

AUDIT OF THE CIVIL DEBT COLLECTION RECONCILIATION PROCESS

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) completed a follow up audit to the OIG's Audit of the Office of Debt Collection Management's Implementation of the Collection Litigation Automated Support System, Report Number 01-15. In that audit, which was issued on July 3, 2001, we identified discrepancies between civil debt collections reported by the United States Attorneys (USAOs) and the litigating divisions with the Department of Justice (Department) Treasury account deposits for FY 1998 and FY 1999, as reported by the Justice Management Division's (JMD) Debt Accounting Operations Group (DAOG); and inconsistencies between the fiscal year ending civil debt balance and the subsequent year's beginning civil debt balance reported by the Executive Office for United States Attorneys (EOUSA) for those fiscal years.

Civil debt that has been established as an amount owed the United States Government may be referred to the Department for collection from other federal agencies, or may originate from litigation at the Department. Civil debt is collected through litigation by the 94 U.S. Attorneys (USAOs) and the 5 litigating divisions within the Department that have authority to collect debts through litigation. Additionally, civil debt may be collected by Private Counsel offices¹ within certain judicial districts. The Office of Debt Collection Management (DCM) is the office within JMD that annually reports the status of the Department's collection efforts. The DCM is responsible for overseeing the collection of debt and developing programs to support the collection of debts by USAOs and the litigating divisions within the Department.

In this audit we attempted to determine the causes of the differences between collections reported by the USAOs and the litigating divisions and Treasury deposits reported by the DAOG. Differences of \$98 million and \$220 million were identified in FY 1998 and FY 1999, respectively. We also attempted to determine the reasons for the inconsistencies between the EOUSA's beginning year civil debt balances and prior year ending balances for FY 1999 and FY 2000. We found that the Department's civil debt collection reporting process needs to be strengthened. Collection activity

¹ The Private Counsel Program allows the Department to contract with private law firms to litigate and collect debts.

reported by the USAOs and the litigating divisions are not reconciled with amounts reported by the DAOG as deposits in the Department's Treasury Account. Additionally, the EOUSA is not adequately reviewing monthly extracts from the Tracking Assistance for the Legal Office Network prepared by USAO districts before compiling the national level report to ensure that reported beginning year balances of civil debt agree with the prior year ending balances.

Based on the audit results, we made two recommendations. We recommended that the Acting Assistant Attorney General for Administration ensure that procedures were implemented to reconcile amounts reported as collected by the USAOs and the litigating divisions against the amounts reported as collected in the Department's Treasury Account. We also recommended that the Director, EOUSA ensure that data extracts were adequately reviewed prior to preparation of summary reports.

Our audit objectives, scope, and methodology are contained in Appendix I.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION | 1 |
| FINDING AND RECOMMENDATIONS | 2 |
| RECONCILIATIONS OF DEBT COLLECTIONS NEEDED | 2 |
| RECOMMENDATIONS | 12 |
| APPENDIX I - OBJECTIVES, SCOPE, AND METHODOLOGY..... | 13 |
| APPENDIX II - JUSTICE MANAGEMENT DIVISION RESPONSE TO THE DRAFT REPORT | 14 |
| APPENDIX III - EXECUTIVE OFFICE FOR UNITED STATES ATTORNEYS RESPONSE TO THE DRAFT REPORT | 17 |
| APPENDIX IV - OFFICE OF THE INSPECTOR GENERAL AUDIT DIVISION ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE REPORT | 20 |

INTRODUCTION

The Department of Justice (Department) is the federal government's principal litigator when federal loans and federally guaranteed loans are in default and cannot be collected through conventional means. Litigation and debt collection authority is assigned to the U.S. Attorneys Offices (USAOs) and the litigating divisions² within the Department. The Office of Debt Collection Management (DCM) is the office within the Department that annually reports the status of the Department's collection efforts. The DCM is responsible for overseeing the collection of debt and developing programs to support the USAOs and the litigating divisions within the Department regarding the collection of debts. In this regard, the DCM oversees the Nationwide Central Intake Facility (NCIF) and the Debt Accounting Operations Group (DAOG), and is currently developing and providing automated debt collection and litigation support.

This audit supplements the Office of the Inspector General's (OIG), Audit of the Office of Debt Collection Management's Implementation of the Collection Litigation Automated Support System, Report Number 01-15 (the CLASS audit), issued on July 3, 2001. That report identified:

- discrepancies between civil debt collections reported by the USAOs and the litigating divisions vis-à-vis the Department's Treasury account deposits for FY 1998 and FY 1999 as reported by the DAOG; and
- inconsistencies between the fiscal year ending civil debt balance and the subsequent year's beginning balance reported by the Executive Office for United States Attorneys (EOUSA) for those fiscal years.

