TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Further Improvements Are Needed to Monitor and Collect Employee Nontax Debts

September 27, 2017

Reference Number: 2017-10-079

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FURTHER IMPROVEMENTS ARE NEEDED TO MONITOR AND COLLECT EMPLOYEE NONTAX DEBTS

Highlights

Final Report issued on September 27, 2017

Highlights of Reference Number: 2017-10-079 to the Internal Revenue Service Human Capital Officer.

IMPACT ON TAXPAYERS

According to debt lists provided by the IRS, 7,654 current or former IRS employees owed nontax debts, *e.g.*, salary overpayments, unpaid health insurance premiums, totaling approximately $7.5 million in December 2016. Effective collection of these debts is important to ensure that Federal tax dollars are appropriately used.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether IRS processes reasonably ensure that recorded nontax debts owed by employees are appropriately administered.

WHAT TIGTA FOUND

IRS officials have taken actions to improve the administration and collection of outstanding employee debt. For example, the IRS stated it had formed a working group to identify and address root causes of employee debt, and implemented strategies to accelerate debt collection, such as increasing the dollar amount of debts that are automatically garnished from employee wages. While these actions appear reasonable, it is difficult for the IRS to easily determine the impact of these improvements because the IRS does not receive reliable reports to determine how nontax debts were resolved.

The IRS contracts with the Department of Agriculture's National Finance Center to establish, monitor, and collect receivables from current and former IRS employees. While IRS officials are responsible for providing oversight of debt collection activities, they were unable to provide basic information on the results of the collection efforts. IRS officials were unaware of how debts were being resolved because the IRS only receives debt lists from the National Finance Center of employees whose debts are currently outstanding.

The IRS also could not provide evidence that it approved the cancellation of employee nontax debts as required. TIGTA reviewed a random sample of employee nontax debts and found that the IRS did not retain any documentation showing debt cancellations or write-offs were approved. Using the information from the random sample, TIGTA estimates that the IRS does not have documentation supporting debt cancellations or write-offs for more than 1,000 nontax debts totaling more than $1.7 million between January 2015 and December 2016.

Finally, IRS processes did not ensure that collection actions were taken timely. For instance, TIGTA reviewed a random sample of nontax debts and found that 18 percent of employee accounts were not timely classified as delinquent. As a result, more enhanced collection actions, *e.g.*, reporting to credit reporting bureaus, were delayed. Timely collection actions are important because collection studies show that the collectability of debt diminishes over time.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Human Capital Officer: 1) obtain necessary information for overseeing the collection of employee debts and improve the timeliness of collection actions, 2) retain evidence supporting debt cancellation authorizations, and 3) work with the Office of Chief Counsel to explore options to expedite the issuance of certain debt notification letters.

In their response, IRS management agreed with the recommendations and is updating procedures associated with analyzing administrative debt management activities, processing debts, and retaining records. In addition, the Human Capital Office will consult with the IRS Office of Chief Counsel on legal alternatives for expediting collection of health insurance receivables for seasonal employees.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 27, 2017

MEMORANDUM FOR INTERNAL REVENUE SERVICE HUMAN CAPITAL OFFICER

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Further Improvements Are Needed to Monitor and Collect Employee Nontax Debts (Audit # 201610024)

This report presents the result of our review to determine whether Internal Revenue Service processes reasonably ensure that recorded nontax debts[1] owed by employees are appropriately administered. This review is included in our Fiscal Year 2017 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

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

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).

[1] We did not review travel, relocation, and training debts, which are administered by the Chief Financial Officer and the Office of Chief Counsel.

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Abbreviations

FEHB	Federal Employee Health Benefit
IRS	Internal Revenue Service
NFC	National Finance Center

Background

Effective collection of Federal nontax debts is important to ensure that Federal tax dollars are appropriately used. The Internal Revenue Service's (IRS) Human Capital Office is responsible for overseeing the collection of the following nontax debts owed by IRS employees to the Federal Government:

- **Advanced leave** debts are created when an employee is granted advance sick or annual leave in excess of his or her leave balance, which creates a balance due when the employee separates from the IRS.
- **Salary Overpayment** debts are created as a result of erroneous payments, such as an administrative error from time and attendance transactions, payroll processing, or personnel actions.
- **Federal Employee Health Benefit (FEHB)** debts are created as a result of unpaid health insurance premiums. For instance, seasonal employees generally work at the IRS for only several months of the year, *e.g.*, January through April, and are then placed in nonpay status. When placed in nonpay status, the employee may elect to continue health insurance coverage with the IRS paying both the employer's and employee's portion of the premium. When the employee returns to work, the employee is required to repay the debt and his or her salary is deducted to pay back one past premium, along with their current premium, per pay period until the debt is repaid in full to the Federal Government.
- **Emergency Salary Payment** debts are issued only in emergency situations when an employee's intended salary was not received in a timely manner and are considered loans from the IRS Accounting Office. The payments must be repaid when the next regular salary payment is received.

The IRS contracts with the Department of Agriculture's National Finance Center (NFC) which is responsible for administrating the system that is used to collect employee nontax debt related to payroll and benefits. This system is used to establish, collect, track, cancel, and write-off debts. In addition, the system will classify the debt as delinquent and prepare reports for the IRS on the status of outstanding debt. The NFC and the IRS share responsibility[1] for notifying current or former IRS employees of nontax debts that are owed to the Government. Current and former employees are required to be notified of outstanding debts 30 calendar days before any collection

[1] The IRS notifies current employees who owe salary overpayment debts. The NFC notifies all separated employees of their debts, as well as current employees who owe FEHB debts.

action, *e.g.*, salary garnishment, can take place. The notification should include the amount of debt owed and provide a mechanism for the current or former employee to dispute the debt.

For all non-FEHB employee debt, employees are required to either pay the debt in full or enter into a repayment agreement. If a current or separated employee does not pay the balance in full or enter into a repayment agreement by the due date on the notice, the NFC classifies the debt as delinquent and, for current employees, garnishes 15 percent of the employee's disposable income[2] from each pay check until the debt is paid in full.

