this recommendation. The IRS stated that per I.R.C. § 6306(j), reporting PCA quality scoring is not a legislative requirement. Additionally, the IRS reports externally only on customer accuracy per Internal Revenue Manual 21.10.1.7.3(10). However, for its 2019 Annual Report to Congress, the IRS will assess what changes would be appropriate to the quality score reporting. The IRS will monitor this corrective action as part of its internal management system of controls.
>
> ***Office of Audit Comment:*** I.R.C. § 6306(j) does not specifically require that the IRS provide quality scores of the PCAs in its report to Congress. However, because the IRS has chosen to provide quality scores, it should provide Congress complete information.

Customer Satisfaction Survey Results Were High, but They May Not Be Reflective of Overall Private Collection Agency Performance

As part of the IRS's goal to provide the best customer service to customers, it solicits feedback from customers on all product lines. Customer satisfaction surveys are used to capture information about the service provided to taxpayers and allow the IRS to systemically collect and review satisfaction data directly from customers.

The IRS uses a third-party vendor to offer taxpayers assigned to the PCAs a customer satisfaction survey as a means to assess their overall experience with the PCA. The survey asks taxpayers 11 satisfaction questions that are specific to their telephone call. The questions relate to overall experience, professionalism, knowledge and skills, and timeliness. The survey also asks taxpayers an additional 14 questions unrelated to the specific telephone call, such as their experiences with written notices, follow-up actions, comparisons between the IRS and the PCAs, and miscellaneous information.

Questions that are specific to the telephone call are asked first, starting with the taxpayer's overall satisfaction. After that, more probing questions about the call are asked, including the taxpayer's opinion about the assistor's professionalism, such as courtesy, professionalism, and willingness to help. Taxpayers are then asked about the assistor's knowledge and skills. The last telephone-specific questions involve the timeliness of the call.

All four PCAs' overall customer satisfaction survey results routinely score in the low– to mid–90 percent satisfaction range. For example, in June 2018, the CBE Group's, Performant's, and Pioneer's overall customer satisfaction rates were 93 percent, and ConServe's was 95 percent. Scores related to professionalism and knowledge and skills were even higher. The only relatively lower scores involved the amount of time spent on calls, with customer satisfaction scores that ranged from 77 percent to 96 percent. These taxpayers may be frustrated due to complex tax issues, inability to make online payments, difficulty in the authentication process, or other unknown reasons.

In its first annual report to Congress addressing the effectiveness of the program, the IRS reported a total PCA Quality Score that was supposed to be reflective of both IRS and PCA quality review results.[37] Both the IRS and PCA scores were very high, 99 percent and 98 percent, respectively. However, even though both the IRS and the PCAs assess performance on as many as 36 attributes, the quality score reported to Congress is limited to only one attribute, "customer accuracy."[38] The report to Congress did not include performance information on other attributes, such as right-party contacts or professionalism. IRS management advised us that their policy prohibits externally reporting performance information except customer accuracy. However, we believe that the FAST Act requirement to report annually on the effectiveness of the program supersedes this policy.

In a previous report, TIGTA cautioned that customer satisfaction scores should not be used alone to assess PCA performance.[39] Customer service is just one of several performance criteria, and high customer satisfaction scores may not be reflective of high overall performance. For example, customer satisfaction surveys have little to do with the PCAs' compliance with PPG guidance, inventory management processes, or collection efficiency. Furthermore, the manner in which the customer satisfaction surveys are administered may be predisposed to higher overall scores. For example, the survey is only administered on calls to authenticated right-party contacts and to taxpayers who are still on the line at the conclusion of the PCA employee's attempt at collection. These may tend to be the most satisfied customers.

Improvements to Taxpayer Payment Options Could Increase Private Debt Collection Program Revenue and Decrease Failures to Fulfill Payment Commitments

When taxpayers agree to make payments to satisfy their tax debt, the PCA is required to provide taxpayers with payment options. Several are available, and the PPG details the options and advises the PCAs on how to instruct taxpayers to use the various methods. The PCAs should never ask taxpayers to mail cash or checks to the PCA location; rather, they should instruct the taxpayer to pay the IRS directly. Taxpayers can use several methods to make payments to the IRS, including:

---

[37] IRS, *Annual Report to Congress: Internal Revenue Service – Private Debt Collection* (Mar. 2018).

[38] We discussed the attribute differences between IRS and PCA quality reviews earlier in this report.