The purpose of the current audit was to identify the causes of the differences between collections reported by the USAOs and the litigating divisions and Treasury deposits reported by the DAOG. Additionally, we determined the reasons for the inconsistencies between the EOUSA's beginning year's civil debt balances and the prior year's ending balances for FY 1998 and FY 1999. The details of our work are contained in the Finding and Recommendations section of the report. Our audit scope and methodology are contained in the Appendix at page 13.

² The USAOs and the following litigating divisions have debt collection responsibilities: Civil, Civil Rights, Antitrust, Tax, and Environment and Natural Resources.

FINDING AND RECOMMENDATIONS

RECONCILIATIONS OF DEBT COLLECTIONS NEEDED

The Department's civil debt collection reporting process needs strengthening. Amounts reported as deposited for FY 1998 and FY 1999 by components responsible for collecting civil debt did not reconcile to amounts reported as deposited in the Treasury account by the DAOG. The components reported \$98,295,401 and \$219,788,935 more than that reported by the DCM based on DAOG input for FY 1998 and FY 1999, respectively. Further, the EOUSA did not ensure that year-end reported civil debt balances were consistent with the beginning balances for the subsequent years. In our judgment the Department needs to implement a process that reconciles amounts reported by components as collected and deposited with the amounts reported by the DAOG as deposits in the Department's Treasury account. Also, the EOUSA needs to ensure that a year's beginning civil debt balance is consistent with the prior year's ending balance. Absent these improvements, the Department has no assurance that civil debt collections and balances reported in the Department's Annual Litigation Reports are reliable.

We focused our audit on reported activities for FY 1998 and FY 1999 based on the coverage and reported deficiencies in our prior CLASS audit. The collecting components reported to the DCM amounts that they collected and sent for deposit as well as deposits³ reported to them by the DAOG. Accordingly, the following table provides an overview of the reported activity for the two fiscal years as provided in the CLASS audit report.

Debt Collected and Deposited for FY 1998 and FY 1999 from the CLASS Audit Report

| Civil Debt Collections and Deposits | FY 1998 | FY 1999 |
|-------------------------------------|-----------------|-----------------|
| Per DCM | \$1,123,016,503 | \$1,376,652,215 |
| Per Collecting Components | \$1,221,311,904 | \$1,596,441,150 |
| Difference | \$ 98,295,401 | \$ 219,788,935 |

Source: OIG Audit Report "Office of Debt Collection Management's Implementation of the Collection Litigation Automated Supported System"

³ Represent amounts deposited to the Department's account through channels other than the collecting components.

The differences in the amounts reported can be attributed to a series of events including:

- the DCM using collections reported by the DAOG rather than collection reported by the USAOs and litigating divisions,
- the DCM not receiving complete information from the USAOs and litigating divisions to eliminate duplicate reporting of collections, and
- the DCM not reconciling collections reported by the USAOs and litigating divisions with the collections reported by the DAOG.

But before discussing the events, it is essential to understand the process of debt collection to deposit to reporting.

Overview of the Collection and Deposit Process

Civil debt is collected by the 94 USAOs and the 5 litigating divisions within the Department. Additionally, Private Counsel Offices in fifteen judicial districts supplement the efforts of the USAOs by collecting outstanding debts in smaller dollar cases.

The NCIF is the initial intake point at the Department for civil debts that are \$1 million or less. Debts greater than \$1 million are referred directly to the litigating division that has the authority to collect. After debts are referred to the NCIF, they are entered into the mailroom receipt database, and after screening for content are forwarded to the appropriate USAO district based on the zip code of the debtor's address.

Collections may be received (1) directly by the division or USAO responsible for the collection, (2) at one of the two lockboxes maintained by the Department at the Bank of America, (3) by the DAOG, or (4) at the Federal Reserve Bank in New York. Civil debt collections include:

- checks and money orders received directly from the debtor or at one of the Department's two lockbox accounts at the Bank of America,
- checks drawn on foreign banks,
- electronic funds transfers,
- payments made by credit card, and
- collections through the TOP.

When checks are received at the litigating divisions or USAOs, deposit slips are prepared and the receipt sent to one of the two lockboxes at the Bank of America. If the USAO is one of the nine USAO districts that have migrated to CLASS, the deposit is sent to the NCIF lockbox. For the remaining USAOs and for the litigating divisions, the deposit is sent to the