Debts associated with FEHB premiums have different rules for collection. When employees enter into a nonpay status, the IRS sends the employee a notice[3] which provides them with the option to continue health coverage. If the employee elects to continue coverage, health coverage will be provided for up to one year while the employee is in nonpay status. During this time, the employee may elect to pay his or her portion of the premiums or incur a debt by allowing the IRS to pay the employee's premium, as allowed under the Code of Federal Regulations.[4] Regardless of whether the employee or the IRS pays the employee's share of the premium, the IRS will continue to pay the employer's share of the premium. If the IRS pays the employee's portion of the premium while the employee is in nonpay status, the IRS will begin to collect the employee portion of premiums when the employee returns to work and his or her pay is sufficient to pay the debt. Upon returning to work, the NFC sends the employee a notice[5] which includes the nature and amount of the debt and a statement that the agency intends to begin collection by means of deduction from the employee's salary. If the employee's pay becomes insufficient to repay the amount of one premium per pay period, *e.g.*, the employee goes back into nonpay status, unpaid leave, or does not have enough salary to cover the premium, and the employee does not remit the required payment within 30 calendar days, the debt becomes delinquent.

After becoming delinquent, the NFC refers those debts to the Bureau of the Fiscal Service for enhanced collection actions when warranted, *e.g.*, reporting to credit reporting bureaus, sending to private agencies for collection actions, within 120 days.[6] Upon referral to the Bureau of the Fiscal Service, the debts can be offset by Federal payments (including income tax refunds), reported to credit reporting bureaus, or sent to private agencies for collection.

Nontax employee debt may be resolved through payment, waiver of the debt, write-off of the debt, or cancellation of the debt. Figure 1 describes the different methods for resolving nontax debt.

[2] Employee's gross wages less tax withholdings.
[3] See Appendix V for a copy of the notice.
[4] 5 Code of Federal Regulations § 890.502 (B)(2)(ii).
[5] See Appendix V for a copy of the notice.
[6] The source for this criteria does not specify calendar or business days.

Figure 1: Description of Methods for Resolving Nontax Debt

Method	Description
Payment	The employee makes payments through check or money order, voluntary salary offset, garnishment, or electronically through www.pay.gov.
Waiver	Waivers are requested by the employee and are reviewed for approval or denial by the IRS or the Department of the Treasury.[7] For a waiver to be approved, there can be no indication of fraud, misrepresentation, fault, or lack of good faith on the employee's part. In addition, a waiver should only be approved when enforcement of the debt would be against equity and good conscience, and would not be in the best interest of the United States.
Write-Off	By law,[8] Federal agencies should write off nontax debt that has been classified as delinquent for two years. When a debt is written off, the agency can classify the debt as currently not collectible or close out the debt completely.
Cancellation	Debts that are cancelled are considered to be invalid and no longer Federal agency receivables and will not be collected. The IRS should notify the NFC of the amount of debt to cancel and the description of why the debt should be cancelled.[9]

Source: Internal Revenue Manual and Office of Management and Budget Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables.

According to debt lists provided by the IRS, 7,654 current or former IRS employees owed nontax debts, *e.g.*, salary overpayments, unpaid health insurance premiums, totaling approximately $7.5 million in December 2016. This consisted of 7,960 FEHB debts totaling approximately $5.3 million and 1,168 non-FEHB debts totaling approximately $2.2 million.[10]

This review was performed at the IRS Human Capital Office's Payroll Center in Austin, Texas, during the period August 2016 through July 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that

[7] The IRS has authority to waive debts of less than $15,000, and the Department of the Treasury is responsible for approving waivers that are $15,000 or more.
[8] Office of Management and Budget Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables* (Jan. 2013).
[9] According to IRS officials, the NFC also cancels debt and re-establishes the debt to correct errors.
[10] The total number of debts exceeds the total number of employees with nontax debts because some employees had multiple debts.

we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

Actions Have Been Taken to Improve Collection Practices Associated With Nontax Debts Owed by Employees; However, Further Improvements Could Be Made

Since Calendar Year 2012, the IRS has increased its emphasis on collecting nontax debts owed by employees.

IRS officials have taken actions to improve the administration and collection of outstanding employee nontax debt. For example, the IRS stated it formed a working group to identify and address root causes of employee debt and also worked with the NFC to make improvements to the employee nontax debt collection program. As a result, the IRS changed the nontax debt collection program to 1) increase the dollar amount that the NFC can automatically garnish, without prior notice, from employee wages to repay debts; 2) require the NFC to collect multiple debts simultaneously; and 3) require the NFC to refer current IRS employees to the Bureau of the Fiscal Service for enhanced collection activities, instead of the previous practice of referring delinquent debts to the Bureau of the Fiscal Service for only separated employees. While these actions appear reasonable, it is difficult for the IRS to easily determine the impact of these improvements because the IRS does not receive reliable reports from the NFC to determine how nontax debts were resolved.

Adequate information is not obtained to efficiently oversee the collection of nontax employee debts by the NFC

