

**Procedures to Collect Outstanding  
Emergency Salary Payments Need to Be  
Implemented**

**June 2004**

**Reference Number: 2004-10-113**

**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

June 8, 2004

MEMORANDUM FOR THE CHIEF FINANCIAL OFFICER

*Gordon C. Milbourn III*

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

SUBJECT: Final Audit Report – Procedures to Collect Outstanding  
Emergency Salary Payments Need to Be Implemented  
(Audit # 200310023)

This report presents the results of our review of the Internal Revenue Service's (IRS) collection of outstanding emergency salary payments. The overall objective of this review was to determine whether the IRS took adequate steps to resolve outstanding emergency salary payments and established adequate procedures to account for them.

In summary, employees can receive emergency salary payments if their salary check was lost, stolen, mutilated, or not delivered by mail, or if the salary payment was not issued due to problems with the processing of their time and attendance. The emergency salary payment must be repaid when a second payment is processed by the issuance of a recertified salary check or adjustment to the employee's time and attendance. The IRS reported that 616 emergency salary payments were issued for \$373,000 in Fiscal Year 2003.

The IRS has taken steps to research and resolve the backlog of outstanding emergency salary payments that were issued between 1991 and 2003. Steps have also been taken to develop new procedures for documenting and collecting emergency salary payments. However, there has been a significant delay in the implementation of the use of collection tools on the outstanding debts of current employees. This delay is due to negotiations with the National Treasury Employees Union that have been in progress since June 2002. We have recommended that the Chief Financial Officer (CFO)

promptly implement all of the applicable procedures required by the Federal Claims Collections Standards (FCCS)<sup>1</sup> in another TIGTA report.<sup>2</sup>

Management's Response: IRS management agreed with the facts and analysis in the report. However, the CFO disagreed with our assessment of the delay in implementing the FCCS. The CFO stated that the Labor Relations staff has advised IRS management that aggressive pursuit of debt collection without negotiating implementation with the National Treasury Employees Union (NTEU) would result in an Unfair Labor Practice. Management is validating that advice through the IRS' Associate Chief Counsel (General Legal Services) office. Management has developed debt collection policies and procedures and coordinated them with all business units. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comment: We believe delaying some collection actions pending completion of negotiations with the NTEU is unnecessary. It has been 8 years since the Debt Collection Improvement Act of 1996<sup>3</sup> 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 11 months, which does not appear reasonable based on the scope of the proposed procedures.

Copies of this report are also being sent to the IRS managers affected by the report findings. 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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<sup>1</sup> 31 C.F.R. Parts 900 – 904 (2003).

<sup>2</sup> *Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid* (Reference Number 2004-10-092, dated May 2004).

<sup>3</sup> Pub. L. No. 104-134 (1982).

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## **Procedures to Collect Outstanding Emergency Salary Payments Need to Be Implemented**

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### **Background**

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Employees may receive emergency salary payments if their salary check was lost, stolen, mutilated, or not delivered by mail, or if the salary payment was not issued due to problems with the processing of their time and attendance. The Internal Revenue Service (IRS) reported that 616 emergency salary payments were issued for \$373,000 in Fiscal Year (FY) 2003.

To request an emergency salary payment, an employee must complete an Application for Emergency Salary/Recertified Payment (Form 3525). An IRS designated agent performs research to determine why the employee did not receive payment and calculates the amount of the employee's net pay for the emergency salary payment. The employee's manager must then approve the Form 3525 before a cashier can issue the emergency salary payment from the Small Purchases Imprest Fund. The cashier sends a copy of the Form 3525 to the IRS Beckley Finance Center where it is recorded in the Automated Financial System.<sup>1</sup>

If the emergency salary payment was provided due to a problem with a salary check sent by mail, a recertified salary check is issued and sent to the IRS designated agent. After the designated agent sends the payment to the Beckley Finance Center, the employee's debt is satisfied.

