



# Audit Report



OIG-16-039

Fiscal Service Appropriately Offset Payments For Debts Owed to  
Creditor Agencies, But Improvements Can Be Made

May 5, 2016

Office of  
Inspector General

Department of the Treasury



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## Abbreviations

2008 Farm Bill	Food, Conservation, and Energy Act of 2008
DATA Act	Digital Accountability and Transparency Act of 2014
DCIA	Debt Collection Improvement Act of 1996
DFAS	Department of Defense, Defense Finance Accounting Service
Fiscal Service	Bureau of the Fiscal Service
IRS	Internal Revenue Service
NTDO	Non-Treasury Disbursing Office
OIG	Office of Inspector General
SSA	Social Security Administration
TIN	Taxpayer Identification Number
TOP	Treasury Offset Program

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*The Department of the Treasury  
Office of Inspector General*

May 5, 2016

Sheryl Morrow, Commissioner  
Bureau of the Fiscal Service

This report presents the results of our audit of the Bureau of the Fiscal Service's (Fiscal Service) role in the offset of tax refund and other types of payments to resolve non-tax debts owed to the Federal government following a 2008 legislative change expanding the government's ability to collect debts.<sup>1</sup> We initiated this audit in response to media reports in April 2014 concerning allegations that Treasury erroneously offset Federal tax refunds to resolve long overdue debts owed to the Social Security Administration (SSA) that were incurred by parents or other parties related to the taxpayers.

Fiscal Service provides centralized payment services to the majority of the agencies in the Federal government, processing agency payment requests and issuing payments.<sup>2</sup> Fiscal Service also serves as the government's central debt collection agency. In this role, Fiscal Service compares information on payment requests to debt information provided by creditor agencies. If the information from the scheduled payments matches the debtor information, the payments are offset and the funds are used to satisfy the delinquent debts.<sup>3</sup>

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<sup>1</sup> Payments to debtors with outstanding tax related debts were subject to Internal Revenue Service levy under the Federal Payment Levy Program. Our audit work was limited to offset of payments to resolve non-tax debts.

<sup>2</sup> Fiscal Service makes payments for the majority of Federal agencies. Certain agencies, such as the Department of Defense, referred to as Non-Treasury Disbursing Offices (NTDOs), have their own payment processing systems, but may offset payments based on debt information provided by Fiscal Service.

<sup>3</sup> Debts transferred to Fiscal Service for collection under the Cross-Servicing Program are also subject to offset screening.

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The objectives of this audit were to determine (1) Fiscal Service's role in identifying and targeting Federal tax refunds and other types of payments for offset, including offsets against older SSA debts; (2) actions taken by Fiscal Service to discontinue offsets against old SSA debts and resolve prior erroneous offsets; and (3) other actions taken to ensure only appropriate debts were subject to offset and taxpayers were afforded due process. We interviewed officials from Fiscal Service headquarters in Washington, D.C., and at the bureau's Birmingham, Alabama, Debt Management Services Operations Center – East. We conducted fieldwork between May and November 2014. Appendix 1 contains a more detailed description of the audit objectives, scope, and methodology.

## Results in Brief

Contrary to April 2014 media reports, Fiscal Service did not target Federal tax refund and other types of payments to satisfy debts owed by others when debts 10 years old or greater were allowed to be offset. We found that, while the pool of debts eligible for offset screening was expanded following a 2008 legislative change, offsets were taken only in cases where information on scheduled payments matched debt information certified as accurate by the creditor agencies. In short, Fiscal Service relied on debt information provided by creditor agencies, as intended by its processing systems, when offsetting payments.

In response to the legislative change, Fiscal Service established a due process requirement for creditor agencies to notify debtors prior to referring older debts to the Treasury Offset Program (TOP) or before screening existing TOP debts that were previously ineligible for offset. Fiscal Service also modified Treasury regulations to allow creditor agencies to refer debts that were 10 or more years old to Treasury for offset, and to offset payments against existing debts in the TOP database that were 10 or more years old. These events increased the universe of delinquent debts eligible for renewed or continued offset screening, and for more than 350,000 debts, 10 or more years old, to be referred to TOP for the first time between January 2010 and May 2014. More than 200,000 of these new debt referrals were from SSA.