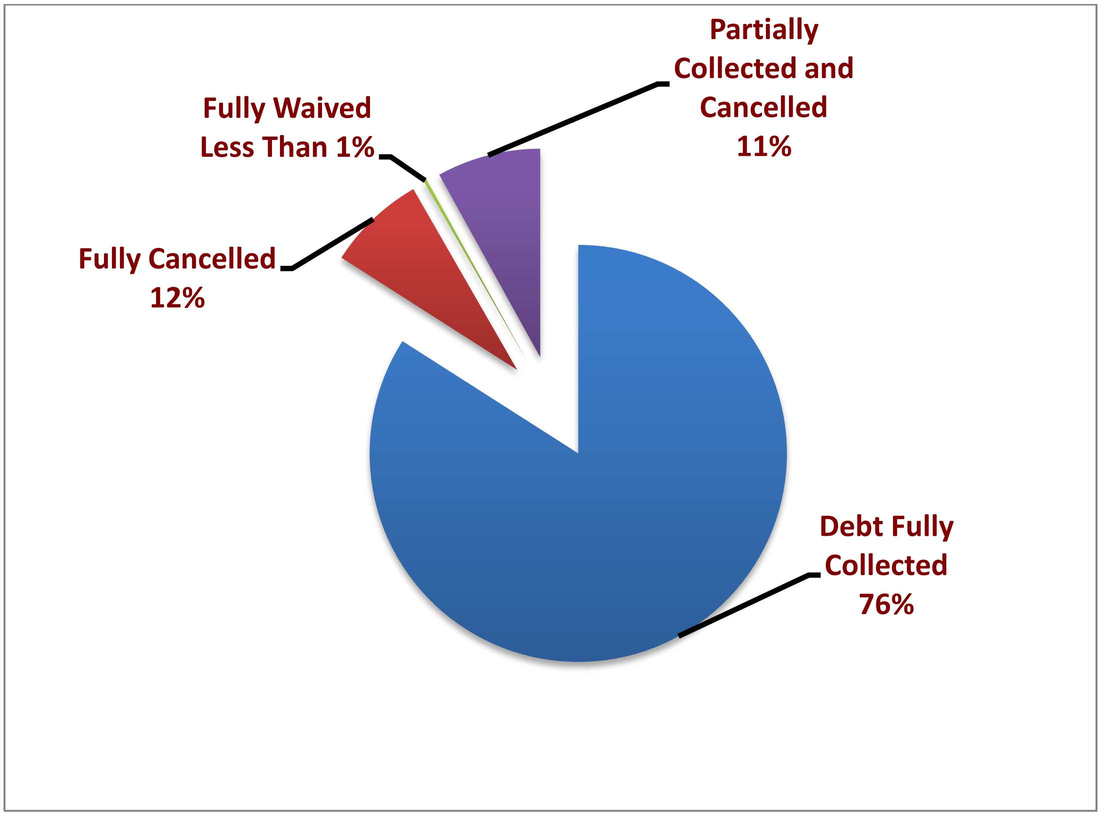
Despite being responsible for providing oversight of debt collection activities, IRS officials were unable to easily provide basic information on the results of collection efforts, such as how much employee debt was actually collected[11] and how much debt was waived, cancelled, or written off as currently not collectible. Measuring key activities and changes in results over time would enable the IRS to assess whether it is meeting a key objective of the program to ensure that the Federal Government receives payment for employee debts that are legally owed to it and to measure the impact of resources being devoted to the entire program. In addition, information on collection activities could be used to more easily assess whether the number of employees owing nontax debt is increasing or decreasing; whether debts are actually being collected; or whether debts were waived, cancelled, or written off as uncollectible. Monitoring and measuring

[11] IRS officials stated that, subsequent to the time frame covered by our review, they took corrective actions based on a prior Treasury Inspector General for Tax Administration report and now receive information on collections. Treasury Inspector General for Tax Administration, Ref. No. 2017-10-023, *Some Managerial Salaries Were Calculated Incorrectly Due to Complex Pay-Setting Rules* (Mar. 2017).

the results of collection activities could also assist debt management staff in identifying problems and making adjustments.

While the IRS had access to the NFC's system to research individual debts, it did not have reports that showed the percentage of debts that were paid off, waived, cancelled, or written off. Therefore, we manually reviewed nontax debt information maintained by the NFC for a random sample of 254[12] outstanding nontax debts that were owed by current and former IRS employees as of January 2015, but were no longer recorded on a debt list in December 2016. This would indicate that the employee debts had been resolved. Figure 2 shows the results of our analysis.

Figure 2: Percentage of Employee Nontax Debts in a Random Sample That Were Paid, Partially Paid, Waived, or Cancelled



Source: Treasury Inspector General for Tax Administration analysis of nontax debts that were resolved between January 2015 and December 2016.

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[12] See Appendix I for details on our sampling methodology.

As shown in Figure 2, approximately 24 percent[13] of the sampled debts were not fully paid by IRS employees. Without a baseline to compare against, we do not know if this is consistent with prior experience collecting nontax debt.

The *Standards for Internal Control in the Federal Government*[14] states that internal controls should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. This involves establishing a baseline of operations, performing evaluations, *e.g.*, regular management and supervisory activities, comparisons, reconciliations, and making any necessary changes. Similarly, performance measures are needed to effectively monitor whether programs are meeting their goals and objectives. Management is responsible for monitoring assigned processes performed by service organizations.

The IRS could not provide overall results of collection activities, such as the information we obtained from our sample, because it only receives lists from the NFC of employees whose debts remain outstanding and can only ascertain collection activity by manually determining which debts were removed from the list and manually checking NFC records to determine how the debts were resolved.

As a result, the IRS is unable to periodically reconcile employee nontax debts or measure the effectiveness of key program activities. In addition, the IRS is unaware of key performance measures for the nontax debt collection program. For example, the IRS was unaware of how the population of 6,545 nontax debts totaling $8,904,765 were resolved from January 2015 to December 2016.[15]

Documentation of debt cancellations or write-offs was not retained

In addition to not having sufficient information on collections, write offs, cancellations, and waivers of nontax debt over time, the IRS could not always provide documentation that it approved the cancellation of certain employee nontax debts. Our review of NFC records for 254 outstanding nontax debts that were owed by current and former IRS employees as of January 2015, but were no longer recorded on a debt list in December 2016, showed that 58 of the debts were either fully or partially cancelled or written-off. The IRS did not have documentation showing that it had approved any of these debt cancellations or write-offs. According to IRS procedures, the IRS should notify the NFC of the amount of debt to cancel along with an explanation as to why the debt should be cancelled.[16] In addition, the *Standards for Internal Control in the Federal Government* states that transactions and other significant events need to be clearly documented, and the documentation should be readily

[13] This figure reflects the debts that were partially cancelled or written off and the debts that were fully cancelled or written off.
[14] Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).
[15] See Appendix IV.
[16] Form AD-3041, *ADJP WAIVER/CANCELLATION REQUEST*.

