



**U.S. Department of the Interior  
Office of Inspector General**

# **AUDIT REPORT**

**DEBT MANAGEMENT,  
OFFICE OF SURFACE MINING RECLAMATION  
AND ENFORCEMENT AND  
OFFICE OF THE SOLICITOR**

**REPORT NO. 96-I-639  
MARCH 1996**



# United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL  
Washington, D.C. 20240

**MAR 29 1996**

## MEMORANDUM

TO: **The Secretary**

FROM: **Wilma A. Lewis** *Richard N. Rebeck for*  
Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information -  
"Debt Management Office of Surface Mining  
Reclamation and Enforcement and Office of the  
Solicitor" (No. 96-I-639)

Attached for your information is a copy of the subject final audit report.

We found that the Office of Surface Mining Reclamation and Enforcement and the Office of the Solicitor have improved their debt collection programs since our last audit in 1990. Although we found no material weaknesses that resulted in significant amounts of unprocessed collectible debt, we identified actions needed to improve the efficiency and effectiveness of these programs and to ensure full compliance with Federal debt collection requirements.

Since 1987, Surface Mining significantly reduced the staffing level in its Division of Debt Management by about 75 percent in response to a decreasing work load. However, based on our analysis of the Division's fiscal year 1994 work load, we concluded that further staff reductions were warranted, which could result in savings of about \$820,000 annually. Surface Mining officials indicated that they were committed to making further staff reductions as the debt work load decreased. We also found that further action to enforce collection of delinquent accounts is needed, even though only a relatively small amount of Surface Mining's reclamation fee receivables became delinquent (in fiscal year 1994, for example, about 98 percent of all fees were paid in a timely manner). Specifically, Surface Mining needed to ensure that bureau, Departmental, and Federal regulations pertaining to the debt collection function were implemented comprehensively.

Although the Solicitor's Office has made significant progress in reducing the backlog of debt cases, we found that debt processing delays may be exacerbated by recent staff reductions and additional case work assignments. At the two Solicitor's offices reviewed, \$8.0 million of debt had not been processed in a timely manner, consisting of \$6.3 million that should have been written off and \$1.7 million that required further processing to determine whether the debt was collectible. An additional \$2.5 million of uncollectible debt (consisting mainly of cases closed by the Solicitor) had

not been deleted from Surface Mining's accounting records, and \$1.6 million of uncollectible charges had accrued on bankruptcy debt. However, we did not find significant amounts of unprocessed collectible debt.

Surface Mining and the Solicitor agreed to ensure the timely processing of debt and to facilitate the termination of uncollectible debt. Also, Surface Mining agreed to implement the other recommended improvements to its debt collection activities, including: (1) maintaining the Division of Debt Management staff at the level needed to process delinquent debt efficiently; (2) implementing administrative controls to ensure that required debt collection functions are performed in compliance with Federal regulations; and (3) reviewing the status of debt that has been referred to the Solicitor to ensure that receivables are reported accurately and accounted for fully.

If you have any questions concerning this matter, please contact me or Ms. Judy Harrison, Assistant Inspector General for Audits, at (202) 208-5745.

Attachment



# United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL  
Washington, D.C. 20240

MAR 29 1996

## Memorandum

To: Assistant Secretary for Land and Minerals Management  
Solicitor

From: **Judy Harrison** *Judy Harrison*  
Assistant Inspector General for Audits

Subject: Final Audit Report on Debt Management, Office of Surface Mining  
Reclamation and Enforcement and Office of the Solicitor (No. 96-I-639)

This report presents the results of our audit of debt management activities in the Office of Surface Mining Reclamation and Enforcement and the Office of the Solicitor. The objective of the audit was to determine whether Surface Mining and the Solicitor conducted their debt collection programs in an efficient and effective manner.

We found that Surface Mining and the Solicitor's Office have improved their debt collection programs since our last audit in 1990. Further, we found no material weaknesses that resulted in significant amounts of unprocessed collectible debt. However, we identified further actions that are needed to improve the efficiency and effectiveness of these programs and to ensure full compliance with Federal debt collection requirements.

