TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

The IRS Private Debt Collection Program Has Not Effectively Reported All Program Costs or Included Adequate Disclosures

March 18, 2022

Report Number: 2022-30-022

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HIGHLIGHTS: The IRS Private Debt Collection Program Has Not Effectively Reported All Program Costs or Included Adequate Disclosures

Final Audit Report issued on March 18, 2022 **Report Number 2022-30-022**

Why TIGTA Did This Audit

In December 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law and mandated the IRS use private collection agencies (PCA) for the collection of outstanding inactive taxes receivable. The FAST Act allows the IRS to be reimbursed for the cost of administering the qualified tax collection program. The IRS started delivering inventory to the PCAs in April 2017 and assigned tax receivables of over 2.4 million entities with a total dollar value of nearly $22.6 billion to PCAs for Fiscal Years (FY) 2017 through 2019. This is the IRS's third implementation of the Private Debt Collection (PDC) program. This audit was initiated to determine whether the IRS is effectively tracking and reporting all costs related to the PDC program as mandated by Internal Revenue Code §§ 6306 and 6307.

Impact on Tax Administration

As part of the 2015 FAST Act, the IRS is required to track its revenue and costs and report to Congress annually on its program progress. It is imperative that the IRS effectively track and report all relevant costs of the PDC program, ensuring compliance with the law and transparency as to what costs are included or excluded in its assessment. Without adequate tracking of its program costs, the IRS runs the risk of spending more than authorized and wasting Federal resources if the costs exceed the benefits.

What TIGTA Found

The IRS is not effectively tracking the program costs related to the PDC program. Specifically, TIGTA identified over $7.1 million in underreported costs (background investigations, contracts, labor, *etc.*) not included by the IRS as part of the PDC program for FYs 2016 through 2019. The IRS also incorrectly calculated the indirect cost for FY 2019, which resulted in overstating indirect costs by $607,099.

The IRS retained 25 percent of the commissionable payments from the PDC program in the Cost of Services Fund, but the PCAs were only paid 19.8 percent for FYs 2017 through 2020. This difference in percentages is resulting in the growth of the Cost of Services Fund balance of $25.8 million as of the end of FY 2020. The IRS should determine the amount necessary to retain to pay the PCAs without causing further growth in this fund.

TIGTA also determined the IRS did not distinguish $30.1 million of $121.2 million in PDC program costs as startup costs or identify what costs were reimbursed by the program or paid with discretionary funds for FYs 2016 through 2020.

What TIGTA Recommended

TIGTA recommended that the Office of the Chief Financial Officer address the $25.8 million balance in the Cost of Services Fund and that the Director, Collection, Small Business/Self-Employed Division: disclose PDC program startup costs, costs reimbursed, and costs paid with discretionary funds; develop a review process to identify unreported contract costs; clarify how time should be charged by employees supporting the PDC program; develop a review process to ensure that all contract employees prescreenings are completed prior to working on the PDC program; report all printing and postage costs for mailing letters to taxpayers whose accounts have been assigned; develop a process to obtain and report Counsel, Cybersecurity, and Taxpayer Advocate Service labor costs related to the PDC program; correct the indirect cost amount reported for FY 2019; and adjust the indirect cost associated with underreported labor from this review.

The IRS agreed or partially agreed with eight recommendations and has implemented or plans to implement processes to address these recommendations. The IRS disagreed with our recommendations for the PDC program to add disclosures for startup costs and funding source such as discretionary funds used. Overall, the IRS computed the underreported costs to be $881,210, while TIGTA determined the underreported costs to be $7,195,872.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 18, 2022

MEMORANDUM FOR: COMMISSSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The IRS Private Debt Collection Program Has Not Effectively Reported All Program Costs or Included Adequate Disclosures (Audit # 201930027)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is effectively tracking and reporting all costs related to the Private Debt Collection program as mandated by Internal Revenue Code §§ 6306 and 6307. This review was part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap*.

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

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

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Background

This is the Internal Revenue Service's (IRS) third implementation of the Private Debt Collection (PDC) program. The current PDC initiative began in December 2015, when the Fixing America's Surface Transportation (FAST) Act was signed into law and mandated the IRS use private collection agencies (PCA) for the collection of outstanding inactive taxes receivable.[1] On September 23, 2016, the IRS awarded contracts to the following four PCAs: the CBE Group of Cedar Falls, Iowa; ConServe of Fairport, New York; Performant of Livermore, California; and Pioneer of Horseheads, New York, at which time the IRS's gross accounts receivable totaled $391 billion. In 2021, the IRS awarded contracts to the CBE Group Inc., ConServe, and Coast Professional Inc.

The FAST Act gave the IRS authority to assign the PCAs three types of inactive tax receivables and designated certain tax receivables as not eligible for collection by the PCAs.[2] As part of the FAST Act, the IRS is required to report to Congress on an annual basis certain information, including the total number and amount of tax receivables assigned to the PCAs, amounts collected, and "the collection costs incurred (directly and indirectly) by the Internal Revenue Service with respect to such amounts."[3]

The FAST Act also established within the IRS a program consisting of the hiring, training, and employment of Special Compliance Personnel.[4] Special Compliance Personnel are individuals employed by the IRS to collect taxes using the automated collection system.[5] The IRS is required to report to Congress on an annual basis certain information including "administrative and program costs" of Special Compliance Personnel hired under the program.[6]

To get an accurate perspective on the IRS's PDC program costs, it is necessary to understand the assignment of tax receivables, installment agreements, collections, funds related to the PDC program, amounts retained, and what IRS management included in their PDC Annual Reports to Congress for Fiscal Years (FY) 2016 through 2020.

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[1] Pub. L. No. 114-94, div. C, title XXXII, subtitle A, § 32102, 129 Stat. 1312, 1733-36 (Dec. 4, 2015), codified at 26 United States Code (U.S.C.) § 6306(c).

[2] The Internal Revenue Code (I.R.C.) § 6306(c)(2) gave the IRS authority to assign the PCAs three types of inactive tax receivables, including cases (1) removed from active inventory due to a lack of IRS resources or an inability to locate a taxpayer; (2) not assigned for collection to an IRS employee and for which more than one-third of the period of the applicable statute of limitation has lapsed; and (3) assigned for collection for which more than 365 days have passed without any interaction with the taxpayer or a third party for purposes of furthering collection. I.R.C. § 6306(d) designated certain tax receivables as not eligible for collection by the PCAs, including tax receivables (1) subject to pending or active offers in compromise or installment agreements; (2) classified as innocent spouse cases; (3) involving a taxpayer identified by the Secretary of the Treasury as being (a) deceased, (b) under the age of 18, (c) in a designated combat zone, or (d) the victim of tax-related identity theft; (4) currently under examination, litigation, criminal investigation, or levy; and (5) subject to a right of appeal. I.R.C. § 6306(i) designated taxpayers in presidentially declared disaster areas may request (1) relief from collection and (2) a return of the inactive tax receivable to the inventory of the IRS to be collected.

[3] I.R.C. § 6306(j).

[4] I.R.C. § 6307(a).

[5] I.R.C. § 6307(d)(1).

[6] I.R.C. § 6307(c).

Assignment of tax receivables, installment agreements, and collections

The IRS assigned tax receivables of over 2.4 million entities with a total dollar value of nearly $22.6 billion to the PCAs for FYs 2017 through 2019. As of FY 2020, the IRS assigned tax receivables of over 3.4 million entities with a total dollar value of $32 billion to the PCAs. The average dollar value increased from $7,165 in FY 2017 to $9,867 in FY 2019, with a slight decrease to $9,167 in FY 2020 and overall average of $9,228.[7]

When taxpayers are unable to pay their balance due in full, they may be offered payment arrangement options that will satisfy their debt by the collection statute expiration date or within seven years, whichever is less. Payment arrangements lasting five years or less do not require the IRS's approval, while payment arrangements that are between five and seven years require the IRS's approval. The number of active installment agreements by the PCAs increased from 3,327 in FY 2017 to 50,721 in FY 2020, while the average dollar value increased from $5,677 in FY 2017 to $6,442 in FY 2019, with a slight increase to $6,619 in FY 2020.[8]

Figure 1 shows nearly $624 million collected from the accounts assigned to the PCAs for FYs 2017 through 2020, of which $302.7 million was collected for FYs 2017 through 2019.

Figure 1: Dollars Collected for FYs 2017 Through 2020

FY	Total Collections[9]	Commissionable Payments[10]	Non-Commissionable Payments[11]
2017	$6,581,945	$5,363,918	$1,218,027
2018	$83,095,801	$75,372,679	$7,723,122
2019	$212,996,431	$194,944,443	$18,051,988
2020	$321,243,977	$304,901,985	$16,341,992
Total	**$623,918,154**	**$580,583,025**	**$43,335,129**

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of PDC Annual Reports to Congress.

As shown in Figure 1, total collections increased from over $6 million in FY 2017 to over $321 million in FY 2020.

[7] See Appendix III, Figure 1, for the number of entities and tax receivables for FYs 2017 through 2020.

[8] See Appendix III, Figure 2, for installment agreements entered by the PCAs for FYs 2017 through 2020.

[9] Total Collections amounts are based on all inventory assigned to the PCAs and include open inventory, active accounts, payment arrangements, and holds.

[10] Commissionable Payments are revenue collected by the PCAs and include taxpayer payments received on or after the 11th day after initial contact by the PCA and those received through the 10th day after the date the account is returned to the IRS.

[11] Non-Commissionable Payments are payments received 10 days or less after the IRS transferred the account to the PCAs and payment/credit offsets from accounts before assignment to the PCAs.

Funds and retained earnings

The American Jobs Creation Act and the FAST Act together created two funds that allow the IRS to retain and use up to 50 percent of the amounts collected by the PCAs.[12] Specifically, the IRS can retain and use up to 25 percent of the commissionable amounts that the PCAs collect in each of these funds: the Cost of Services Fund, which is restricted to paying PCA commissions, and the Special Compliance Personnel Program Fund, which funds the IRS's collection personnel.[13] The FAST Act allows the IRS to be reimbursed from this fund and provides restrictions to spending these funds.[14]

The FAST Act specifies that the IRS keep adequate records regarding amounts retained and used and provide annual reports to Congress.

The FAST Act specified that the IRS keep adequate records regarding the amounts retained and used in these funds and provide annual reports to Congress.[15] The Government Accountability Office (GAO) issued a report citing the IRS's lack of clarification regarding how much of the actual collected revenue went to the General Fund of the Department of the Treasury and what amounts went to the two special funds.[16] Specifically, the GAO found that IRS reporting did not clarify how much of the revenue collected went to the General Fund of the Treasury Department and the amount that went to the IRS for the two special funds in its FY 2017 or FY 2018 PDC Annual Reports to Congress as shown in bold in Figure 2. Based on the GAO's recommendation, the IRS included this information for the PDC program in its FY 2019 PDC Annual Report to Congress.

Figure 2 shows the information the IRS reported related to collected revenue, retained earnings, and the net revenue to the General Fund of the Treasury Department.

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[12] American Jobs Creation Act of 2004, Pub. L. No. 108-357, title VIII, subtitle D, § 881, 118 Stat. 1418, 1625-26 (Oct. 22, 2004) codified at 26 U.S.C. § 6306(e).

[13] I.R.C. § 6306(e)(1) and (2).