available for examination. Retaining documentation authorizing debt cancellations is important because, unlike debts that are written off, debts that are cancelled are no longer Federal agency receivables and will not be collected. Based on our sample results, we estimate that the IRS does not have documentation showing that it had approved debt cancellations or debts written off for 1,027 nontax debts totaling more than $1.7 million.[17]

Collection actions were not always taken or taken timely

In addition to reviewing the sample of 254 outstanding nontax debts that were owed by current and former IRS employees as of January 2015, but were resolved by December 2016, we also reviewed a random sample of 263 employees who had at least one nontax debt as of March 2016[18] to determine what actions the IRS and the NFC were taking to address current nontax debts. We determined that processes for collecting nontax debts did not have appropriate controls in place to ensure timely collection actions. The *Standards for Internal Control in the Federal Government* states that transactions and events should be accurately and timely recorded. However, our analysis of debt records showed that:

- Collection actions were not always initiated timely or initiated at all.
- Enhanced collection activities were delayed when accounts were not timely classified as delinquent.
- Employees were not timely notified of debts owed when their employment with the IRS was discontinued.

Collection actions were delayed or not taken for certain FEHB debts

Our review of a random sample of 263 employees with nontax debts as of March 2016 found four current or former employees[19] who had FEHB debts for which collection actions had not been taken.[20] In addition, we identified another six current or former employees with FEHB debts for which the collection actions had been delayed by at least six months and as long as two years. This generally occurred because the IRS has not established processes for collecting FEHB debts when employees in nonpay status are not enrolled in the FEHB program and have not returned to work for more than six months. Based on our sample results, we estimate that the IRS did not take timely collection actions or any collection actions for 141 employees with debts totaling $349,589 on the March 2016 debt list.[21]

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[17] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between $1,309,661 and $2,224,531.
[18] Some of the employees had more than one debt, and we reviewed all the debts.
[19] For one of the four employees, we found an unexplained payment on the employee's account.
[20] As of March 2017.
[21] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 56 and 240 employees with debts totaling between $137,463 and $601,545. See Appendix IV.

In addition, our review of sampled debts found that it takes almost two months, or five pay periods, to begin collecting on FEHB debts owed to the Federal Government once a seasonal employee returns to pay status. IRS officials stated this occurs because current law requires notifying the employee 30 calendar days prior to beginning debt collection, along with additional time needed for the NFC to generate the bill to be sent to the employee. However, we noted that employees who elect to incur FEHB debt sign a document when moving into nonpay status agreeing that FEHB debts become due and payable once the employee returns to pay status and has sufficient pay. We discussed this with an employee familiar with the matter within the Office of Chief Counsel who agreed that options on improving the timeliness of collection actions could be explored. Timely notifying employees who are returning to pay status of collection actions is important because the IRS has a limited time frame when collecting from seasonal employees, as seasonal employees generally work at the IRS for only several months during the year (generally between January and April) before going back into nonpay status. Based on our review of a random sample of 263 employees with nontax debts as of March 2016, 44 (21 percent) of 205 employees[22] with FEHB debts had multiple FEHB debts totaling more than $127,000, indicating FEHB debts were not paid back while in pay status and additional FEHB debts were incurred.

Enhanced collection activities were delayed when employee debt was not timely classified as delinquent

Debts that are not paid by the date specified in the employee notification letter are considered delinquent and are subject to additional interest and penalties, as well as enhanced collection techniques. Debts are also considered delinquent for receivables associated with FEHB debt when an employee's pay is insufficient to pay one past premium or when employees do not remit regular, recurring payments upon return to pay status.[23]

Our review of a random sample of employees with nontax debts as of March 2016 found that employee accounts were not timely being classified as delinquent for 48 (18 percent) of the 263 employees with nontax debts sampled. As a result, enhanced collection actions were delayed. Figure 3 shows the results of our analyses.

[22] For our sample, 205 of the 263 employees had FEHB debt, while the remaining employees had no FEHB debt.
[23] FEHB debts are classified as delinquent if no payment is remitted within 30 calendar days after the official pay date for the pay period in which the premium is due.

Figure 3: The Period of Time in Calendar Days Between Debt Becoming Delinquent and Being Classified As Delinquent for Sampled Employee Nontax Debts

1 - 89 Days	90 - 180 Days	181 - 365 Days	Greater Than One Year	No Action Taken
28 nontax debts	9 nontax debts	5 nontax debts	4 nontax debts	2 nontax debts

Source: Treasury Inspector General for Tax Administration analysis of employees who had a debt balance as of March 2016.

IRS processes do not include provisions for monitoring when the NFC classifies accounts as delinquent. The earlier collection methods are applied to delinquent accounts, the greater chance of collecting delinquent debts due to the Federal Government. Based on our sample results, we estimate that collection actions were delayed due to employee debt not being timely classified as delinquent for 729 employees with debts totaling $1,925,744.[24]

Employees were not timely notified of nontax debt after separating from the IRS

Employees who separated from the IRS were not always timely notified of their nontax debts. Separated employees are required to be notified of their nontax debts in accordance with the Fair Debt Collection Practices Act;[25] however, the IRS does not have procedures for notifying separated employees within set time frames and has not determined how long it should take for separated employees to be notified of their debts. IRS management stated that their goal is for the NFC to send the notification within 45 calendar days after the employee separates. However, this time frame could be longer in certain circumstances.[26] We determined that 15 (16 percent) of 96 employees in our sample who had separated from the IRS were not notified of their debt within 45 calendar days of their separation date; with six of the 15 employees being notified at least 60 calendar days after the separation date and eight of the 15 employees being notified at least 90 calendar days after the separation date. If notification letters are not sent timely, collection actions will be delayed because debts cannot be collected until the employee is appropriately notified. Based on the results of our random sample, we estimate that 284 employees with debts totaling more than $575,131 were not timely notified of their debts.[27]

[24] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 536 and 936 employees with debts totaling between $1,331,173 and $2,619,860. See Appendix IV.
[25] 15 U.S.C. 1692g.
[26] For example, IRS management stated that debts involving employees with overdrawn leave might take up to 60 calendar days before a debt notification letter can be issued.
[27] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between 147 and 440 employees with debts totaling between $290,869 and $903,128. See Appendix IV.

