

PCIE/ECIE REVIEW OF NON-TAX  
DELINQUENT DEBT - UNITED  
STATES CUSTOMS SERVICE

OIG-00-001

OCTOBER 5, 1999



Office of Inspector General

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United States Department of the Treasury



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 5, 1999

OFFICE OF  
INSPECTOR GENERAL

MEMORANDUM FOR RAYMOND W. KELLY, COMMISSIONER  
UNITED STATES CUSTOMS SERVICE

FROM: Dennis S. Schindel *Dennis Schindel*  
Assistant Inspector General for Audit

SUBJECT: PCIE/ECIE Review of Non-Tax Delinquent  
Debt - United States Customs Service

The attached report presents the results of our review of the President's Council on Integrity and Efficiency/ Executive Council on Integrity and Efficiency (PCIE/ECIE) review of non-tax delinquent debt at the United States Customs Service (Customs). Customs has worked diligently towards meeting the objectives of the Debt Collection Improvement Act of 1996. However, our review indicated several areas where improvements are needed. Specifically, Customs needs to improve its debt collection activities, including strengthening debt procedures, processing delinquent debts in a more timely manner, and improving management of delinquent debt files. These measures would minimize delinquent debts and increase collections of monies owed to the Federal Government.

Customs concurred with our recommendations and has already implemented corrective measures on two of the five recommendations identified. Additionally, Customs established a plan to implement corrective action for the remaining three recommendations. Customs' goals are to (1) strengthen the internal controls for debt management of non-tax debts; and (2) ensure that collection actions are initiated in a timely manner in accordance with the Federal Claims Collection Standards, the Debt Collection Improvement Act, and other regulations and statutes regarding the collection of debts owed to the Federal Government. The management comments are discussed where appropriate in the attached report, and a complete text of the comments appears in Appendix 2.

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We appreciate the courtesies and cooperation provided to our staff during the review. Please contact me at (202) 927-5400, or a member of your staff may contact Alexander Best, Jr., Audit Manager, Finance and Debt, at (202) 283-1079, if you wish to discuss this report or have any questions.

Attachment

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## Overview

The Department of the Treasury (Treasury) Office of Inspector General (OIG) conducted an audit of Treasury's compliance with the Debt Collection Improvement Act of 1996 (DCIA). This audit is part of a President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) Government-wide review of non-tax delinquent debt. In performing our audit of the DCIA at Treasury, the United States Customs Service (Customs) was selected as one of the bureaus to be reviewed. The objectives of the audit were to determine whether Customs' reported \$273,641 in non-tax delinquent debt accurately represented its universe of non-tax delinquent debt and to assess the collectibility of the delinquent debt. Also, the audit evaluated Customs' portfolio management activities to ensure that its practices minimize loss to the Federal Government.

Customs has worked diligently towards meeting the objectives of the DCIA, which are to (1) maximize collections of delinquent debts owed to the Federal Government and (2) reduce losses arising from inadequate debt management activities. However, our audit identified several areas where improvements are needed. Specifically, Customs needs to improve its debt collection activities, including strengthening debt procedures, processing delinquent debt in a more timely manner, and improving management of delinquent debt files. These measures would minimize delinquent debts owed to the Federal Government and increase collections of monies owed to the Government.

## Background

Significant Congressional concern regarding non-tax delinquent debt owed to the Federal Government prompted Congress to enact the DCIA effective April 26, 1996. The DCIA requires individual program agencies to aggressively pursue the collection of debt once it becomes delinquent past 30 days. In this regard, the program agency may employ collection tools, such as demand letters, negotiated repayment agreements, wage garnishment, and debt sales, to collect non-tax delinquent debt. Also, the DCIA requires program agencies to reduce losses arising from debt management activities by requiring screening of potential borrowers, aggressive monitoring of accounts, and sharing of information among Federal agencies.

Along with this, the DCIA specifically mandates that Federal agencies, with certain exceptions, transfer non-tax debt over 180 days delinquent to Treasury for collection. Treasury utilizes both centralized administrative offset and Government-wide cross-servicing to facilitate collection of non-tax delinquent debt.