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In April 2014, in response to a request from SSA, Fiscal Service suspended offset screening of SSA debts 10 or more years old pending SSA's review of its responsibilities.<sup>4</sup> During this time, other creditor agencies continued to refer older debts for offset to Fiscal Service.

Creditor agencies are responsible for initiating refund payments when erroneous offsets occur due to inaccurate debt information in TOP, or when offsets exceed debt balances due. In this regard, over-collections due to offsets annually ranged from \$4.4 million to \$9.2 million during fiscal years 2010 through 2014. While resolving over-collections is the responsibility of the creditor agencies, we believe Fiscal Service could enhance the offset process to reduce over-collections by including amounts of potential State and NTDO offsets when calculating offsets made directly by TOP.

As a matter for consideration, we noted that Fiscal Service provides an address update service that creditor agencies can use to obtain updated debtor address information from the Internal Revenue Service (IRS), which may be more up to date than what is in the agencies' files. We believe Fiscal Service should remind all creditor agencies of the availability and value of the address update service to help ensure debtors receive offset notifications.

We are recommending that the Commissioner of Fiscal Service (1) continue efforts to reduce over-collections by enhancing the TOP system to consider information about State and NTDO anticipated offsets and (2) periodically remind creditor agencies of the availability of Fiscal Service's address update service for use in contacting debtors.

In its management response, which is provided as Appendix 2, Fiscal Service agreed with our recommendations. The bureau's actions, taken and planned, are summarized in the body of this report. The actions are responsive to the recommendations.

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<sup>4</sup> The restrictions implemented by Fiscal Service to prevent offset screening of SSA debts 10 or more years old remained in place as of February 2016.

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## Background

Fiscal Service serves as the Federal government's central debt collection agency, assisting creditor agencies in the collection of delinquent debts owed to the government. Fiscal Service offsets scheduled payments to payees with delinquent debts and forwards the funds offset to the creditor agencies. In 1997, the offset program was expanded to incorporate collection of tax debts under the Federal Payment Levy Program.<sup>5</sup>

### Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 (DCIA) centralized the government-wide collection of delinquent non-tax debt and gave Treasury significant new responsibilities in this area. Fiscal Service is responsible for Treasury's implementation of the debt collection provisions of the DCIA. Under the DCIA, as amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), Federal agencies are required to refer legally enforceable non-tax debts over 120 days delinquent to Fiscal Service for collection by offset.<sup>6</sup> Offset of vendor, Federal salary, and benefit payments was limited to debts less than 10 years old. Similarly, Treasury regulations limited the use of Federal tax refund payments for offset against debts less than 10 years old.<sup>7</sup>

Section 14219 of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) amended restrictions imposed by the DCIA on the use of certain payments for offset.<sup>8</sup> The 2008 Farm Bill authorized Fiscal Service to offset vendor and Federal salary and benefit payments for debts referred to Treasury for collection without regard to the age of the debts. Fiscal Service began accepting debts from creditor agencies in January 2010 that were 10 or

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<sup>5</sup> In July 2000, IRS, in conjunction with Fiscal Service, started the Federal Payment Levy Program which is authorized by Internal Revenue Code Section 6331(h), as prescribed by Section 1024 of the Taxpayer Relief Act of 1997 (Public Law 105-34). Through this program, overdue taxes are collected through a continuous levy on certain Federal payments disbursed by Fiscal Service.

<sup>6</sup> The DATA Act (Public Law 113-101), enacted on May 9, 2014, amended 31 USC 3716 (c)(6) which had, before the DATA Act, required creditor agencies to refer eligible non-tax debts to Treasury for offset that were over 180 days delinquent.

<sup>7</sup> 31 C.F.R. 285.2(d)(ii), Offset of tax refund payments to collect past due, legally enforceable non-tax debt.

<sup>8</sup> Public Law 110-246, 122 Stat. 1651 (June 18, 2008).



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more years old for offset. Fiscal Service also modified controls in TOP to allow for continued screening of payments against active debts in TOP that were 10 or more years old as of January 1, 2010, or that reached this milestone after this date. In addition, Fiscal Service amended Treasury regulations to remove restrictions prohibiting the use of Federal tax refund payments for offset of debts more than 10 years old.