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

- Taxpayers with Internet access can go to www.IRS.gov/Payments, which has several payment options including "DirectPay,"[40] credit or debit cards options, and the Electronic Federal Tax Payment System.
- Taxpayers with a mobile phone can download the IRS2GO[41] telephone application.
- Taxpayers who wish to pay with cash can visit an IRS PayNearMe[42] location.
- Taxpayers who wish to pay with check or money order can mail payments to an IRS address.

We observed instances during our review of telephone calls in which taxpayers had problems processing payments through DirectPay. Many taxpayers had difficulty verifying their tax information, and therefore, they could not make immediate payments. For example, Pioneer management stated that taxpayers have voiced concerns regarding DirectPay not accepting their address, tax year, middle initials, or SSNs. Additionally, taxpayers have had problems using the drop-down menu for selecting the payment application. Frustrated taxpayers would call the PCA attempting to receive assistance, but in all five instances, the PCA could not resolve the issue at the time of the telephone call.

As a result, many taxpayers who agreed to make payments during telephone calls with the PCA ultimately never made payments. Figure 13 compares the amount taxpayers said they would pay during telephone calls with what was actually later collected.

Figure 13: Failures to Fulfill Payment Commitments With the PCAs

	CBE Group[43]	ConServe	Performant	Pioneer	Total
Committed Payment	$77,574,913	$8,812,314	$23,706,737	$25,092,958	$135,186,922
Actual Payment	$10,176,178	$4,810,439	$15,039,971	$16,593,406	$46,619,994
Amount Uncollected	$67,398,735	$4,001,875	$8,666,766	$8,499,552	$88,566,928
Percentage Collected	**13%**	**55%**	**63%**	**66%**	**34%**

Source: TIGTA analysis of PCA-provided Failures to Fulfill Payment Commitments.[44]

[40] IRS DirectPay is a payment application available to individual taxpayers. It is a free service that allows taxpayers to make electronic payments directly to the IRS from their checking or savings account.
[41] IRS2GO is a mobile app that provides access to mobile friendly payments options, such as IRS DirectPay. Taxpayers can also make a credit or debit card payment through an approve payment processor.
[42] IRS PayNearMe is a payment option for taxpayers who prefer to pay their taxes with cash.
[43] The CBE Group's committed payments include the total value of payment arrangements, which skews the amount collected and percentage collected.
[44] The CBE Group provided data through July 2018, ConServe provided data through August 2018, Performant provided data through May 2018, and Pioneer provided data through July 2018.

In total, PCA taxpayers paid 34 percent of what they agreed to during telephone calls. CBE Group customers ultimately paid 13 percent, while the other three PCAs collected between 55 percent and 66 percent of what was agreed to. However, all four PCAs experienced a significant difference between payment commitments and actual payments, and the data suggest that improvements in payment options could result in increased revenue and more actual payments. In addition to our observations, assistors at ConServe and Performant mentioned payment improvements could increase the number of actual payments received.[45]

Recommendation

Recommendation 12***:*** The Director, Collection, Small Business/Self-Employed Division, should conduct a study to evaluate the reasons why taxpayers experience difficulties in making payments to the IRS and resolve any issues that create those barriers.

> ***Management's Response:*** IRS management disagreed with this recommendation. The IRS stated that TIGTA's report does not provide evidence that PDC taxpayers have experienced substantial issues with making payments. They stated that taxpayers have the option to make payments via Direct Pay, Electronic Federal Tax Payment System, officialpayments.com, pay1040.com, payusatax.com, IRS PayNearMe (cash), and check or money order. The IRS further stated that to the extent that the PCAs and the PDC Program Office identify issues with these processes, they will share that information with the responsible program managers.
>
> ***Office of Audit Comment:*** Our report demonstrates that on average, the PCAs are collecting only 34 percent of what taxpayers agree to pay. It is unclear what all of the reasons are for this default rate; however, we observed during telephone calls with PCA employees that taxpayers were experiencing problems with some of the payment options, and we received feedback from the PCAs with regard to these same problems. If the IRS better understands the root cause of the problem, it would be in a better position to fix the problem.

Computer Programming Errors Led to 226 Potential Violations of the Fair Debt Collection Practices Act

The FDCPA contains provisions that prohibit various collection abuses and harassment in the private sector.[46] However, the restrictions did not apply to the Federal Government until passage

---

[45] Based on focus group discussions the IRS held with assistors during the Fiscal Year 2018 Third Quarter Operational Review.

[46] 15 United States Code §§ 1601 note, 1692-1692p (2010).

of the IRS Restructuring and Reform Act of 1998.[47] Congress believed that it was appropriate to require the IRS to comply with certain portions of the FDCPA and be at least as considerate to taxpayers as private creditors are required to be with their customers. IRS Restructuring and Reform Act of 1998 Section 3466 requires the IRS to follow provisions, known as Fair Tax Collection Practices, similar to those in the FDCPA.