Since 1987, Surface Mining significantly reduced the staffing level in its Division of Debt Management by about 75 percent in response to a decreasing work load. However, based on our analysis of the Division's fiscal year 1994 work load, we concluded that further staff reductions were warranted, which could result in savings of about \$820,000 annually. Surface Mining officials indicated that they were committed to making further staff reductions as the debt work load decreased and that these reductions would occur after staff reduction plans are developed, approved by the Department, and presented to the local union. Prior to the completion of our audit, Surface Mining reduced the Division's staff from 21 to 17 employees. Since completion of our audit, Surface Mining had a reduction in force which further decreased the Division's staff to seven employees, the staffing level suggested in our report. This action will result in substantial cost savings in the debt management program.

We also found that further action to enforce collection of delinquent accounts is needed, even though only a relatively small amount of Surface Mining's reclamation fee receivables became delinquent (in fiscal year 1994, for example, about 98 percent of all fees were paid in a timely manner). Specifically, Surface Mining needed to ensure that bureau, Departmental, and Federal regulations pertaining to the debt collection function were implemented comprehensively.

Surface Mining's fiscal year 1994 financial statements presented fairly the net amount of reclamation fee and civil penalty receivables because Surface Mining used an allowance to offset doubtful accounts. However, we found that gross accounts receivable were overstated because Surface Mining had not written off uncollectible debt, improperly reinstated previously terminated debt, and overstated bankruptcy debt, contrary to Department of the Treasury guidance.

Although the Solicitor's offices had made significant progress in reducing the backlog of debt cases, we found debt processing delays that may be exacerbated by recent staff reductions and additional case work assignments. At the two Solicitor's offices reviewed, \$8.0 million of debt had not been processed in a timely manner, consisting of \$6.3 million that should have been written off and \$1.7 million that required further processing to determine whether the debt was collectible. An additional \$2.5 million of uncollectible debt (consisting mainly of cases closed by the Solicitor) had not been deleted from Surface Mining's accounting records, and \$1.6 million of uncollectible charges had accrued on bankruptcy debt. However, we did not find significant amounts of unprocessed collectible debt.

We recommended that Surface Mining and the Solicitor enter into an agreement to ensure the timely processing of debt and to facilitate the termination of uncollectible debt. We also recommended that Surface Mining: (1) maintain the Division of Debt Management staff at the level needed to process delinquent debt efficiently; (2) implement administrative controls to ensure that required debt collection functions are performed in compliance with Federal regulations; and (3) review the status of debt that has been referred to the Solicitor to ensure that receivables are reported accurately and accounted for fully.

Based on the Solicitor's March 25, 1996, and Surface Mining's March 28, 1996, responses to the draft report (see Appendices 4 and 5, respectively), we consider one recommendation resolved and implemented and the remaining eight recommendations resolved but not implemented. The unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 6),

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit

recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of officials from the Office of the Solicitor and the Office of Surface Mining Reclamation and Enforcement in the conduct of our audit.

cc: Director, Office of Surface Mining Reclamation and Enforcement

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# INTRODUCTION

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## BACKGROUND

The Surface Mining Control and Reclamation Act of 1977 (Public Law 95-87) established the Office of Surface Mining Reclamation and Enforcement and assigned Surface Mining responsibility for administering programs to control the surface effects of coal mining operations and to reclaim abandoned mine lands. Under the Act, Surface Mining is authorized to collect reclamation fees, which are deposited into the Abandoned Mine Reclamation Fund and used to reclaim and restore property that was adversely affected by coal mining conducted prior to passage of the Act. These fees, which are based on the amount of coal produced, are paid quarterly by coal mine operators or in response to audits that have identified underreported coal production (referred to as “audit fees” in this report). The Act also authorizes the assessment of civil penalties against mine operators or permittees who violate conditions of their mining permits or provisions of the Act.