[14] The Special Compliance Personnel Program Fund restrictions include that: 1) no funds shall be transferred to such account except amounts retained by the Secretary of the Treasury (from the PDC program); 2) no other funds from any other source shall be expended for Special Compliance Personnel employed under such program; and 3) notwithstanding any other authority, the Secretary is prohibited from spending funds out of the account for other than program costs under I.R.C. § 6307(b), and § 6307(d)(2)(C) allows the IRS to be reimbursed under I.R.C. § 6306.

[15] I.R.C. §§ 6306(e), 6306(j), and 6307(c).

[16] GAO, GAO-19-193, *Tax Debt Collection Contracts, IRS Analysis Could Help Improve Program Results and Better Protect Taxpayers* (Mar. 2019).

Figure 2: PDC Program Revenue Collected, Retained Earnings, and Net Revenue to the Treasury Department General Fund for FYs 2017 Through 2020[17]

Type of Collections	2017	2018	2019	2020	Total
Commissionable	$5,363,918	$75,372,679	$194,944,443	$304,901,985	$580,583,025
Non-Commissionable	$1,218,027	$7,723,122	$18,051,988	$16,341,992	$43,335,129
Special Compliance Personnel Revenue	N/A	N/A	$54,975,362	$290,121,313	$345,096,675
Total Revenue Collected	$6,581,945	$83,095,801	$267,971,793	$611,365,290	$969,014,829
Less Retained Earnings:					
Cost of Services Fund 25%	$1,340,980	$18,843,170	$48,736,111	$76,225,496	$145,145,756
SCPP Fund 25%	$1,340,980	$18,843,170	$48,736,111	$76,225,496	$145,145,756
Total Retained Earnings	**$2,681,959**	**$37,686,340**	$97,472,222	$152,450,993	$290,291,513
Net Revenue to General Fund/Treasury	**$3,899,986**	**$45,409,462**	$170,499,572	$458,914,298	$678,723,317

Source: TIGTA analysis of PDC Annual Reports to Congress for FY 2020.

The PDC program did not have any revenue or retained earnings for FY 2016 because PCA activity did not start until April 10, 2017. As reflected in Figure 2, Special Compliance Personnel collected nearly $55 million in FY 2019, increasing to over $290 million in FY 2020 for a total of over $345 million in revenue. The Special Compliance Personnel Program did not have any revenue for FYs 2016 through 2018. The IRS hired 100 Special Compliance Personnel in October 2018, and the employees completed training in December 2018. The IRS hired an additional 300 Special Compliance Personnel, for a total of 400 employees, in FY 2020. Overall, the PDC program (including the Special Compliance Personnel Program) collected about $969 million in total revenue for FYs 2017 through 2020, of which:

- The IRS retained 50 percent of the commissionable amounts that the PCAs collected, approximately $290 million in retained earnings, and these funds were deposited into the Cost of Services and Special Compliance Personnel Program Funds, resulting in over $145 million in each fund.[18]
- Approximately $679 million went to the General Fund of the Treasury Department, including nearly $345 million (51 percent) in Special Compliance Personnel revenue.[19]

The net revenue to the General Fund of the Treasury Department of $679 million in FYs 2017 through 2020 is less than projections made by the Congressional Budget Office prior to the passage of the FAST Act on December 2015.[20] As discussed later, the IRS has an available fund

[17] A prior report to Congress shows $6,820,047 and should have been $7,723,122. The difference of $903,075 was disclosed by the IRS in its FY 2019 PDC Annual Report to Congress. Special Compliance Personnel Revenue is the amount of revenue collected by the Special Compliance Personnel under I.R.C. § 6307. The amount for each fund is calculated from commissionable collections multiplied by 25 percent. The FY 2020 Net Revenue to General Fund/Treasury as reported was $458,914,297.

[18] See Appendix IV, for the Cost of Services Fund and Special Compliance Personnel Program account activity and balances by fiscal year.

[19] The net revenue amount does not include PDC program costs.

[20] The net revenue to the General Fund of $679 million is calculated from Figure 2 of nearly $4 million, $45 million, $170 million, and $459 million in FYs 2017 through 2020, respectively, including nearly $55 million and $290 million for a total of $345 million from Special Compliance Personnel Program revenue for FYs 2019 and 2020.

balance of over $25 million in retained earnings from the Cost of Services Fund after paying the PCAs. If the IRS adjusts and reclassifies the fund balance to the General Fund, this increases the net revenue to approximately $704 million. The Congressional Budget Office estimated that the PDC program would bring in $374 million, $470 million, $492 million, and $514 million for a total of nearly $1.9 billion in revenues in FYs 2017 through 2020.[21]

The Small Business/Self-Employed (SB/SE) Division has overall responsibility for the administration of the PDC program, with the SB/SE Division Collection function responsible for implementation and SB/SE Division Finance responsible for capturing and reporting costs related to the PDC program. This review does not include a review of PCA commissions paid.

The total PDC and Special Compliance Personnel Program costs of $121.2 million summarized in Figure 3 below were paid from a combination of the 2006 initiative prior retained earnings, discretionary funds, and the Special Compliance Personnel Program Fund. Our focus is to determine whether the IRS is effectively tracking and reporting costs related to the IRS's PDC program as mandated by I.R.C. §§ 6306 and 6307. In July 2019, the Taxpayer First Act expanded the types of costs the Special Compliance Personnel Program Fund could be used for and allows reimbursement to the IRS for all program costs associated with administering the qualified tax collection program.[22]

Results of Review

Reliable information on the costs of Federal programs and activities is crucial for effective management of Government operations. The Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting,* states that the objectives of Federal financial reporting are to provide useful information to assist internal and external users in assessing the budget integrity, operating performance, stewardship, and systems and control of the Federal Government.[23] Figure 3 summarizes the Total PCA Commissions and PDC program costs the IRS reported in its FYs 2017 through 2020 Annual Reports to Congress.

[21] Congressional Budget Office, *Cost estimate for the conference agreement on H.R. 22*, the FAST Act (Dec. 2, 2015). The Congressional Budget Office cost estimates break out the changes in direct spending and revenues, which include a positive number for the contract with private entities for tax collections. The cost estimate specifies if the change is a positive number then it represents a decrease in the deficit and its impact to the General Fund of the Treasury Department.

[22] The Taxpayer First Act, signed into law by the President on July 1, 2019 (Pub. L. No. 116-25, § 1205), added communication and technology as direct overhead costs and allows reimbursement to the IRS for the cost of administering the qualified tax collection program under I.R.C. § 6306.

[23] Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting* (Sept. 1993).

Figure 3: Total IRS PDC Program Costs for FYs 2016 Through 2020[24]

Cost	Total
PCA Commissions	$114,885,003
PDC Program Costs:	
Background Investigations	$2,391,165
Contract	$29,006,843
IT Equipment	$67,740
Labor	$48,461,376
Print	$1,582,783
Travel	$713,210
Subtotal	**$82,223,117**
Indirect	$38,939,064
Total PDC Program Costs	**$121,162,181**

Source: TIGTA analysis of FYs 2017 through 2020 PDC Annual Reports to Congress and PDC raw data for FYs 2016 and 2020.

Figure 3 shows that the IRS reported $121.2 million in PDC program costs (background investigations, contract, labor, *etc.*) for FYs 2016 through 2020. Please see Appendix III, Figure 3, for a detailed account of costs by fiscal year. Our review noted the following concerns:

- The IRS should address the growing balance in the Cost of Services Fund of $25.8 million as of FY 2020, which is restricted to paying PCAs.
- The IRS Annual Reports to Congress did not distinguish between startup and operating costs.
- The IRS Annual Reports to Congress did not identify what costs were reimbursed by the program or paid with discretionary funds.

The Statement of Federal Financial Accounting Standards No. 4, *Managerial Costs Accounting Standards and Concepts*, for the Federal Government defines direct costs as costs that can be specifically identified with a single program area, activity, product, or service.[25] IRS procedures use the same definition.[26] The IRS establishes internal order codes to directly capture labor and nonlabor costs related to key programs such as the Foreign Account Tax Compliance Act

[24] The IRS did not issue a FY 2016 PDC Annual Report to Congress. The IRS PDC costs for FY 2016 were reported in the FY 2017 PDC Annual Report to Congress. We obtained the IT and non-IT costs breakdown from PDC raw data reports for FY 2016. Figure 3 includes Special Compliance Personnel Program costs for FY 2019. The IRS defined "indirect costs" in the IRS PDC FYs 2018 and 2019 Annual Reports to Congress as ongoing expenses of operating an organization that cannot be immediately associated with the activity or program.

[25] Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards and Concepts* (July 1995).

[26] Internal Revenue Manual (IRM) 1.33.3.10.1.1 (April 2015).

(FATCA), the Affordable Care Act (ACA), and the PDC program.[27] These internal order codes are used to pay contractors, for employees to charge time within the Single Entry Time Reporting (SETR) system, and for contractors and employees to charge travel within Concur. These codes allow the IRS to track and report those costs directly.

Our review of the IRS's effectiveness in tracking and reporting all PDC program costs (directly and indirectly) identified that the IRS underreported over $7.1 million in costs for FYs 2016 through FY 2019 based on the following:

- Internal order codes were generally used to directly report contract, labor, and travel costs within the IRS's Integrated Financial System (IFS) as shown in Figure 3.[28]
- Internal order codes were not used for background investigations and printing and postage costs. Instead, SB/SE Division Finance indirectly obtained these costs as reported in Figure 3. However, the IRS did not report all background investigation costs associated with contract employees and did not report printing and postage costs for mailing the initial letter assigning taxpayer accounts to the PCAs.
- SB/SE Division Finance also did not obtain Counsel, Taxpayer Advocate Service (TAS), or Cybersecurity labor costs or the travel costs for cybersecurity. These IRS business units did not use internal order codes but instead internally tracked time and travel costs related to the PDC program.

Based upon our review, the IRS continues to report incomplete PDC program costs data to its internal and external stakeholders, as discussed in the following sections.

The IRS Should Address the Growing Balance in the Cost of Services Fund of $25.8 Million as of Fiscal Year 2020

The Cost of Services Fund balance has grown to nearly $25.8 million as of the end of FY 2020. The Cost of Services Fund is restricted to paying PCA commissions, and the law allows the IRS to retain an amount not in excess of 25 percent of the amount collected under PCA contracts to pay the PCAs for services performed under the contracts.[29] Currently, the SB/SE Division Collection PDC Office informs the Office of the Chief Financial Officer (CFO) how much each fiscal year to journal from the General Fund to the Cost of Services Fund.

Figure 2 shows that the IRS retained $145.1 million (25 percent) of the $580.6 million in commissionable payments from the PDC program for FYs 2017 through 2020; these funds were placed in the Cost of Services Fund. The PCAs were paid $114.9 million (19.8 percent) of the

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[27] IRM 1.33.4.1.6(x) (Mar. 2019), *Strategic Planning, Budgeting and Performance Management Process, Financial Operating Guidelines*. FATCA was enacted into law on March 2010 as part of the Hiring Incentives to Restore Employment Act of 2010 under Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010) (codified in scattered sections of 26 U.S.C.); the ACA was enacted on March 2010 under Pub. L. No. 111-148,124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

[28] The IFS is the official budget and accounting system of the IRS that tracks costs from congressional appropriation through expenditure and has other administrative accounting capabilities.