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Customs serves the Nation by collecting duties and tariffs on imported items, protecting its borders from illegal entry of people and substances, and monitoring exports. During Fiscal Year (FY) 1998, Customs reported \$850,640 in receivables, of which \$273,641 was delinquent over 180 days. The majority of these receivables represented travel receivables and advances. The remainder of the receivables were vendor and salary overpayments.

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

The objectives of the audit were to determine whether the \$273,641 non-tax delinquent debt accurately represents Customs' universe of non-tax delinquent debt and to assess the collectibility of the delinquent debt. Also, the audit evaluated Customs' portfolio management activities to ensure that these practices minimize Government loss.

To accomplish the audit objectives, we conducted interviews with Customs financial managers and other officials responsible for administering Customs' debt collection and portfolio management activities. Along with this, we (1) compared agency performance to the requirements of the DCIA and implementing regulations, (2) traced accounts receivable balances to source documents, (3) evaluated the ages and collectibility of accounts receivable, (4) reviewed policies used to certify the existence of the delinquent debt, and (5) examined procedures used to document and classify delinquent debt.

The audit focused on non-tax delinquent debt at the end of FY 1998. We conducted the audit field work during March and April 1999, at the Customs Accounting Services Division in Indianapolis, Indiana. This audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

## Audit Results

Customs has worked diligently towards meeting the objectives of the DCIA, which are to (1) maximize collections of delinquent debts owed to the Government and (2) reduce losses arising from inadequate debt management activities. The audit, however, identified several areas where improvements are needed in Customs' debt management activities. Specifically, we found (1) misclassification of debts, (2) ineffective debt procedures, (3) untimely delinquent debt processing, and (4) inadequate management of delinquent debt files. Improvements in these areas are needed to strengthen Customs' compliance with the requirements of the DCIA and reduce Federal non-tax delinquent debt.

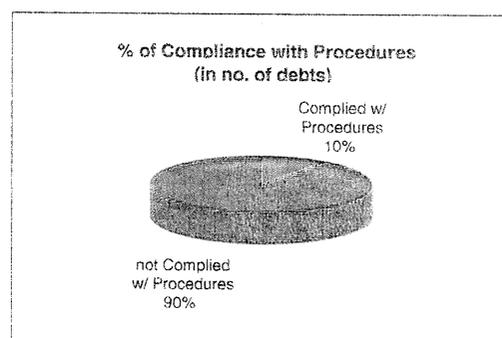
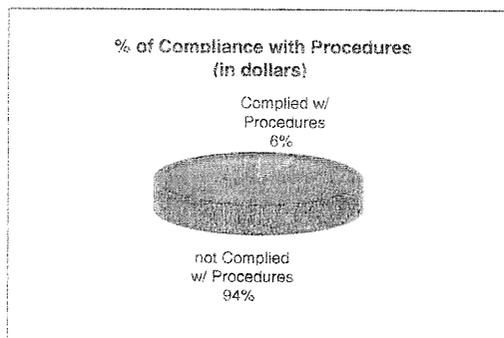
We found that Customs had not complied with procedures for collecting debt totaling \$184,743 of the \$196,713 that we sampled. Of the total of 61 debts sampled, 55 debts were not in compliance. Table 1 reflects Customs' level of compliance with DCIA procedures.

**Table 1**

### ***USCS' COMPLIANCE WITH DEBT COLLECTION PROCEDURES***

	Amount of Debts (\$)
Complied w/ Procedures	11,970
Not Complied w/ Procedures	184,743
Total Sampled	196,713

	No. of Debts
Complied w/ Procedures	6
Not Complied w/ Procedures	55
Total Sampled	61



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**Finding 1 Organizational Changes Have Resulted in More Effective and Efficient Tracking and Collection of Delinquent Debt**

Customs has been more timely in collecting delinquent debt since consolidating most of its delinquent debt in May 1997 under the Accounting Services Division's Collections Team. The delinquent debt collection function was consolidated to more effectively comply with DCIA requirements. Customs' debt collection staff were dedicated to collecting delinquent debt. As a result, debts were being validated, tracked, pursued, collected, and written off if uncollectible in accordance with the provisions of DCIA.

