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TAX DEBT COLLECTION

Measuring Taxpayer Opinions Regarding Private Collection Agencies

Statement of Gregory D. Kutz, Managing Director
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TAX DEBT COLLECTION

Measuring Taxpayer Opinions Regarding Private Collection Agencies

Highlights of [GAO-07-890T](#), a testimony before the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Every year the Internal Revenue Service (IRS) does not collect tens of billions of dollars in delinquent taxes. In 2004, Congress authorized IRS to use private collection agencies (PCA) to help collect some of these debts. To ensure that taxpayers are treated properly and that the program achieves the desired results, IRS contracted with a consulting company to perform a survey of right party contacts—those individuals who confirmed their identity and tax debt to PCAs over the telephone. The consulting company reported overall taxpayer satisfaction ratings from 94 to 96 percent for contacts made from November 2006 through February 2007.

At the request of the Chairman, House Committee on Ways and Means, GAO attempted to obtain, for the period September 2006 through February 2007, the number of tax debt cases IRS referred to PCAs, right party contacts who were offered the taxpayer survey, and right party contacts who took the survey. GAO was also asked to report any other key observations related to the PCA program and taxpayer survey.

To perform this work, GAO collected information and interviewed officials from IRS, the consulting group that administered the survey, and the PCAs.

www.gao.gov/cgi-bin/getrpt?GAO-07-890T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov.

What GAO Found

According to the PCAs, 37,030 tax debt cases were referred to them by IRS from September 2006 through February 2007. PCAs reported making contact with, and authenticating the identity of, 13,630 right party contacts. Of these, 6,793 were eligible to take the taxpayer survey which did not start until the end of November 2006. According to the consulting company, the validity of the survey was based on the key underlying assumption that all right party contacts would be offered a chance to take the survey. However, GAO could not determine the number of right party contacts offered the survey because not all PCAs kept records on who was offered it. Further, as summarized in the following table, the three PCAs used different methods to determine which right party contacts were offered the survey.

PCA Approaches to Survey Methodology, December 2006 through February 2007

PCA	Number of individuals offered survey	Survey methodology	Offered survey to all right party contacts	Records kept
One	999	Primarily offered survey to all first and third contacts during specified times of day	No	Yes
Two	1,283	Offered to all right party contacts	Yes	No
Three	Unknown	Offered to all right party contacts with some exceptions	No	No

Sources: GAO and the PCAs.

Note: Right party contacts offered the survey between 11/27/06 and 11/30/06 are not included in the figures above.

The consulting company that administered the survey told GAO that between November 27, 2006, and February 28, 2007, 1,572 of the individuals offered the survey, agreed to take the survey, and 1,011 of these individuals completed the survey. A consulting company representative told GAO that the company was not aware, until several months after the survey was first offered, that the PCAs used differing methodologies for offering the survey and that not all right party contacts were offered an opportunity to complete the survey. According to IRS, beginning in April 2007, PCAs began offering the survey to all right party contacts.

Among other key observations, IRS advised GAO that they did not provide the PCAs with taxpayer telephone contact information for referred cases. As a result, in attempting to contact taxpayers by telephone, PCA representatives tried to determine the taxpayers' phone numbers through electronic searches. PCA representatives told GAO that they made a total of 252,173 outbound connected telephone calls from September 2006 through February 2007 in an attempt to make contact with the 37,030 tax debt cases IRS referred. PCAs did not offer the survey to incorrect contacts, such as individuals who provided personal information but were not authenticated as right party contacts.

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss issues related to private collection agencies (PCA). Because the Internal Revenue Service (IRS) does not collect billions of dollars of delinquent taxes each year—at the end of fiscal year 2005, it estimated that \$132 billion in delinquent debt with some collection potential had gone uncollected—it supports the use of PCAs to enhance its existing collection mechanisms. In 2004, Congress authorized IRS to use PCAs to help collect tax debts in certain cases.¹ Based on that authority, in 2006, IRS contracted with three PCAs as a pilot program.² Before referring cases to PCAs, IRS sends notification letters to the taxpayers explaining that their cases will be handled by a PCA. Once cases are referred, PCAs must first notify taxpayers of their collection efforts by letter, and are then allowed to contact the taxpayers via telephone.³ Individuals who are properly authenticated over the telephone are known as right party contacts.