[29] I.R.C. §§ 6306(e)(1) and 6306(j)(1)(D).

commissionable payments for FYs 2017 through 2020. This resulted in a fund balance of $25.8 million after sequestration of over $4.4 million in the Cost of Services Fund for FY 2020.[30]

The fund balance increased from $179,508 in FY 2017 to $2.9 million in FY 2018, $11.3 million in FY 2019, and to $25.8 million as of the end of FY 2020. The Cost of Services Fund will likely increase even more over time if the IRS does not address this growth. When we discussed this concern with IRS management, they acknowledged that they are currently working to address the growth in this fund. As such, the IRS should also review and determine what amount without any excess is necessary for paying the PCAs to prevent further growth in the fund. The IRS retained 25 percent of the commissionable payments from the PDC program to the Cost of Services Fund, but the PCAs were only paid 19.8 percent for FYs 2017 through 2020. This difference in percentages is resulting in the growth of the Cost of Services Fund. The IRS should address the growing fund balance of $25.8 million in the Cost of Services Fund.[31]

Recommendation 1: The CFO should address the growing balance of $25.8 million in the Cost of Services Fund, disclose in its Annual Reports to Congress the net revenue sent from the PDC program to the General Fund, and determine the amount necessary to retain to pay the PCAs without causing further growth in the Cost of Services Fund.

> **Management's Response:** The IRS agreed with this recommendation. The IRS is currently monitoring the increase in the Cost of Services Fund and evaluating options to address the accumulating balance in a manner that is legal and most feasible and will, after evaluating options, implement a process by October 15, 2023.

The IRS Did Not Distinguish Between Startup and Operating Costs

It is imperative that the IRS differentiate operating and startup costs in order to provide useful information to internal and external users in assessing budget integrity as well as the program's operating performance. The Office of the CFO confirmed its support for distinguishing startup costs during our meeting with Cost Accounting personnel.

Our review found that the IRS did not distinguish between the type of costs incurred (*e.g.*, startup) or which costs were paid by the program or with discretionary funds. While not required under the law, the PDC and Special Compliance Personnel Program Annual Reports to Congress did not break out the startup costs of the PDC program or the Special Compliance Personnel Program. We reported a similar finding in a prior TIGTA report.[32] Overall, for the $121.2 million PDC program costs as reported by the IRS, we identified:

- $30.1 million in PDC startup costs for FYs 2016 and 2017.
- $54.5 million in program costs for FYs 2017 through 2020.[33]
- $36.6 million in Special Compliance Personnel Program costs for FYs 2019 and 2020.

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[30] See Appendix IV for the fund balance activity through the end of FY 2020.

[31] See Appendix IV.

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

[33] The $54.5 million is computed by summing $16.5 million IRS other costs, $8.5 million contract administration costs, and $29.5 million program costs.

Differentiating between these costs is important to provide useful information to assist internal and external users in assessing budget integrity as well as the program's operating performance. Separately, the types of cost allowed for reimbursement were potentially impacted based on the Taxpayer First Act of 2019. For instance, the startup costs of the program were not eligible for reimbursement. However, the IRS combined all costs by fiscal year, which makes it more difficult to predict the future costs of the program or identify how the program was funded.

Recommendation 2: The Director, Collection, SB/SE Division, should disclose PDC startup costs related to the PDC program and the Special Compliance Personnel Fund.

> **Management's Response:** The IRS disagreed with this recommendation. IRS management stated that the IRS has complied with the statutory reporting requirements and provided to Congress the necessary information to evaluate budget integrity and the program's effectiveness. IRS management also stated that the resources needed to compile and separately state costs would outweigh the benefits of additional reporting.
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> > **Office of Audit Comment:** The PDC program should separately report costs as either startup or operating costs to assist in predicting the resources needed to maintain and continue the PDC program. The PDC program's initial report to Congress in FY 2017 did not identify which costs were part of FYs 2016 and 2017 startup costs for the PDC program. As a consequence, Congress would not have known that $30.1 of $121.2 million (25 percent) of the costs were startup costs or be able to consider whether these startup costs were reasonable considering this was the IRS's third time implementing the PDC program.

The IRS Did Not Identify What Costs Were Reimbursed to the Program or Paid With Discretionary Funds

According to IRS management, the IRS separated the costs between contract administration and IRS other costs since contract administration costs were reimbursable by the PDC program under the law. However, the IRS did not disclose what costs were reimbursed by the Special Compliance Personnel Program Fund in its PDC or Special Compliance Personnel Program Annual Reports to Congress. Figure 4 below reviews the PDC program costs to determine the amounts reimbursed and disclosed for FYs 2016 through 2020.

Figure 4: Amounts Reimbursed and Disclosed for FYs 2016 Through 2020

Expense	PDC Contract Administration Costs (Included)	PDC IRS Other Costs including Startup Costs (Excluded)	PDC Program Administration (Included)	SCP Program Costs (Included)	Total
Total PDC Program Costs	**$8,537,870**	**$46,559,293**	**$29,487,193**	**$36,577,825**	**$121,162,181**
Less Reimbursed:					
2006 initiative prior retained earnings	$0	$10,084,553	N/A	N/A	$10,084,553
Contract Administration Costs for FY 2018	$4,341,020	N/A	N/A	N/A	$4,341,020
Program Administration Costs for FY 2019			$12,318,473	N/A	$12,318,473
SCP Program Costs for FY 2019	$0	$0	$0	$11,485,504	$11,485,504
Program Administration Costs for FY 2020	$0	$0	$17,168,720	$0	$17,168,720
SCP Program Costs for FY 2020	$0	$0	$0	$25,092,321	$25,092,321
Total Reimbursed per IRS	$4,341,020	$10,084,552	$29,487,193	$36,577,825	**$80,490,591**
Unreimbursed Disclosed:					
Contract Administration Costs for FY 2017	$4,196,850	$0	$0	$0	**$4,196,850**
Unreimbursed Not Disclosed:	$0	$36,474,740	$0	$0	**$36,474,740**

Source: TIGTA analysis of PDC raw data (funding) and internal scorecards for FYs 2016 through 2020.

We reviewed the PDC and Special Compliance Personnel Program Fund Annual Reports to Congress for FYS 2017 through 2020 and determined that the IRS reported nearly $80.5 million as reimbursed for the PDC program with nearly $36.5 million unreimbursed and not disclosed.

Overall, we found the total PDC program costs of $121.2 million used a combination of 2006 initiative prior retained earnings, discretionary funds, and the Special Compliance Personnel Program Fund to pay for the current PDC program. Notably, the reimbursements to the IRS were significantly less than the actual costs of the PDC program, with the PDC program using more of the IRS's appropriated funds for operation. We also could not determine if the Office of Management and Budget approvals the IRS received for the IRS Enforcement and Operations Support budget included the PDC program or the increased costs reimbursed from the Special Compliance Personnel Program Fund for FY 2019.

Recommendation 3: The Director, Collection, SB/SE Division, should in the next PDC and Special Compliance Personnel Program Annual Reports to Congress disclose which costs were reimbursed from the Special Compliance Personnel Program Fund since its inception or paid from discretionary funds.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that the IRS complied with the statutory reporting requirements and gave Congress the appropriate information to evaluate budget integrity and the program's effectiveness.

Office of Audit Comment: The identification of how the PDC program was funded is an important tool for Congress and external users to use in assessing the budget accuracy as well as the PDC program's operating performance, especially when the PDC program used IRS discretionary funds for its operational costs. As stated in this report, the IRS did not disclose specific funding amounts paid for PDC activities from the Special Compliance Personnel Program Fund or from discretionary funds.

While the IRS Established Program Codes to Capture Private Debt Collection Costs, Some Discrepancies Were Found With Contract and Labor Costs

We determined the contract, labor, and travel costs as reported by the IRS in Figure 3 were generally reported to the IRS's PDC program because these costs were directly charged to an internal order code and captured within the IRS's IFS for FYs 2016 through 2019. We were able to reconcile the travel costs as reported by the IRS in Figure 3, but some cybersecurity travel costs were unreported (discussed later). However, we found some discrepancies with the contract and labor costs charged to the PDC program.

Some instances of contract costs were unreported or miscoded

While contract costs related to the PDC program were generally charged to the PDC internal order code, we found some instances of unreported or miscoded contract costs for FYs 2016 and 2017. The IRS reported a total of $24,674,837 contract costs for FYs 2016 through 2019.[34] Several contractors assisted the IRS in assigning tax receivables to the PCAs (including Information Technology (IT) capabilities) during FYs 2017 through 2019 and the Special Compliance Personnel Program employees in FY 2019 as follows:

- The first phase, Release 1.0, launched in April 2017 and involved cases for which the individual taxpayers agreed to the debt owed.
- The second phase, Release 2.0, was implemented in February 2018, adding additional inventory of individual taxpayers, which include unfiled tax returns. This phase also included inventory from the IRS compliance activities for which individual taxpayers did not agree to the debt owed.
- The third phase, Release 3.0, was implemented in October 2018, where the IRS developed IT tracking and reporting capabilities necessary to facilitate the hiring of Special Compliance Program personnel employed by the IRS.
- The fourth phase, Release 4.0, was implemented in June 2019 and added IT capabilities to deliver business taxes owed cases. The business taxes include sole proprietors, partnerships, and corporations.

We reviewed the contract task orders, invoices, and payments for the supporting contracts and identified unreported contract costs based on invoices not reported by the IRS. When we discussed this with IRS management, the IRS identified $996,772 in unreported contract costs by comparing the IFS expense report with the PDC contracts reported by the program. Upon further analysis, it was determined that the $996,772 in unreported contract costs included $853,104 from FY 2016 for Deloitte and $143,668 from FY 2017 for Purisolve.

We agreed with the IRS analysis but noted one additional invoice totaling $282,621 from FY 2017 for Booze Allen Hamilton that was not coded as a PDC cost. The IRS agreed and stated that the invoice was not correctly coded to the PDC internal order code and instead was charged to the IRS Affordable Care Act project. The PDC program was not able to identify the

[34] The $24,674,837 includes the $29,006,843 in contract costs for FYs 2016 through 2020 less $4,332,006 in contract costs for FY 2020 (see Figure 3). We did not review the contracts for FY 2020.

cause of the incorrectly coded PDC cost. Overall, contract costs were underreported by a total of $1,279,393 for FYs 2016 and 2017.[35]

Some support employees did not charge time to the PDC program, while other employees did not stop charging time when their assignments ended

In order to accurately report all PDC costs to Congress as required under the law, employees need to charge time to the PDC program using the SETR timekeeping system for it to be reported as labor costs for the PDC program and captured within the IFS. We obtained a breakdown of PDC program labor costs previously reported in Figure 3 for FYs 2016 through 2019 and observed that no Wage and Investment (W&I) Division labor costs were reported for FYs 2018 and 2019.[36]

We reviewed the FYs 2017 through 2019 PDC Operations Guides and other documentation to identify employees assigned to PDC-related activities whose labor costs may not have been reported as PDC Operating Unit labor costs. Our review identified seven SB/SE Division and two W&I Division employees who contributed to the PDC program effort but had no associated labor costs charged to the PDC program. While these employees worked on PDC activities, the time was not charged to the PDC program within SETR. When we discussed this issue with IRS management, they agreed with respect to one employee who was "assigned" to the PDC program and provided labor cost documentation of $130,686; however, they disagreed with the other eight employees identified, stating that the employees worked in "support" positions.