### **Treasury Offset Program**

The TOP program is used to offset payments scheduled to be made to individuals and entities identified as owing monies to the Federal government. Under this program, creditor agencies post debt and debtor information to the TOP database. Creditor agencies are responsible for ensuring that the debtor is liable for the debt, the debts are valid and legally enforceable, and are accurately recorded in the system. Fiscal Service may add "alias records" to the TOP database when the bureau's Debt Research Branch confirms a debtor's taxpayer identification number (TIN) is associated with a different name used by the debtor. Creditor agencies can also add alias records and are responsible for notifying Fiscal Service if alias records added by Fiscal Service are incorrect.

Fiscal Service confirms that creditor agencies afford debtors due process through agency certification agreements executed annually. These agreements note that when a creditor agency enters or updates debt and debtor information in TOP, the creditor agency is acknowledging that the debt is collectable, legally enforceable, and accurate. The agency also acknowledges that the debtor is properly notified of his/her rights and of the agency's intent to refer the debt for offset if left unpaid.

Effective January 1, 2010, Fiscal Service established new creditor agency due process requirements to reflect changes in offset provisions authorized by the 2008 Farm Bill. Specifically, creditor agencies were required to notify affected debtors of their rights and responsibilities, options available to resolve delinquent debts,

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and of the agencies' intent to collect the debts through offset.<sup>9</sup> With these new requirements in place, Fiscal Service reinitiated offset screening of existing TOP debts, 10 or more years old as of that date, and new debts, greater than 10 years old as of December 28, 2009, which were referred to TOP for the first time.

Fiscal Service compares the last name and TIN of debtors with payee information included in payment request files.<sup>10</sup> If a match is found, the payment is offset and the funds forwarded to the creditor agencies to satisfy the delinquent debt. The amount of the offset is dependent on the type of payment being offset and the type of debt collected. Fiscal Service is to notify payees of the offsets and provide them with creditor agency contact information.

Fiscal Service established a number of programs within TOP designed to assist participating States in collecting delinquent State income tax and debts related to unemployment insurance compensation, child support, and the Supplemental Nutrition Assistance Program. Under these programs, Federal payments can be offset to recover these types of debts owed to the participating States. Fiscal Service also established the State Reciprocal Program and entered into reciprocal agreements with eight States.<sup>11</sup> Under this program, certain State payments, including state tax refunds, can be offset to satisfy debts owed the Federal government, while Federal vendor and non-tax payments can be offset to satisfy State debts not covered under the other State programs.

Fiscal Service also relies on NTDOs to offset eligible payments scheduled for debtors in TOP. NTDOs determine the amount of each offset and provide this information to Fiscal Service for update of the TOP database.

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<sup>9</sup> TOP Technical Bulletin 09-09 (Oct. 26, 2009), notified creditor agencies of the new due process requirement for existing TOP debts. For new debts referred to TOP, the 2010 agency certification agreements instructed creditor agencies to issue new due process notifications at least 60 days prior to referring debts to TOP.

<sup>10</sup> Fiscal Service compares the TIN and first four characters of the debtor's last name to similar information on payment request records to determine if a match can be found. Payment requests that match a debtor TIN only are matched to alias records associated with the debtor to determine if a match occurs on any other names linked to the debtor.

<sup>11</sup> In fiscal year 2014, eight States along with the District of Columbia participated in the State Reciprocal Program.

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## **Offset of Payments to Recover Old SSA Debts of Other Parties**

In April 2014, several media outlets reported that SSA and Treasury were targeting Federal tax refund payments of individuals for offset to satisfy decades-old debts incurred by the parents or relatives of the taxpayers. The media reports included examples of taxpayers who had Federal and, in some cases, State tax refunds seized by Treasury to satisfy old SSA benefit overpayments that were made, in some cases, more than 30 years ago.<sup>12</sup>

Many of the taxpayers claimed to have had no knowledge of the debts, believed the debts to be owed by a parent, and to have received no notice of SSA's intent to refer the debts to Treasury for offset. Taxpayers did receive letters from Fiscal Service notifying them of the offsets after they had been taken.

In an April 2014 letter, the then Ranking Member (and now the Chairman) of the Senate Committee on the Judiciary inquired about Treasury's practices under TOP; specifically how offsets of tax refund and other types of payments were made without verifying that the debt was that of the payees. The letter stated that creditor agencies had failed to provide due process notifications to the debtors. In its response, Treasury informed the Committee that due process was the responsibility of creditor agencies and that offsets were only taken in cases where the payee matched debtor information certified as accurate by creditor agencies.