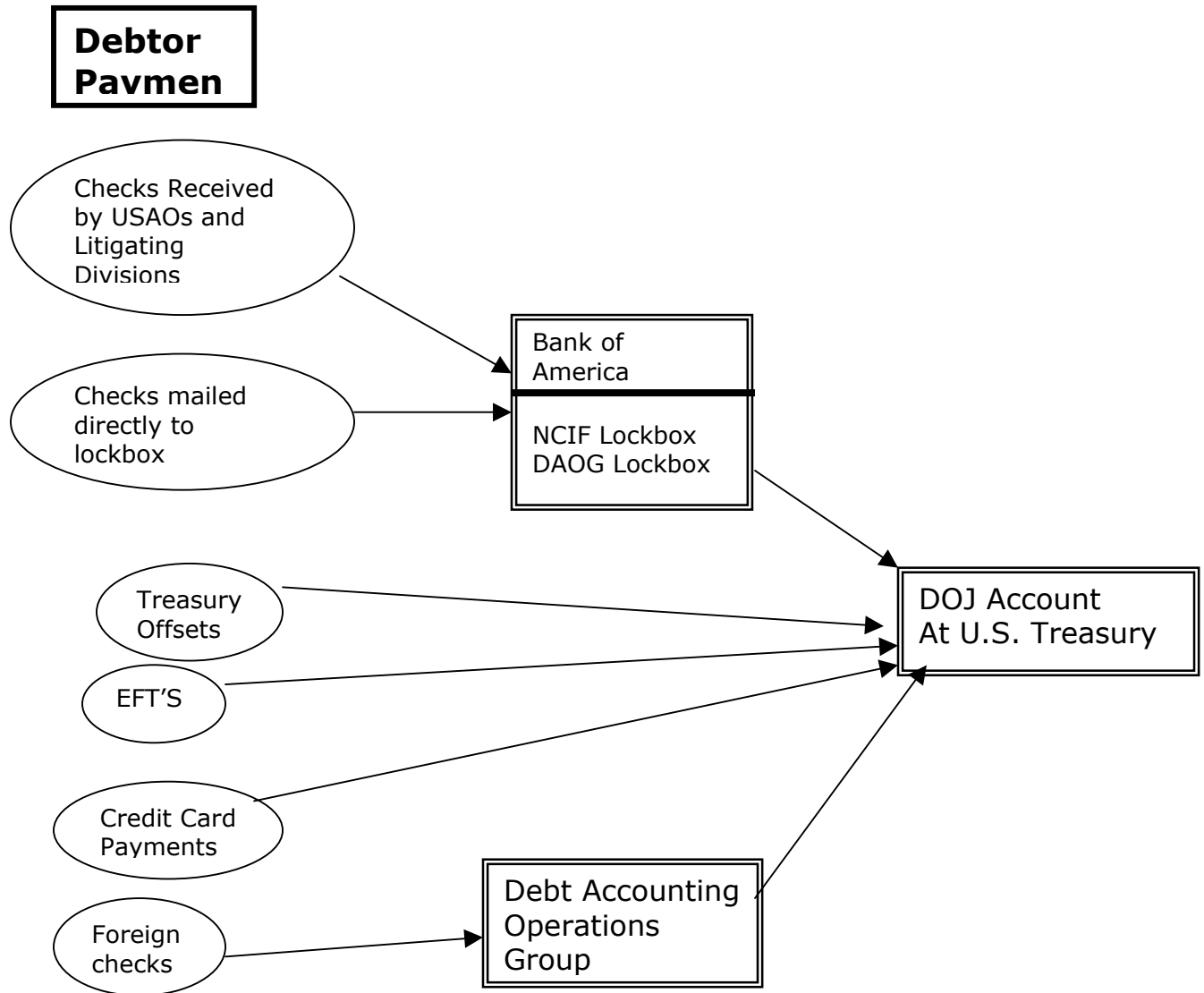
DAOG lockbox. The bank transfers the funds daily to the Department's Treasury account at the Federal Reserve Bank.

Checks received by the litigating divisions or USAOs that are drawn on foreign banks are sent to the DAOG for processing. The DAOG sends these checks to a financial institution for conversion from foreign to United States currency, and the institution will forward the funds to the Department's account at Treasury. The receipt information is entered into the Debt Module by the DAOG. Electronic Funds Transfers (EFTs), credit card payments, and collections through the TOP are also processed by the DAOG. The EFTs and credit card payments are received in the Department's Treasury account at the Federal Reserve Bank and entered into the FMIS Debt Module by the DAOG. Delinquent debtor files are submitted to the DAOG by the USAOs or litigating divisions and sent to the Treasury for potential offsets. The Treasury offsets eligible funds owed to the debtor and transfers the funds to the Department's Treasury account at the Federal Reserve Bank. Treasury sends a file with the offset information to the DAOG for entry into the FMIS Debt Module.

When deposits are received at the NCIF lockbox, the bank sends copies of the checks received and the deposit slips or payment remittance coupons to the NCIF, along with a list of the deposits received. The NCIF verifies the copies against the list provided by the bank and enters the collection data into CLASS. The CLASS data is transmitted to the DAOG, where it is uploaded into the Debt Module of the Financial Management Information System (FMIS). When deposits are received at the DAOG lockbox, the bank enters the information from the deposit slips, payment coupons, and transmittal documents into an electronic file, which is transmitted to the bank's Richmond, VA location. This file is retrieved by the DAOG and uploaded into the Debt Module.

The diagram on the following page illustrates the types of collections and their flow to the Department's account at Treasury.