Any contract between the IRS and a private collector must prohibit the collector from committing any act or omission that IRS employees are prohibited from committing in the performance of similar duties.[48] These prohibitions include communicating at inconvenient times and places, contacting represented taxpayers (with certain exceptions), calling the taxpayer at work if the collector knows the taxpayer's employer prohibits such calls, and various other types of harassment and abuse. In addition, the law provides that the provisions of the FDCPA shall apply to any qualified tax collection contract.[49] If the PCA violates the FDCPA, the law insulates the U.S. Government from liability and allows the suit to be brought only against the private collector.[50]

The CBE Group's telephone systems are designed to prevent telephone calls during times that are prohibited by the FDCPA. Computers are programmed so that outbound telephones are dialed only between the standard hours of 8:00 a.m. and 9:00 p.m. local time, with some variances for State laws such as shorter hours on Sunday. Computer programming also controls whether to leave voice messages on answering machines, depending on State laws. This programming is hard coded, and there is not a screen or profile to show telephone assistors the local calling hours.

In response to its interpretation of a court decision, the CBE Group made a programming change intended to prohibit voice messages for telephone calls made to Alabama, Florida, and Georgia. However, the change overrode existing programming that restricted calls to the standard hours. As a result, over a four-day period in October 2017, 226 telephone calls were made between the local hours of 9:00 p.m. and 10:00 p.m. before the error was discovered and corrected. No contact was made during any of the calls, as all of them went unanswered or the CBE Group's debt collector ended the call when it went to the taxpayer's voicemail or answering machine. However, these calls were potential violations of the FDCPA because they occurred outside the local hours of 8:00 a.m. and 9:00 p.m.

Potential FDCPA and Fair Tax Collection Practices violations may also occur when PCA employees work with taxpayers. In September 2018, TIGTA reported that PCA employees

---

[47] Pub. L. No. 105-206, 112 Stat. 685.
[48] I.R.C. § 6306(b)(2).
[49] I.R.C. § 6306(g).
[50] I.R.C. § 7433A(b)(1) and I.R.C. § 6306(f).

committed 14 potential violations during Fiscal Year 2017.[51] Most violations involved the PCAs' failure to contact taxpayer representatives when required.

Two Private Collection Agencies' Initial Contact Letters Were Incomplete

Once a new or subsequent account is assigned to a PCA by the IRS, the PCA must mail an IRS-approved initial contact letter to the taxpayer(s) and their representative(s) not sooner than the 11th calendar day after the PCA receives the new or subsequent module. Contact by the contractor must not be initiated prior to the 11th calendar day after the PCA receives the case. This practice allows sufficient time for taxpayers to receive the initial contact letter containing their 10-digit Taxpayer Authentication Number, which the PCAs should use instead of SSNs to verify a taxpayer's identity during all telephone contacts with the PCA. A separate initial contact letter must be mailed to the taxpayer and the authorized representative for each module.

The initial contact letter informs the taxpayer that the account has been placed with a PCA contracted by the IRS and includes instructions for payment. The initial contact letter must also include specific details about the account, such as the tax year and balance due, as well as other helpful information, such as the PCA's toll-free telephone number and address, information about the Taxpayer Advocacy Service, and reference to IRS Publication 1.

We selected and reviewed a random sample of 60 total initial contact letters (15 from each PCA) mailed between October 1, 2017, and March 21, 2018. Analysis showed that initial contact letters contained only agreed-upon IRS and PCA language and did not contain language that was threatening, confusing, or contradictory. We also verified that letters were sent to all required parties and in accordance with the PPG. However, the initial contact letters from two PCAs were missing required language as specified in the PPG.

- ConServe's initial contact letters did not reference IRS Publication 1 or where it can be obtained. IRS management advised us that the language had been removed when the PCA revised the letter after IRS approval, but the IRS did not notice the omission. IRS management advised us that it is currently working with ConServe to revise its initial contact letter.
- Pioneer's initial contact letters did not properly mask the primary SSN in the format XXX-XX-NNNN per PPG Section 5.3 for 11 of the 15 cases reviewed. IRS management stated that they became aware of the issue when reviewing a subsequent draft release of

[51] TIGTA, Ref. No. 2018-30-079, *The Internal Revenue Service and Private Debt Collectors Took Some Action for 16 Potential Violations of Fair Tax Collection Practices During Fiscal Year 2017* (Sept. 2018).

the initial contact letter on which Pioneer made the correction. The new version of the corrected initial contact letter was issued in February 2018.