## **Audit Results**

### **Creditor Agencies Identify Debts for Offset and Resolve Over-Collections**

Fiscal Service modified its offset protocol in 2009 to allow for debts 10 or more years old to be accepted by TOP for offset screening, and to allow existing TOP debts previously considered ineligible for offset due to their age, to be screened for offset purposes. Fiscal Service used debtor information provided by SSA and other creditor agencies for offset screening purposes. Fiscal

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<sup>12</sup> SSA benefit payments made to recipients later determined to have been ineligible are referred to as overpayments. Overpayment debts are monies that the recipients have not yet paid back to SSA.

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Service officials stated that offsets taken against Federal tax refund payments historically represented the highest volume of payments offset and, therefore, many of the offsets made against older debts did impact Federal tax refund payments.

Debt information is posted to TOP by creditor agencies, who are responsible for accurately entering this information. Fiscal Service systems then screen the last name and TIN in eligible payment requests against the debtor information certified by the creditor agencies. Only payment requests that match eligible debtor information certified by creditor agencies are offset. The amount of the offset is dependent on the type of payment being offset and the type of debt to be collected.

### **Creditor Agencies Are Responsible for the Accuracy of Debt Information in TOP**

TOP debt records are comprised of individual debts owed to a creditor agency or multiple debts owed by the same debtor to a creditor agency. Creditor agencies typically combine similar types of debts owed by the same debtor into one TOP debt record to minimize the fees charged by Fiscal Service when the offsets are made.<sup>13</sup> The date of delinquency entered by the creditor agency for the TOP debt is used by Fiscal Service to determine the age of the debt. Once debts are entered into TOP by creditor agencies, Fiscal Service systems offset payments until the debts are collected in full, the balance of the debt is less than \$25, or the debts are inactivated or closed by the creditor agency.<sup>14</sup>

### **Legislative and Implementing Regulation Changes Increased the Universe of Debts Available for Offset**

Fiscal Service implemented changes to existing regulations to provide for offset screening of debts 10 or more years old to comply with amendments made to the DCIA by the 2008 Farm Bill. Specifically, the changes to Treasury regulations allowed vendor and Federal salary and benefit payments to be used for offset

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<sup>13</sup> Fiscal Service fees ranged from \$15 to \$27 for each offset made. Creditor agencies can elect to absorb the offset fees or pass them on to the debtors.

<sup>14</sup> Prior to the changes implemented by Fiscal Service in December 2009, if a scheduled payment matched an active debt in TOP that was 10 or more years old, the debt was automatically inactivated since it was no longer eligible for offset.

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against debts 10 or more years old.<sup>15</sup> Fiscal Service initiated further changes to lift restrictions on the use of Federal tax refund payments for purposes of offset against debts 10 or more years old.<sup>16</sup> Prior to this change, Treasury regulations limited offset of Federal tax refund payments to debts less than 10 years old.

Fiscal Service officials told us that the prior restriction on the use of Federal tax refund payments was put into place so that they would be treated like other types of payments limited by statute to offset debts less than 10 years old. The regulatory restriction on Federal tax refund payments was removed by Fiscal Service in 2009 to be consistent with amendments made to the DCIA by the 2008 Farm Bill. Fiscal Service saw no logical reason to retain the restriction on the use of tax refund payments since Congress lifted similar restrictions on the other types of payments.

Fiscal Service information showed that of the \$5.9 billion in Federal tax refunds offset during fiscal year 2014, \$539 million was for debts delinquent for 10 or more years. Our analysis of debt information provided by Fiscal Service identified 357,073 debts totaling over \$1.5 billion that were 10 or more years old when referred to TOP for the first time between January 1, 2010, and May 31, 2014. Summary information provided by Fiscal Service indicated that over \$424 million in offsets were made against these types of debts during fiscal years 2011 through March 2014.<sup>17</sup> None of these debts would have been eligible for offset screening prior to the changes implemented by Fiscal Service.