**Finding 2 Delinquent Debt Should Be Properly Classified**

Our audit revealed that Customs did not always properly classify its delinquent debt. In our audit sample of 61 debts, 4 debts totaling \$5,092 were misclassified as delinquent. Office of Management and Budget (OMB) Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, states that agencies shall establish an accurate and timely reporting system to notify collection staff when a receivable becomes delinquent. Of the 4 debts that were misclassified, we found that 2 debts were inappropriately classified as accounts receivable; 1 debt had documentation in the file stating it had been written off in May of 1998 (but it was not removed from the accounts receivable ledger); and the other debt had been collected by the United States Department of Agriculture (but was still being reported as a receivable by Customs). These debts were misclassified because the Accounting Services Division was not closely monitoring Customs' delinquent debt. Even though the amount of the debt is small, improperly classified debts misstate the accounts receivable balances.

**Recommendation 1**

The Accounting Services Division should review all of Customs' delinquent debt to ensure that all debts are properly classified.

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## Management Response and OIG Comment

Customs management concurred with our recommendation and stated that each business area within the Accounting Services Division (Travel Team, Payroll Branch, Commercial Accounts Team), in which administrative receivables originate, will review its respective report of receivables on a monthly basis. This review will assist in identifying improperly classified receivables and ensure that only valid delinquent receivables are forwarded to the Collections Team for its actions in a timely manner. The Collections Team has reviewed all delinquent administrative receivables forwarded to it by the various business areas of the Accounting Services Division. The estimated completion date is October 1, 1999.

The OIG concurs with the proposed corrective action.

### Finding 3 Debt Procedures Should Be Strengthened

Although the Accounting Services Division has a procedures manual for the collection of administrative debt, we found that only the Collections Team was following it. Debt collection is the responsibility of the Collections Team; however, debts originate from three business areas, including travel debts, vendor debts, and employee debts. When debts originate in these areas, the three business areas are required to send out the first demand letter, and then send the debt to the Collections Team for further processing.

In many cases, the three business areas were not sending out the first demand letter, or the first letter was sent out, but the initiating business area would continue to hold the file, delaying debt collection efforts. Thus, a clear delineation of duties is needed between the Collections Team and the three business areas. We believe that these deficiencies may have been due, in part, to the lack of program specific procedures for the three business areas. Specific procedures should be established for business area debts, detailing when debts are to be forwarded to the Collections Team.

We also found that there were no criteria for payment structure when an employee agrees to salary offset.<sup>1</sup> In cases we reviewed, the payment structure was determined arbitrarily by whoever set up the salary offset with payroll.

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<sup>1</sup> Salary offset is a process used to deduct debts owed to the Federal Government by Federal employees from their paychecks.

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## Recommendation 2

The Accounting Services Division should set up procedures for the business areas where debts originate to provide details on processing debts and time frames to forward debt to the Collections Team.

## Management Response and OIG Comment

Customs management concurred with our recommendation and stated that each business area within the Accounting Services Division (Travel Team, Payroll Branch, Commercial Accounts Team), from which administrative debts originate, will ensure that procedures and guidelines are in place so that: (1) collection action is initiated in a timely manner, and (2) delinquent debts are identified and referred to the Collections Team. The estimated completion date is October 1, 1999, for this action.

The OIG concurs with the proposed corrective action.

## Recommendation 3

The Accounting Services Division should set up payment criteria for debts that are voluntarily paid through salary offset.

## Management Response and OIG Comment

Customs management concurred with this recommendation and has completed action on it. Effective June 29, 1999, the Collections Team implemented the following policy regarding collection of administrative debt through salary offset:

### Collection of administrative debt through salary offset.

- Biweekly collections equal to 15 percent of disposable pay is the standard when collecting delinquent employee debt through salary offset;
- Employees may pay more than 15 percent at any time; and
- Employees that request payment of less than 15 percent of disposable pay will be required to send justification of financial hardship to support their request. All requests to pay debts through salary offset of less than 15 percent of disposable pay must be approved by the Collections Team Leader.

The OIG concurs with the corrective action.

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**Finding 4 Delinquent Debts Over 180 Days Old Should Be Processed in a Timely Manner**

Our audit revealed that notices to debtors were not being sent out in a timely manner and that debts were not being sent to the Financial Management Service (FMS) after 180 days. The Accounting Services Division was not closely monitoring its delinquent debt to determine the extent of the delinquency and whether appropriate collection action had occurred.