The labor reported for the SB/SE and W&I Divisions relates to employees "assigned" to the PDC program for FYs 2016 through 2019. PDC program management stated that they had not settled yet on the use of the term "assigned" versus "support" and the type of work charged to the PDC program. They stated that the hours spent on PDC efforts by the employees we identified were de minimis and performed under the normal scope of work in their position of record.

The IRS is required to report all direct and indirect costs of the PDC program to Congress without regard to whether the IRS employee is "assigned" or falls into another category, such as "support," that the IRS does not believe needs to be disclosed to Congress.[37] If the IRS charges time to the PDC program within SETR, the labor costs are reported regardless of the size of the amount for other business units. However, these employees' time was not charged to the PDC program on SETR even though they provided support for the PDC program.

We also determined that the SB/SE and W&I Divisions use internal order codes to capture labor costs for other key legislative programs. However, the applicable PDC program internal order code was not used correctly by those divisions. Since documentation for the eight employees was not available regarding how many hours they worked for the PDC program, we estimated their labor costs using the labor and benefits costs of employees identified in support positions from FYs 2016 through 2019. Figure 5 summarizes the methodology used for estimating the costs for these employees from FYs 2016 through 2019.

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[35] See Appendix II, Figure 1, and Appendix III, Figure 4, for contract costs for FYs 2016 through 2019. We did not review these costs for FY 2020.

[36] See Appendix III, Figure 5, for a breakdown of PDC labor costs for FYs 2016 through 2019.

[37] I.R.C. § 6306(j)(1)(B).

Figure 5: Support Employee Labor Cost Calculations

	FY 2016	FY 2017	FY 2018	FY 2019	Totals
Support Employees With Reported PDC Hours	5	6	4	6	N/A
Total Reported Hours	3,191	6,065	4,932	4,453	18,641
Average Hours per Employee	638	1,011	1,233	742	**3,624**
Overall Average Hours	**3,624 Hours/4 Years Results in 906 Hours per Employee per Year**				

Source: TIGTA analysis of PDC labor and benefits costs for FYs 2016 through 2019.

As Figure 5 shows, we identified 18,641 total labor hours for the four years, with an average per employee per fiscal year of 906 labor hours. We applied the average hours to the employee pay rates for FYs 2016 through 2019, resulting in labor costs for the eight employees of $851,814 plus $130,686 (agreed) in wages not reported for a total $982,500.

IRS management also provided documentation of overreported labor costs for the PDC program with a net total of $367,521 based on one employee who did not charge time in FY 2017, 10 employees who did not stop reporting time in FYs 2018 and 2019 after leaving their assignment, and one employee who failed to report time while working for the PDC program. TIGTA reviewed and agreed with the net overreporting of $367,521 resulting in unreported labor and benefits costs totaling $614,979 for FYs 2016 through 2019.[38] The unreported labor and benefits costs would also impact the indirect costs that should have been reported as PDC program costs, which we discuss later in this report. While we did not review this issue for FY 2020, the same concerns of potential unreported support employee labor costs would apply.

The Director, Collection, SB/SE Division, should:

Recommendation 4: Develop a review process that includes comparing the IFS expense report for PDC contracts with the PDC program's reported contract costs to identify unreported contract costs.

> **Management's Response:** The IRS has implemented this recommendation. IRS management has put in place a process that compares the IFS expenses for the PDC program's reported contract costs with the PDC program's reported contract costs to identify unreported contract costs.

Recommendation 5: Update the PDC program guidance document to clarify how employees' time should be charged to reflect work performed in support of the PDC program.

> **Management's Response:** The IRS agreed with this recommendation. IRS management updated its guidance document to provide clarifying guidance for employees reporting time for work performed in support of the PDC program.

[38] See Appendix II, Figure 1, and Appendix III, Figure 5, for a breakdown of PDC labor costs for FYs 2016 through 2019.

The IRS Needs to Implement Controls to Ensure That All Contract Employees Have Completed the Prescreening Process Before Accessing Taxpayer Data

We determined that the background investigation costs as reported by the IRS in Figure 3 were not charged to an internal order code to be captured within the IRS's IFS for the PDC program for FYs 2016 through 2019. Instead, SB/SE Division Finance obtained these costs from the Human Capital Office. PCA employees as well as contract employees (*e.g.*, Booz Allen Hamilton and Deloitte) contracted by IT and SB/SE business units are required to receive background investigations before working for the PDC program. According to IRS procedures, contractors who work on IRS contracts requiring staff-like access need to complete the prescreening process before being granted access to the IRS systems.[39]

When we reviewed the reports and documents provided for FYs 2016 through 2019, we identified a few issues with contract employees. For example, the IRS did not have a record for one of the contractors ever working for the PDC program. For this subcontractor, the IRS stated that its records did not include any cost for the business entity identified. We noted that other PDC program subcontractors had their background investigation costs identified. We also noted that, in one situation, the subcontractor background investigation costs may not have been tracked. According to PDC management, support contractors used by the PDC program are part of a larger IRS contract, and the background investigation costs are generally not tracked by the IRS operating divisions. We do not agree that the IRS's provided analysis sufficiently ensures that all background investigation costs associated with contract employees were tracked and reported.

When we discussed this with IRS management, the IRS agreed during the audit that $26,459 additional background investigation costs should have been reported. IRS management noted that the unreported background investigation cost they identified were based on validating the dates and names of people working on contracts and involved with PDC and that, since these costs were not readily available in IFS (charged to the PDC program), they had to obtain the information from the Human Capital Office.

Figure 3 showed that the IRS reported in its PDC Annual Reports to Congress for FYs 2016 to 2020 a total of $2,391,165 in background investigation costs.[40] Based on this review, we concluded that the investigation costs were underreported by $26,459 for FYs 2016 through 2019.[41] We also found some contractor employees who worked on PDC activities who completed their prescreening process one or more years after initially working for PDC.

Consequently, we are concerned that not all contractors working on PDC activities have timely completed the prescreening process. When we discussed this with IRS management, they advised us that contractors can have multiple investigation dates (contractors can be revalidated if they leave the IRS with a service break of less than two years, or they are reinvestigated every five years if they remain on an IRS contract that long). It appears there is no control for determining whether the Human Capital Office as well as IRS PDC program management ensured that all contract employees' prescreens were completed before employees start

[39] IRM 10.23.2.6 (April 2019).

[40] We did not review the contracts for FY 2020.

[41] See Appendix II, Figure 1, and Appendix III, Figure 6, of the unreported background investigation costs for FYs 2016 through 2019.

working for the PDC program. This is a concern as these contract employees have access to taxpayer data. TIGTA previously issued a report with the same concerns about some contractor employees without background investigations who had access to taxpayer data.[42]

Recommendation 6: The Director, Collection, SB/SE Division, should develop a review process to ensure that all contractor employees' prescreenings are completed before working on the PDC program and, if necessary, that the associated costs are charged to the PDC program.

Management's Response: IRS management noted they have a process in place, outlined in IRM 10.23.2 and on the Human Capital Office/Personnel Security website, which ensures that contractor employees' prescreenings are completed before working on the PDC program. IRS management also stated that it charges the associated costs to the PDC program according to the law.

Office of Audit Comment: The PDC program should evaluate the current process to ensure that all contractor employees' prescreens are completed before working on the PDC program and adjust charges when additional costs are identified.

The Cost of Letters Assigning Taxpayer Accounts to a Private Collection Agency Were Not Reported

We determined the printing costs as reported by the IRS in Figure 3 were not charged to an internal order code to be captured within the IRS's IFS for the PDC program for FYs 2016 through 2019. The IRS obtained and reported the costs for printing Publications 4518, *What You Can Expect When the IRS Assigns Your Account to a Private Collection Agency*, and 4518SP (Spanish version) but did not obtain and report the costs associated with Computer Paragraph 40, *Overdue Account Sent to Private Collection Agency*, notices for FYs 2016 through 2019. Printing and postage costs are primarily based on the requirement that the IRS notify the taxpayer by regular mail that their accounts have been assigned to a PCA. The IRS mails Computer Paragraph 40 along with Publication 4518.

TIGTA requested and received PDC program cost information for printing and postage activity. The printing and postage costs consist of $72,052 previously reported by the IRS and $3,213,094 subsequently identified by the IRS when we requested updated information. IRS management and staff conducted a detailed review of their process and determined that the total actual printing and postage costs related to the PDC program were $3,285,146 ($3,213,094 plus $72,052) for FYs 2017 through 2019.[43] According to IRS management, the costs for printing the Computer Paragraph 40 notices are associated with cost centers and internal order codes in the W&I Division.

[42] TIGTA, Report No. 2014-10-037, *Some Contractor Personnel Without Background Investigations Had Access to Taxpayer Data and Other Sensitive Information* (July 2014).

[43] See Appendix II, Figure 1, and Appendix III, Figure 7, for the unreported printing and postage costs for FYs 2016 through 2019.

IRS management agreed with the total printing and postage cost of $3,285,146 but disagreed that these printing costs should be tracked separately from indirect costs. However, the law requires for the IRS to report to Congress all collection costs incurred by the IRS's PDC program.

When we discussed this issue with IRS management, they stated that PDC program costs were deemed either significant or de minimis based upon PDC management or SB/SE Division Finance determination. However, the printing costs have increased significantly, from $212,025 in FY 2017 to $2,124,588 in FY 2019. IRS management had already included $72,052 in printing costs for FYs 2016 through 2019 but stated that the printing costs were already included in the overhead rate calculation and that these costs were reported in error and should not have been reported. SB/SE Division Finance is not consistent in the costs it obtains and reports related to the PDC program but noted that it plans to report printing and postage costs as direct costs starting in February 2021.[44]

Direct costs include costs that can be reasonably identified and should be charged to a specific activity.[45] The IRS should have reported the printing costs for notifying taxpayers that their accounts have been assigned to a PCA to Congress as a PDC program cost for FYs 2016 through 2019. As a result, TIGTA determined the IRS had unreported printing and postage direct costs totaling $3,213,094 or corrected printing costs of $3,285,146 for FYs 2016 through 2019 and may have potentially overreported indirect printing and postage costs based on the additional direct reporting of printing and postage costs.

Recommendation 7: The Director, Collection, SB/SE Division, should require the PDC program to report all print and postage costs based on actual costs.

> **Management's Response:** The IRS stated that it reports printing and postage costs according to the guidance provided by the CFO. As per the CFO guidance, the printing and postage costs were reported as indirect costs for FYs 2016 through 2019 and as direct costs starting in FY 2020.
>
> > **Office of Audit Comment:** According to the PDC program's Annual Reports to Congress and Scorecards for FYs 2016 through 2019, the printing and postage costs were reported as direct cost. As noted above, direct costs that can be reasonably identified should be charged to a specific activity. The printing cost associated with indirect cost allocation for printing and postage would be separate from these identifiable printing and postage costs.

Some Counsel, Cybersecurity, and Taxpayer Advocate Service Labor Costs as Well as Cybersecurity Travel Costs Were Identifiable but Were Not Obtained for Reporting

We noted irregularities in the direct labor reported for each fiscal year. For example, the PDC program only reported $35,825 Counsel direct labor costs in FY 2017 as shown in Figure 6.

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44 Figure 3 shows print costs significantly increased in FY 2020. The PDC program should start reporting printing and postage costs as direct costs instead of including the costs in overhead.

45 IRM 1.35.16 (July 2019).

Specifically, we observed that there were no labor costs for Counsel reported for FYs 2016, 2018, or 2019 nor for Cybersecurity or TAS for FYs 2016 through 2019.