### **Offsets for Older SSA Debts Were Suspended**

In April 2014, SSA's Acting Commissioner suspended the referral of debts 10 or more years old to Treasury for offset screening. The Acting Commissioner's directive stated that SSA needed to perform a thorough review of its responsibility and discretion under current law to refer debt to Treasury. SSA also requested that Fiscal Service suspend offset screening of all active SSA debts

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<sup>15</sup> 74 FR 68149 (December 23, 2009) amended 31 C.F.R. 285.5(d)(3)(v).

<sup>16</sup> 74 FR 68537 (December 28, 2009) amended 31 C.F.R. 285.2(d)(6).

<sup>17</sup> Fiscal Service was unable to recreate the date of delinquency and amount delinquent for these debts at the time they were first referred to Treasury for offset. Fiscal Service based the information provided on the dates of delinquency and amounts delinquent at the time the extracts were generated. Data limitations are explained in appendix 1.

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already in TOP that were 10 or more years old and prevent screening all other SSA debts in TOP that reached 10 years of age.<sup>18</sup>

In response to SSA's request, Fiscal Service identified 20,384 active SSA debts in TOP that were more than 10 years old as of April 18, 2014. Fiscal Service placed those debts in an inactive status within TOP, preventing further offset. Fiscal Service also acted to ensure SSA debts were not subject to offset screening once they reached 10 years of age.

### **Creditor Agencies Are Responsible for Resolving Over-Collections**

Offsets that exceed the balance due on delinquent debts are referred to as "over-collections." In fiscal years 2010 through 2014, the annual amount of TOP over-collections ranged from \$4.4 million to \$9.2 million. Fiscal Service officials told us that over-collections were most often the result of timing delays in posting offsets made by States or NTDOs on behalf of Fiscal Service. Over-collections also occur in cases where creditor agencies failed to update TOP debt balances timely for funds collected directly from debtors. In these situations, the creditor agency is responsible for resolving the over-collections.

As an example, in one case of an older SSA debt in the amount of \$2,997, Fiscal Service systems identified the debtor was due a state tax refund. Fiscal Service notified the cognizant State of the \$2,997 debt and requested the state tax refund be offset. Prior to the funds from the State's offset being remitted to Treasury, Fiscal Service processed a Federal tax refund payment of \$4,308 for the same debtor, offsetting \$2,997 from the tax refund to resolve the SSA debt, and remitting the remaining amount of the Federal tax refund, \$1,311, to the debtor. Subsequent to this offset, Fiscal Service received \$1,466 from the State associated with the state tax refund offset. Once this offset was posted to TOP, the total offsets exceeded the balance of the delinquent debt by the \$1,466. A month later, Fiscal Service issued a replacement payment, at the request of SSA, to make the debtor whole for the \$1,466 that had been over-collected.

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<sup>18</sup> SSA debts on TOP less than 10 years old continued to be subject to offset screening.

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Weekly collections files provided to creditor agencies along with collections reports, available upon request, provide information that creditor agencies can use to identify debtor accounts where over-collections may have been made by Fiscal Service. Agencies are responsible for refunding the over collections; if the agency cannot, then Fiscal Service will process an offset reversal for the agency. Fiscal Service does not follow up with the creditor agencies or the debtors to confirm that over-collections were resolved.

At the time of our audit fieldwork, Fiscal Service was redesigning the TOP application. The redesign effort, referred to as TOP-Next Generation, included enhancements to the format of data files provided to, and received from State agencies participating in the program, that could assist Fiscal Service in reducing the number and amount of over-collections. Fiscal Service implemented TOP-Next Generation in November 2014 and was working on the program logic needed to capture payment amounts provided by State agencies and NTDOs. As of February 2016, Fiscal Service reported that the work on this effort was still in progress.

## Matter for Consideration

In a 2015 evaluation of SSA's use of TOP, the SSA Office of Inspector General (OIG) reported that SSA used address information in the agency's internal system of record for due process notification letters. In a number of cases, the notification letters were returned as undeliverable. In those cases, SSA requested an updated address from an address verification contractor.<sup>19</sup>

Fiscal Service provides an address update service through which creditor agencies can obtain updated debtor address information from IRS. Although agencies are not required to use this service, Fiscal Service officials said that the information obtained from IRS is often more up to date than what is in the agencies' files. Given the importance of due process notification letters, we believe Fiscal Service should remind all creditor agencies of the availability and

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<sup>19</sup> SSA OIG, *The Social Security Administration's Use of the Treasury Offset Program* (A-04-14-14104; July 2015).