According to IRS, in the first 7 months of the pilot program, PCAs helped IRS collect about \$19 million in tax debt from right party contacts—over \$3 million of which was paid to the PCAs under the terms of their contract. As we have previously reported, in addition to the collection of tax debt, providing for the proper treatment of taxpayers is a critical factor in ensuring that the PCA program achieves desired results.⁴ In order to measure taxpayer opinion and gauge PCA performance, IRS contracted with a consulting company to perform a taxpayer survey of right party contacts. Starting on November 27, 2006, the consulting company administered an automated telephone survey to right party contacts transferred to a survey line by the PCAs. Based on this automated survey,

¹American Jobs Creation Act of 2004, Pub. L. No. 108-357, § 881, 118 Stat. 1418 (codified at 26 U.S.C. 6306) (2004).

²Contract in this case refers to task orders issued to the three PCAs under their existing United States General Services Administration federal supply schedule contracts.

³If an authorized representative is designated on an individual's tax return, for example, a legal representative, such as a Power of Attorney, the PCA is required to contact the representative rather than the individual taxpayer. For the purposes of this report, all references to taxpayers are defined as either individual taxpayers or their representatives.

⁴See GAO, *Tax Debt Collection: IRS Is Addressing Critical Success Factors for Contracting Out but Will Need to Study the Best Use of Resources*, [GAO-04-492](#) (Washington, D.C.: May 24, 2004). Also see GAO, *Tax Debt Collection: IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources*, [GAO-06-1065](#) (Washington, D.C.: Sept. 29, 2006).

the consulting company reported that taxpayer satisfaction with PCAs was 94 percent for November/December 2006, 94 percent for January 2007, and 96 percent for February 2007.

Given the importance of ensuring that taxpayers are treated properly, at your request, we attempted to obtain, for the period September 2006 through February 2007, the number of cases IRS referred to PCAs, right party contacts who were offered the taxpayer survey, and right party contacts who took the survey. We were also asked to report any other key observations related to the PCA program and taxpayer survey.

To perform our work, we collected data and interviewed officials from IRS, the consulting group that administered the survey, and the three PCAs. We also reviewed the statement of work for the contract between IRS and the consulting company, and contract between IRS and the three PCAs. IRS, PCAs, and the consulting company told us that the data they provided are accurate. Because we did not independently verify the data, we cannot offer an opinion on its reliability or accuracy. We did not attempt to compare the PCA program with other forms of debt collection or evaluate the performance of the program itself. In addition, based on our discussions with IRS and the entities involved in this program, we have included key observations related to the PCA program and taxpayer survey. These observations illustrate areas of concern and are not intended to offer a comprehensive analysis of the PCA program. At your request, we focused our work on the period September 2006 through February 2007. We conducted our work from April 2007 through May 2007 in accordance with the President's Council on Integrity and Efficiency's Quality Standards for Investigations.

In summary, we found the following:

- According to the PCAs, 37,030 tax debt cases were referred by IRS from September 2006 through February 2007. PCAs reported making contact with, and authenticating the identity of, 13,630 of the individuals whose cases were referred. Because the taxpayer survey was not offered until the end of November 2006, 6,793 of these right party contacts were eligible to take the survey—about 50 percent of all right party contacts made since September 2006.⁵

⁵Right party contacts made from November 27, 2006, through November 30, 2006, are not included in this figure, although they would have been eligible to take the survey.

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- According to the consulting company, the validity of the survey was based on the key underlying assumption that all right party contacts would be offered a chance to take the survey. However, we could not obtain the number of right party contacts offered the survey because not all PCAs kept records on who was offered the survey. Additionally, the three PCAs used different methods to offer right party contacts the survey. For example, one PCA told us that the survey was offered to all right party contacts, unless the PCA representative was aware of certain limiting circumstances (e.g., the individual was contacted while driving). Another PCA told us that taxpayers were randomly selected to take the survey by using a structured method that offered the survey to every first or third contact during a specified time of day.
 - The consulting company that administered the survey told us that from November 27, 2006, through February 28, 2007, 1,572 individuals agreed to take the survey, and 1,011 of these individuals completed the survey. A consulting company representative told us that the company was not aware, until several months after the survey was first offered, that the PCAs used differing methodologies for offering the survey and that, as a result, not all right party contacts were offered an opportunity to complete the survey.
 - Among other related key observations, we were told that it was IRS policy to not provide the PCAs with taxpayer telephone contact information. As a result, in attempting to contact taxpayers by telephone, PCA representatives tried to determine the taxpayers' phone numbers through electronic searches. According to the PCAs, their representatives made a total of 252,173 outbound connected telephone calls from September 2006 through February 2007 in an attempt to resolve the 37,030 cases IRS referred.⁶ Out of these 252,173 calls, PCAs confirmed 13,630 right party contacts.
 - The overall satisfaction rating of 94 percent to 96 percent reported by the consulting company, and quoted by IRS, represents the answer to 1

⁶According to IRS, for all PCAs, the outbound connected call figure includes any outbound phone call that connects with a person, with the exception of calls that are answered but immediately disconnected. For 2 PCAs, outbound connects include reaching an electronic answering device such as an answering machine. The third PCA's predictive dialer system does not connect identified answering machine calls to employees. Outbound connects do not include no answers, operator messages for disconnected numbers, busy signals, fax machine answers, or calls that do not connect for any other reason.

question on the 20-question automated survey. Of the survey questions, 15 related to taxpayer satisfaction; the other questions were to gather more information about the respondents themselves. Those respondents who completed the entire survey had their results counted by the consulting company.

