



Ms. Linda Stiff
Deputy Commissioner, Service and Enforcement
Internal Revenue Service
US Department of Treasury
1111 Constitution Avenue, NW
Washington, DC 22109

Re: MITRE Review of IRS Private Debt Collection (PDC) Cost Effectiveness Study (CES)

Dear Ms. Stiff:

As you requested, we are providing to you MITRE's independent opinion on the IRS's study to evaluate the relative cost effectiveness of collection cases worked by IRS's Automated Collection System (ACS) function vs. those worked by Private Collection Agencies (PCAs). This study and its results were documented in the Cost Effectiveness Study (CES) report. The study was performed by the IRS, with contractor support. MITRE's scope was as follows:

Objectives:

- Based on the data made available, please provide MITRE's assessment of the comparative cost effectiveness of the following scenarios:
 - Funding the PCA program
 - Funding IRS staff at the same level to work comparable collection inventory
- To the extent that any limitations in the data exist, please provide an opinion on their potential impact on the overall confidence level of the assessment.

Tasks:

- Review the work performed in gathering and analyzing data relative to the cost effectiveness of the ACS and PCAs for comparable workloads.
- Validate the methodology and determine whether the data collected and analysis methods employed support reasonable conclusions on the questions posed in the objectives.
- To the extent any limitations in the data exist, provide an opinion on their potential impact on the overall confidence level of the assessment.

This review was focused primarily on the information in the CES report but also used supporting worksheets, interviews with study stakeholders, working papers provided by the CES team, and verbal explanations and clarifications to resolve questions about the data. As is the case with studies of this nature, we understand that conditions exist (e.g., policies, practices, guidelines, etc.) which are outside the parameters of the study and are accepted as "givens". These are considered "constraints" in our review. While we comment on some here, the purpose is to acknowledge the constraint and assess its impact, if any.

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Conclusion:

Based on our analysis, we believe the CES conclusions are reasonable based on the methodology used and data collected for the study. While some limitations and constraints were noted, we concluded the following regarding their impact:

- (a) They didn't appear to have an impact on the comparative cost per dollar collected, meaning that ACS collection activities were performed at a lower cost to collect a dollar of revenue
- (b) They were more likely to have an impact on other metrics included in the study (e.g., percent of balance due collected), but given the significant advantage shown between ACS performance versus PCA performance in these areas, we believe, based on the data we reviewed, that it is unlikely that these limitations and constraints would reverse the comparative positions of ACS and PCAs presented in the CES

In the conduct of our review, we focused on various facets of the study method and the data. The specific areas we emphasized in our evaluation were:

- Evaluate for significant flaws or omissions in the data used or analysis approach.
- Evaluate the potential for participant bias.
- Evaluate if study objectives were clear and if approach addressed those objectives.
- Note constraints upon the study and any apparent impacts.
- Review basis of assumptions and estimates used. Assess if these were used reasonably.
- Evaluate if input information used was sufficient in depth, breadth, precision and accuracy.
- Review the cost and collections calculations for both ACS and PCA.
- Evaluate if workloads assigned to the ACS and PCA supported the objectives of the study.
- Evaluate sensitivity of study conclusions to changes in data, estimates or assumptions.

As previously stated, some limitations were noted. However, these did not appear to impact the study enough to change the study outcome. These include:

- Though some participants were aware of the study, mitigation actions in the study appear to have ensured that participant bias had relatively little effect on the study's results.
- Inventories assigned to the ACS and PCA were not statistically validated as comparable, but they were selected using a process documented in the IRM that had been previously used for this purpose. This limitation did not appear to have a major impact on the metric of cost per dollar collected. There could have been an impact on percent of balance due collected and percent of modules in payment status but not to the extent to change the relative comparison between the ACS and PCAs.
- Study objectives and design changed over time but were resolved in the end by consolidating both the "next best use" and "head to head" objectives into a single study.
- Assumptions and estimates, particularly for ACS costing, probably introduce enough uncertainty to narrow the difference between the ACS and PCA cost per dollar collected metric but not enough to change the relative comparison of the ACS and PCAs.

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In addition, we made the following observations about the study.

- The study relies on the current commission rates of the PCAs, as the cost basis for the PCAs. The study did not consider alternative fee structures.
- The study finding that approximately 90% of inventory worked by ACS was suitable for systemic action reflects the fact that ACS has tools and authorities available to them that PCAs do not. This helps to explain the ACS result.
- Though the full-cost methodology could be more appropriate to the intended comparison between the ACS and PCA on the cost per dollar collected metric of cost effectiveness, the relative findings of the variable cost methodology still apply.

In summary, we believe that, based on the data available, the methodology and assumptions used to conduct the study, and the likely impact of the limitations and constraints identified above, it is reasonable to conclude that ACS is more cost effective than PCAs.