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value of the address update service to help ensure debtors receive offset notifications.

## Recommendations

We recommend the Commissioner of Fiscal Service:

1. Continue efforts to reduce over-collections by enhancing TOP Next Generation so that the system considers information about State and NTDO anticipated offsets.

### Management Response

Fiscal Service continues to work with NTDOs and state agency disbursing offices to decrease the file exchange time frames, especially the time between when the debtor/payee “match file” is sent from Fiscal Service to the agency and the “update file” is received from the agency by Fiscal Service. Fiscal Service is also working to transition the Department of Defense, Defense Finance Accounting Service (DFAS) from an NTDO to a Treasury Disbursing Office, where Fiscal Service will issue certain classes of payments on behalf of DFAS. Fiscal Service met with DFAS in February 2016 to discuss and identify the challenges to be addressed to complete this transition. Fiscal Service stated that this effort would eliminate over-collections related to DFAS payments.

Fiscal Service also plans to host a meeting with Federal salary paying agencies by December 31, 2016, to identify challenges and solutions to reduce file exchange time frames and over-collections related to the salary paying agencies. Fiscal Service stated that salary paying agencies such DFAS, National Finance Center, General Services Administration, Department of the Interior, and U.S. Postal Service are required to perform calculations to properly offset up to 15 percent of disposable salary payment to satisfy Federal tax- and Federal non-tax debt. Because of the unique processing needs of these agencies, the time between when the “match file” is sent from Fiscal Service to the agency and the “update file” is received from the agency by Fiscal Service, it is usually longer than the time for the NTDO



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file exchanges which may result in an over-collection if another offset takes place.

#### OIG Comment

Fiscal Service's planned actions meet the intent of the recommendation. Fiscal Service will need to establish, and record in the Joint Audit Management Enterprise System, the Department of the Treasury's audit recommendation tracking system, the estimated target date for implementing planned actions to reduce over-collections.

2. Periodically remind creditor agencies of the availability of Fiscal Service's address update service for use in contacting debtors.

#### Management Response

Fiscal Service will continue to remind creditor agencies of the availability of the address update service for use in contacting debtors for debt collection purposes. This information has been provided to creditor agencies over the years through various means, including Fiscal Service guidance, webinars, and workshops. Fiscal Service also hosted a quarterly conference call with creditor agencies in January 2016 to provide information about the IRS Address Request process and how Federal agencies could participate. In February 2016, Fiscal Service issued a technical bulletin reminding creditor agencies of the process for requesting debtor address information from the IRS. Annual reminders about the IRS Address Request process will be included in the TOP technical bulletin issued each year in September. Fiscal Service also plans to update the TOP Agency Guide to include more detailed information about the process to request updated address information with instructions on how to submit a request via the TOP Web Client by September 30, 2016.

#### OIG Comment

Fiscal Service's completed and planned actions meet the intent of the recommendation.

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We appreciate the cooperation and courtesies extended to our staff during the audit. If you wish to discuss the report, you may contact me at (617) 223-8638 or Kenneth Dion, Audit Manager, at (617) 223-8641. Major contributors to this report are listed in Appendix 3

/s/  
Sharon Torosian  
Director

The objectives of our audit were to determine (1) the Bureau of the Fiscal Service's (Fiscal Service) role in identifying and targeting Federal tax refunds and other types of payments for offset, including offsets against older Social Security Administration (SSA) debts; (2) actions taken by Fiscal Service to discontinue offsets against old SSA debts and resolve prior erroneous offsets; and (3) other actions taken to ensure only appropriate debts were subject to offset and taxpayers were afforded due process. We initiated this audit in response to media reports in April 2014 concerning allegations that Treasury erroneously offset Federal tax refunds to resolve long overdue debts owed to SSA that were incurred by parents or other parties related to the taxpayers.

We reviewed applicable laws, regulations, and guidance associated with Fiscal Service debt collection responsibilities under the Treasury Offset Program (TOP) and Cross-Servicing Program along with SSA's 2010 through 2014 certification agreements with Fiscal Service for non-tax referrals. We also reviewed guidance issued by Fiscal Service to creditor agencies regarding their responsibilities in referring debts, 10 or more years old, to TOP for offset screening, and for existing TOP debts that regained offset eligibility. Our audit period covered Fiscal Service offset practices and procedures in place during fiscal years 2010 through 2014.