If the emergency salary payment was issued because no salary payment was made to the employee, the employee's timekeeper corrects the time and attendance and the employee is issued a second salary payment. The employee must then repay the emergency salary payment. The outstanding emergency salary payment is considered due and payable when the employee receives the second payment. The debt is considered delinquent if it has not been repaid within 30 days of a letter requesting repayment.

This review was performed at the IRS National Headquarters in the Office of the Chief Financial Officer; Transactional Processing Operations Division, Agency-Wide Shared Services; and the Beckley Finance Center in Beckley, West Virginia, during the period June through December 2003. The audit was conducted in accordance

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<sup>1</sup> A computer-based financial accounting system used by the IRS to track appropriations and expenditures.

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### Steps Are Being Taken to Update Accounting Records and Write-off Uncollectible Emergency Salary Payments

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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.

The IRS did not have adequate procedures to collect outstanding amounts due once employees received their actual salary payment. Furthermore, in some instances, either the designated agent did not request reissuance of the salary check or the IRS financial systems were not properly updated when the emergency salary payment was repaid. An accumulation of outstanding emergency salary payments developed which included outstanding amounts from as far back as 1987.

Prior to the reorganization in 1999, the IRS had four regional offices that were responsible for managing programs and major functions within their geographic jurisdictions. This included accounting for emergency salary payments. As part of the reorganization, the regional offices were eliminated and many of the accounting functions and records were centralized. The Beckley Finance Center subsequently became responsible to account for emergency salary payments and to ensure repayment.

Recognizing the problem of the long outstanding amounts, in 2002 the Beckley Finance Center began to review the documentation needed to verify and collect the amounts. To assist in the effort to resolve emergency salary payments, additional personnel from the Transactional Processing Operations Division were assigned in June 2003. The objective was to determine whether the employees received the funds to repay the emergency salary payments and whether the emergency salary payments were collectible.

We reviewed a judgmental sample of 30 (totaling \$18,600) of the 292 emergency salary payments that were classified as resolved by Beckley Finance Center or Transactional Processing Operations Division personnel. There was adequate documentation to support the actions that were taken to resolve the emergency salary payments. This included copies of the recertified salary checks or personal checks that were used to repay the emergency salary payments.

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During the review of the accounts by the Beckley Finance Center, it became apparent that many of the amounts were past the applicable statute of limitations for collection of the debt, or the documents needed to confirm the request for the emergency salary payment were missing. The Beckley Finance Center had difficulty obtaining these documents which would have been filed at the regional accounting offices prior to the IRS reorganization.

In FY 2003, the IRS took action to write off or establish accounts receivable on 259 emergency salary payments totaling \$111,600. The emergency salary payments were issued between 1991 and 2003. Of the total debt, approximately \$17,800 could not be collected because the 10-year statute of limitations had expired; \$35,200 was written off for other reasons such as the lack of documentation to substantiate the debt or because it would cost more to pursue the debt than the amount that could be collected. Approximately \$58,600 in emergency salary payments was converted to accounts receivable.

We reviewed a judgmental sample of 30 (totaling \$11,500) of the emergency salary payments that were written off or converted to accounts receivable in FY 2003. Thirteen emergency salary payments were written off – 12 for lack of documentation and 1 because of the low dollar amount. Of the 12 that were written off for lack of documentation, we confirmed the cases met the Federal Claims Collection Standards<sup>2</sup> criteria for write off; there was no documentation to support the debt. Of the remaining 17 cases, the emergency salary payments were converted to accounts receivable.

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### **Procedures to Collect Outstanding Emergency Salary Payments Need to Be Implemented**

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The Office of Management and Budget has directed agencies to have a fair but aggressive program to recover delinquent debt. The Debt Collection Act of 1982,<sup>3</sup> the Debt Collection Improvement Act of 1996,<sup>4</sup> and the Federal Claims Collection Standards provide agencies with collection tools including:

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<sup>2</sup> 31 C.F.R. Parts 900 – 904 (2003).

<sup>3</sup> Pub. L. No. 97-365 (1996).

<sup>4</sup> Pub. L. No. 104-134 (1982).