As previously stated, when labor costs are not recorded in SETR using internal order codes, the SB/SE Division Finance function must obtain the PDC-related costs directly from the respective business units. Direct costs include costs that can be reasonably identified and should be charged to a specific activity.[46] Based on our inquiries, we identified unreported labor costs for Counsel, Cybersecurity, and TAS as well as travel costs for cybersecurity for FYs 2016 through 2019 were as follows.

Counsel: Figure 6 summarizes TIGTA's potential findings regarding Counsel labor costs.

Figure 6: Unreported Counsel Labor Costs for FYs 2016 Through 2019

Description	FY 2016	FY 2017	FY 2018	FY 2019	Total
Counsel Costs Identified by TIGTA	$179,912	$201,001	$128,953	$199,692	$709,558
Counsel Costs Reported by the IRS	$0	$35,825	$0	$0	$35,825
Total Unreported Counsel Costs	**$179,912**	**$165,176**	**$128,953**	**$199,692**	**$673,733**

Source: TIGTA analysis of PDC program Counsel labor costs for FYs 2016 through 2019.

As shown in Figure 6, the IRS tracked Counsel's time in FY 2017 and reported $35,825 as direct costs but did not report any Counsel labor costs for FY 2016, FY 2018, and FY 2019. Based on our review, we determined that Counsel was involved in the preparation of several legal documents and had attended PDC meetings on a regular basis from FYs 2016 through 2019.

We specifically identified four employees from Counsel who worked on PDC activities. Since the Counsel costs were not recorded for all fiscal years, we obtained the Counsel labor costs directly from Counsel and identified costs totaling $709,558 for FYs 2016 through 2019. When we asked the IRS why Counsel labor costs were reported for FY 2017 and not the other fiscal years, PDC personnel first stated that, for FYs 2016 through FY 2018, Counsel's time spent assisting the PDC program was on an ad hoc basis and based on minimal support. However, TIGTA's review showed that IRS Counsel personnel were involved with the PDC program efforts in FYs 2016 through 2019. After further inquiry, SB/SE Division management stated that the overhead rate for FY 2017 included Counsel labor costs and the FY 2017 cost of $35,825 was reported in error. In response to our review, this amount was reclassified as indirect costs for FY 2017.

During this review, IRS management acknowledged that CFO guidance changed in FY 2019 and required the IRS business units to report Counsel labor costs as direct costs. The IRS agreed that the costs TIGTA identified of $199,692 for FY 2019 should have been reported as direct costs based on the change in the indirect versus direct cost reporting methodology for FY 2019.

We concluded that IRS Counsel's time should not be considered an indirect cost as it was identifiable and attributable to the PDC program. We disagree with PDC management's determination made on reporting costs and suggest they increase efforts to report costs as accurately as possible. As a result, the PDC program did not report Counsel labor cost totaling $673,733 for FYs 2016 through 2019 as summarized in Figure 6.[47] The unreported Counsel labor

[46] IRM 1.35.16 (July 2019).

[47] See Appendix II, Figure 1.

costs would also impact the indirect costs that should have been reported by the PDC program, which is discussed later in this report.

Cybersecurity: We found cybersecurity labor and travel costs did not charge time to program codes for the PDC program. During the review, TIGTA received a list of travel and labor documents for PDC assessment activities from the Cybersecurity Office. We were unable to identify whether the costs associated with these documents were reported by the PDC program and whether the reported costs were based on estimates or actual costs. When we discussed our preliminary review with IRS management, they confirmed that actual cybersecurity labor costs of $551,211 related to vulnerability scan data collection and associated travel costs of $62,885 for cybersecurity PCA visits were not reported. Figure 7 summarizes the cybersecurity costs not reported.

Figure 7: Unreported Cybersecurity Costs for FYs 2016 Through 2019

Description	FY 2016	FY 2017	FY 2018	FY 2019	Total
Cybersecurity – Labor	$0	$264,369	$150,812	$136,030	$551,211
Cybersecurity – Travel	$0	$45,951	$11,859	$5,075	$62,885
Unreported Cybersecurity Costs	**$0**	**$310,320**	**$162,671**	**$141,105**	**$614,096**

Source: TIGTA analysis of the PDC program cybersecurity costs for FYs 2016 through 2019.

PDC program management were unable to identify the cause for this error and only acknowledged the error after reviewing the potential costs questioned by TIGTA. We agreed with PDC program management regarding the unreported cybersecurity costs. We concluded that PDC cybersecurity costs reportable under sustaining unit costs were underreported by $614,096.

TAS: As previously stated, the PDC program did not list any amounts for TAS. We also noted no reported TAS cost for FY 2019 based on the new methodology. Figure 8 summarizes TIGTA's review of TAS costs.

Figure 8: Unreported TAS Costs for FYs 2016 Through 2019

Description	FY 2016	FY 2017	FY 2018	FY 2019	Total
TAS Costs Identified by TIGTA	$96,081	$19,264	$10,104	$9,599	$135,048
TAS Costs Reported by the IRS	$0	$0	$0	$0	$0
Total Unreported TAS Costs	**$96,081**	**$19,264**	**$10,104**	**$9,599**	**$135,048**

Source: TIGTA analysis of PDC program TAS costs for FYs 2016 through 2019.

During our review, we identified four TAS employees whose time was not tracked or reported as PDC-related activities. These employees participated in monthly calls, drafted a section of the PCA Policy and Procedures Guide, and reviewed the contents of Computer Paragraph 40, Publication 4518, and letters and scripts from the PCAs.

Because TAS costs were not recorded for all fiscal years, we obtained TAS costing information from TAS management and the PDC program. We identified costs totaling $135,048 for FYs 2016 through 2019. When we asked the IRS why TAS costs were not reported for FYs 2016 through 2019, SB/SE Division management stated that TAS has not charged any costs to the PDC program.

After further inquiry, SB/SE Division management stated that TAS costs for FYs 2016 through 2018 are considered part of the indirect costs. Similar to Counsel, the IRS noted that CFO guidance changed in FY 2019 and required the IRS business units to report TAS labor costs as direct costs. The IRS agreed that the costs identified of $9,599 for FY 2019 should have been reported as direct costs based on the change in methodology for FY 2019. This change also requires indirect costs be allocated on direct labor support unit costs starting in FY 2019.

We concluded that TAS time should not have been considered an indirect cost for FYs 2016 through 2019 because the costs were identifiable and attributable to the PDC program. We disagree with PDC management's determination on reporting costs and suggest the PDC program increase efforts to report costs as accurately as possible. As a result, the PDC program did not report TAS labor costs totaling $135,048 for FYs 2016 through 2019 as summarized in Figure 8.[48] The unreported TAS labor costs would also impact the indirect costs that should have been reported as PDC costs, which is discussed later in this report.

Recommendation 8: The Director, Collection, SB/SE Division, should develop a process to obtain Chief Counsel, Cybersecurity, and TAS labor costs when these costs are incurred for the PDC program.

> **Management's Response:** The IRS agreed with this recommendation. IRS management updated its guidance document to provide clarifying guidance for employees reporting time for work performed in support of the PDC program.

Indirect Costs Were Calculated Incorrectly for Fiscal Year 2019

The IRS incorrectly calculated the indirect costs for the PDC program, overstating PDC indirect costs by $732,779 and understating Special Compliance Personnel Program indirect costs by $125,680 for FY 2019. We multiplied the labor costs by the overhead rate to validate the indirect costs reported for FY 2019. Figure 9 shows TIGTA's computation compared to the indirect costs computed by the IRS for FY 2019.

Figure 9: Review of IRS' Calculation of Indirect Costs for FY 2019

Program	PDC Program Labor Costs		Standard Overhead Rate		Actual Indirect Costs		Indirect Costs Reported by IRS		(Overstated)/ Understated Indirect Costs
PDC	$6,018,119	x	74.08%	=	$ 4,457,960	-	$ 5,190,739	=	$ (732,779)
SCPP	$6,670,194	x	74.08%	=	$ 4,940,990	-	$ 4,815,310	=	$ 125,680
FY 2019 Totals	**$12,688,313**		**74.08%**		**$9,398,950**		**$10,006,049**		**$ (607,099)**

Source: TIGTA's computation of the overhead rate based on the FY 2019 IRS PDC End of Fiscal Year Scorecard and Annual Reports to Congress.

48 See Appendix II, Figure 1.

When we discussed these discrepancies with IRS management, they stated that the indirect costs of $10,006,049 ($5,190,739 for PDC and $4,815,310 for the Special Compliance Personnel Program) were calculated incorrectly for FY 2019 and should have been $9,398,950 ($4,457,960 for PDC and $4,940,990 for the Special Compliance Personnel Program) using 74.08 percent as the overhead rate. The IRS stated that the FY 2019 PDC Annual Report to Congress should have reported $9,398,950 for indirect costs instead of $10,006,049.[49] As a result, the indirect cost was overstated by $607,099.

Recommendation 9: The Director, Collection, SB/SE Division, should adjust the Special Compliance Personnel Fund by $607,099 and disclose this in the next PDC and Special Compliance Personnel Program Annual Report to Congress.

> **Management's Response:** The IRS agreed with this recommendation. While not required to use the Special Compliance Personnel Program Fund for all program costs, IRS management will consider the net effect of all adjustments to cost and determine if any reimbursements are needed to comply with the law and will reflect these adjustments in the next Annual Report to Congress.

Indirect Costs Were Recalculated Due to Underreported Labor Adjustments

During our review, we found unreported direct labor costs (Counsel, SB/SE, TAS, W&I) that would need to be added to the total direct labor costs used for determining the corrected indirect costs. We calculated the additional indirect costs totaling $639,070 from the underreported labor. The adjustment to indirect costs is summarized in Figure 10 below.

Figure 10: Indirect Cost Calculations From Underreported Direct Labor

	FY 2017	FY 2018	FY 2019	Total
Operating Units	$131,332	$52,294	$431,353	$614,979
TAS	0	0	$9,599	$9,599
Counsel	0	0	$199,692	$199,692
Subtotal	$131,332	$52,294	$640,644	$824,270
Overhead Rate	87.64%	94.43%	74.08%	
Additional Indirect Costs	**$115,099**	**$49,381**	**$474,589**	**$639,070**

Source: TIGTA analysis of indirect cost calculations using underreported direct labor costs for FYs 2017 through 2019.

Recommendation 10: The Director, Collection, SB/SE Division, should adjust the indirect costs by $639,070 and disclose these adjustments in the next Annual Reports to Congress.[50]

> **Management's Response:** The IRS agreed with this recommendation. While not required to use the Special Compliance Personnel Program Fund for all program costs,

[49] The indirect costs are computed by multiplying the labor costs ($12,688,313) by 74.07565 percent (the actual percentage rather than the rounded 74.08 percent), which equals $9,398,950.

[50] Adjustment were changed to $639,070 in the Final Report.

IRS management will consider the net effect of all adjustments to costs and determine if any reimbursements are needed to comply with the law and will reflect these adjustments in the next Annual Report to Congress.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to determine whether the IRS is effectively tracking and reporting all costs related to the IRS PDC program as mandated by I.R.C. §§ 6306 and 6307. To accomplish our objective, we:

- Assessed the IRS's methodology for capturing the costs of the PDC program.
- Identified all IRS business units, functions, and groups that were directly and indirectly involved in the PDC program.
- Obtained and reviewed the IRS's and PCAs' policies, procedures, and guidance related to the PDC program process.
- Reviewed contracts (and change orders) for all third-party contracts associated with the PDC program, including any externally created software/systems the PCAs and other third-party contractors used in any aspect of the PDC program, including any monitoring/complaint process.