Flow of Collections From Debtor to Department's Account at Treasury



Reconciliation of Collections with Treasury

On a daily basis, both the NCIF and the DAOG reconcile the copies of the checks, deposit slips, and payment coupons received from the lockbox with the list of deposits received from the lockbox to ensure that all deposits were recorded in the electronic files received. The NCIF transmits an electronic file to the DAOG, and the DAOG verifies the accuracy of this data with deposit data in the Department's account at Treasury. These electronic files are then uploaded to the FMIS Debt Module (General Ledger). On a monthly basis, the DAOG reconciles the balance of collections in the General

Ledger for the NCIF and the DAOG with the balance in the Department's Treasury account. Each month, the USAOs and the litigating divisions must verify their deposits to collections recorded in the Debt Module by the DAOG and follow up with the DAOG on discrepancies identified. Neither the DAOG nor the DCM reconciles deposits made by the USAOs or the litigating divisions to the lockboxes because the current state of automation of the civil debt collection process prevents this, and neither DCM nor DAOG has access to required source documents. Instead, they rely on the USAOs and the litigating divisions to verify that their collections are deposited and recorded in the General Ledger.

Differences in Debt Collected and Debt Deposited

Each quarter, the USAOs and the litigating divisions report their collection activities to the DCM on Financial Litigation Reports (FLR). The DCM compiles collection activity in worksheets that are used to prepare quarterly and annual Department-wide FLRs. Although the collecting components' reports represent the book balances of collection activity, the DCM reports the collection amounts provided by the DAOG. The DAOG amounts represent the balances reported from the Treasury (bank balance).

An official from the DCM informed us that they do not use the collections reported by the collecting components because these amounts may not be accurate. According to the DCM official, the amounts reported as collected and deposited by the USAOs and litigating divisions may include: (1) duplicate reporting, (2) collections received at creditor agencies, (3) timing differences caused by deposits in transit at period end, and (4) errors made when collection reports are prepared by the USAOs and the litigating divisions. Instead, the DCM includes civil debt collections reported by the DAOG in the Criminal and Civil Cash Collections Report (the Cash Collections report). This report is cumulative and is prepared each month by the DAOG to allocate debt collections for the USAOs and the litigating divisions into the 94 USAO Judicial Districts. The DAOG prepares the report from the Department's general ledger to identify debt collection activity of each USAO district. The Cash Collections Report does not identify collections by collecting office. Each month, the DAOG reconciles the Cash Collections Report to the general ledger to ensure that the report is accurate and all collections are included.

We reviewed the Department-wide FLRs and supporting worksheets for FY 1998 and FY 1999 as well as the individual FLRs from the USAOs and litigating divisions for the same periods. For FY 1998 and FY 1999, we traced the civil debt collections reported by the DCM on the Department-wide FLRs to the Cash Collections Report, noting agreement. We reviewed

the monthly reconciliations that the DAOG prepared during FY 1998 and FY 1999. We determined that the DAOG reconciled all differences between the Cash Collections Report and the General Ledger, and that the reconciling adjustments were reasonable.

For FY 1998 and FY 1999, we compared civil debt collections reported on each individual FLR to the civil debt collections recorded by the DCM on the supporting worksheets and determined that civil debt collections recorded for the Civil Rights Division for FY 1999 was understated by \$800,000. We followed up with the DCM and the Civil Rights Division and determined that the DCM had not used the final report submitted by the Civil Rights Division when preparing its worksheet. The Civil Rights Division report used by the DCM did not include an \$800,000 EFT. We determined, however, that the civil debt collections reported by DCM for FY1999 included this collection.

We reviewed the individual FLRs for FY 1998 and FY 1999 and identified two instances of duplicate reporting of collections. In each fiscal year, we found that the Civil Division had included collections made by the USAOs in the cash collection total. We followed up with the Civil Division, the EOUSA, and the DCM to determine if the collections made by the USAOs and reported on the Civil Division's FLRs would have resulted in duplicate reporting of deposits.

An official from the Civil Division confirmed that these deposits were cash collections made by the USAOs in FY 1998 and FY 1999 for Civil Division cases, and would have resulted in duplicate reporting of collections if reported by the USAOs. An official from the EOUSA also confirmed that these collections were reported as cash collections by the USAOs in those fiscal years, and would have resulted in duplicate reporting of collections if also included by the Civil Division. An official from the DCM told us that an aggregate adjustment is made by the DCM to eliminate this duplicate reporting, but that the DCM does not adjust the cash collected for an individual reporting division. Further, the DCM advised that while they request the USAOs and litigating divisions to identify duplicate reporting, this request is not always complied with. We reviewed the supporting worksheets for the FY 1998 and FY 1999 department-wide FLRs and determined that an adjustment had not been made for these amounts.