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- The issuance of follow-up letters demanding payment.
- Salary offset by agencies.
- The referral of debts to the Department of the Treasury's Debt Management Services for offset against Federal payments due the employee or former employee when the debts have been delinquent for 180 days.<sup>5</sup>

To address problems with the documentation and collection of emergency salary payments, the Beckley Finance Center established procedures that include instructions for:

- Submitting the Forms 3525 to the Beckley Finance Center.
- Following up on emergency salary payments that have not been repaid.
- Establishing accounts receivable if emergency salary payments are not repaid.
- Maintaining documentation on emergency salary payments.

The Transactional Processing Operations Division is developing procedures to provide guidance and consistency on the responsibilities of the designated agent. The procedures will document the designated agent's responsibility for taking various steps for repayment of emergency salary payments including requesting recertified salary checks, advising employees that the emergency salary payment must be repaid, and submitting the recertified salary checks to the Beckley Finance Center.

If the Beckley Finance Center and Transactional Processing Operations Division effectively implement these procedures, they should ensure that emergency salary payments are adequately controlled and timely follow-up action is taken to resolve amounts that are not repaid.

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<sup>5</sup> A debt is delinquent if it is not paid by the date specified in the initial written demand for payment (generally 30 days).



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### **The IRS is postponing collection action on current employees**

To determine whether the IRS is taking appropriate action to collect outstanding amounts, we reviewed a judgmental sample of 30 (totaling \$15,400) of the 288 outstanding emergency salary payments that were still within the statute of limitation for collection. Our review indicated that some actions were taken to resolve these emergency salary payments including:

- Issuance of initial letters notifying employees of their debt and obligation to repay it.
- Research to determine whether recertified salary checks were issued.
- Research to locate missing Forms 3525.

However, further collection actions were needed on 10 of the 30 emergency salary payments. For these emergency salary payments that involved current employees, the IRS did not take the appropriate additional steps, such as issuing follow-up demand letters, to collect the \$4,300 that was due. This included five cases in which the employees agreed to pay the amounts due in installments after receiving the initial letter, but did not make the payments timely or at all, and five cases where the employees did not respond to the initial letter with a payment. There was no indication the IRS took further action to collect these debts. On the remaining 20 emergency salary payments, either the payment was not yet due or the IRS was taking additional actions to resolve issues such as the employee's dispute of the debt, the lack of documentation to substantiate the debt, or the need to issue a recertified salary check.

The IRS has advised us it is postponing any use of the appropriate collection tools to resolve the outstanding emergency salary payments of current employees until negotiation with the National Treasury Employees Union (NTEU) can be completed. As such, the IRS has only issued initial letters to notify employees of their debt. The IRS has been negotiating with the NTEU since June 2002 on the implementation of debt collection procedures for current employees. The IRS provided a document to the NTEU in April 2003 detailing the actions

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the IRS planned to take to collect the amounts owed by current employees and charge interest, penalty, and administrative costs on these debts. Management has advised us that they have now reached an agreement with the NTEU but are still waiting for a letter of understanding to be signed.

We believe this delay and additional negotiations were unnecessary. As reflected in the National Agreement,<sup>6</sup> the IRS and NTEU negotiated employee debt collection issues. As a result, the IRS is not 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.

We have recommended the Chief Financial Officer promptly implement all of the applicable procedures required by the Federal Claims Collections Standards in another TIGTA report.<sup>7</sup> Therefore, no recommendation is included in this report.

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<sup>6</sup> The current National Agreement between the IRS and the NTEU became effective on July 1, 2002, and ends June 30, 2006.

<sup>7</sup> *Improvements Are Needed to Ensure Relocation Advances Are Timely Repaid* (Reference Number 2004-10-092, dated May 2004).

## **Procedures to Collect Outstanding Emergency Salary Payments Need to Be Implemented**

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) took adequate steps to resolve outstanding emergency salary payments and established adequate procedures to account for them.