Recommendation

Recommendation 13**:** The Director, Collection, Small Business/Self-Employed Division, should ensure that all PCAs' initial contact letters include the required language from the PPG.

> ***Management's Response:*** IRS management agreed with this recommendation. The IRS will direct the PCAs to include all required language from the PPG in their initial contact letters. The IRS will monitor this corrective action as part of its internal management system of controls.

Misdirected Payments Were Usually 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, 2017, to March 21, 2018, and analyzed a random sample of 60 misdirected payments (15 from each of the four PCAs). TIGTA's overall analysis showed that the PCAs followed policies and procedures in handling misdirected payments for 57 of 60 payments. The three instances for which procedures were not followed were not systemic in nature, and the IRS took steps to reduce the risk of recurrence.

Private Collection Agencies Maintained Adequate Controls Over Physical Security, Background Investigations, Licensing, Bonding, and Insurance

Physical security

Federal tax returns and return information are sensitive and must be treated in a secure manner. To comply with these requirements, the PCAs must ensure that access is restricted to only those persons whose official duties or responsibilities require access, and protect and ensure privacy in a manner consistent with IRS guidelines. We performed on-site visits to PCA locations in Lathrop, California; Pleasanton, California; Waterloo, Iowa; Fairport, New York; Henrietta, New York; and Horseheads, New York. We performed an after-hours physical security scan of each call center location to determine if access to the space was secure, public spaces were clear of PII or tax return information, and call assistor spaces did not have any PII or tax return information.

We attempted to access the space of all four PCA locations without badge access and could not open any doors or gain access to the space. We looked for PII and tax return information on printers, copy machines, fax machines, trash receptacles, shred bins, and cabinets, but we did not locate any sensitive information in these areas at any of the four PCA locations. We also searched desk spaces of telephone assistors (computer screens, cabinet drawers, *etc.*) for any PII or tax return information. We did not identify any PII or tax return information at three of the four PCA locations, but we did observe 13 taxpayer names and related payment arrangement amounts handwritten on a piece of paper in an unlocked drawer of an assistor at ConServe. We brought the potential security issue to the attention of ConServe executives, and they provided training to the individual the same day of the discovery. ConServe provided us with documentation that the individual received the training.

As an internal control to prevent PII and taxpayer information from being inadvertently left in desk space, the PCAs do not allow their telephone assistors to print documents. Additionally, two of the four PCAs use dry-erase boards to eliminate the use of paper. A final security measure that the PCAs take is a strict "no cellular phone" policy.

Background investigations of employees

Each PCA thoroughly screens all candidates prior to hiring them for the PDC contract. This process includes verifying employment and education history, performing criminal background checks, and ensuring tax filing compliance. In addition to the background check, the PCAs prescreen potential employees through drug screening.

The PCAs use the Office of Personnel Management to perform background investigations of potential employees. We reviewed the records of each PCA to determine if interim or final clearance was provided by the Office of Personnel Management for all employees. We found all employees at each PCA had the proper clearance and were permitted to work the PDC contract.

Licensing, bonding, and insurance

Each PCA must maintain compliance with all State debt collection laws and regulations to ensure that State debt collection license and bond requirements are strictly adhered to. Per the signed IRS and PCA task order, the PCAs shall meet all applicable State and local licensing, bonding, and insurance requirements. The PCAs must be licensed to perform debt collection activities in all States, territories, and Federal jurisdictions of the United States.

We reviewed licensing certificate reports and the related licenses while performing our on-site reviews and determined that each PCA was properly maintaining licensing in all States, territories, and jurisdictions where required. Additionally, we reviewed the bonding and insurance documents of each PCA to determine that they held insurance. All four PCAs maintain bonding and insurance policies in accordance with the IRS task order.

Appendix I

Detailed Objective, Scope, and Methodology

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

I. Identified current guidance, procedures, and applicable laws and determined if there were any planned updates to laws or procedures used by the PCAs during all aspects of third-party collection.

II. Calculated collection statistics for each PCA.

   A. Requested all monthly scorecard data (with individual PCA collection statistics) from the IRS that included the onset of the PDC program to current. We used the scorecard data and determined:

      1. The total number of accounts assigned to each PCA.

      2. The total dollars collected by each PCA since the PDC program began (and each PCA's percentage of total dollars collected).

      3. The age of inventory assigned to each PCA.

      4. The number of payment arrangements established, the number of defaulted arrangements, and the default percentage.

      5. The number of taxpayer accounts assigned, the telephone contact rates, and the number of right-party contacts.

      6. The resolution of cases, which includes: full payment, payment arrangements, accounts recalled by the IRS, and accounts returned to the IRS.

