

**Improvements Are Needed to Ensure  
Relocation Advances Are Repaid Timely**

**May 2004**

**Reference Number: 2004-10-092**

**This report has cleared the Treasury Inspector General For Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

May 13, 2004

MEMORANDUM FOR CHIEF FINANCIAL OFFICER

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Improvements Are Needed to Ensure  
Relocation Advances Are Repaid Timely (Audit # 200310020)

This report presents the results of our review of the Internal Revenue Service's (IRS) Relocation Advance procedures. The overall objective of this review was to determine whether procedures and practices are adequate to facilitate timely repayment of relocation advances. The IRS has delayed implementing procedures to comply with Federal Government requirements for collecting administrative debts until it has completed its negotiations with the National Treasury Employees Union (NTEU) on how to implement debt collection policies and procedures.

In summary, the IRS needs to ensure relocation advances are repaid timely. As of May 2, 2003, there were 366 IRS employee relocation advances outstanding (some dating back to 1991) with balances totaling approximately \$1.4 million. Of these, 200 (55 percent) advances totaling \$492,000 had been outstanding for over 2 years—well beyond the time period needed to repay the advanced amounts, since these types of expenses are usually the first expenses to be incurred and reimbursed. An additional 100 (27 percent) advances totaling approximately \$145,000 had been previously written off as uncollectible; some of these also dated back to 1991. Procedures to monitor outstanding advances have not been fully implemented, and procedures to monitor employee payment arrangements have not been established.

We recommended the Chief Financial Officer (CFO) promptly implement the Federal Claims Collections Standards (FCCS)<sup>1</sup> and the requirements of the Debt Collection Improvement Act of 1996,<sup>2</sup> and monitor all outstanding relocation advances. Additionally, the CFO should revise the Interim Relocation Handbook to specify when a relocation advance should be repaid. Finally, the CFO should issue guidelines for establishing installment agreements and a system to monitor payments.

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<sup>1</sup> 31 C.F.R. Parts 900-904.

<sup>2</sup> Pub. L. No. 104-134.

Management's Response: IRS management generally agreed with our recommendations. However, the CFO stated that the Labor Relations staff has advised IRS management of the requirement to negotiate implementation of the debt collection policies and procedures with the NTEU. Once negotiations with the NTEU are completed, the CFO will issue procedures to comply with requirements of the Debt Collection Improvement Act of 1996 and the FCCS. In addition, the IRS will revise the Relocation Handbook to specify that all advances must be repaid when vouchers are filed, and IRS management will establish employee installment agreements and provide a method or system to monitor compliance with the agreements. Lastly, the IRS has begun to notify the employee's supervisor when an employee has an overdue relocation advance. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment: We believe delaying some corrective actions pending completion of negotiations with the NTEU is unnecessary. It has been 8 years since the Debt Collection Improvement Act of 1996 became law. The IRS should have implemented procedures to comply with the law long before now. Moreover, the current negotiations with the NTEU to obtain formal agreement over these procedures have taken over 10 months, which does not appear reasonable based on the scope of the proposed procedures.

Further, IRS management did not completely address our recommendation for the CFO to implement procedures to contact employees who have not filed a relocation voucher within 3 to 6 months of requesting an advance. IRS management's proposal to mandate that all advances be repaid when the relocation vouchers are filed does not address those employees who do not file a voucher timely or at all. While we still believe our recommendation is worthwhile, we do not intend to elevate our disagreement concerning this matter to the Department of the Treasury for resolution.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Background**

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If a transferred Federal Government employee or a new hire is authorized to relocate at Government expense, the Federal Travel Regulations provide that the employee may be advanced funds to pay for the following types of expenses:

- A house-hunting trip.
- Travel to the new location (also known as “en route” travel).
- Temporary quarters.

When Internal Revenue Service (IRS) employees file relocation vouchers to be reimbursed for these types of expenses, they should list the amount of the advanced funds that should be subtracted from the amount they are reimbursed. If they do not, they will be reimbursed funds that they have already received in advance and will need to pay back the advanced funds. Additionally, if employees are advanced funds for these types of expenses and do not incur the expenses, or if they incur an expense for less than the amount of the advance, they need to pay back the amount of the advance that was not used for the relocation expenses.