We compared the civil debt collections reported by the USAOs and the litigating divisions on their FLRs with the civil debt deposits reported by the DCM on the Department-wide FLR for FY 1998 and FY 1999. We reduced the collections reported by the Civil Division for each year for the duplicate reporting identified above. We also increased the collections reported by the

Civil Rights Division for FY 1999 to include the \$800,000 not included by the DCM. Based on our adjustments, the unreconciled difference between civil debt collected by the USAOs and the litigating divisions and the civil debt reported as deposited in the Treasury decreased for both fiscal years. For FY 1998, we determined that civil debt reported as deposited in the Treasury was \$28,068,554 more than the USAOs and the litigating divisions reported as collected. For FY 1999, we determined that civil debt deposits in the Treasury were \$88,804,842 less than collections reported by the USAOs and the litigating divisions. The table below illustrates the results of the review.

**Difference in Debt Collected and Deposited
for FY 1998 and FY 1999**

| Civil Debt Reported | FY 1998 | FY 1999 |
|---|-----------------|-----------------|
| Deposited in Treasury by DCM (a) | \$1,123,016,503 | \$1,376,652,215 |
| Collected per the Collection Components' FLRs | \$1,221,566,904 | \$1,596,441,150 |
| Adjusted Collection Balance (b) | \$1,094,947,949 | \$1,465,457,057 |
| Unreconciled Difference (a less b) | \$ 28,068,554 | \$ (88,804,842) |

Source: Financial Litigation Reports obtained from the DCM, the EOUSA, and litigating divisions.

DAOG officials offered that the causes for the unreconciled differences included timing differences for deposits in transit at year end, returned checks, and errors made when collections were recorded by USAOs and the litigating divisions. The DAOG does not reconcile deposits reported in the Department-wide FLR with the collections reported by the USAOs and litigating divisions because the required level of automation is not in place, nor does the DAOG have access to the source documents necessary to perform these reconciliations. Since reconciliations were not performed, it was not possible to identify the nature of all differences between collections and deposits.

The CLASS audit report also indicated that inconsistencies existed between the fiscal year ending civil debt balance and the subsequent year's beginning balance reported by the EOUSA. We also attempted to determine the cause for this occurring.

Differences between Ending and Beginning Balances

The EOUSA prepares a summary level FLR to report Debt Collection activity for the USAOs. This summary FLR is prepared from collection data maintained in the Tracking Assistance for the Legal Office Network (TALON) system. The tables below illustrate the beginning and ending balances of civil debt and the differences identified in our review of the FLRs for FY 1998, FY 1999, and FY 2000.

Fund Balance Comparison - FY 1998 to FY 1999

| Civil Debt | Per EOUSA FLRs |
|---------------------------|-----------------|
| FY 1998 Ending Balance | \$1,633,692,526 |
| FY 1999 Beginning Balance | \$1,535,687,297 |
| Difference | \$ 98,005,229 |

Source: Financial Litigation Reports obtained from the EOUSA.

Fund Balance Comparison - FY 1999 to FY 2000

| Civil Debt | Per Review of EOUSA FLRs |
|---------------------------|--------------------------|
| FY 1999 Ending Balance | \$1,574,372,132 |
| FY 2000 Beginning Balance | \$1,568,685,515 |
| Difference | \$ 5,686,617 |

Source: Financial Litigation Reports obtained from the EOUSA.

We met with officials from the EOUSA to determine the causes of the differences, which were also identified in the CLASS audit⁴. The EOUSA provided a memorandum that explained how the summary FLR is prepared from TALON and the major cause of the difference between the FY 1998 ending balance of civil debt and the FY 1999 beginning balance of civil debt.

The memorandum reported that beginning fiscal year balances are calculated by adding the outstanding balances of all debts in the TALON database at the start of the fiscal year, and ending fiscal year balances are calculated by adding and subtracting from the beginning balance all valid transactions during the period. An incorrect entry of \$100 million was identified by the Northern District of Texas during quality control testing of the district's migration to TALON. This error was corrected in December 1997 by changing the balance of the debt in TALON. While this corrected the balance remaining on the debt in TALON, this was not a valid correcting transaction because an offsetting transaction was not recorded. As a result, the error correction was not included when the fiscal year (1998) ending balance was calculated, and the error was carried in the summary report for FY 1998. The beginning balance for FY 1999 was correctly calculated in the summary report as explained above and did not include the \$100 million since it had been eliminated from the debt balance. This resulted in a \$100 million discrepancy between the ending balance for FY 1998 and the beginning balance for FY 1999. The memorandum further explained that the current EOUSA policy for correcting transactions avoids these errors by

⁴ We identified a \$51,000 difference in the FY 2000 beginning balance of Civil Debt on the FLR obtained from the EOUSA and the FY 2000 beginning balance of Civil Debt in the CLASS Audit Report.

requiring a second transaction that will offset the original incorrect transaction.

The EOUSA also discovered that certain invalid finance codes were being used by the USAOs when entering transactions. While these transactions will be accepted by the TALON system and will change the records within TALON, they will not be recognized when the summary reports are prepared. The EOUSA also found a problem with the function that is used to invalidate a transaction. The EOUSA believes that these problems may have contributed to the differences in the summary reports, and the EOUSA is working to correct the problem with the "invalidate transaction" function. The EOUSA is also developing edits to prevent the use of the invalid codes.