III. Reviewed internal reviews and evaluated IRS and PCA oversight of their collection and operational actions.

   A. Determined if the IRS was performing its quarterly assessments of each PCA and if any performance trends or recommendations were made.

   B. Determined whether the IRS or the PCAs were adequately performing internal assessments of employees' collection and operational actions in addition to the quarterly assessments.

      1. Reviewed a random sample of 40 telephone calls (10 from each PCA) previously worked by IRS Campus Quality to determine if the results were consistently

applied using attribute guidance. The sample was obtained from a total population of 968 reviewed telephone calls from October 1, 2017, to March 29, 2018. We selected a random sample to ensure that each telephone call had an equal chance of being selected.

IV. Determined whether the PCAs were performing collection and operational actions in accordance with PPG and IRS procedures.

A. Determined if the PCA's initial contact letters were sent to taxpayers in accordance with the PPG and only contained agreed-upon IRS and PCA language. We reviewed a random sample of 60 initial contact letters (15 from each PCA) from a total population of 269,779 letters sent from October 1, 2017, and March 21, 2018. We selected a random sample to ensure that each letter had an equal chance of being selected.

B. Determined if misdirected mail and payments received by the PCAs were properly and timely routed to the IRS. We reviewed a random sample of 60 misdirected payments (15 from each PCA) from a total population of 362 received payments from October 1, 2017, to March 21, 2018. We selected a random sample to ensure that each misdirected payment had an equal chance of being selected.

C. Determined if PCA telephone contacts made with taxpayers or their representatives were in accordance with PCA guidance and laws that govern private collection. We reviewed a random sample of 100 telephone calls (25 from each PCA) from a total population of 33,594 telephone calls from October 1, 2017, to March 21, 2018. We selected a random sample to ensure that each telephone call had an equal chance of being selected.

D. Determined if payment agreement letters were sent in accordance with agreed-upon IRS and PCA guidance. We reviewed a random sample of 60 payment agreement letters (15 from each PCA) from a total population of 34,274 letters from October 1, 2017, to March 21, 2018. We selected a random sample to ensure that each letter had an equal chance of being selected.

E. Determined if the PCAs were taking necessary actions to secure taxpayer data and maintain current insurance and licensing.

V. Reviewed TIGTA's Office of Investigations complaints to determine if there were any consistent taxpayer complaints that indicated PCA performance issues.

VI. Determined the effectiveness and administration of PCA customer satisfaction surveys.

VII. Evaluated the accuracy of PCA payment arrangement calculators by comparing PCA results to IRS IAT tool results.

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: applicable policies and procedures, IRS and PCA quality review reports, and PCA telephone systems. We evaluated these controls by interviewing IRS management and the private debt collectors, reviewing guidance documents and regulations, and reviewing PCA documents and files.

Appendix II

Major Contributors to This Report

Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Carl Aley, Director
Phyllis Heald London, Acting Director
Richard Viscusi, Audit Manager
Brian Foltz, Lead Auditor
Antony Shang, Auditor

Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Director, Office of Audit Coordination

Appendix IV

Private Collection Agency Policy and Procedure Guide Quality Attributes

Attribute	Description
1	*Right-Party Contact Determination – Unique:* Use this field to identify if the collector accurately determined the correct party to contact if not batch routed by the dialer system.
2	*Associate/PCA Identity Disclosure:* Use this field to determine if the collector(s) identified themselves and their company appropriately during every phone contact.
3	*Right-Party Contact Authentication:* Use this field to identify if the collector verified the taxpayer's Taxpayer Authentication Number, Date of Birth, Address of Record, and SSN with taxpayer consent.
4	*IRS Taxpayer Rights Notification (1st Contact):* Use this field to identify if the collector verified with the taxpayer receipt of the notice of rights to representation/Taxpayer Advocacy Service/TIGTA as received in the PCA initial notice or the IRS CP40 during the initial phone call.
5	*Mini-Miranda:* Use this field to identify if the collector delivered the Mini-Miranda rights pursuant to the FDCPA.
6	*QA Disclosure:* Use this field to determine if the collector provided the possibility of recorded conversation to the taxpayer or representative accurately, completely, and at the appropriate time.
7	*Cell Phone Clearance/Consent:* Use this field to determine if the collector, during an outgoing or incoming phone call, warned the caller of the risk of using a cordless devise to discuss tax information, secured consent before proceeding with the call, and gave the caller the opportunity to call on a secure landline.
8	*Authorized 3rd-Party Communications:* Use this field to determine if the collector accurately authenticated a third-party representative for the modules being discussed during the phone conversation.