Background

As of December 2004, IRS classified approximately \$7.7 billion in delinquent tax debt as potentially available for private debt collection—\$5.5 billion in low-priority work and \$2.2 billion that was not likely to be assigned to IRS employees for collection. In the American Jobs Creation Act of 2004, Congress authorized IRS to contract with private sector debt collection companies to collect federal tax debts. Based on this authority, IRS awarded contracts in March 2006 to three PCAs for tax collection services. IRS began referring taxpayer cases to PCAs in September 2006. Because of legal restrictions, PCAs can only take certain defined steps to collect tax debts—including locating taxpayers, requesting full payment of the tax debt or offering taxpayers installment agreements if full payments cannot be made, and obtaining financial information from taxpayers. PCAs have limited authorities and are not allowed to adjust the amount of tax debts or to use enforcement powers to collect the debts, which IRS believes are inherently governmental functions to be performed only by IRS employees. Additionally, PCAs do not actually collect the debts, but instruct taxpayers to forward payments to IRS. PCAs are paid on a fee-for-service basis ranging from 21 percent to 24 percent of the debt collected based on the balance of the account at the time of referral. IRS only referred those cases in which the taxpayer had not disputed the debt (e.g., taxpayers who filed form 1040, 1040A, or 1040EZ and owe a balance) and delinquency exists for one or more tax periods.

Under the IRS policy and procedures guide, PCAs are required, within 10 calendar days of receiving delinquent account information from IRS, to send a taxpayer notification letter to an address provided by IRS. This letter states that the taxpayer's account has been placed with an IRS contractor for collection. According to IRS guidance, no sooner than 2 days after the PCA sends the notification letter, PCA employees may attempt to contact the taxpayer by telephone. However, to comply with 26 U.S.C. § 6103—which establishes a taxpayer's right to privacy of tax information—PCA employees must not disclose any tax information until they are certain the person with whom they are speaking is the taxpayer. When a PCA employee makes a call to a taxpayer and reaches an answering machine, the only information the employee may leave on a recording is his or her name (no pseudonyms), company name, telephone number, the name of the taxpayer the PCA is attempting to reach, and the

fact that the PCA is calling about a debt (i.e., rather than specifically a tax debt).

In August 2006, IRS began working with a consulting company to develop and administer a taxpayer survey for PCA contacts. On November 27, 2006, the consulting company began administering the survey. Under guidance issued by IRS, PCAs were instructed to invite every right party contact to take the survey. If the contacts agreed to take the survey, they were transferred to the automated survey line. For the first 3 months of survey administration, the consulting company was required to issue overall satisfaction scores every month, followed by a quarterly report containing responses to all survey questions with information subdivided by each PCA.

According to IRS, early in 2007, IRS did not execute the option to renew one of the PCA contracts. As of the date of this testimony, only two of the PCAs we reviewed are now under contract with IRS.

PCA Program Data, Survey Data, and Key Related Findings

According to the PCAs, 37,030 tax debt cases were referred by IRS from September 2006 through February 2007. In addition, we were informed that the survey was not offered until November 27, 2006—almost 3 full months after PCAs began to contact taxpayers. PCAs reported a total number of 13,630 right party contacts from September 2006 through February 2007, with 6,793 of these contacts made after the survey was available.⁷ Because PCAs began calling taxpayers in September 2006 before the survey was available, about 50 percent of all right party contacts identified during the period of our review were not eligible to take the survey.

According to the consulting company, the validity of the survey was based on the key underlying assumption that all right party contacts would be offered a chance to take the survey. Although IRS instructed the PCAs to offer the survey to all right party contacts, we could not obtain information on how many of the 6,793 contacts were offered the survey. One PCA reported that it offered the survey to 999 right party contacts and made 2,694 right party contacts during this period. Officials at this PCA

⁷As indicated previously, right party contacts made from November 27, 2006, through November 30, 2006, are not included in this figure, although they would have been eligible to take the survey.

told us that from November 27, 2006, through February 13, 2007, taxpayers were randomly selected to take the survey using a structured method that offered the survey to every first or third contact during a specified time of day. The second PCA told us that it offered the survey to all right party contacts, but it did not keep any records to substantiate this claim. The third PCA told us that the survey was offered to all right party contacts, unless the PCA representative was aware that the contact was driving, if the contact had stated that he or she needed to get off the phone, or the contact said he or she was late for something. This PCA also did not have records regarding how many right party contacts were offered the survey, but an official noted that they were implementing procedures to track this information in the future. See table 1 for a summary of the PCA approaches to offering the survey during the period of our review.