Performance of This Review

This review was performed with information obtained from the PDC program office in the IRS Headquarters Office in Washington, D.C., and from IRS personnel in various locations during the period October 2019 through August 2021. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Christina Dreyer, Director; Robert Jenness, Acting Director; Javier Fernandez, Audit Manager; Lee Hoyt, Audit Manager; and Reatsamay Ly, Lead Auditor.

Validity and Reliability of Data From Computer-Based Systems

We did not use any computer-processed data. However, we performed tests to assess the reliability of the data as well as outside data obtained from other IRS business units. We evaluated the data by (1) tracing costs to their supporting documents for a sample of data and (2) interviewing agency officials knowledgeable about the data. We determined that the data were reliable for our purposes.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: policies and procedures over the process of tracking the costs of the PDC program activities. We evaluated these controls by reviewing the IRM, interviewing IRS management and employees, and evaluating and testing applicable documentation and reports.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; $25,763,453 for FYs 2017 through 2020, if the IRS addressed the growth of retained earnings restricted to paying the PCAs (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

The IRS retained $145.1 million (25 percent) of the $580.6 million in commissionable payments from the PDC program for FYs 2017 through 2020; these funds were placed in the Cost of Services Fund. The PCAs were paid $114.9 million (19.8 percent) of the commissionable payments for FYs 2017 through 2020. This resulted in a fund balance of $25.8 million after sequestration of over $4.4 million in the Cost of Services Fund for FY 2020.[1] The Cost of Services Fund can only be used to pay the PCAs. As such, the IRS should review and determine what amount should be retained without any excess as necessary for paying the PCAs to prevent further growth in the fund. Currently, the IRS is retaining 25 percent of the commissionable payments from the PDC program, but the PCAs were only paid 19.8 percent, resulting in the steady growth of retained earnings in the Cost of Services Fund.

[1] FY 2020 PDC Annual Report to Congress. The Cost of Services Fund balance totaled $25,763,453 after sequestration of $4,497,304 as of September 17, 2020. See Appendix IV.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

Figure 1: Summary of Costs Adjustments for FYs 2016 Through 2019[2]

Cost	PDC Adjustments	PDC Startup	PDC Operational
PDC Program Costs:			
Background Investigations	$26,459	$20,377	$6,082
Contract			
Unreported Invoices	*$1,279,393*	*$1,279,393*	
Labor			
Not Assigned	*$614,979*	*$131,332*	$483,647
Counsel	*$673,733*	*$345,088*	$328,645
Cybersecurity	*$551,211*	*$264,369*	$286,842
TAS	*$135,048*	*$115,345*	$19,703
Printing and Postage	$3,213,094	$0	$3,213,094
Travel	$62,885	$45,951	$16,934
Indirect Costs Based on PDC Adjustments[3]	$639,070	$164,481	$474,589
Total	$7,195,872	$2,366,336	$4,829,536

Source: TIGTA's summary of costs adjustments for FYs 2016 through 2019.

Methodology Used to Measure the Reported Benefit:

Background Investigations: When we reviewed the reports and documents provided for FYs 2016 through 2019, we identified a few issues with contract employees. The IRS provided $26,459 in additional background investigation costs that should have been reported. As a result, we identified $26,459 in unreported investigation costs.[4]

Contracts Unreported Invoices: We reviewed the contract task orders, invoices, and payments for the supporting contracts and identified potential unreported contract costs based on

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[2] We did not review costs for FY 2020. PDC startup cost adjustments other than labor were based on FYs 2016 and 2017. Labor startup cost adjustments were based on FYs 2017 and 2018.

[3] See Figure 10 in body of report, for detailed calculations.

[4] See Appendix III, Figure 6, for the unreported background investigation costs for FYs 2016 through 2019.

invoices not reported by the IRS. Overall, the contract costs were underreported by a total of $1,279,393 for FYs 2016 and 2017.[5]

Labor Not Assigned: We reviewed labor costs and found unreported labor and benefits costs totaling $614,979 for FYs 2016 through 2019.[6]

Counsel: We specifically identified four employees from Counsel who worked on PDC program activities. Because the Counsel costs were not recorded for all fiscal years, we obtained Counsel labor costs directly from Counsel and identified that costs totaling $673,733 ($709,558 less $35,825) for FYs 2016 through 2019 were not reported.[7]

Cybersecurity and Travel: We found that cybersecurity labor and travel costs did not charge time to program codes for the PDC program. During this review, TIGTA received a list of travel and labor documents for PDC assessment activities done by the Cybersecurity Office. We were not able to identify whether the costs associated with these documents were reported by the PDC program or whether the reported cost were based on estimates or actual costs. When we discussed our preliminary review with IRS management, they confirmed that actual cybersecurity labor costs of $551,211 related to vulnerability scan data collection and that associated travel costs of $62,885 for cybersecurity PCA visits were not reported.[8]

TAS: During our review, we identified four TAS employees whose time was not tracked or reported as PDC-related activities. These employees participated in monthly calls, drafted a section of the PCA Policy and Procedures Guide, and reviewed the contents of Computer Paragraph 40, Publication 4518, and letters and scripts from the PCAs. Because TAS costs were not recorded for all fiscal years, we obtained TAS costing information from TAS management and the PDC program. We identified unreported costs totaling $135,048 for FYs 2016 through 2019.[9]

Printing and Postage: TIGTA requested and received PDC cost information for printing and postage activity. When we inquired of the reports, IRS management and staff conducted a detailed review of their process and determined that the total actual printing and postage costs related to the PDC program were $3,285,146 ($3,213,094 plus $72,052) for FYs 2017 through 2019.[10] As a result, TIGTA determined that unreported print and postage costs totaled $3,213,094, *i.e.*, that corrected print costs totaled $3,285,146 for FYs 2017 through 2019.

Indirect Costs: During our review, we identified unreported direct labor costs that would need to be added to the total direct labor costs used for determining indirect costs. We calculated additional indirect costs totaling $639,070 from the underreported labor.[11]

Management's Response: The IRS partially disagreed with this outcome of potential underreported costs of $7,195,872. The IRS computed the net underreported costs to be $881,210, which according to the IRS is 0.67 percent of the total cost reported. The IRS

[5] See Appendix III, Figure 4, for contract costs for FYs 2016 through 2019. We did not review this information for FY 2020.

[6] See Appendix III, Figure 5, for a breakdown of PDC labor costs for FYs 2016 through 2019.

[7] See Figure 6 in body of the report.

[8] See Figure 7 in body of the report.

[9] See Figure 8 in body of the report.

[10] See Appendix III, Figure 7, for the unreported printing and postage costs for FYs 2016 through 2019.

[11] See Figure 10 in body of the report.

stated in its response that the cost methodology used by TIGTA differs from that promulgated by the IRS's CFO and resulted in substantial differences from IRS calculations.

> **Office of Audit Comment:** We believe that the methodologies used to determine the underreported costs were appropriate and that our outcome is a reasonable estimate of the potential underreported costs. As noted in our report, direct costs that can be reasonably identified should be charged to a specific activity. One of the largest adjustments we found was as the result of our review of printing and postage costs specifically associated with PDC activity.

Type and Value of Outcome Measure:

- Cost Savings – Questioned Costs – Potential; $607,099 in overstated indirect costs based on an incorrectly applied overhead rate for FY 2019 (see Recommendation 9).

Methodology Used to Measure the Reported Benefit:

During our review, we identified unreported indirect costs. Our review identified $607,099 in overstated indirect costs from incorrectly applying the overhead rate for FY 2019, the computation of which is shown in detail in Figure 9 on page 19 of the report.

Appendix III

Detailed Private Debt Collection Support Information

Figure 1: Number of Entities and Tax Receivables for FYs 2017 Through 2020[1]

FY	Number of Entities	Dollar Value	Average
2017	128,344	$919,593,380	$7,165
2018	601,671	$4,787,897,591	$7,958
2019	1,711,367	$16,885,267,827	$9,867
Subtotal	**2,441,382**	**$22,592,758,798**	$9,254
2020	1,026,641	$9,411,590,576	$9,167
Total	**3,468,023**	**$32,004,349,374**	$9,228

Source: TIGTA analysis of PDC Annual Reports to Congress.

Figure 2: Installment Agreements Entered by PCAs for FY 2017 Through 2020[2]

FY	Number of Entities	Dollar Value	Average	Percentage
2017	3,327	$18,885,781	$5,677	2.59%
2018	21,377	$135,227,060	$6,326	3.55%
2019	44,875	$289,099,346	$6,442	2.62%
2020	50,721	$335,704,098	$6,619	1.46%

Source: TIGTA analysis of PDC Annual Reports to Congress.

[1] The entities are individual accounts that can be composed of multiple years (or modules) with outstanding tax liabilities for FYs 2017 and 2018. The entities are individual or business accounts for FY 2019.

[2] This figure reflects the number of current installment agreements as of the end of the fiscal year and the dollar value associated with the related accounts. The amount decreases as taxpayers make payments and increases as the PCAs offer new installment agreements. The percentages are calculated from the number of entities under an installment agreement in Figure 2 divided by the number of entities assigned to the PCAs from Figure 1.

Figure 3: IRS PDC Costs for FYs 2016 Through 2020[3]

Costs	FY 2016 (PDC)	FY 2017 (PDC)	FY 2018 (PDC)	FY 2019 (PDC)	FY 2020 (PDC)	FY 2019 (SCPP)	FY 2020 (SCPP)	Total
PCA Commissions Paid	**$0**	**$1,068,944**	**$14,921,708**	**$38,635,173**	**$60,259,178**	**N/A**	**N/A**	**$114,885,003**
PDC Program Costs:								
Background Investigations	$0	$1,274,400	$337,322	$441,023	$338,420	N/A	N/A	$2,391,165
Contract	$9,612,026	$5,933,183	$5,786,726	$3,342,902	$4,332,006	N/A	N/A	$29,006,843
IT	*$8,123,591*	*$4,787,847*	*$3,597,981*	*$2,922,882*	*$2,242,692*			
Non-IT	*$1,488,434*	*$1,145,336*	*$2,188,745*	*$420,021*	*$2,089,314*			
IT Equipment	N/A	N/A	N/A	N/A	N/A	N/A	$67,740	$67,740
Labor	$2,975,084	$6,158,908	$5,117,406	$6,018,119	$5,834,418	$6,670,194	$15,687,246	$48,461,376
IT	*$765,818*	*$2,026,583*	*$967,603*	*$1,232,277*	*$285,495*			
Non-IT	*$2,209,266*	*$4,132,325*	*$4,149,803*	*$4,785,842*	*$5,548,923*			
Print	$0	$14,147	$24,617	$33,288	$1,510,731	N/A	N/A	$1,582,783
Travel	$90,401	$188,781	$113,732	$139,627	$39,031	N/A	$141,638	$713,210
IT	*$0*	*$30,916*	*$2,131*	*$414*	*$0*			
Non-IT	*$90,401*	*$157,865*	*$111,601*	*$139,214*	*$39,031*			
Subtotal	**$12,677,511**	**$13,569,419**	**$11,379,803**	**$9,974,959**	**$12,054,607**	**$6,670,194**	**$15,896,624**	**$82,223,117**
Indirect	$2,607,420	$5,397,782	$4,832,192	$5,190,739	$6,899,924	$4,815,310	$9,195,697	$38,939,064
Total PDC Program Costs	**$15,284,931**	**$18,967,201**	**$16,211,995**	**$15,165,698**	**$18,954,531**	**$11,485,504**	**$25,092,321**	**$121,162,181**
Total PDC Costs	**$15,284,931**	**$20,036,145**	**$31,133,703**	**$53,800,871**	**$79,213,709**	**$11,485,504**	**$25,092,321**	**$236,047,184**

Source: TIGTA analysis of FYs 2017 through 2020 PDC Annual Reports to Congress and PDC raw data provided by the IRS for FYs 2016 and 2020. Totals may be off due to rounding.