9 *Payment Procedures*: Use this field to determine if the collector demanded full payment or payment within 120 days before determining if the taxpayer may be eligible for a payment arrangement.

10 *Appropriate Payment Arrangement Amount, Modifications, Termination:* Use this field to rate if the collector appropriately calculated a payment amount on a payment arrangement, increased or decreased a payment amount based on information provided by the taxpayer or power of attorney, changed a payment amount due to additional modules or receipt of new CSED information, or appropriately terminated a payment arrangement.

11 *Phone/Dialer Planning, Scheduling and System Management:* Use this field to rate if the collector updated the PCA dialer system or other subsystems appropriately to further collection of the accounts for the taxpayer account(s) being reviewed.

12 *Documentation:* Use this field to rate if the collector accurately documented the record of account or handled incoming correspondence, returns, or remittances appropriately.

13 *Compliance Accuracy:* Use this field to rate whether the collector analyzed all available taxpayer account information from the IRS daily and weekly extract, including unpaid taxes and/or delinquent returns when appropriate.

14 *Right-Party Contact Talk Off:* Use this field to rate whether the collector closed calls confirming actions concerning the solicitation of information, returns, payment terms, and next action required while using the appropriate closing script.

15 *Professionalism:* Use this field to identify if the call was handled professionally and if the employee determined the right party to contact on outbound calls.

16 *Timeliness:* Use this field to rate if all nonregulatory timely case actions on the case being reviewed were being performed according to the PPG.

17 *Timeliness – Regulatory:* Use this field to determine if all regulatory timely case actions on the case being reviewed were being performed according to the PPG.

18 *Issue(s) Addressed During Contact:* Use this field to rate whether the collector appropriately addressed all the taxpayer and representative issues raised during the contact or in taxpayer correspondence.

19 *Appropriate Disposition:* Use this field to rate whether the collector disposed of the case based on the information available to the collector from IRS extracts, contact information, and/or research.

20 *Check Annotation:* Use this field to determine if the employee advised the taxpayer of check annotations and mailing addresses.

21 *Provided 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 method information to resolve the taxpayer's issue.

Appendix V

Management's Response to the Draft Report

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

COMMISSIONER
SMALL BUSINESS/SELF-EMPLOYED DIVISION

December 21, 2018

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Mary Beth Murphy
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Fiscal Year 2019 Biannual Independent Assessment of Private Collection Agency Performance (Audit # 201830011)

Thank you for the opportunity to review and comment on the subject draft audit report. The 2015 Fixing America's Surface Transportation (FAST) Act required the IRS to begin using private collection agencies (PCAs) to collect inactive tax receivables from taxpayers. Since the program became operational roughly 18 months ago, we have assigned (through September 2018) over 730,000 taxpayer accounts to PCAs, and they have collected $80,736,597 for application to those taxpayers' liabilities. We appreciate your acknowledgement that all PCAs are performing well under the existing quality review metrics, and that the PCAs' customer satisfaction scores have been high.

The Private Debt Collection (PDC) program continues to evolve as we incorporate lessons learned to improve its effectiveness and to ensure that PCAs' actions comply with applicable laws and are consistent with IRS policies and procedures. Prior to your audit, we identified inconsistencies between the IRS Integrated Automated Technology (IAT) tool and the PCAs' payment arrangement estimators and have been working with Research, Applied Analytics & Statistics (RAAS) to develop a new estimator tool for use by all PCAs. This tool will be in production in January 2019. We are also working with the PCAs to develop a process that will require them to review payment arrangements nearing their estimated payoff dates to alert taxpayers if their agreements will require additional payments beyond the originally established terms.

Through the IRS Quality Review process, we review a sample of telephone calls made by each PCA to ensure employees are protecting taxpayer rights and meeting the established quality standards. We worked to align PCA quality attributes with those the IRS uses to assess its own case quality. We implemented the new system on October 1, 2018. We have taken corrective actions to address the quality attributes TIGTA found were most commonly missed by PCA employees during their handling of taxpayer interactions.

2

We complete Operational and Targeted Reviews of PCA compliance with established policies and procedures regularly throughout the fiscal year. Through the Operational Reviews, we evaluate the PCAs' contractual compliance with background investigations, licensing, insurance, and security safeguards. We also review the PCAs' Operational Plans and evaluate program metrics. In our Targeted Reviews, we look at specific aspects of inventory management such as actions taken on aged cases and/or disaster area cases, and establishing and/or terminating payment arrangements. We also review a sample of telephone calls made by each PCA daily to ensure PCA employees are protecting taxpayer rights and meeting the established quality standards. These actions promote PCA accountability.