To gain an understanding of Fiscal Services offset practices under TOP and the Cross-Servicing Program, we interviewed Fiscal Service management officials in the Debt Management Services unit responsible for all Fiscal Service centralized collections efforts. We also interviewed officials from the Fiscal Service, Birmingham Debt Management Services Operations Center – East responsible for issuing offset notification letters and fielding calls made to the TOP and Cross-Servicing Program helpdesk centers, as well as officials from the Fiscal Service Kansas City Financial Center responsible for processing agency payment requests. As part of our review, we contacted officials at SSA's Office of Inspector General (OIG) to ascertain SSA's role in referring debts 10 or more years old to Treasury for offset screening, SSA's methodology in identifying the debtors, and processes used to issue due process notifications. We also inquired about work that SSA OIG planned in this area so as not duplicate efforts.

Using information from computer records obtained from Fiscal Service in July and August 2014, we identified 357,073 debts that, based on the current values in TOP, were 10 or more years old when they were referred to Treasury for offset screening during the period January 2010 through May 2014. Of this total, 204,304 referrals were made by SSA. Other summary information provided by Fiscal Service identified more than \$424 million in offsets had been made against these types of debts during fiscal years 2011 through March 2014.

To assess the accuracy of the debt information provided by Fiscal Service, we selected a sample of debts and traced the history of changes made to the dates of delinquency since referral to TOP. Our testing confirmed that the debts were first referred to TOP during the January 2010 through May 2014 period. However, our testing found that the current date of delinquency used by Fiscal Service to extract these records could not always be relied upon to measure the age of the debts at the time of referral. Fiscal Service officials confirmed that the debt information included in the computer records and summary offset information reflected the values on the date the extracts and summaries were generated. Because TOP only stores the current value of many debt related fields, Fiscal Service was unable to extract a true population of debts that reflected the age of the debt on the date referred to TOP without a full reconstruction of the history of each debt record.<sup>20</sup> While the officials believed that many of the debt records included in the extract files met the criteria established by the OIG, they could not assure that all of the debts met the criteria at the time they were referred to TOP, limiting the value of the data.

Information obtained from SSA OIG revealed that SSA referred 264,558 debts 10 or more years old to TOP between June 2012 and April 2014. This information confirmed that the volume of debt records provided by Fiscal Service, which was 204,304, was based on the values currently in TOP and likely did not include all debt referrals made under these conditions. We concluded that the problems noted with the Fiscal Service data did not materially impact our findings and conclusions related to our audit objectives,

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<sup>20</sup> Fiscal Service officials stated that the date of delinquency on TOP debt records was subject to continual change by creditor agencies, limiting the field's value in determining the age of debts back to the date referred. Similar issues were noted for the delinquent amount field.

and it is not unreasonable for Fiscal Service records to be evolving as it obtains debt information from the agencies it serves.

We reviewed the computer programs developed by Fiscal Service used to inactivate 20,384 SSA debts, 10 or more years old on April 18, 2014. We also reviewed internal Fiscal Service communications and summary records verifying the number of debts inactivated.

We conducted our fieldwork between May 2014 and November 2014 and updated related information through December 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



DEPARTMENT OF THE TREASURY  
BUREAU OF THE FISCAL SERVICE  
WASHINGTON, DC 20227

April 15, 2016

Ms. Sharon Torosian, Director  
Department of the Treasury  
Office of Inspector General  
408 Atlantic Avenue  
Room 300  
Boston, MA 02110

Dear Ms. Torosian:

Thank you for the opportunity to comment on the draft audit report entitled "Tax Refunds and Other Payment Offsets" received on March 21, 2016. We are committed to good stewardship of the Treasury Offset Program (TOP) and appreciate your recommendations to further that effort. Our responses to the two recommendations are as follows:

1. Continue efforts to reduce over-collection by enhancing TOP Next Generation so that the system considers information about State and NTDO anticipated offsets.