Issuing notices timely is important because collection studies show that the collectability of debt diminishes over time.

Recommendations

The IRS Human Capital Officer should:

Recommendation 1: Work with the NFC to a) obtain necessary information for overseeing the collection of employee debts and b) update procedures to improve the timeliness of collection actions.

> ***Management's Response*:** IRS management agreed with this recommendation. The Human Capital Office began receiving an updated weekly report from the NFC on July 26, 2017, identifying debts with zero balances and showing when the debts were paid in full. This report will be thoroughly analyzed and incorporated into existing operational performance management activities as part of a comprehensive approach to assess the health of the Administrative Debt Management Program and drive Human Capital Office business decisions.
>
> In addition, the Director, Payroll and Personal Systems, will:
>
> 1. Review procedures for conducting leave audits for separated employees who have a negative leave balance, identify and address opportunities to enhance collection activities for these cases, and modify established time frames for initiating and monitoring manual bills for overdrawn leave.
> 2. Review FEHB procedures and consult with IRS, Department of the Treasury, and the Office of Personnel Management Chief Counsel to determine if bill notices can be systemically issued to employees in nonpay status when their health coverage is terminated as a result of being in nonpay Status for 365 days. If applicable, the Human Capital Office will work with the NFC to outline requirements to implement a systemic notification process.

Recommendation 2: Ensure that all debt cancellation authorizations are retained.

> ***Management's Response:*** IRS management agreed with this recommendation. The Human Capital Office updated the Administrative Debt Management Desk Guide on August 16, 2017, to reflect that cancellation authorizations are to be retained in accordance with applicable document retention standards (six years). All impacted staff was notified of the change and this expectation will continue to be articulated and upheld through Administrative Debt Management training and quality review processes in the future.

Recommendation 3**:** Work with the Office of Chief Counsel to determine if there are viable alternatives for issuing FEHB debt notices as soon as possible after seasonal employees return to pay status and have sufficient income.

> ***Management's Response:*** IRS management agreed with this recommendation. The Director, Payroll and Personnel Systems, will consult with the IRS Office of Chief Counsel to determine whether there are legal options to collect a Health Insurance Receivable before the employee receives the Notice of Intent from the NFC. Potential program improvement efforts identified through these discussions will be assessed to determine the impact to program goals, impact to employees, and viability of administration based on Human Capital Office priorities and resources.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether IRS processes reasonably ensure that recorded nontax debts[1] owed by employees are appropriately administered. To accomplish our objective, we:

I. Determined whether IRS processes provide reasonable assurance that nontax debts recorded by the IRS are established and monitored.

   A. Obtained the March 2016[2] employee nontax debt list and determined whether the data were sufficiently reliable for our audit.

      1. Tested the validity of the list by examining reports received directly from the NFC and compared the data in those reports to the data received from the IRS.

      2. Obtained payroll and information from the Treasury Integrated Management Information System[3] file as of March 2016 and compared to the IRS list to determine whether the employee's current employment status was consistent. Lastly, to assess the reliability of the March 2016 debt list, we compared each of the 263 employees with nontax debts in Step I.B. to information on the NFC system. The data were determined to be reliable for our purposes.

   B. Selected and reviewed a statistically valid sample of 263 IRS employees who were stratified based on the population of 6,427 employees who had one or more nontax debts from a March 2016[4] employee nontax debt list.[5] The sample was selected using an estimated error rate of 20 percent, a confidence level of 95 percent, and a ± 5 percent precision rate.[6] Each IRS employee within our sample was evaluated to determine whether the IRS followed collection practices consistent with IRS policies and procedures. A statistical sample was used to allow the results to be estimated across the entire population of employees meeting our criteria.

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[1] We did not review travel, relocation, and training debts, which are administered by the Chief Financial Officer and Office of Chief Counsel.
[2] To be able to evaluate actions taken by the IRS to collect nontax debt, we selected an employee debt list from approximately six months prior to the planning phase of our audit to provide enough time for the IRS to take actions.
[3] This system contains payroll data for IRS employees per pay period, *e.g.*, post of duty, active or separated status, salary, grade, address.
[4] Some of the employees had more than one debt, and we reviewed all the debts.
[5] We stratified the population of employees into four strata in which the balance of nontax employee debt as of March 2016 was as follows: $150 or less, $150-$1,000, $1,001-$3,000, and more than $3,000.
[6] A contract statistician assisted with developing the sampling plans and projections.

C. Obtained various notifications sent to each employee selected in Step I.B. to determine if the IRS notified each employee timely of the debt.

II. Determined whether processes for collecting nontax debt are effectively reducing the amount of debt owed by current and former employees.

A. Obtained the employee nontax debt list from the IRS for January 2015 and December 2016 and determined whether the data were sufficiently reliable by obtaining payroll and other information from the Treasury Integrated Management Information System file for the periods of January 2015 and December 2016 and comparing it to the IRS lists to determine whether the employee's current employment status was consistent.

B. Selected and reviewed a statistically valid sample of 254 outstanding nontax debts that were stratified based on the population of 6,545 nontax debts from a list of debts from the IRS as of January 2015 that did not appear on a debt list for December 2016.[7] The sample was selected using an estimated error rate of 20 percent, a confidence level of 95 percent, and a ± 5 percent precision rate.[8] Each debt within our sample was reviewed to determine whether the debt was collected, waived, cancelled, or written off. A statistical sample was used to allow the results to be estimated across the entire population of debts meeting our criteria. Lastly, to assess the reliability of the 254 outstanding nontax debts, we compared the debts to information on the NFC system. The data were determined to be 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: IRS payroll policies and procedures for the collection of nontax debts owed by current and former employees. We evaluated these controls by interviewing management, reviewing a random sample of nontax employee debts from March 2016, and reviewing a random sample of outstanding nontax debts that were owed by employees in January 2015 but were no longer recorded on a debt list in December 2016.