We agree with many of your recommendations. We will direct all PCAs to update their Operational Plans to ensure telephone background noise is minimized and to incorporate training for their assistors to minimize hold times while they calculate monthly payment amounts. We will also direct the PCAs to include language in their payment arrangement letters that informs taxpayers they may need to make additional payments beyond the initial agreed upon terms.

We disagree with TIGTA's recommendation to require IRS approval for all payment arrangements until we implement the PCA payment arrangement estimator and that we require the PCAs to determine which existing payment arrangements contain terms inconsistent with IRS's IAT Tool. The new PCA payment arrangement estimator tool, which will be in production in January 2019, will allow PCAs to estimate payment arrangement durations that are consistent with IRS IAT estimates. Recalculating the approximately 20,000 prior-established payment arrangements would require significant resources to complete and would yield limited benefit, especially given the new process for review of payment arrangements that are nearing their estimated payoff dates referenced above. It would also negatively impact PDC taxpayers. (Sending taxpayers with prior-established payment arrangements a new calculation would cause unnecessary confusion, and taxpayers expecting to set up a new payment arrangement would have to wait an extended time to secure IRS approval.)

We also disagree with TIGTA's recommendation to prohibit PCAs from asking taxpayers to borrow from friends and family, as there may be circumstances where borrowing of this nature would be beneficial to the taxpayers. Furthermore, we do not agree that a notation in case history notes as to whether friends and family could loan the taxpayer money amounts to a collection of financial data on non-liable parties. This practice does not violate Internal Revenue Code (IRC) § 6306(b)(1)(C).

Attached is a detailed response outlining our corrective actions to address your recommendations. If you have any questions, please contact me or Paul Mamo, Director, Collection Operations, Small Business/Self-Employed Division.

Attachment

Attachment

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

RECOMMENDATION 1:
Update PCA operational plans to ensure that PCAs reduce telephone background noise and potential disclosure of taxpayer Personally Identifiable Information or tax return information protected under I.R.C. § 6103.

CORRECTIVE ACTION:
We agree with the recommendation and will direct all PCAs to update their Operational Plans to minimize telephone background noise.

IMPLEMENTATION DATE:
March 15, 2019

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 2:
When applicable, update the Policy and Procedure Guide (PPG) and the quality attributes to ensure that PCA scripts requiring cellular phone disclosures require that the disclosure be given before taxpayer authentication and that PCAs inform the taxpayer of the risks of the conversation.

CORRECTIVE ACTION:
We agree with this recommendation. Although PCAs are not required to give the cell phone disclosures on every call, we agree to update the PPG and quality attribute coding guidance to ensure that when applicable, PCA scripts require that the cellular phone disclosures be given before taxpayer authentication and that PCAs inform the taxpayer of the risks of the conversation.

IMPLEMENTATION DATE:
March 15, 2019

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

2

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

RECOMMENDATION 3:
When applicable, ensure that PCAs provide training to their assistors to minimize hold times while they calculate monthly payment options.

CORRECTIVE ACTION:
We agree with this recommendation. We will direct the PCAs to incorporate training for their assistors to minimize hold times while they calculate monthly payments.

IMPLEMENTATION DATE:
June 15, 2019

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 4:
Prohibit PCAs from asking taxpayers to borrow money from friends and/or family.

CORRECTIVE ACTION:
We disagree with this recommendation. In many situations, this type of borrowing can be in the taxpayer's best interest. We do not agree that merely asking a taxpayer if he or she could borrow money from friends or family and recording the occurrence of this suggestion by the PCAs into the taxpayer's Record of Account amounts to a collection of financial data on non-liable parties. This practice does not violate I.R.C. § 6306(b)(1)(C). PCAs are not otherwise collecting financial information on taxpayers' friends and family.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

3

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 5:
Work with the Director, Research, Applied Analytics, and Statistics, to implement a consistent payment arrangement calculator that all four PCAs use which is closer in accuracy to the IRS IAT tool.

CORRECTIVE ACTION:
We agree with this recommendation. Prior to this audit, we identified inconsistencies between the IRS IAT tool and the PCAs' payment arrangement estimators and have been working with RAAS to develop a new estimator tool for use by all PCAs. We will place the estimator tool into production in early 2019.

IMPLEMENTATION DATE:
March 15, 2019

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:
Require IRS approval for all payment arrangements until the consistent calculator is implemented; this includes recalculating all submitted payment arrangements and providing updated terms to taxpayers when PCAs receive approval.