[3] The IRS did not issue a FY 2016 PDC Annual Report to Congress. The IRS PDC program costs for FY 2016 were reported in the FY 2017 PDC Annual Report to Congress, and for the IT and non-IT costs breakdown, we obtained the data from PDC raw data reports for FY 2016. Figure 3 includes Special Compliance Personnel Program costs for FYs 2019 and 2020. The IRS defined "indirect costs" in the IRS PDC program FYs 2018 and 2019 Annual Reports to Congress as the ongoing expenses of operating an organization that cannot be immediately associated with the activity or program.

Figure 4: Contract Costs for FYs 2016 Through 2019[4]

	FY 2016	FY 2017	FY 2018	FY 2019	Total
Contract Costs by Business Unit:					
Information Technology	$8,123,592	$4,787,847	$3,597,981	$2,922,882	$19,432,302
Small Business/Self-Employed	$1,488,203	$1,145,336	$2,188,745	$420,021	$5,242,305
Other	$231	$0	$0	0	231
Contract Costs as Reported by IRS	$9,612,026	$5,933,183	$5,786,726	$3,342,903	$24,674,838
Contract Costs per IFS Expense Reports:	$10,465,130	$6,076,851	$5,786,726	$3,342,903	N/A
Unreported Contract Costs	**$853,104**	**$143,668**	**$0**	**$0**	**$996,772**
Miscoded Contract cost	**N/A**	**$282,621**	**N/A**	**N/A**	**$282,621**
Contract Costs as Corrected	**$853,104**	**$426,289**	**$0**	**$0**	**$25,954,231**

Source: TIGTA and IRS analysis of support contract costs for FYs 2016 through 2019.

Figure 5: Unreported and Miscoded Direct Labor Costs for FYs 2016 through 2019[5]

	2016 (PDC)	2017 (PDC)	2018 (PDC)	2019 (PDC)	Total
Labor and Benefit Costs by Business Unit:					
Small Business/Self-Employed	$1,927,817	$3,739,132	$3,927,902	$4,660,027	$14,254,878
Wage and Investment	$54,615	$5,281	$0	$0	$59,896
Information Technology	$768,869	$2,026,583	$967,603	$1,232,277	$4,995,332
Other	$223,783	$387,911	$221,901	$125,815	$959,410
Labor & Benefit Costs as Reported by IRS	$2,975,084	$6,158,908	$5,117,406	$6,018,119	$20,269,516
Unreported Labor Costs by Business Unit:					
Small Business/Self-Employed – Assigned	$0	$0	$0	$130,686	$130,686
Small Business/Self-Employed – Support	$0	$123,680	$247,359	$320,562	$691,601
Wage and Investment – Support	$0	$0	$79,379	$80,834	$160,213
IRS Miscoded Labor and Benefits Cost	$0	$7,652	($274,444)	($100,729)	($367,521)
Total Unreported Labor and Benefit Cost	**$0**	**$131,332**	**$52,294**	**$431,353**	**$614,979**

Source: TIGTA analysis of PDC labor and benefits costs for FYs 2016 through 2019.

[4] Other is unidentified contract costs.

[5] This consists of the IRS's business units, such as the CFO, Human Capital Office, IRS National Headquarters, *etc.*, that support the IRS Service-wide operations. We reported IT labor costs separately.

Figure 6: Unreported Background Investigation Costs for FYs 2016 Through 2019

Description	FY 2016	FY 2017	FY 2018	FY 2019	Total
Number of Unreported Contract Employees per the IRS					38
Unreported Costs (IRS)	$4,406	$10,249	$2,620	$614	$17,889
Additional Unreported Costs (IRS)	$46	$5,677	$2,848	$0	$8,571
Total Unreported Investigation Costs[6]	**$4,451**	**$15,926**	**$5,468**	**$614**	**$26,459**

Source: TIGTA and IRS analysis of background investigation data for FYs 2016 through 2019.

Figure 7: Unreported Printing and Postage Costs for FYs 2016 Through 2019[7]

Description	FY 2016	FY 2017	FY 2018	FY 2019	Total
Printing and Postage Costs Based on IRS-Provided Costs	$0	$212,025	$948,533	$2,124,588	$3,285,146
Printing and Postage Costs Reported by the IRS (not included above)	$0	$14,147	$24,617	$33,288	$72,052
Total Unreported Printing and Postage Costs	**$0**	**$197,878**	**$923,916**	**$2,091,300**	**$3,213,094**

Source: TIGTA and IRS analysis of printing and postage costs data for FYs 2016 through 2019.

[6] There is a $1 rounding variance for the FY 2016 subtotal as both numbers were rounded up.

[7] There is a $1 rounding variance in comparing the Figure 7 total for printing and postage costs to the previous Figure 3 printing cost total.

Appendix IV

Fund Balances

(IRS PDC Fund Balances for FYs 2016 Through 2020)

	Cost of Services Fund	SCPP Fund
FY 2016 Fund Balances 09/30/2016	**$0**	**$0**
FY 2017 Commissionable Revenue **$5,363,918**		
25% Commissionable Revenue allocated to each fund	$1,340,980	$1,340,980
Less Sequestration	($92,528)	($92,528)
Fees paid to PCAs	**($1,068,944)**	N/A
Available Balances as of 09/30/2017	**$179,508**	**$1,248,452**
FY 2018 Commissionable Revenue **$75,372,679**		
25% Commissionable Revenue allocated to each fund	$18,843,170	$18,843,170
Sequestration Returned	$92,528	$92,528
Less Sequestration	($1,243,649)	($1,243,649)
Fees paid to PCAs	**($14,921,708)**	N/A
Contract Administration	$0	**($4,341,020)**
Fund Balances as of 09/30/2018	**$2,949,849**	**$14,599,481**
FY 2019 Commissionable Revenue **$194,944,443**		
25% Commissionable Revenue allocated to each fund	$48,736,111	$48,736,111
Sequestration Returned	$1,243,649	$1,243,649
Less Sequestration	($3,021,639)	($3,021,639)
Fees paid to PCAs	**($38,635,173)**	N/A
SCPP	$0	($11,485,504)
Program Administration	$0	**($12,318,473)**
Fund Balances as of 09/30/2019	**$11,272,797**	**$37,753,625**
FY 2020 Commissionable Revenue **$304,901,985**		
25% Commissionable Revenue allocated to each fund	$76,225,496	$76,225,496
Sequestration Returned	$3,021,643	$3,021,643
Less Sequestration	($4,497,304)	($4,497,304)
Fees paid to PCAs	**($60,259,178)**	N/A
SCPP	$0	($25,092,321)
Program Administration	$0	$17,168,720
Fund Balances as of 09/30/2020	**$25,763,453**	**$70,242,418**

Source: TIGTA analysis of PDC Annual Reports to Congress for FYs 2017 through 2020.

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

February 22, 2022

MEMORANDUM FOR MICHAEL E. McKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Darren John Guillot Digitally signed by Darren J. Guillot Date: 2022.02.22 09:35:21 -05'00'
Commissioner, Small Business/Self-Employed, Collection

SUBJECT: Draft Audit Report – The IRS Private Debt Collection Program Has Not Effectively Reported All Program Expenses or Included Adequate Disclosures (Audit #201930027)

Thank you for the opportunity to review and comment on the subject draft audit report. The IRS takes the obligation to track and report costs seriously from an oversight perspective and to allow the IRS to be reimbursed for costs incurred by the Private Debt Collection (PDC) program. Internal Revenue Code (IRC) section 6306(j) requires the IRS to report the collection costs incurred, the amount of fees retained, and a description of the use of the funds. Based upon our review, overall cost reporting was accurate, within 99.33% of the total program costs, and the IRS PDC annual reports provided to Congress contained all the required elements pursuant to the law.

The cost methodology used by TIGTA differs from that promulgated by the IRS's Chief Financial Officer (CFO) and results in substantial differences from IRS calculations. For example, TIGTA included Counsel and Taxpayer Advocate Service (TAS) labor, as well as Print and Postage as direct costs in FY 16-18, while the IRS followed CFO guidance and identified these costs as indirect. TIGTA also estimated labor hours when the IRS provided the actual costs.

The Small Business/Self-Employed (SB/SE) Division follows the cost methodology provided by the IRS's CFO. The methodology defines direct and indirect costs which added together equal total cost. Each fiscal year, the CFO provides IRS business units an overhead rate that is applied to the defined direct costs to arrive at the indirect cost. In fiscal years (FY) 2016 -2018, the CFO methodology included expenses for print and postage, and Counsel and TAS labor as indirect costs in the overhead rate calculation.

Unlike our use of the CFO guidance, for the same fiscal years TIGTA included those expenses as direct costs, and multiplied the overhead rates by the labor costs, which inflated the total cost. In addition, TIGTA identified the names of eight employees in the PDC Operations Guide and other documents and assumed they provided significant support to the PDC program. TIGTA then estimated 18,641 labor hours for these employees; however, the IRS provided 11.5 as the actual hours these employees worked on the program.

The SB/SE Division complies with the reporting requirements and the permissible uses of the fees retained, as outlined in the law. Congress recognized that the law imposed certain limitations on how the IRS could use the funds for the PDC program and consulted with the IRS prior to enacting the Taxpayer First Act (TFA) in July 2019. The TFA amendments expanded the permissible uses of the Special Compliance Personnel Program (SCPP) Fund. The Service is permitted, but not required, to use the SCPP Fund for all program costs. Exercising this discretion, the Service will consider the net adjustments to cost in this audit report and determine if any modifications are necessary to comply with the statute.

TIGTA recommends that we distinguish startup costs from the total costs and disclose which costs the IRS reimbursed from the discretionary funds in our next annual report to Congress. With respect to both issues, the IRS complied with the statute and provided to Congress the necessary information to evaluate budget integrity and the program's effectiveness. While the IRS did not distinguish start up from other costs, the IRS did disclose the costs incurred before the start of the program in April 2017. Similarly, prior reports clearly stated the Service paid only a portion of costs with retained earnings and the remainder of the costs were paid with other funds.

The IRS has processes in place that address several of the audit recommendations. The Service updated procedures for charging time to the program and has a process to compare PDC contract expense reports to reported costs. The IRS obtains Counsel and Cybersecurity and Taxpayer Advocate Services labor costs and includes print and postage costs according to the CFO guidance. The Service also has a process in place to ensure contract employees' pre-screenings are complete before they work on the PDC program. Prior to this audit, the IRS identified the growing Cost of Services Fund and we are in the process of addressing this issue to prevent further growth of the fund.