We performed this audit to determine whether the IRS has an adequate process to ensure relocation reimbursements are properly applied to outstanding advances and to collect any overdue amounts. We conducted our audit during the period May through September 2003 at the IRS Chief Financial Officer’s (CFO) Policy and Procedures Unit in Bethesda, Maryland, and at the Beckley Finance Center in Beckley, West Virginia. The audit was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **Better Procedures Are Needed to Ensure Prompt Repayment of Relocation Advances**

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The IRS underwent a significant reorganization in 1999. As part of the reorganization, many of the accounting functions and records were centralized. The Beckley Finance Center became responsible for processing all IRS employee relocations. The relocation files, which had been kept in the accounting offices for each region, were transferred to the

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Beckley Finance Center. However, many of the files received from the regional offices were incomplete.

In June 2002, the Beckley Finance Center began reviewing all the relocation files to prepare for a data conversion from the current financial system to a new system. This review was to determine whether there was adequate documentation in the files (a processed Advance of Funds Application and Account [Form 1038]) to confirm that employees had actually received relocation advances and to determine whether they were within the applicable statute of limitations period for debt collection.

As of May 2, 2003, the IRS had reviewed a total of 105 relocation advances (totaling \$170,000) that did not appear to be collectible because of the length of time they had been outstanding or the lack of documentation to substantiate the debts. Based on the review, 100 relocation advances totaling approximately \$145,000 were written off and 5 were determined to be collectible. For some of these 105 advances, the last activity (such as vouchers, payments, or collection actions) shown was in 1991. The reasons for and number of accounts written off are shown below.

No documentation (Form 1038) on file	58
Statute of limitations expired	39
Uncollectible (employee deceased)	3
<b>Total</b>	<b>100</b>

There was no information in the files to determine whether attempts were made to collect these advances before the files were sent to the Beckley Finance Center. For the amounts written off because there was no documentation of the advance (Form 1038) on file, the Beckley Finance Center staff stated that they attempted to contact the managers in the field offices to locate a copy of the required supporting documents; however, the documents could not be found.

In addition, 366 relocation advances totaling approximately \$1.4 million were outstanding as of May 2, 2003 (some

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dating back to 1991). Of these, 200 advances totaling \$492,000 had been outstanding for over 2 years—well beyond the time period needed to repay the advanced amounts, since these types of expenses are usually the first expenses to be incurred and reimbursed. We reviewed a random sample of 64 advances totaling \$147,000 that had been outstanding for over 2 years to determine what actions the IRS had taken to collect the outstanding balances. Of these 64 advances, 10 totaling approximately \$50,000 were for employees who had never filed a relocation voucher. The other 54 were for employees who had filed relocation vouchers but still had outstanding advances totaling approximately \$97,000.

For 53 of the 64 advances in our sample, the Beckley Finance Center had contacted the employees to request repayment. Of these 53 advances, 11 were paid off and 7 had payment arrangements to fully repay; however, 35 did not have payment arrangements and were not fully repaid. The Beckley Finance Center has not taken any follow-up action on advances since the initial contacts were made with the employees to collect the outstanding amounts. The Beckley staff stopped collection efforts at the direction of the CFO's office pending the implementation of all of the debt collection requirements.

### **Debt collection requirements**

The Federal Claims Collections Standards (FCCS),<sup>1</sup> the Debt Collection Act of 1982,<sup>2</sup> and the Debt Collection Improvement Act of 1996<sup>3</sup> specify the steps that all Federal Government agencies are to follow in developing procedures to pursue collection action on nontax debts owed to the United States. Relocation advances provided to employees are considered nontax debts once an agency official determines that an amount is owed to the Federal Government.

The FCCS provide agencies with collection tools including:

- The issuance of letters demanding payment.

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<sup>1</sup> 31 C.F.R. Parts 900-904.

<sup>2</sup> Pub. L. No. 97-365 (1982).

<sup>3</sup> Pub. L. No. 104-134.

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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- Salary offset by agencies.
- The referral of debts to the Department of the Treasury, Debt Management Services, for offset against Federal payments due the employee or former employee when the debts have been delinquent for 180 days.<sup>4</sup>

The FCCS require that a written “demand letter” be sent promptly to a debtor to inform him or her of the consequences of failing to cooperate with an agency to resolve the debt. The demand letter should include the:

- Basis for the indebtedness and the rights, if any, the debtor may have to seek review within the agency.
- Interest, penalties, or administrative costs that could be imposed.
- Date by which payment should be made to avoid late charges and enforced collection.
- Name, address, and telephone number of a contact person or office within the agency.

