



# Audit Report



OIG-12-071

GOVERNMENT-WIDE FINANCIAL MANAGEMENT: The Financial Management Service Implemented Corrective Actions for Private Collection Agencies

September 10, 2012

Office of  
Inspector General

DEPARTMENT OF THE TREASURY



# Contents

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<b>Audit Report</b> .....	<b>1</b>
Background.....	2
Objectives, Scope, and Methodology.....	3
Corrective Actions Taken by FMS.....	3
<b>Appendices</b>	
Appendix 1: Management Response.....	6
Appendix 2: Report Distribution.....	7

## Abbreviations

CAV	Corrective Action Verification
DCIA	Debt Collection Improvement Act of 1996
DMS	Debt Management Services
FMS	Financial Management Service
JAMES	Joint Audit Management Enterprise System
OIG	Department of the Treasury Office of Inspector General
PCA	private collection agency

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*The Department of the Treasury  
Office of Inspector General*

September 10, 2012

David A. Lebryk  
Commissioner  
Financial Management Service

Under the Debt Collection Improvement Act of 1996 (DCIA), the Financial Management Service (FMS) maintains a schedule of private collection agencies (PCA), which are private sector companies having expertise in the area of debt collection, to assist the government in its debt collection efforts. As part of its Cross-Servicing program,<sup>1</sup> FMS attempts to collect delinquent debt through several means, including demand letters, telephone calls, offset against tax refunds, administrative wage garnishment, and credit bureau reporting. Once FMS has exhausted efforts to collect any outstanding debt itself, the debt is sent to a PCA for collection. The collection activities of the PCAs are monitored by FMS's Debt Management Services (DMS).

This report presents the results of our review of the corrective actions taken by FMS in response to recommendations made in audit reports issued by our office in September 2008 and January 2009 on three PCAs. Specifically, we reviewed the corrective actions for four of the eight recommendations made in the following reports. The four recommendations we did not include in this review were similar to the four recommendations that we did select.

- *OIG-08-043, Private Collection Agencies: Pioneer Credit Recovery, Inc., Needs to Improve Compliance with FMS's Debt Compromise Requirements (Sep. 26, 2008) – 2 recommendations reviewed*

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<sup>1</sup> Cross-Servicing is the process required by DCIA whereby federal agencies refer delinquent non-tax debts over 180 days delinquent to FMS for collection.

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- *OIG-08-044, Private Collection Agencies: Linebarger, Goggan, Blair & Sampson, LLP, Needs to Improve Compliance with FMS's Debt Compromise Requirements* (Sep. 26, 2008) – 1 recommendation reviewed
  - *OIG-09-025, Private Collection Agencies: Diversified Collection Services, Inc., Needs to Improve Compliance with FMS's Debt Compromise Requirements* (Jan. 8, 2009) – 1 recommendation reviewed

In brief, we found that FMS has taken steps to ensure the deficiencies found with the PCAs in our prior audits were corrected. The recommendations we reviewed and the results of our follow-up are discussed in the Corrective Actions Taken by FMS section of this report below. In a management response to this report, FMS stated that it reviewed the draft report and was in agreement. The management response is provided in appendix 1.

## Background

Audit follow-up is an integral part of good management and a shared responsibility of management and auditors. Each agency should establish an audit follow-up system to assure the prompt and proper resolution and implementation of audit recommendations.<sup>2</sup> Treasury Directive 40-03, "Treasury Audit Resolution, Follow-Up, and Closure," requires bureau staff to ensure that (1) audit recommendations are resolved on a timely basis, (2) resolved audit recommendations (i.e., those agreed to by bureau management) are promptly acted upon and that progress with respect to proposed and ongoing corrective actions is adequately monitored, and (3) statistical information and other data are appropriately reported pursuant to all statutory and regulatory requirements.

The status of audit recommendations is tracked in Treasury's Joint Audit Management Enterprise System (JAMES), a system accessible to both the Department of the Treasury Office of Inspector General (OIG) and bureau management. JAMES

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<sup>2</sup> Office of Management and Budget Circular A-50 Revised, "Audit Follow-Up."

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contains tracking information on audit reports from their issuance through completion of all actions related to findings and recommendations.

## **Objectives, Scope, and Methodology**

The objective of this corrective action verification (CAV) was to determine whether FMS management had taken corrective actions responsive to our recommendations to improve PCAs' compliance with the FMS's debt compromise requirements. While we made eight recommendations in the three reports, for this CAV we followed up on four of them because the recommendations not included in this review were similar to the four recommendations that were selected for review.