Based on this explanation, we revised our assessment of the FY 1998 ending balance of civil debt and the FY 1999 beginning balance of civil debt to take into account the \$100 million error described in the EOUSA memo. As indicated in the table below, the difference was reduced to \$1,995,259.

| Description | Amount per Review of EOUSA FLRs |
|--------------------------------|---------------------------------|
| FY 1998 Ending Balance | \$1,633,692,526 |
| Error identified by the EOUSA | \$ 100,000,488 |
| Revised FY 1998 Ending Balance | \$1,533,692,038 |
| FY 1999 Beginning Balance | \$1,535,687,297 |
| Revised Difference | \$ 1,995,259 |

Source: Financial Litigation Reports and memoranda obtained from the EOUSA.

EOUSA officials explained that the differences also occurred because the monthly extracts from TALON prepared by USAO districts were not routinely reviewed by the EOUSA for deficiencies prior to being compiled by the EOUSA for their summary level reporting. The EOUSA uses a system called the Transactional Informational Government Accounting System (TIGAS) to compile the information in TALON. The EOUSA has been using a contractor to review the TIGAS system and to determine the causes of the problems for FY 2001. The contractor identified the following causes of the errors:

- Extract (data) files are sent in which are incorrectly named; as a result, the transfer process will not work properly,
- Extract files sent are not for the correct (current) month,
- The "transfer data files" function in TIGAS malfunctions, resulting in incomplete or partial files,

- Error files created by the system (oracle) are not being reviewed, and therefore erroneously entered data is not being identified and corrected, and
- Current extract files are not being sent in; the EOUSA is not ensuring that the latest data has been sent in.

EOUSA officials could not account for the remaining differences between the ending balance of civil debts for FY 1998 and the beginning balance of civil debts for FY 1999, or for the differences between the ending balances of civil debts for FY 1999 and the beginning balance of civil debts for FY 2000. They stated that a similar analysis of the differences could not be performed for these fiscal years because the individual monthly TALON data extracts for FY 1998, FY 1999, or FY 2000 are not retained by EOUSA. Further, specific monthly data is not available from TALON after its extraction from TALON. This is a limitation of TALON because available data from TALON is cumulative. They believe, however, that the causes identified in the analysis of the FY 2001 data are also responsible for the differences in the prior years.

The explanation of the causes for the differences between the ending and beginning balances that was provided by the EOUSA is plausible. However, because data extracts were not available from TALON, we were not able to test the validity of the EOUSA' s analysis.

Conclusion

Generally, a strengthened reconciliation process can remedy the reporting inconsistencies. On a quarterly basis, the DCM should reconcile quarterly collection activity reported by the USAOs and litigating divisions with the deposit information provided to them by the DAOG. This would ensure that the amounts reported by the collecting components are consistent with the amounts reported by the Treasury to the DAOG. Then, if the EOUSA ensures that it uses the prior year's ending balance as the succeeding year's beginning balance, it could make adjustments thereto based on a review of the extracts from TALON. These improvements would bolster the validity and reliability of the Department's debt collection process.

Views of Responsible Officials

Office of Debt Collection Management

Officials from DCM generally agreed with our analysis and concurred with our recommendation. However, DCM officials advised us that with the

current state of automation of civil debt collection, they would only be able to advise the litigating divisions and USAOs when discrepancies existed, rather than actually reconcile the differences. Additionally, while they request that USAOs and litigating divisions identify duplicate reporting of collections, they cannot compel them to do this and may not receive complete information. As a result, they are unable to adjust collection reported to eliminate duplicative reporting. We have incorporated the comments from DCM officials in the text of the report where appropriate.

Executive Office for the United States Attorneys

Officials from EOUSA generally agreed with our analysis and concurred with our recommendation. EOUSA officials advised us that safeguards were put in place in October of 2000 to ensure that monthly TALON extracts are adequately reviewed prior to loading into TIGAS and compilation into summary level reporting. We have incorporated the comments from EOUSA officials in the text of the report where appropriate.

Recommendations

We recommend that the Acting Assistant Attorney General for Administration:

1. Ensure that procedures are instituted to reconcile amounts reported as collected by the United States Attorneys and the litigating divisions against the amounts reported as collected and deposited in the Department's Treasury account.

We recommend that the Director, EOUSA:

2. Ensure that data extracts are adequately reviewed prior to preparation of the summary report.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this audit was to follow up on the OIG's Audit of the Office of Debt Collection Management's Implementation of the Collection Litigation Automated Support System. That audit identified discrepancies between: (a) civil debt amounts reported as collected by the USAOs, the NCIF, and the litigating divisions versus civil debt reported as deposited in the Department's account at Treasury for FY 1998 and FY 1999, and (b) the fiscal year ending balance and subsequent year beginning balance of civil debt reported by the EOUSA for FY 1998, FY 1999, and FY 2000.