The IRS has not implemented procedures to comply with Federal Government requirements for collecting administrative debt, such as sending demand letters to employees with outstanding relocation advances. IRS officials are aware of the need to implement these Federal requirements but have delayed implementation because of concerns that the National Treasury Employees Union (NTEU) might file an unfair labor practice charge. In June 2002, the IRS began negotiating with the NTEU on how to implement the required debt collection procedures. Pending any agreement with the Union, no actions have been taken to collect administrative debts from employees since July 2002.

We believe this delay and additional negotiations were unnecessary. As reflected in the National Agreement, the IRS and NTEU negotiated employee debt collection issues during those negotiations. As a result, the IRS is not

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<sup>4</sup> A debt is delinquent if it is not paid by the date specified in the initial written demand for payment (generally 30 days).



## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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required to negotiate any additional debt collection procedures at this time and should implement the statutory and regulatory debt collection procedures as soon as practicable. Any additional procedures can be discussed after the current National Agreement expires.

In addition to implementing the requirements of the Debt Collection Improvement Act of 1996, the IRS needs to establish procedures to contact employees who have not filed relocation vouchers within a reasonable time (3 to 6 months) of requesting an advance to determine the status of their relocations and the dates they plan to file vouchers. If these procedures were enacted, it would significantly reduce outstanding amounts and the need to initiate collection action.

### **Recommendations**

The CFO should take the following actions:

1. Implement all of the applicable procedures required by the FCCS and the Debt Collection Improvement Act of 1996.

Management's Response: The CFO hopes to complete negotiations with the NTEU within the next few months and plans to issue procedures to ensure compliance with requirements of the Debt Collection Improvement Act of 1996 and the FCCS by October 1, 2004.

Office of Audit Comment: We believe delaying corrective actions pending completion of negotiations with the NTEU is unnecessary. It has been 8 years since the Debt Collection Improvement Act of 1996 became law. The IRS should have implemented procedures to comply with the law long before now. Moreover, the current negotiations with the NTEU to obtain formal agreement over these procedures have taken over 10 months, which does not appear reasonable based on the scope of the proposed procedures.

2. Notify supervisors of employees with overdue relocation advances to remind their employees of the obligation to repay outstanding amounts.

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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Management's Response: On an interim basis, the Beckley Finance Center is sending notices to employees who fail to pay a debt owed to the IRS; a copy of the notice is furnished to the supervisor when the employee fails to pay a debt. Once the debt collection procedures are implemented, demand letters will be sent to employees, with a copy going to each employee's supervisor.

3. Revise the Interim Relocation Handbook to specify how soon a relocation advance must be repaid.

Management's Response: The CFO will revise the Interim Relocation Handbook to specify that all advances must be repaid when the vouchers are filed. The CFO has submitted a Quarterly Notice to the NTEU to negotiate requirements for advance repayment.

Office of Audit Comment: Since the IRS and NTEU have already negotiated employee debt collection issues, we believe there is no need to delay this corrective action.

4. Implement procedures to contact employees who have not filed relocation vouchers within 3 to 6 months of requesting an advance to determine the status of their relocations and the dates they plan to repay the advances.

Management's Response: The CFO will revise the Relocation Handbook to include procedures making it mandatory that all advances be repaid when the relocation vouchers are filed. In addition, the CFO will need to revise the following forms: Form 1038 and Relocation Voucher (Form 8741).

Office of Audit Comment: We agree with IRS management's decision to make it mandatory for all advances to be repaid when the relocation vouchers are filed. However, this action will not address those instances in which an employee does not file a voucher timely or at all. We believe formal follow-up is required in those cases in which an employee has not filed a voucher within 3 to 6 months of requesting an advance.

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Procedures to Establish and Monitor Employees' Payment Arrangements Are Needed**

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IRS employees are allowed to make payment arrangements when they are unable to pay off their outstanding administrative debts. For 9 of the 64 outstanding relocation advances we reviewed, the IRS permitted employees to make the payments in installments or to set up salary deductions.

Employees making installment payments send their payments directly to the Beckley Debt Collection Unit where the payments are posted to the Automated Financial System.<sup>5</sup> However, there is no system to monitor whether employees made the agreed-upon payments. The Beckley Debt Collection Unit staff believes the responsibility to ensure repayment of a relocation advance is between the employee and his or her immediate supervisor. Moreover, the IRS has not implemented procedures to define how and when installment agreements may be established for employee debts in accordance with the FCCS.