To accomplish our objective, we interviewed FMS officials in DMS and obtained supporting documentation. We also contacted one PCA to gain a better understanding about a debt compromise issue. We queried JAMES to review the status of the recommendations and reviewed FMS documentation supporting its closure of the recommendations. In addition, we reviewed the annual compliance reviews conducted by DMS and an updated version of the DMS PCA Operations and Procedures Manual. We performed our fieldwork from March to May 2012 at FMS's headquarters in Washington, D.C.

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

## **Corrective Actions Taken by FMS**

### OIG-08-043 – Recommendation 2

We recommended that FMS take action to ensure Pioneer Credit Recovery, Inc. (Pioneer) properly documents its justification for all compromise agreements.

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In response to the recommendation, FMS issued a technical bulletin to all PCAs to remind and reinforce the requirement to properly document the justification for all compromise agreements. In addition, during a DMS annual compliance review of Pioneer covering the period May 2009 to April 2010, FMS found 38 out of 39 sampled debt compromise cases were in compliance with its technical bulletin. For the one noncompliant case, Pioneer failed to obtain FMS's approval for the justification of the debt compromise. After being informed of the matter, Pioneer counseled the responsible manager on the importance of contacting FMS in these instances. FMS was satisfied with the action taken.

#### OIG-08-043 – Recommendation 4

We recommended that FMS take action to ensure that Pioneer includes the 30-day provision<sup>3</sup> in all compromise agreement letters.

In response to the recommendation, FMS had Pioneer submit a revised sample letter which included the required provision. In addition, FMS sampled 18 compromise agreement letters issued by Pioneer between May 2009, and April 2010, and found all 18 letters included the 30-day provision.

#### OIG-08-044 – Recommendation 1

We recommended that FMS take action to ensure that Linebarger, Goggan, Blair & Sampson, LLP (Linebarger), conduct additional training or take other corrective action to ensure that its employees properly document the steps taken prior to compromise.

In response to the recommendation, FMS conducted a 2-day Best Practices Debt Collection Forum in September 2008 for PCAs, which a Linebarger employee attended. We reviewed the forum agenda and materials used for the forum, and concluded

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<sup>3</sup> PCAs are required to include in all accepted payment agreements a provisional notice that failure by the debtor to bring the account current within 30 calendar days from the payment due date will result in (1) the agreement becoming null and void and (2) the original amount of the debt being reinstated and due immediately, minus any payments and plus any accruals.



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that the forum served as a useful training venue for PCA employees to enhance their awareness of documentation for debt compromise. In addition, FMS sent a technical bulletin to PCAs to remind and reinforce the way to properly document the steps taken before compromise.

OIG-09-025 – Recommendation 2

We recommended that FMS take action to ensure that Diversified Collection Services, Inc. (Diversified) sends and retains copies of compromise agreement letters in each case where a compromise is reached.

In response to the recommendation, FMS verified that Diversified sent and retained copies of compromise agreement letters for a sample of 20 debt compromise cases without exception.

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We would like to extend our appreciation for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-6512. The major contributors to this report were Myung Han, Audit Manager, Shaneasha Edwards, Analyst-In-Charge, and Jennifer Adamson, Auditor.

/s/  
Michael J. Maloney  
Director, Fiscal Service Audits



DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20227

August 30, 2012

**MEMORANDUM FOR**

Michael J. Maloney, Director, Fiscal Service Audits for Audit

Office of Inspector General

**FROM:**

*DA* David A. Lebryk, Commissioner *Andy Rogers*  
Financial Management Service

**SUBJECT:**

Final Report- The Financial Management Service: Implemented  
Corrective Actions for Private Collection Agencies

Thank you for the opportunity to comment on the draft audit report entitled, "The Financial Management Service, Implemented Corrective Actions for Private Collection Agencies", issued July 27, 2012. We have carefully reviewed the draft and are in agreement.

cc: Vivian Cooper, Director, Financial and Internal Control Division, FMS

**Department of the Treasury**

Deputy Secretary  
Office of Strategic Planning and Performance Management  
Office of the Deputy Chief Financial Officer, Risk and Control  
Group

**Financial Management Service**

Commissioner  
Assistant Commissioner, Debt Management Services  
Director, Internal Control Branch (OIG Liaison)

**Office of Management and Budget**

OIG Budget Examiner