DCIA states that any Federal agency that is owed a past due, legally enforceable non-tax debt that is over 180 days delinquent shall notify the Secretary of the Treasury of all such non-tax debts for purposes of administrative offset. The Customs' procedures manual for the collection of administrative debt states that a 45-day collection letter should be sent to Customs employees and a 60-day letter to non-Customs employees who have not filed a travel voucher in a timely manner. If the debt has not been paid by, or if a partial payment has been received from, a Customs employee, the debt will be collected by the National Finance Center (NFC) through salary offset. If the debt has not been paid by, or if a partial payment has been received from, an individual who is not a Customs employee, the debt should be submitted to FMS for cross-servicing and the Treasury Offset Program (TOP).

We found in our sample that 67 percent of the debtors were not contacted in a timely manner, and that 21 percent of the files should have been sent to FMS for collection activity but were not. In two cases of employee debt, salary offset action was not initiated in a timely manner for these travelers who ignored regulations that required that travel vouchers be filed within a certain time period.

When a debt owed by an individual has been delinquent for over 180 days, it is required to be sent to the Treasury for offset. TOP is a centralized process to match Federal payments against debts owed to the Government. When a match occurs and a payment recipient who also owes a Federal debt is identified, the payment is reduced or offset by the amount of the debt or payment.

We identified 14 instances, or 23 percent of the files, where Customs had not pursued collection activity on delinquent debt for more than 5 years. In one case, a debt was sent to TOP in August of 1998 for a travel advance that occurred in August of 1990. These examples illustrate Customs' non-compliance with provisions of the DCIA.

When Customs does not closely monitor its debt to ensure the Federal Government is paid in a timely manner, the Government is at greater risk of loss. Further, the debt is most collectible within the first year of delinquency. The longer the debt is allowed to age, the less likely it is that the full debt will be collected.

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#### **Recommendation 4**

The Accounting Services Division should closely monitor Customs' accounts receivable and process delinquent debts in a timely manner to enhance collection abilities.

#### **Management Response and OIG Comment**

Customs management concurred with this recommendation, and stated that each business area within the Accounting Services Division will develop procedures and guidelines that clearly identify its collection process and responsibilities. The guidelines will include a review of the receivable population on a monthly basis. Receivables that are identified as valid and delinquent will be forwarded in a timely manner to the Collections Team for its action.

The procedures for the Accounting Services Division's Collections Team have been completed. Since the consolidation of the collection action on delinquent administrative debt under it, the Collections Team has prepared and reviewed a delinquent receivable report to ensure that eligible debts are forwarded to FMS, for cross-servicing and TOP, if they become 180 days delinquent. The estimated date of completion for action on this recommendation is October 1, 1999. The OIG concurs with the corrective action.

#### **Finding 5 Management of Delinquent Debt Files Should be Improved**

Debt files were not managed in a way to facilitate delinquent debt collection because debt files were not closely monitored. Invalid and/or incomplete files can affect the accuracy of Customs' accounts receivable.

Our sample of 61 receivables revealed that 23 files, or 38 percent of the files reviewed, were incomplete. Some files were missing significant pieces of documentation, which prevented us from determining what work had been performed in an attempt to collect the debt, or even whether the debt was valid. Other files were missing documentation illustrating debt collection actions taken, such as phone conversations, letters to the debtor, and a write-off checklist. OMB Circular No. A-129 states that accurate and complete documentation is critical to provide proper servicing to the debtor, pursue collection of delinquent debt, and obtain payment.

In addition, Customs was not charging interest on the delinquent debt. We were told by Customs management that prior to the DCIA, it was Customs' policy not to charge interest on employee debt. When the collection of employee debt was transferred to the Collections Team, a collection letter was sent that indicated interest and penalties would be charged. However, interest and penalties were not charged.

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Also, vendor debts were not being turned over to the Collections Team after the debts became delinquent. Several files, especially those involving moving expenses, contained letters from the debtors disputing the moving companies' estimates for the moving expenses, yet Customs appeared to ignore the debtors' questions until many years later, when it tried to collect the debt.