CORRECTIVE ACTION:
We disagree with this recommendation. Prior to your audit, we identified inconsistencies between the IRS IAT tool and the PCAs' payment arrangement estimators and have been working with RAAS to develop a new estimator tool for use by all PCAs. This new PCA payment arrangement estimator tool will be in production in January of 2019. Recalculating the approximately 20,000 prior-established payment arrangements would require significant resources to complete and would negatively impact PDC taxpayers. Sending taxpayers with prior-established payment arrangements a new calculation would cause unnecessary confusion and yield limited benefit. The taxpayers expecting to set up a new payment arrangement would have to wait an extended period of time to secure IRS approval. Additionally, we would be unable to implement this

4

recommendation as the IAT tool does not have the functionality to compute a payment arrangement from a prior point in time.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 7:
Require the PCAs to determine which existing payment arrangements contain terms inconsistent with the IRS's IAT tool and provide taxpayers with the corrected payment terms.

CORRECTIVE ACTION:
We disagree with this recommendation. Prior to your audit, we identified inconsistencies between the IRS IAT tool and the PCAs' payment arrangement estimators and have been working with RAAS to develop a new estimator tool for use by all PCAs. This new PCA payment arrangement estimator tool will be in production in January of 2019. Recalculating the approximately 20,000 prior-established payment arrangements would require significant resources to complete and would negatively impact PDC taxpayers. Sending taxpayers with prior-established payment arrangements a new calculation would cause unnecessary confusion and yield limited benefit. The taxpayers expecting to set up a new payment arrangement would have to wait an extended period of time to secure IRS approval. Additionally, we would be unable to implement this recommendation as the IAT tool does not have the functionality to compute a payment arrangement from a prior point in time.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 8:
Include payment arrangements of less than 60 months in quality reviews to ensure that the new calculator is working properly.

CORRECTIVE ACTION:
We partially agree with this recommendation. The IRS Quality Reviewers are not qualified to identify the specific payment arrangement calculator issues noted in your report. IRS Quality Reviewers are responsible for evaluating whether the PCA employees are properly applying the established policies and procedures in their telephone interactions with taxpayers. To address the concerns raised in TIGTA's audit report, we will review a statistically valid selection of payment arrangements of less than 60 months for the first 6 months of implementation of the new estimator tool to ensure it is working properly.

IMPLEMENTATION DATE:
October 15, 2019

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 9:
Revise the PPG for payment arrangement options to be consistent with IRS policy for taxpayers who owe less than $50,000.

CORRECTIVE ACTION:
We partially agree with this recommendation. Installment agreement options for IRS taxpayers will sometimes vary based on the taxpayer's financial situation. We agree to review our policies and procedures to determine if any changes are needed to our payment arrangement terms.

IMPLEMENTATION DATE:
October 15, 2019

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 10:
Ensure that PCA letters include language to inform taxpayers that they may need to make additional payments beyond the initial agreed-upon terms.

CORRECTIVE ACTION:
We agree with this recommendation and will update the PPG to direct the PCAs to include language that informs taxpayers they may need to make additional payments beyond the initial agreed-upon terms in their Payment Arrangement Letters.

IMPLEMENTATION DATE:
March 15, 2019

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 11:
Ensure that quality scores reported in annual reports to Congress include attributes related to all five major performance measures, including customer accuracy, professionalism, timeliness, regulatory accuracy, and procedural accuracy.

CORRECTIVE ACTION:
We partially agree with this recommendation. Per IRC 6306(j), reporting PCA Quality Scoring is not a legislative requirement. Additionally, the IRS reports externally only on Customer Accuracy per Internal Revenue Manual 21.10.1.7.3(10). However, for our 2019 Annual Report to Congress, we will assess what changes would be appropriate to the quality score reporting.

IMPLEMENTATION DATE:
November 15, 2019

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

7

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

RECOMMENDATION 12:
Conduct a study to evaluate the reasons why taxpayers experience difficulties in making payments to the IRS and resolve any issues that create those barriers.

CORRECTIVE ACTION:
We disagree with this recommendation. TIGTA's report does not provide evidence that PDC taxpayers have experienced substantial issues with making payments. Taxpayers have the option to make payments via Direct Pay, EFTPS, officialpayments.com, pay1040.com, payusatax.com, IRS PayNearMe (cash), and Check or Money Order. To the extent that the PCAs and the PDC Program Office identify issues with these processes, we will share that information with the responsible program managers.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

RECOMMENDATION 13:
Ensure that all PCAs' initial contact letters include the required language from the PPG.

CORRECTIVE ACTION:
We agree with this recommendation and will direct the PCAs to include all required language from the PPG in their initial contact letters.

IMPLEMENTATION DATE:
March 15, 2019

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.