Of the nine employees who agreed to pay back their relocation advances in installments, three were making payments according to their agreements, three were making payments but the terms were not recorded in the case histories, two were making payments but not in accordance with the terms of their agreements, and one had paid in full.

Without procedures to establish and monitor installment agreements, the IRS cannot determine which employees have defaulted on their payment arrangements.

### **Recommendation**

5. The CFO should issue guidelines for establishing employee installment agreements and provide an appropriate method or system to monitor compliance with the agreements.

Management's Response: The CFO will implement debt collection policies and procedures, which will provide for the establishment of installment agreements. The IRS may accept payment in regular installments, if a debtor is financially unable to pay a debt in one lump sum.

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<sup>5</sup> A computer-based financial accounting system used by the IRS to track appropriations and expenditures.

**Detailed Objective, Scope, and Methodology**

The overall objective was to determine whether procedures and practices are adequate to facilitate timely repayment of relocation advances. The scope of the audit involved reviewing a sample of outstanding relocation advances and 100 of 105 relocation advances that had been written off as of May 2, 2003. To accomplish our objective, we:

- I. Determined whether procedures and practices were adequate to facilitate timely repayment of relocation advances. We selected a random sample from a universe of 366 relocation advances that had been outstanding as of May 2, 2003. Of the 366 relocation advances, 200 had been outstanding for over 2 years. We selected a random sample of 64 advances from the 200 to evaluate the repayment process—the sample was not intended to provide a statistical projection.
- II. Determined whether procedures and practices were adequate to prevent the unnecessary write-off of outstanding relocation advances from current and former employees.
- III. Interviewed Policies and Procedures Unit management and determined whether new procedures (yet to be issued) will address any deficiencies that we identified.

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**Appendix II**

**Major Contributors to This Report**

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Michael E. McKenney, Director

Kevin P. Riley, Audit Manager

Charles Ekunwe, Senior Auditor

Kenneth E. Henderson, Senior Auditor

Rosemarie Maribello, Senior Auditor

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**Appendix III**

**Report Distribution List**

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Office of the Commissioner – Attn: Chief of Staff C  
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Appendix IV

**Management's Response to the Draft Report**



CHIEF FINANCIAL OFFICER

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

**RECEIVED**  
**APR 02 2004**

April 2, 2004

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR  
TAX ADMINISTRATION

FROM:

*Eileen T. Powell*  
Eileen T. Powell  
Chief Financial Officer

SUBJECT:

Draft Audit Report – Improvements Are Needed to Ensure  
Relocation Advances Are Timely Repaid (Audit #200310020)

Thank you for the opportunity to comment on your recent review of the Internal Revenue Service's management controls over repayment of relocation advances. We will use the recommendations from this audit to supplement ongoing efforts to improve our internal controls and debt collection processes.

The findings and recommendations in the draft report fairly and objectively present the facts and recognize the efforts of the Service to control relocation advances. However, as my staff expressed in previous correspondence, and as noted in the draft audit report, Labor Relations staff has advised us of the requirement to negotiate implementation of the debt collection policies and procedures with the National Treasury Employees Union (NTEU). Policies and procedures have been developed and coordinated with all business units. We hope to complete the NTEU negotiations process shortly and issue the guidelines within the next few months.

I have attached a detailed response to each recommendation along with management corrective actions, proposed implementation dates, and responsible officials.

If you have any questions, please contact me at 202.622-6400, or have a member of your staff contact Angela Cook, Director, Policies and Procedures, at 202.435.5530.

Attachment

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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**Attachment**

### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

#### **RECOMMENDATION 1**

The Chief Financial Officer (CFO) should implement all of the applicable procedures required by the Federal Claims Collections Standards (FCCS) and the Debt Collection Act.

**CORRECTIVE ACTION:** The CFO will issue procedures to all IRS employees in order to ensure compliance with requirements of the Debt Collection Act and FCCS.

#### **IMPLEMENTATION DATE:**

**PROPOSED:** October 1, 2004

#### **RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

#### **CORRECTIVE ACTION MONITORING PLAN:**

The CFO has already taken steps to implement our new debt collection policy. We will ensure that our policy conforms to the procedures presented in the FCCS and the Debt Collection Act.

#### **OUTCOME MEASURES:**

None

#### **RECOMMENDATION 2**

The CFO should notify supervisors of employees with overdue relocation advances to remind their employees of the obligation to repay outstanding amounts.



## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

**CORRECTIVE ACTIONS:**

1. On an interim basis, until the debt collection policy and procedures are implemented, the Beckley Finance Center is sending notices to employees who fail to pay a debt owed to the Service and a copy of the notice is furnished to the employee's supervisor.

**IMPLEMENTATION DATE:**

COMPLETED: March 1, 2004

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

2. The CFO will implement debt collection procedures by October 1, 2004. As part of the debt collection policy, we intend to send a demand letter when a debt is established, e.g., at the completion of a trip for which there is a travel advance outstanding. If the debt is not paid within thirty days, we will initiate a series of delinquency letters at thirty day intervals which include interest and administrative charges and, possibly, penalty charges.

**IMPLEMENTATION DATE:**

PROPOSED: October 1, 2004

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

**CORRECTIVE ACTION MONITORING PLAN:**

The requirement for notification to supervisors of overdue relocation advances will be included in our new debt collection policy. Beckley Finance Center will be instructed to send demand letters to employees with a copy to the supervisors according to the policy.

**OUTCOME MEASURES:**

None

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

#### **RECOMMENDATION 3**

The CFO should revise the Interim Relocation Handbook to specify how soon a relocation advance must be repaid.

#### **CORRECTIVE ACTION (1):**

The CFO will revise the Relocation Handbook to specify that all advances must be repaid when the vouchers are filed.

#### **IMPLEMENTATION DATE:**

**PROPOSED:** December 31, 2004

#### **RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

#### **CORRECTIVE ACTION (2)**

The CFO has submitted a Quarterly Notice to National Treasury Employees Union (NTEU) to negotiate requirements for advance repayment.

#### **IMPLEMENTATION DATE:**

**COMPLETED:** March 30, 2004

#### **RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

#### **CORRECTIVE ACTION MONITORING PLAN:**

The Relocation Handbook will be revised to include a statement that a claim for reimbursement of each of the various types of expenses allowed in accordance with the Federal Travel Regulations must be submitted by the employee no later than 5 days after the expenses have been incurred, and all outstanding advances must be repaid when the voucher is filed.

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

**OUTCOME MEASURES:**

None

**RECOMMENDATION 4**

The CFO should implement procedures to contact employees who have not filed relocation vouchers within 3 to 6 months of requesting an advance to determine the status of their relocation and the date they plan to repay the advance.

**CORRECTIVE ACTION (1):**

The CFO will revise the Relocation Handbook to include procedures making it mandatory for all advances to be repaid when the relocation vouchers are filed.

**IMPLEMENTATION DATE:**

**PROPOSED:** December 31, 2004

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

**CORRECTIVE ACTION (2):**

The CFO will need to revise the following forms: Form 1038 (Request for Advance) and Form 8741 (Relocation Voucher).

**IMPLEMENTATION DATE:**

**PROPOSED:** December 31, 2004

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

**CORRECTIVE ACTION (3):**

The CFO has submitted a Quarterly Notice to NTEU to negotiate requirements for mandating that advances be paid when employees file their vouchers.

**IMPLEMENTATION DATE:**

**COMPLETED:** March 30, 2004

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

**CORRECTIVE ACTION(S) MONITORING PLAN:**

The CFO will issue the revised Relocation Handbook after we completed negotiations with NTEU.

**OUTCOME MEASURES:**

None

**RECOMMENDATION 5**

The CFO should issue guidelines for establishing employee installment agreements and provide an appropriate method or system to monitor compliance with the agreements.

**CORRECTIVE ACTION:**

The CFO will implement debt collection policies and procedures which will provide for the establishment of installment agreements. Whenever feasible, the IRS will collect the total amount of a debt in one lump sum. If a debtor is financially unable to pay a debt in one lump sum, the IRS may accept payment in regular installments.

**IMPLEMENTATION DATE:**

**PROPOSED:** October 1, 2004

## **Improvements Are Needed to Ensure Relocation Advances Are Repaid Timely**

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### **Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid**

**RESPONSIBLE OFFICIAL:**

Associate Chief Financial Officer for Internal Financial Management

**CORRECTIVE ACTION MONITORING PLAN:**

The IRS will obtain financial statements from debtors who represent that they are unable to pay in one lump sum and independently verify such representations whenever possible. If the IRS agrees to accept payments in regular installments, we will obtain a legally enforceable written agreement from the debtor that specifies all of the terms of the arrangement and that contain a provision accelerating the debt in the event of default.

**OUTCOME MEASURES:**

None