The scope of the audit was limited to identifying the reasons for these discrepancies. As such, we excluded from the scope of the audit a review of compliance with laws and regulations since this was not significant to address the audit objectives. Therefore, we reviewed:

- the reporting and reconciliation process for civil debt collection performed by the USAOs, and the litigating divisions for FY 1998 and FY 1999;
- the Department-wide FLRs and supporting worksheets for FY1998 and FY 1999, obtained from the DCM;
- the FLRs for FYs 1998, 1999, and 2000 obtained from the EOUSA, the NCIF, and the litigating divisions; and
- the monthly reconciliation worksheets prepared by the DAOG for FY 1998 and FY 1999.

We also interviewed officials from the DCM, the EOUSA, the NCIF, and the litigating divisions, to obtain information on their reporting polices and reconciliation practices, and to identify potential causes for the differences between their reported cash collections and the collections reported as deposited by the DAOG.

We performed our audit in accordance with Government Auditing Standards and, accordingly, included such tests of the records and procedures as we deemed necessary to achieve our objectives.

APPENDIX II

JUSTICE MANAGEMENT DIVISION RESPONSE TO THE DRAFT REPORT




U.S. Department of Justice

Washington, D.C. 20530

MAR 13 2002

MEMORANDUM

TO: Glenn A. Fine
Inspector General

FROM: Robert F. Diegelman 
Acting Assistant Attorney General
for Administration

SUBJECT: Comments on Draft Audit of the Civil Debt Collection
Reconciliation Process

Thank you for the opportunity to comment on the draft Audit Report. I generally agree with the factual information put forth in your report and concur that a strengthened reconciliation process will contribute to improvements in the Department's quarterly reporting of financial litigation activities.

Background:

Currently the Office of Debt Collection Management (DCM) is responsible for preparing the report on Departmentwide Financial Litigation Activities. The Executive Office for U.S. Attorneys, DCM's Nationwide Central Intake Facility, and the litigating divisions submit quarterly financial litigation reports (FLRs) to DCM. DCM then compiles the data into a single Departmentwide report. As discussed in this draft report, the auditors found discrepancies in the cash collections reported by the various components in their FLRs as compared to the cash collections reported on the Departmentwide FLRs by DCM.

DCM adjusts the cash collection figures on the FLR to agree with reports provided by DCM's Debt Accounting Operations Group (DAOG). This is done in an effort to provide the Attorney General with accurate and reliable cash collection

figures provided by the accounting group charged with maintaining such records.

DAOG is the operational unit responsible for the accounting and disbursing of collections on debts handled by the U.S. Attorneys, private counsel, and the Department's litigating divisions. In this capacity, DAOG must comply with all applicable Government accounting standards, including the monthly reconciliation with Treasury on its General Ledger account fund balances. In addition, DAOG is audited annually as part of the Working Capital Fund Financial Statement Audit. Compliance with these generally accepted accounting standards ensures the cash collection figures reported by DAOG are accurate. DAOG sends monthly reports of all transactions received and deposited with Treasury to each component for reconciliation purposes. Each component is required to reconcile its source documents and system maintained data with the accounting records provided monthly by DAOG; bringing any discrepancies to the attention of the DAOG.

Conclusions:

On page 6 you accurately report, "Each month, the USAOs and the litigating divisions must verify their deposits to collections recorded in the Debt Module by the DAOG and follow up with the DAOG on discrepancies identified. Neither the DAOG nor the DCM reconciles deposits made by the USAOs or the litigating divisions to the lockboxes because the current state of automation of the civil debt collection process prevents this, and neither DCM nor DAOG has access to required source documents. Instead, they rely on the USAOs and the litigating divisions to verify that their collections are deposited and recorded in the General Ledger."

Yet, on page 11, your report concludes, "On a quarterly basis, the DCM should reconcile quarterly collection activity reported by the USAOs and litigating divisions with the deposit information provided to them by the DAOG." This conclusion is not supported by the facts presented in your report. The fact is that the USAOs and the litigating divisions are provided with the information required to reconcile their data with DAOG and should be held responsible for doing so.

Glenn A. Fine

3

Recommendations:

You recommend, ". . . that the Assistant Attorney General for Administration:

1. Ensure that procedures are instituted to reconcile amounts reported as collected by the United States Attorneys and the litigating divisions against the amounts reported as collected and deposited in the Department's Treasury account."

I agree with your recommendation and will institute procedures that will require the USAOs and the litigating divisions to ensure that cash collection figures presented in their quarterly FLRs have been reconciled to cash collections deposited with Treasury as reported by DAOG. Reasons for any legitimate deviation from the reconciled collection amounts (such as timing differences) should be documented in the FLR package.

Further, DAOG will work with each component to provide any additional summary level reports that may be helpful to them in conducting the reconciliation process.