[7] Debts that were less than $300 in initial nontax debt were not sampled, and we stratified the population of debts into three strata for debts that were on the January 2015 nontax employee debt list, but were no longer on the December 2016 list: $300-$1,000, $1,001-$3,000, and more than $3,000.
[8] A contract statistician assisted with developing the sampling plans and projections.

Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Troy D. Paterson, Director
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Appendix III

Report Distribution List

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Director, Office of Audit Coordination

Appendix IV

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:

- Reliability of Information – Potential; 6,545 nontax debts totaling $8,904,765 for which the IRS did not receive reliable reports from the NFC to determine how the debts were resolved (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified a population of 6,545 nontax debts with a balance of $8,904,765 from a list of nontax debts from the IRS as of January 2015 that did not appear on a debt list for December 2016.[1] This would indicate that the employee debts had been resolved. The IRS does not receive reliable information on how employee debts are resolved because it only receives lists from the NFC of employees whose debts remain outstanding, and it can only ascertain collection activity by manually determining which debts were removed from the list and manually checking NFC records to determine how the debts were resolved.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; $349,589[2] on the March 2016 debt list for which collection actions had not been taken as of March 2017 or collection actions were delayed by six months or more as of March 2017 (see page 5).

Methodology Used to Measure the Reported Benefit:

We identified a population of 6,427 employees who had at least one nontax debt with a total debt balance of $7,424,082 from the IRS as of March 2016[3] and reviewed a random sample of

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[1] Debts that were less than $300 in initial nontax debt were not sampled and we stratified the population of debts into three strata for the debts that were on the January 2015 nontax employee debt listing, but were no longer on the December 2016 listing: $300-$1,000, $1,001-$3,000, and more than $3,000.
[2] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between $137,463 and $601,545.
[3] We stratified the population of employees into four strata in which the balance of nontax employee debt as of March 2016 was as follows: $150 or less, $150-$1,000, $1,001-$3,000, and more than $3,000.

263 employees with nontax debts. We found four current or former employees[4] who had FEHB debts for which collection actions had not been taken. In addition, we identified another six current or former employees with FEHB debts for which collection actions had been delayed by at least six months and as long as two years. In consultation with a contract statistician, untimely collection actions in each sampled stratum were applied to the universe of nontax debts in each stratum on the March 2016 list. Based on our sample results, we estimate that the IRS did not take timely, or any, collection actions for nontax debts totaling $349,589 on the March 2016 debt list.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; $1,925,744[5] on the March 2016 nontax debt list for which the debts were not timely classified as delinquent (see page 5).

Methodology Used to Measure the Reported Benefit:

Our review of a random sample of nontax debts found that employee accounts were not timely being classified as delinquent for 48 (18 percent) of the 263 employees with nontax debts as of March 2016. As a result, enhanced collection actions were delayed. In consultation with a contract statistician, debts that were not timely classified as delinquent in each sampled stratum were applied to the universe of nontax debts in each stratum on the March 2016 list. Based on our sample results, we estimate that collection actions were delayed due to employee debt not being timely classified as delinquent for nontax debts totaling $1,925,744 on the March 2016 debt list.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; $575,131[6] on the March 2016 nontax debt list associated with employees who were not timely notified of their debt (see page 5).

Methodology Used to Measure the Reported Benefit:

Separated employees are required to be notified of their nontax debts in accordance with the Fair Debt Collection Practices Act;[7] however, the IRS does not have procedures for notifying separated employees within set time frames and has not determined how long it should take for separated employees to be notified of their debts. IRS management stated that their goal is for the NFC to send the notification within 45 calendar days after the employee separates. However,

[4] For one of the four employees, we found an unexplained payment on the employee's account.
[5] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between $1,331,173 and $2,619,860. See Appendix IV.
[6] The point estimate projections are based on a two-sided 95 percent confidence interval. We are 95 percent confident that the point estimate is between $290,869 and $903,128. See Appendix IV.
[7] 15 U.S.C. 1692g.

this time frame could be longer in certain circumstances.[8] We reviewed a random sample of 263 employees with nontax debts as of March 2016 and determined 15 (16 percent) of 96 employees who had separated from the IRS were not notified of the debt within 45 calendar days. In consultation with a contract statistician, debt notifications that were not issued within 45 calendar days of an employee's separation in each sampled stratum were applied to the universe of nontax debts in each stratum on the March 2016 list. We estimate that the IRS did not timely notify employees of nontax debts totaling $575,131 on the March 2016 debt list.

[8] For example, IRS management stated that debts involving employees with overdrawn leave might take up to 60 calendar days before a debt notification letter can be issued.

Appendix V

Examples of Notices

FEDERAL EMPLOYEES HEALTH BENEFITS (FEHB) ELECTION

NAME: «FIRSTNAME» «LASTNAME» **SSN: «SSN»**
BILL #: «Bill»
DEBTOR #: «Debtor»

INSTRUCTIONS: Select one of the options below, sign, and submit by **«Returnby»**. This election will be used for all such future opportunities. Changes to this election are not allowed until receipt of future notices of nonpay/insufficient pay status. **You must return this notice even if you have not returned to duty or sufficient pay status. Failure to submit this election form by «Returnby» will result in termination of enrollment.** For questions or assistance, contact the Employee Resource Center (ERC) via OS GetServices or calling 1-866-743-5748, Option 1 (TTY 1-866-924-5348).

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Option 1. Terminate FEHB Enrollment.

- Termination will be effective the end of the last pay period in which premiums were withheld from your pay prior to the applicable period of non-pay/insufficient pay status. FEHB coverage will continue at no cost to you for an additional 31 days after the termination date to allow you and your covered family members time to obtain other coverage and/or request to convert to a non-group contract directly with your current FEHB carrier.
- You will be allotted a 60-day opportunity to re-enroll upon your return to duty or sufficient pay status, if desired. You may elect enrollment in the plan of your choice by submitting an SF 2809, Health Benefits Election Form to the Ogden Payroll Center (address below).
- If your coverage is terminated, then you should review the information on the IRS website at https://www.irs.gov/Affordable-Care-Act/Employers/Questions-and-Answers-on-Employer-Shared-Responsibility-Provisions-Under-the-Affordable-Care-Act regarding the individual shared responsibility requirements.

