



Highlights of [GAO-06-1065](#), a report to the Committee on Finance, U.S. Senate

TAX DEBT COLLECTION

IRS Needs to Complete Steps to Help Ensure Contracting Out Achieves Desired Results and Best Use of Federal Resources

Why GAO Did This Study

In 2005, the inventory of tax debt with collection potential had grown to \$132 billion. The Internal Revenue Service (IRS) has not pursued some tax debt because of limited resources and higher priorities. Congress has authorized IRS to contract with private collection agencies (PCA) to help collect tax debts. IRS has developed a Private Debt Collection (PDC) program to start with a limited implementation in September 2006 and fuller implementation in January 2008. As requested, GAO is reporting whether (1) IRS addressed critical success factors before limited implementation, (2) IRS will assess lessons learned before fuller implementation, and (3) IRS's planned study will help determine if using PCAs is the best use of federal funds.

What GAO Recommends

GAO recommends that IRS complete establishing for the PDC program: (1) results-oriented goals and measures; (2) reliable, verifiable costs, (3) evaluation plans, and (4) criteria and processes for assessing the program before deciding whether to expand it. GAO also recommends that IRS ensure that its study reports all PDC costs and the best use of those federal funds.

In commenting on a report draft, IRS agreed with GAO's recommendations and outlined some actions it has initiated to respond to some of them.

www.gao.gov/cgi-bin/getrpt?GAO-06-1065.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

IRS made major progress in addressing the 5 critical success factors and 17 related subfactors for the PDC program before sending cases to PCAs. GAO reviewed program documents and interviewed officials to identify IRS's approaches and steps taken to address the factors. Taken together, IRS's actions were intended to ensure that the PCAs will be able to do the job and work the range of cases assigned, IRS will have the necessary resources and caseload ready, and taxpayer rights and data will be protected. Even with this progress, IRS has not completed work for three subfactors—setting results-oriented goals and measures, determining all PDC program costs, and evaluating the program based on the results-oriented goals and measures, once they are established. As a result, IRS risks not providing complete information that decision makers would find useful. Finishing work on the factors could help achieve but cannot guarantee program success, which also depends, in part, on how IRS addresses the factors and identifies and resolves any problems in the limited implementation phase.

Although IRS officials indicated that a purpose of the limited implementation phase is to assure readiness for full implementation to up to 12 PCAs, IRS has not yet documented how it will identify and use the lessons learned to ensure that each critical success factor is addressed before expanding the program starting in January 2008. Because program success will be affected by how well IRS makes adjustments, assessing the lessons learned in limited implementation is critical. Also, IRS has not documented criteria that it will use to determine whether the limited implementation performance warrants program expansion. IRS officials indicated that they are considering criteria that could trigger a go/no go decision, such as the amount of taxes collected and indications of PCAs abusing taxpayers or misusing taxpayer data. IRS has not decided on whether these targets will include comparing the taxes collected to program costs, which was a key reason for canceling a 1996 PCA pilot program. Finally, IRS will have a little more than a half year to identify the lessons learned before incorporating them into the next contract solicitation, which IRS intends to release in March 2007.

Related to such decisions on expansion is IRS's planned comparative study of using PCAs. That study is to compare using PCAs to investing IRS's PDC-related operating costs into having IRS staff work IRS's "next best" collection cases. Under the documented study design, IRS would exclude the fees paid to PCAs from the costs and subtract those fees from the tax debts collected by PCAs. While such a study might produce useful information, it will not compare the results of using PCAs with the results IRS could get if given the same amount of resources, including the fees to be paid to PCAs, to use in what IRS officials would judge to be the best way to meet tax collection goals. Adequately designing and implementing the study is important to ensure policymakers are aware of the true costs of contracting with PCAs and know whether PCAs offer the best use of federal funds.