Our comments and proposed actions to your recommendations are below. If you have any questions, please contact me, or Frederick W. Schindler, Director, Collection, Small Business/Self-Employed Division.

Attachment

Attachment

RECOMMENDATION 1:
The CFO should address the growing balance of $25.8 million in the Cost of Services Fund and disclose in its Annual Reports to Congress the net revenue sent from the PDC program to the General Fund and determine the amount necessary to retain to pay the PCAs without causing further growth in the Cost of Services Fund.

CORRECTIVE ACTION:
The IRS continues to monitor the increase in the Cost of Services Fund balance. The IRS is exploring all options for these funds under the current law which include potential legislative options. Evaluating these options by the end of FY 2023 will enable the IRS to address the accumulating balance in a manner that is legal and most feasible. Because of complicating factors such as varying commission rates and sequestration on this account, the solution to reduce what is retained to pay the PCAs is complex and goes beyond setting the withholding lower, however a lower withholding could be one element of that process. The IRS and the Department of Treasury Counsel have advised that the balance level in the account does not pose a legal issue. There is no requirement for the IRS to transfer the available balance to the general fund. For the last three years, beginning with the FY 2019 PDC Annual Report to Congress, the IRS has continued to report the net revenue sent from the PDC program to the General Fund. We will implement a process to address the growing balance in the Cost of Services Fund.

IMPLEMENTATION DATE:
October 15, 2023

RESPONSIBLE OFFICIAL:
Associate CFO for Corporate Budget

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

OUTCOME MEASURE:
Funds Put to Better Use – Actual; $25,763,453 for FYs 2017 through 2020, if the IRS addressed the growth of retained earnings restricted to paying the PCAs (see Recommendation 1).

IRS RESPONSE:
Agree

RECOMMENDATION 2:
The Director, Collection, SB/SE Division, should disclose PDC startup costs related to the PDC program and the Special Compliance Personnel Fund.

CORRECTIVE ACTION:
The resources needed to compile and separately state costs already reported would outweigh the benefits of that reporting. However, it is important to note that the IRS reported costs in the year incurred and complied with the statutory reporting requirements, giving Congress the information necessary to evaluate budget integrity and the program's effectiveness.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
N/A

IRS RESPONSE:
N/A

RECOMMENDATION 3:
The Director, Collection, SB/SE Division, should in the next PDC and Special Compliance Personnel Program Annual Reports to Congress disclose which costs were reimbursed from the Special Compliance Personnel Program Fund since its inception or paid from discretionary funds.

CORRECTIVE ACTION:
Costs reimbursed from the SCPP Fund are included in the Fees Retained section of the annual reports to Congress, as required by the statute. Prior reports clearly stated the Service paid only a portion of costs with retained earnings and the remainder of the costs were paid with other funds. The IRS complied with statutory reporting requirements and gave Congress the information necessary to evaluate budget integrity and the program's effectiveness.

IMPLEMENTATION DATE:
N/A

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
N/A

IRS RESPONSE:
N/A

RECOMMENDATION 4:
The Director, Collection, SB/SE Division develop a review process that includes comparing the Integrated Financial System (IFS) expense report for PDC contracts with the PDC program's reported contract costs to identify unreported contract costs.

CORRECTIVE ACTION:
We have a process in place to compare the IFS expense report for PDC contracts with the PDC program's reported contract costs. The IFS Status of Funds report contains the data used to develop the monthly PDC Service-wide report, which includes contract costs.

IMPLEMENTATION DATE:
Completed

RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

IRS RESPONSE:
The IRS computed the net underreported costs to be $881,210 which is .67 percent of the total cost.

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RECOMMENDATION 5:
The Director, Collection, SB/SE Division should update the PDC program guidance document to clarify how employees' time should be charged to reflect work performed in support of the PDC program.

CORRECTIVE ACTION:
The IRS updated the Service-wide Guidance for Tracking Private Debt Collection Expenses which provides clarifying guidance for employees reporting time for work performed in support of the PDC program.

IMPLEMENTATION DATE:
Completed

RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

IRS RESPONSE:
The IRS computed the net underreported costs to be $881,210 which is .67 percent of the total cost.

RECOMMENDATION 6:
The Director, Collection, SB/SE Division should develop a review process to ensure that all contractor employees' pre-screenings are completed before working on the PDC program and if necessary that the associated costs are charged to the PDC program.

CORRECTIVE ACTION:
We have a process in place, outlined in IRM 10.23.2 and on the HCO/Personnel Security website to ensure that contractor employees' pre-screenings are completed before working on the PDC program. The IRS charges the associated costs to the PDC program according to the law.

IMPLEMENTATION DATE:
Completed

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RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

IRS RESPONSE:
The IRS computed the net underreported costs to be $881,210 which is .67 percent of the total cost.

RECOMMENDATION 7:
The Director, Collection, SB/SE Division should require the PDC program to report all print and postage costs based on actual costs.

CORRECTIVE ACTION:
The IRS reports print and postage according to the annual guidance provided by the CFO. In FY 2016-2019, print and postage was included in overhead as an indirect cost. In FY 2020, the CFO guidance changed, and the IRS reported print and postage as a direct cost.

IMPLEMENTATION DATE:
Completed

RESPONSIBLE OFFICIAL:
N/A

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

IRS RESPONSE:
The IRS computed the underreported costs to be $881,210 which is .67 percent of the total cost.

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RECOMMENDATION 8:
The Director, Collection, SB/SE Division, should develop a process to obtain Chief Counsel, Cybersecurity, and TAS labor costs when these costs are incurred for the PDC program.

CORRECTIVE ACTION:
The IRS updated the Service-wide Guidance for Tracking Private Debt Collection Expenses which provides clarifying guidance for employees reporting time for work performed in support of the PDC program.

IMPLEMENTATION DATE:
Completed

RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

IRS RESPONSE:
The IRS computed the underreported costs to be $881,210 which is .67 percent of the total cost.

RECOMMENDATION 9:
The Director, Collection, SB/SE Division, should adjust the Special Compliance Personnel Fund by $607,099 and disclose this in the next PDC and Special Compliance Personnel Program Annual Report to Congress.

CORRECTIVE ACTION:
The Service is permitted, but not required, to use the SCPP Fund for all program costs. Exercising this discretion, the IRS will consider the net effect of all adjustments to cost in this audit report and determine if any reimbursements are needed to comply with the law and will be reflected in the next Annual Report to Congress, if necessary.

IMPLEMENTATION DATE:
August 15, 2022

RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Cost Savings – – Questioned Costs -Actual; $607,099 in overstated indirect costs based on an incorrectly applied overhead rate for FY 2019 (see Recommendation 9).

IRS RESPONSE:
The IRS found there are no cost savings because the IRS paid the costs from the Special Compliance Personnel Program (SCPP) or other funds. In addition, IRS' computation of $429,873 in overstated indirect costs considered the net effect of all adjustments in FY 2019, including the adjustment to indirect cost in Recommendation 10.

RECOMMENDATION 10:
The Director, Collection, SB/SE Division, should adjust the indirect cost by $626,224 and disclose these adjustments in the next Annual Reports to Congress.

CORRECTIVE ACTION:
As stated in Recommendation 9, the Service has discretion when we charge to the SCPP Fund for program cost, however there is no legal requirement to do so. The IRS will consider the net effect of all adjustments to cost in this report and determine if any modifications are needed to comply with the statute and will be reflected in the next Annual Report to Congress, if necessary.

IMPLEMENTATION DATE:
August 15, 2022

RESPONSIBLE OFFICIAL:
Director, Collection, SB/SE Division

CORRECTIVE ACTION MONITORING PLAN:
N/A

OUTCOME MEASURE:
Reliability of Information – Potential; $7,195,872 in potentially underreported costs related to the PDC program for FYs 2016 through 2019 (see Recommendations 4 through 8 and 10).

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IRS RESPONSE:
The IRS computed the underreported costs to be $881,210 which is .67 percent of the total cost.

Appendix VI

Glossary of Terms

Term	Definition
Collection Statute Expiration Date	The date the statute expires for collection of tax, penalty, or interest. It is generally 10 years from the date the IRS assessed the tax, penalty, or interest.
Concur	A web-based, integrated travel booking and reimbursement system that includes authorizations, vouchers and travel reservations for domestic, foreign city-to-city, and local travel.
Contract Administration Costs	The IRS used the Special Compliance Personnel Program Fund account to pay for contract administration costs associated with the administration of the qualified tax collection and Special Compliance Personnel Program costs.
Direct Costs	Costs that can be specifically identified with a single cost object such as program, activity, or output.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Internal Order Code	An accounting code that is used to capture PDC program costs.
Operating Units	IRS business units that provide taxpayer assistance and education, filing and accounting services, and compliance activities and that administer tax credit programs. The operational costs are incurred by Criminal Investigation and the Large Business and International, SB/SE, Tax Exempt & Government Entities, and W&I Divisions.
Program Administration Costs	In FY 2019, since the passage of the Taxpayer First Act, the IRS uses the Special Compliance Personnel Program Fund account to pay for all costs associated with administering the qualified tax collection and Special Compliance Personnel Program costs. Program administration costs include all activities and labor costs related to administering the PDC program.
Retained Earnings	The amount of fees retained by the PDC program and Special Compliance Personnel Program from the amounts collected by the PCAs and Special Compliance Personnel.
Sequestration	A fiscal policy procedure in which an "automatic" spending cut takes place when Congress cannot agree on ways to cut back on the total Government spending in excess of the limits Congress sets in its annual budget resolution.
Single Entry Time Reporting	An online payroll system in the Totally Automated Personnel System that enables the input of Time and Attendance data to the National Finance Center.

Term	Definition
Special Compliance Personnel Program Costs	As defined by I.R.C. § 6307, Special Compliance Personnel costs include costs under the Special Compliance Personnel Program such as total salaries, benefits, employment taxes for Special Compliance Personnel and other costs under the Special Compliance Personnel Program.
Special Compliance Personnel Program Fund	As defined by I.R.C. § 6307, the fund account consists of retained earnings. The IRS retained 25 percent of the commissionable payments collected by the PCAs. The IRS uses the Special Compliance Personnel Program Fund to pay for contract administration or program administration costs and Special Compliance Personnel Program costs.
Statement of Federal Financial Accounting Standards No. 4	Aimed at providing reliable and timely information on the full cost of Federal programs, their activities, and outputs and sets forth the fundamental elements of managerial cost accounting.
Support Units	IRS business units that support operational units in providing goods and services to the public. The support costs are incurred by Appeals, Chief Counsel, and TAS.
Sustaining Units	IRS business units that support IRS Service-wide operations. The sustaining costs are incurred by Facilities Management & Security Services; CFO; Human Capital Office; Privacy, Governmental Liaison, and Disclosure; IT organization; Communications & Liaison; and Executive Leadership and Direction.

Appendix VII

Abbreviations

ACA	Affordable Care Act
CFO	Chief Financial Officer
FAST	Fixing America's Surface Transportation
FATCA	Foreign Account Tax Compliance Act
FY	Fiscal Year
GAO	Government Accountability Office
IFS	Integrated Financial System
I.R.C.	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
PCA	Private Collection Agency
PDC	Private Debt Collection
SB/SE	Small Business/Self-Employed
SETR	Single Entry Time Reporting
TAS	Taxpayer Advocate Service
TIGTA	Treasury Inspector General for Tax Administration
W&I	Wage and Investment

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

(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.