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Option 2. Continue FEHB Enrollment.

- **Submit Direct Payments** to NFC by mailing a check or money order, made payable to the **DEPARTMENT OF THE TREASURY.** Include your Social Security Number and "FEHB PREMIUM PAYMENT" on your check or money order. Make your check or money order payable to the **DEPARTMENT OF THE TREASURY.** Your check will be converted into an electronic funds transfer (EFT). This means your check will be scanned and the account information will be used to electronically debit your account for the amount of the check. The debit from your account will usually occur within 24 hours and will be shown on your regular account statement. Your original check will not be returned. After 15 work days it will be destroyed, but a copy will be maintained. If the EFT cannot be completed because of insufficient funds, two more attempts to transfer the funds will be made within the first 7 work days of receipt, after which the check will be returned. **<u>Remit only your payment to:</u>**

  USDA/National Finance Center
  Administrative Collections
  P. O. Box 790342
  St. Louis, MO 63179-0342

  You can make payments from your bank account or by credit/debit card using Pay.gov. Pay.gov is a secure electronic Federal Government website on the internet. You may use Pay.gov to make payments directly to the IRS from a bank account or by credit/debit card.

  To access Pay.gov, on the internet, type www.Pay.gov. Under Find Public Forms, enter NFC in Search Public Forms and select Go. Next select USDA National Finance Center, Debt Collection Form, and enter your information into the NFC Payment screen.

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If you fail to make any payments required under this option, the Agency will make the payment on your behalf, but you will then accrue a debt for the premiums paid by the Agency, which will then be collected pursuant to the terms described below.

Or

- **Incur a Debt**. The Agency will pay your portion of the health insurance premium but you will accrue a HIR debt for any premiums paid by the Agency. Your HIR debt becomes due and payable when you return to duty and/or sufficient pay status. The amount due will be deducted from your salary in the amount of one premium per pay period until the debt is paid in full. This deduction will be in addition to the deduction made for the current pay period's health insurance premium. You may also choose to submit HIR payments to the National Finance Center (NFC) directly at any time to reduce the amount owed toward your debt; however, HIR payments collected from salary may provide a pretax benefit. See NFC address below.

  If your pay becomes insufficient to repay the HIR debt (for example, non-pay status, unpaid leave, or not enough salary to cover payments) for any reason, you must remit payment in full by check or money order directly to the National Finance Center (NFC) to avoid delinquency. Include your Social Security Number and "FEHB PREMIUM PAYMENT" on your check or money order. Make your check or money order payable to the **DEPARTMENT OF THE TREASURY.** Your check will be converted into an electronic funds transfer (EFT). This means your check will be scanned and the account information will be used to electronically debit your account for the amount of the check. The debit from your account will usually occur within 24 hours and will be shown on your regular account statement. Your original check will not be returned. After 15 work days it will be destroyed, but a copy will be maintained. If the EFT cannot be completed because of insufficient funds, two more attempts to transfer the funds will be made within the first 7 work days of receipt, after which the check will be returned. **Remit only your payment to:**

  USDA/National Finance Center
  Administrative Collections
  P. O. Box 790342
  St. Louis, MO 63179-0342

  You can make payments from your bank account or by credit/debit card using Pay.gov. Pay.gov is a secure electronic Federal Government website on the internet. You may use Pay.gov to make payments directly to the IRS from a bank account or by credit/debit card.

  To access Pay.gov, on the internet, type www.Pay.gov. Under Find Public Forms, enter NFC in Search Public Forms and select Go. Next select USDA National Finance Center, Debt Collection Form, and enter your information into the NFC Payment screen.

- Should your debt become delinquent, it will be immediately due and payable in full, and enforced collection actions will be initiated

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Sign and date this form. Fax the form – both sides - to (855) 816-9805, or mail to:

IRS-Ogden Payroll Center
Attn: Insurance Unit
P. O. Box 9774, MS 1508
Ogden, UT 84409

Employee's Signature: ____ **Date:** ______________ __

Email Address: ____

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Daytime Phone #: ____

7

NOTICE OF INTENT TO RECOVER PAST-DUE HEALTH BENEFITS FROM SALARY

Date of letter:

Employee Name:
Address:

Debtor No: 92 AG: 93 Employing Office:2776 Bill No:

Federal Employees Health Benefits (FEHB) Program regulations (section 890.502 of Title 5, Code of Federal Regulations) state that program enrollees are responsible for payment of the employee share of the cost of enrollment for every pay period in which the enrollment continues. The regulations further provide that an employee may elect to continue FEHB coverage while in a non-pay/insufficient pay status if he or she agrees in writing to payment of the resulting debts for missed premiums through (i) direct payments to the agency to keep the payments current or (ii) withholdings from salary upon returning to employment or upon the employee's pay becoming sufficient to cover the premiums. Our records indicate you are indebted for missed FEHB premiums and collection will begin automatically as shown below.

If you agree to pay upon returning to employment or upon your pay becoming sufficient to cover the premiums, the missed FEHB payments become due at the time you return to a sufficient pay status and a payment (equal to one premium) will be collected from your salary each pay period thereafter until the debt is paid in full. **Important: If your pay becomes insufficient to cover the payment due through salary deduction, e.g., you enter into a non-pay status or separate from service, it is your responsibility to submit the missed payment to the National Finance Center (NFC) to avoid delinquency.**

Failure to timely remit payment within 30 days of the payment due date (i.e. official pay date for the pay period in which the premium payment was due) will result in your debt becoming delinquent. Once delinquent, withholdings will begin automatically to collect past due premiums from your disposable pay per pay period until the debt is paid in full or otherwise resolved.

Systemic collection of Health Insurance Receivable (HIR) payments may provide a pretax benefit; however, you do have the right to submit direct payments to NFC for repayment of this debt as well. If you want to remit your payments directly, and/or if your salary becomes insufficient for automatic withholding of the required payment due, check(s) should be made payable to your agency and mailed to:

USDA, Office of the Chief Financial Officer
National Finance Center, Administrative Collections
P.O. Box 790342
St. Louis, MO 63179-0342

Your check(s) should be clearly identified FEHB Premiums and enclose a copy of this letter with your payment.