Table 1: PCA Approaches to Survey Methodology, November 2006 through February 2007

PCA	Number of individuals offered survey	Survey methodology	Offered survey to all right party contacts	Records kept
Company one	999	Primarily offered survey to all first and third contacts during specified times of day	No	Yes
Company two ^a	1,283	Offered to all right party contacts	Yes	No
Company three	Unknown	Offered to all right party contacts with some exceptions	No	No

Sources: GAO and the PCAs.

Note: Right party contacts offered the survey between November 27, 2006 and November 30, 2006 are not included in the figures above.

^aIRS did not execute the option to renew this PCA's contract early in 2007.

Beginning in early April 2007, IRS officials reemphasized the need for PCAs to offer the survey to all right party contacts and to keep records in this regard. These instructions have been incorporated in additional guidance for the PCAs.

The consulting company that administered the survey provided us with records indicating that of those offered the survey, 1,572 right party contacts agreed to be transferred to the automated survey system from November 27, 2006, through February 28, 2007. Of these, records further indicate that 1,011 individuals completed the survey. A consulting company representative told us that the company was not aware, until several months after the survey was first offered, that the PCAs had used differing methodologies for offering the survey and that not all right party contacts were offered it. Table 2 provides summary information on the data we gathered from IRS, the PCAs, and the consulting company.

Table 2: Summary of PCA Work and Consulting Company Survey Work, September 2006 through February 2007

Tax debt cases referred to PCAs	37,030
Right party contacts	13,630
• During survey period ^a	6,793
• Offered survey	Unknown
• Agreed to be transferred to survey line	1,572
• Completed survey	1,011

Sources: IRS, the PCAs, and the consulting company.

Note: We did not independently verify the reliability of these data.

^aThe survey period we reviewed was from November 27, 2006, through February 28, 2007. Data do not include right party contacts made between November 27, 2006 and November 30, 2006.

We also made several related observations during the course of our work:

- PCAs were given some information about taxpayers with delinquent debt, including the taxpayers' name, Social Security numbers, and last known addresses per IRS records. According to IRS, it did not provide PCAs with telephone numbers for the taxpayers as a matter of policy. As a result, in attempting to contact taxpayers by telephone, PCA representatives tried to determine the taxpayers' phone numbers through electronic searches, for example, through the Lexis-Nexis database. PCAs told us that they made a total of 252,173 outbound connected telephone calls from September 2006 through February 2007 in an attempt to resolve the 37,030 cases referred by IRS. PCAs indicated that 89,781 calls—or about 36 percent of all connected outbound calls—resulted in messages left on answering machines, voice mail, or with third parties.
- In an attempt to make contact with the right party, PCAs may have contacted a substantial number of taxpayers who were not part of the 37,030 cases referred to PCAs by IRS—these taxpayers represent a potentially large group of incorrect contacts. Incorrect contacts were not offered the survey. Examples of individuals who were not offered the survey would include individuals who refused to provide personal information to the PCAs and individuals who provided personal information but were not authenticated as part of the 37,030 IRS referrals.
- The overall satisfaction rating reported by the consulting company, and quoted by IRS, represents the answer to 1 question on a 20-question automated survey. The question was “Everything considered, whether

you agree or disagree with the final outcome, rate your overall satisfaction with the service you received during this call.”

Respondents were allowed to rate their satisfaction on a scale of one to five—with one being “very dissatisfied” and five being “very satisfied.” Of the survey questions, 15 related to customer satisfaction; the other questions were to gather more information about the respondents themselves. Those respondents who completed the entire survey had their results counted by the consulting company. Satisfaction ratings for other survey questions ranged from 81 percent (ease of understanding letters received from PCAs) to 98 percent (courtesy of PCA representatives).

- Officials at IRS and the consulting company confirmed that some right party contacts were offered (and may have taken) the survey more than once because they had multiple discussions with a PCA representative. Thus, some of the 1,011 right party contacts who completed the survey may represent duplicate respondents.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members of the Committee may have at this time.

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Key contributors to this testimony were John Ryan, Assistant Director; Bruce Causseaux, Jennifer Costello, Heather Hill, Wilfred Holloway, Jason Kelly, and Andrew McIntosh.

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