To accomplish this objective, we:

- I. Determined whether the efforts to resolve outstanding emergency salary payments were adequate.
  - A. Obtained the Report of Outstanding Emergency Salary Payments from the Automated Financial System (AFS)<sup>1</sup> used by members of the Transactional Processing Operations Division, Agency-Wide Shared Services (AWSS), and identified the number of outstanding emergency salary payments to be resolved.
  - B. Determined the methodology used to collect or resolve the outstanding emergency salary payments.
  - C. Reviewed a judgmental sample of 30 of the 292 emergency salary payments that were resolved as of July 11, 2003, to determine whether the supporting documentation was adequate. This judgmental sample was selected to help evaluate the adequacy of the process for resolving accounts; we did not intend to use the results as a basis for estimating the percentage or value of all accounts for which the documentation was adequate.
  - D. Interviewed members of the Transactional Processing Operations Division, AWSS, who were responsible for resolving outstanding emergency salary payments.
  - E. Reviewed a judgmental sample of 30 of the 288 emergency salary payments outstanding as of July 11, 2003, and determined the reasons that amounts were still outstanding and whether the actions taken to resolve the accounts were appropriate. This judgmental sample was selected to help evaluate the adequacy of the process for resolving accounts; we did not intend to use the results as a basis for estimating the percentage or value of all accounts for which additional action is needed to collect or otherwise resolve the accounts.
  - F. Reviewed a judgmental sample of 30 of the 259 emergency salary payments that were removed from the outstanding emergency salary payment account in Fiscal Year 2003 and evaluated whether the reasons met established criteria. This

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<sup>1</sup> A computer-based financial accounting system used by the IRS to track appropriations and expenditures.

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judgmental sample was selected to help evaluate the adequacy of the process for resolving accounts; we did not intend to use the results as a basis for estimating the percentage or value of all accounts that met established criteria for write off.

- II. Determined whether adequate procedures were established to account for outstanding emergency salary payments.
  - A. Reviewed and evaluated the new procedures for distributing and reporting emergency salary payments that are being developed for the designated agents.
  - B. Reviewed and evaluated the new procedures for collecting outstanding emergency salary payments.
  - C. Reviewed and evaluated the new procedures being developed by the Beckley Finance Center for the accurate accounting for outstanding emergency salary payments on the AFS.
  - D. Interviewed members of the Transactional Processing Operations Division, AWSS.
  - E. Interviewed members of the Administrative Accounting Branch, Beckley Finance Center.

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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

Carl L. Aley, Audit Manager

William A. Floyd, Senior Auditor

Albert M. Sleeva, Senior Auditor

Robert L. Weiss, Senior Auditor

Frank I. Maletta, Auditor

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**Appendix III**

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Chief, Agency-Wide Shared Services OS:A  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaisons:  
    Chief Financial Officer OS:CFO  
    Agency-Wide Shared Services OS:A

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**Appendix IV**

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



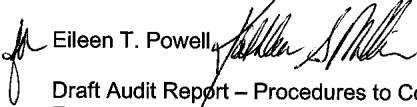
CHIEF FINANCIAL OFFICER

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

May 27, 2004

**RECEIVED**  
**MAY 27 2004**

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:  Eileen T. Powell  
SUBJECT: Draft Audit Report – Procedures to Collect Outstanding  
Emergency Salary Payments Need to Be Implemented  
(Audit # 200310023)

Thank you for the opportunity to comment on your recent review of the Internal Revenue Service's procedures to collect outstanding emergency salary payments. Although the report contains no recommendations, we will use the results of your review to supplement ongoing efforts to improve our internal controls and debt collection processes.

The facts and analysis in the draft report fairly and objectively recognize the strengths and weaknesses of the Service's efforts to collect outstanding emergency salary payments. However, we disagree with the report's assessment of our delay in implementing the Federal Claims Collection Standards to collect outstanding emergency salary payments of current employees until after negotiations with the National Treasury Employees Union (NTEU). Labor Relations has advised us that aggressive pursuit of debt collection without negotiating implementation could result in an Unfair Labor Practice. We are validating that advice through the IRS' Associate Chief Counsel (General Legal Services) office. Debt collection policies and procedures have been developed and coordinated with all business units.

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.