Further, Customs failed to follow up on certain delinquent debts. For instance, one file showed Customs issuing a salary offset letter in 1994. NFC collected part of the debt, but with no explanation stopped collection before the debt was paid in full. Customs did not follow up with NFC to determine whether a balance remained. All of these examples occurred because the Accounting Services Division was not closely monitoring its delinquent debt.

Customs had incomplete documentation in many of its delinquent debt files and was not managing the files in such a way as to provide for maximum debt collection. As a result of Customs' incomplete debt files, and lack of follow-up action on debts, many debts that should have been written off were not.

#### **Recommendation 5**

The Accounting Services Division should review all debts over 180 days delinquent to ensure that all the files are complete, interest and/or penalties are charged where applicable, and appropriate collection activity has been initiated.

#### **Management Response and OIG Comment**

Customs management concurred with this recommendation, and stated that corrective action has been completed. The Collections Team has reviewed all debtor files that were forwarded to it for collection action and has identified files that were incomplete or for which supporting documents were missing. The Accounting Services Division continues to coordinate internally to determine if the missing documentation is available to support Customs' claim. Debts that are deemed invalid because supporting documents cannot be located are not eligible for referral to FMS because they are not legally enforceable and are in the write-off process.

In May 1999, Customs began assessing interest and administrative cost on employee debt collected through salary offset. Also, since the consolidation of the delinquent debt collection efforts under the Collections Team, interest and penalties have been assessed on valid and legally enforceable delinquent debts when they are referred to FMS for cross-servicing and TOP. Interest is not assessed on invalid debts submitted for write-off.

The OIG concurs with the corrective action.

## ABBREVIATIONS

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CFO	Chief Financial Officer
Customs	United States Customs Service
DCIA	Debt Collection Improvement Act of 1996
ECIE	Executive Council on Integrity and Efficiency
FMS	Financial Management Service
FY	Fiscal Year
NFC	National Finance Center
OMB	Office of Management and Budget
OIG	Office of Inspector General
PCIE	President's Council on Integrity and Efficiency
TOP	Treasury Offset Program
Treasury	Department of the Treasury

# MANAGEMENT RESPONSE

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**THE COMMISSIONER OF CUSTOMS**

WASHINGTON, D.C.

July 23, 1999

FIS-4-01-OF:AS:AR RB

MEMORANDUM FOR DENNIS S. SCHINDEL  
ASSISTANT INSPECTOR GENERAL FOR AUDIT  
OFFICE OF INSPECTOR GENERAL

THROUGH: JAMES E. JOHNSON  
UNDER SECRETARY (ENFORCEMENT)

FROM: Commissioner *RHK*

SUBJECT: Draft Report of the PCIE/ECIE Review of Non-Tax Delinquent Debt – United States Customs Service

We have reviewed the draft report of audit findings and the recommendations regarding your audit of Customs debt management of non-tax debts. We concur with the recommendations and have already implemented corrective measures on two of the five recommendations identified in your report. Additionally, we have established a plan to implement corrective measures for the remaining three recommendations. Our goals are to: (1) strengthen the internal controls for our overall debt management of non-tax debts; and (2) insure that our collection actions are initiated in a timely manner in accordance with the Federal Claims Collection Standards, the Debt Collection Improvement Act (April 1996), and other regulations and statute regarding the collection of debts owed to the Federal government.

Attached are the corrective measures that we have taken as well as the planned corrective actions with their estimated completion date for implementation. If you have any questions concerning this matter, please contact Mr. C. Wayne Hamilton, Assistant Commissioner, Office of Finance on (202) 927-0600.

Attachment

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## MANAGEMENT RESPONSE

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### COMMENTS ON DRAFT AUDIT FINDINGS REGARDING AUDIT OF ADMINISTRATIVE DEBT COLLECTION PROCESS

Note that the audit report should refer to the "Collections Team" rather than the "Debt Collection Team."

**FINDING 1:** No comments

**FINDING 2: DELINQUENT DEBT SHOULD BE PROPERLY CLASSIFIED**

**Recommendation 1:** The Accounting Services Division should review all of Customs delinquent receivables to ensure that all delinquent debts are properly classified.