Pay period(s) not covered by withholdings:
Total premiums required for these pay periods:
Amounts you paid directly to agency:
Total amount due to date:
Recovery from salary begins on pay period:
Installment(s): @
Last installment:

FORM NFC-937TR

Appendix VI

Management's Response to the Draft Report

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

HUMAN CAPITAL OFFICE

AUG 30 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
Deputy Inspector General for Audit

FROM: Katherine M. Coffman *Katherine M. Coffman*
IRS Human Capital Officer

SUBJECT: Draft Audit Report – Further Improvements Are Needed to Monitor and Collect Employee Nontax Debts (Audit # 201610024)

Thank you for the opportunity to respond to the subject draft audit report, *Further Improvements Are Needed to Monitor and Collect Employee Nontax Debts*. We are committed to ensuring that recorded nontax debts which are owed by employees are administered appropriately.

As you note in your report, over the past several years the IRS Human Capital Office (HCO) has taken numerous steps to improve the Administrative Debt Management Program. As part of the Debt Management Improvement Initiative, a working group identified several root causes of administrative debt, worked with key stakeholders to avoid the establishment of debt whenever possible, and implemented various strategies to accelerate debt collection within the constraints of Federal law and regulation. A few of these key efforts included:

- Increasing the number of debts available for simultaneous collection from an individual account from one to seven.
- Increasing the auto garnishment threshold from $25.00 to $50.00.
- Crafting repayment agreements to collect debts in full within three years of establishment to ensure funds are appropriately credited back to business units.
- Socializing the impact of enhanced collection procedures through numerous outreach sessions to highlight changes and employees' responsibilities.

While these actions have resulted in significant improvements to the Administrative Debt Management program, we concur with TIGTA's findings and believe implementation of the attached corrective actions will further improve it.

We agree with TIGTA's three recommendations, and are already taking action to implement them. In response to *Recommendation 2: Ensure that all debt cancellation authorizations are retained,* the Administrative Debt Management Desk Guide was updated on August 16, 2017, to reflect that cancellation authorizations are to be retained in accordance with applicable document retention standards (6 years). Program staff was notified of the update and internal training and quality review processes have been updated to reflect this change.

IRS will develop and implement corrective actions detailed in the attachment for the remaining recommendations. We appreciate the continued support and assistance provided by your staff led by Mr. James Westcott to evaluate and recommend improvements to our program.

If you have any questions, you may contact me at 202-317-3192. If there are technical questions, a member of your staff may contact Melissa Alvarez, Chief, Austin Payroll Center, at 737-800-7650.

Attachment (1)

Attachment

The IRS Human Capital Officer should:

RECOMMENDATION 1a:
Work with the NFC to: a) obtain necessary information for overseeing the collection of employee debts

CORRECTIVE ACTION:
We agree with this recommendation. The HCO began receiving an updated weekly report from the National Finance Center (NFC) on July 26, 2017, identifying debts with zero balances and showing when the debts were paid in full. This report will be thoroughly analyzed and incorporated into existing operational performance management activities as part of a comprehensive approach to assess the health of the Administrative Debt Management Program and drive HCO business decisions.

IMPLEMENTATION DATE:
Proposed: March 15, 2018

RESPONSIBLE OFFICIAL:
Director, Payroll and Personnel Systems

RECOMMENDATION 1b:
Work with the NFC to: b) update procedures to improve the timeliness of collection actions.

CORRECTIVE ACTION:
We agree with this recommendation. The Director, Payroll and Personnel Systems will:

1. Review procedures for conducting leave audits for separated employees who have a negative leave balance, identify and address opportunities to enhance collection activities for these cases, and modify established timeframes for initiating and monitoring manual bills for overdrawn leave.
2. Review Federal Employees Health Benefits (FEHB) procedures and consult with IRS, Treasury, and OPM's Chief Counsel to determine if bill notices can be systemically issued to employees in Non-Pay Status (NPS) when their health coverage is terminated as a result of being in NPS for 365 days. If applicable, HCO will work with the NFC to outline requirements to implement a systemic notification process.

IMPLEMENTATION DATE:
Proposed: February 15, 2018

RESPONSIBLE OFFICIAL:
Director, Payroll and Personnel Systems

CORRECTIVE ACTION MONITORING PLAN:

2

These corrective actions will be monitored on a monthly basis until completion.

RECOMMENDATION 2:
Ensure that all debt cancellation authorizations are retained.

CORRECTIVE ACTION:
We agree with this recommendation. We updated the Administrative Debt Management Desk Guide on August 16, 2017, to reflect that cancellation authorizations are to be retained in accordance with applicable document retention standards (6 years). All impacted staff was notified of the change and this expectation will continue to be articulated and upheld through Administrative Debt Management training and quality review processes in the future.

IMPLEMENTATION DATE:
Completed: August 16, 2017

RESPONSIBLE OFFICIAL:
Director, Payroll and Personnel Systems

CORRECTIVE ACTION MONITORING PLAN:
Applicable retention standards will continue to be monitored and guidance will be updated (when necessary) through regularly scheduled desk guide review processes.

RECOMMENDATION 3:
Work with the Office of Chief Counsel to determine if there are viable alternatives for issuing FEHB debt notices as soon as possible after seasonal employees return to pay status and have sufficient income.

CORRECTIVE ACTION:
We agree with this recommendation. The Director, Payroll and Personnel Systems will consult with the IRS Office of Chief Counsel to determine whether there are legal options to collect a Health Insurance Receivable before the employee receives the Notice of Intent from the NFC. Potential program improvement efforts identified through these discussions will be assessed to determine impact to program goals, impact to employees, and viability of administration based on HCO priorities and resources.

IMPLEMENTATION DATE:
February 15, 2018

RESPONSIBLE OFFICIAL:
Director, Payroll and Personnel Systems

CORRECTIVE ACTION MONITORING PLAN:
This corrective action will be monitored on a monthly basis until completion.