The Bureau of the Fiscal Service (Fiscal Service) agrees with this recommendation and will continue to work with the Non-Treasury Disbursing Office (NTDO) and State Agency Disbursing Office (SADO) agencies to decrease the file exchange time frames, especially the time between when the debtor/payee "match file" is sent from Fiscal Service to the agency and the "update file" is received from the agency by Fiscal Service. In February 2016, Fiscal Service senior executives met with senior executives of the Department of Defense (DOD), Defense Finance Accounting Service (DFAS), to discuss and identify challenges that need to be addressed to transition DFAS from an NTDO to a Treasury Disbursing Office (TDO) for various classes of payments, and will continue to meet regularly. Once converted to a TDO, over-collections related to DFAS payments will be eliminated. Fiscal Service continues to work with other NTDO and SADO agencies to reduce over-collections.

Another source of over-collections relates to Federal salary payments because salary payments are offset using a process similar to the NTDO process. Salary Paying Agencies (SPAs), which include National Finance Center, General Services Administration, Department of the Interior, Defense Finance and Accounting Service, and U.S. Postal Service, are required to perform calculations in order to properly offset up to 15% of the disposable salary payment to satisfy Federal tax and Federal non-tax debt. Because of the unique processing needs of the SPAs, the time between when the "match file" is sent from Fiscal Service to the SPA and the "update file" is received from the SPA by Fiscal Service is usually longer than the time for NTDO file exchanges which may result in an overpayment if another offset takes place. Fiscal Service is working with the SPAs to reduce over-collections, and will host a meeting by December 31, 2016, with SPAs to discuss and identify challenges and potential solutions to reduce file exchange time frames.

Appendix 2  
Management Response

2. Periodically remind creditor agencies of the availability of Fiscal Service's address update service for use in contacting debtors.

Fiscal Service agrees with this recommendation and will continue to remind creditor agencies of the availability of the address update service for use in contacting debtors for debt collection purposes. The information has been provided to creditor agencies over the years through various means, including Fiscal Service's Guide to Managing Federal Receivables (Chapter 6, pages 71-72), webinars and workshops. On February 18, 2016, Fiscal Service issued a technical bulletin reminding federal agencies of the process available to request debtor addresses from the Internal Revenue Service. A copy of the bulletin is enclosed. Annual reminders about the IRS Address Request process will be included in TOP technical bulletins each year in September.

In addition, Fiscal Service hosts quarterly calls with federal agencies to communicate important program information about TOP, discuss policy and process changes, provide collection data, and solicit agency concerns regarding TOP technical issues or accounting matters. The calls provide an opportunity for agencies to share best practices and discuss debt collection topics during open roundtable discussions. During the quarterly call with federal agencies on January 14, 2016, Fiscal Service provided information about the IRS Address Request process and how federal agencies could participate.

Fiscal Service will also update the TOP Agency Guide to include more detailed information about the IRS Address Request process along with instructions on how to submit a request via the TOP Web Client by September 30, 2016.

If you have any questions or wish to discuss these comments in more detail, please feel free to contact me at (202) 874-7000.

Sincerely,

/ S /

Sheryl R. Morrow  
Commissioner

Enclosure



**TECHNICAL BULLETIN**

**Number:** F2016-2

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**Requesting a Debtor Address from IRS**

The Treasury Offset Program (TOP) requires that all debts submitted have a debtor address included. Federal agencies should note that offsets may not occur, and collections will be missed, if the debtor information is excluded.

In order to maximize collections, federal agencies should request a debtor address for debtors without addresses or with an outdated address from the Internal Revenue Service (IRS) via a batch file or the Treasury Offset Program (TOP) Web Client. Instructions to complete this request are listed below.

1. Select "IRS Debtor Address Request Info" from the TOP Main Menu
2. Select "Add Debtor Address Request" and fill in the required fields
3. Select "Save"

TOP will then send the address request(s) to IRS at the end of each month. If the requested address is available, IRS will provide a return file with the updated information. While the address information is pending delivery to IRS, it will show a "Pending" status in TOP. If the address information is available from IRS, it will be returned and show a "Received" status in TOP.

**Important Note:** Federal agencies must have an IRS Safeguards Security Report in place prior to requesting a debtor address.

Federal agencies should direct any questions or concerns regarding this Bulletin to [federaloffsets@fiscal.treasury.gov](mailto:federaloffsets@fiscal.treasury.gov).



Appendix 3  
Major Contributors To This Report

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Commissioner

**Office of Management and Budget**

OIG Budget Examiner



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