Thank you for your continued interest in the Department's debt collection programs.

APPENDIX III

EXECUTIVE OFFICE FOR UNITED STATES ATTORNEYS RESPONSE TO THE DRAFT REPORT



U. S. Department of Justice

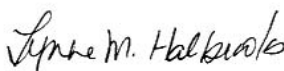
Executive Office for United States Attorneys

Office of the Director

Washington, DC 20530

MAR 15 2002

MEMORANDUM FOR: Guy K. Zimmerman
Assistant Inspector General
Audit


FROM: Kenneth L. Wainstein
Director

SUBJECT: Comments on Draft Audit Report, "The Civil Debt Collection
Reconciliation Process"

This responds to your request for comments by the Executive Office for United States Attorneys (EOUSA) on the Office of Inspector General's (OIG) draft audit report of the civil debt collection reconciliation process. I appreciate the opportunity to address the recommendations provided within the report. Generally, EOUSA agrees that the recommendations outlined in the report would bolster the validity and reliability of the Department's debt collection reconciliation process.

While the report's first recommendation is directed to the Assistant Attorney General for Administration, we will work with JMD to ensure that we have the information necessary to complete a reconciliation. The report's second recommendation applies to the Director, EOUSA:

OIG Recommendation 2:

Ensure that data extracts are adequately reviewed prior to preparation of the summary report.

EOUSA Response to Recommendation 2:

EOUSA has developed several quality control measures to both monitor and remedy the discrepancies in the fiscal year ending balance and the next year's beginning balance as reported by the TIGAS system. The discrepancies, in the past, were caused by two primary reasons: data extract load errors and errors caused by various types of financial adjustments which can be made to a debt's balance.

Load Errors

As discussed in the OIG's report, EOUSA receives data extracts from each district on a monthly basis and loads that data into a central database system called TIGAS. EOUSA identified the cause of the data extract load errors in Fiscal Year (FY) 2001 and developed several layers of quality control to check and re-check the data before it is loaded into the database to generate the fiscal year reports. Since those measures have been put in place, no discrepancies have occurred which are a result of data extract load errors.

In addition, EOUSA is in the process of further mitigating this issue by centralizing the 94 TALON databases which are located in each of the district offices into a single, centralized database to be located in Washington, D.C. As a result, the districts will no longer be required to create and send the data extracts to EOUSA because all of the data will reside centrally. The centralization of the data will also greatly increase EOUSA's ability to monitor and manage the USAO debt collection efforts.

Financial Adjustment Errors

In reviewing the ending balance for FY 2001 and the beginning balance for FY2002, the reports continued to show discrepancies in a number of USAOs. EOUSA undertook an effort to identify each district that reported a discrepancy and each case in which a discrepancy exists. In analyzing those cases, it was determined that an error occurred as a result of a financial adjustment either not being reflected properly by the system or not entered correctly by the user. EOUSA plans several actions to mitigate and eventually resolve this issue.

First, EOUSA plans to run the ending/beginning balance report on a monthly basis in order to identify any district reporting a discrepancy. A subsequent report will be used to analyze the individual cases of any district reporting a discrepancy, to identify the specific cause(s) of the problem. Once the case(s) is identified, EOUSA will work with the district to determine the cause of the error and to develop a remedy for it.

Second, EOUSA plans to undertake a detailed review of all of the finance codes used by TALON to determine if the system accurately captures and manipulates the data entered using those codes. As inconsistencies are identified, appropriate measures will be taken to correct the problems.

Finally, EOUSA is in the final stages of development of an entirely new version of its debt tracking system, TALON. In conjunction with the centralization effort noted above, the new version will be deployed in the USAOs in August and September of this year. TALON 7.0.0 includes several enhancements to restrict the use of the financial codes which control adjustments to the debt balance. EOUSA believes this will greatly reduce, if not eliminate, the cause of these discrepancies altogether.

-3-

Thank you for the opportunity to comment on this draft report. EOUSA appreciates the IG undertaking a review of the civil debt collection reconciliation process and will continue to implement the recommendations, as appropriate. If you have any questions regarding this response, please contact Laurie Levin, Assistant Director, Financial Litigation Staff, at (202) 305-3373.

APPENDIX IV

OFFICE OF THE INSPECTOR GENERAL AUDIT DIVISION ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE REPORT

The JMD and the EOUSA responses to the audit (APPENDIX II and III, respectively) included actions that JMD and EOUSA intend to take to close the audit recommendation directed to them. Below is our analysis of the responses received and actions necessary to close the report.

1. **Resolved.** In order to close this recommendation, please provide us with a copy of the procedures implemented requiring the USAOs and litigating divisions to reconcile their cash collections reported on their FLRs with the amounts reported as collected in the Department's Treasury Account.
2. **Resolved.** In order to close this recommendation, please provide us with a copy of the procedures implemented to prevent data extract load errors and financial adjustment errors.