**Response:** Customs concurs with this recommendation.

**Action:** Each business area within the ASD (Travel Team, Payroll Branch, Commercial Accounts Team), in which administrative receivables originate, will review their respective report of receivables on a monthly basis. This review will assist in identifying improperly classified receivables and insure that only valid delinquent receivables are forwarded to the Collections Team for their actions in a timely manner. The Collections Team has reviewed all delinquent administrative receivables forwarded to them by the various business areas of ASD.

**Estimated Completion Date:** October 1, 1999

**FINDING 3: DEBT PROCEDURES SHOULD BE STRENGTHENED**

**Recommendation 2:** The ASD should set up procedures for the business areas where debts originate to provide details on processing debts, and time frames to forward debt to the Debt Collections Team.

**Response:** Customs concurs with this recommendation.

**Action:** Each business area within the ASD (Travel Team, Payroll Branch, Commercial Accounts Team), from which administrative debts originate, will insure that procedures and guidelines are in place so that: 1) collection action is initiated in a timely manner, and 2) delinquent debts are identified and referred to the Collections Team.

**Estimated Completion Date:** October 1, 1999

## MANAGEMENT RESPONSE

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**Recommendation 3:** The ASD should set up payment criteria for debts that are voluntarily paid through salary offset.

**Response:** Customs concurs with this recommendation.

**Action: COMPLETED.** Effective June 29, 1999, the Collections Team implemented the following policy regarding collection of administrative debt through salary offset:

Collection of administrative debt through salary offset.

- Biweekly collections equal to 15 percent of disposable pay is the standard when collecting delinquent employee debt through salary offset;
- Employees may pay more than 15 percent at any time; and
- Employees that request payment of less than 15 percent of disposable pay will be required to send justification of financial hardship to support their request. All requests to pay debts through salary offset of less than 15 percent of disposable pay must be approved by the Debt Collection Team Leader.

**Estimated Completion Date:** ACTION COMPLETED.

### FINDING 4: DELINQUENT DEBTS OVER 180 DAYS OLD SHOULD BE TIMELY PROCESSED

**Recommendation 4:** The ASD should closely monitor Customs accounts receivable and process delinquent debts in a timely manner to enhance collection abilities.

**Response:** Customs concurs with this recommendation.

**Action:** Each business area within the ASD will develop procedures and guidelines that clearly identify their collection process and responsibilities. The guidelines will include a review of their receivable population on a monthly basis. Receivables that are identified as valid and delinquent will be forwarded in a timely manner to the Collections Team for their action.

The procedures for the ASD Collections Team are complete. Since the consolidation of the collection action on delinquent administrative debt under the ASD Collections Team, the Collections Team has prepared and reviewed a delinquent receivable report to insure that eligible debts are forwarded to the Financial Management Service (FMS), Department of the Treasury for cross-servicing and the Treasury Offset Program (TOP), if they become 180 days delinquent.

**Estimated Completion Date:** .. October 1, 1999

## MANAGEMENT RESPONSE

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**FINDING 5: MANAGEMENT OF DELINQUENT DEBT FILES SHOULD BE IMPROVED**

**Recommendation 5: The ASD should review all debts over 180 days delinquent to ensure that all files are complete, interest and/or penalties are charged where applicable, and appropriate collection activity has been initiated.**

**Response:** Customs concurs with this recommendation.

**Action: ACTION IS COMPLETED.** The Collections Team has reviewed all debtor files that were forwarded to them for collection action and has identified files that are incomplete or supporting documents are missing. The ASD continues to coordinate internally to determine if the missing documentation is available to support Customs claim. Debts that are deemed invalid because supporting documents cannot be located are not eligible for referral to FMS because they are not legally enforceable and are in the write-off process.

In May 1999, Customs began assessing interest and administrative cost on employee debt collected through salary offset. Also, since the consolidation of the delinquent debt collection efforts on the Collections Team, interest and penalties have been assessed on valid and legally enforceable delinquent debts when they are referred to FMS for cross-servicing and TOP. Interest is not assessed on invalid debts and debts submitted for write-off.

**Estimated Completion Date: ACTION COMPLETED.**

## **MAJOR CONTRIBUTORS TO THIS REPORT**

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## **REPORT DISTRIBUTION**

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