Several organizations within Surface Mining are responsible for billing and collecting reclamation fees and civil penalties. The Assistant Director, Finance and Accounting, has overall responsibility for the management and administration of collection activities. Under Finance and Accounting, the Division of Financial Management maintains accounting records, issues financial reports, bills operators for reclamation fees, and records collections; and the Division of Compliance Management conducts audits of mine operators to ensure that all reclamation fees are paid. At the Knoxville, Tennessee, field office and the Western Service Center in Denver, Colorado, the Civil Penalty Section issues bills for civil penalties. Debt of more than \$200 that has not been paid after demand letters have been issued is assigned to Finance and Accounting’s Division of Debt Management for processing.

The Office of the Solicitor is responsible for collecting delinquent reclamation fees and civil penalties, writing off uncollectible debt, compromising debt (that is, accepting less than the full amount of outstanding debt in full satisfaction of the amount owed), and initiating judicial action to enforce collections. While Surface Mining may refer any amount of debt to the Solicitor for litigation, it is required by Departmental policy to refer all uncollected delinquent debt of more than \$25,000 to the Solicitor.

In fiscal year 1994, Surface Mining collected \$242.6 million of reclamation fees and \$523,000 of civil penalties. As of September 30, 1994, Surface Mining reported gross reclamation fee and civil penalty receivables of \$83.2 million (of which \$71.9 million was delinquent) and a provision for uncollectible debt (an “allowance for doubtful accounts”) of \$68.5 million.



## OBJECTIVE AND SCOPE

The initial objective of the audit was to determine whether Surface Mining conducted its debt collection program in an efficient and effective manner. We expanded our objective to include debt collection activities performed by the Office of the Solicitor because over 75 percent of all delinquent debt as of September 30, 1994, was reported as having been referred to the Solicitor. The scope of our audit included debt collection activities that occurred during fiscal years 1993 and 1994 but did not include a review of debt cases that the Solicitor had closed during this period. We also analyzed fiscal year 1995 data on Solicitor and Surface Mining staffing levels because both offices had reduced staff assigned to the debt collection function subsequent to the period of our review.

During our audit, we also reviewed laws, regulations, and guidance pertaining to the debt collection function and program and financial information pertaining to Surface Mining's debt collection operations. We randomly selected and reviewed delinquent reclamation fee and civil penalty receivables totaling \$699,000 (41 cases) that had been referred to the Division of Debt Management during fiscal year 1994.<sup>1</sup> Using statistical sampling techniques, we also selected for review 145 cases, totaling \$16.2 million of debt, that were reported to have been referred to the Solicitor's Knoxville and Pittsburgh field offices (see Appendix 2). According to Surface Mining reports, these two offices had \$59.3 million of the \$66.7 million of debt that had been referred to the Solicitor as of September 30, 1994.

Audit fieldwork was conducted at Surface Mining and Solicitor headquarters offices in Washington, D.C. and at Surface Mining and Solicitor field offices in Knoxville and in Pittsburgh, Pennsylvania. We also interviewed Surface Mining officials in Denver and in Lexington, Kentucky. We contacted officials from the Department's Office of Policy, Management and Budget; the Department of Justice; and the Department of the Treasury. We also interviewed Surface Mining's collection contractor.

This audit was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

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<sup>1</sup>These cases were selected from 201 fee and 58 audit-fee cases (for \$1.6 million and \$2.3 million, respectively) that had been assigned to Debt Management in fiscal year 1994. We were unable to validate the number or dollar value of civil penalty cases assigned to Debt Management in fiscal year 1994 because Surface Mining's automated system did not produce reports showing civil penalty referrals to Debt Management.

As part of our review, we evaluated the system of internal controls related to debt management. We found that Surface Mining had not implemented adequate controls to ensure that all required debt collection functions were performed and that accounts receivable were reported accurately. Our recommendations, if implemented, should improve internal controls in these areas. We also reviewed the Department of the Interior's Annual Statement and Report, required under the Federal Managers' Financial Integrity Act, for fiscal years 1993 and 1994 and determined that no material weaknesses directly related to the objective and scope of our audit were reported.

## **PRIOR AUDIT COVERAGE**

The Office of Inspector General has issued one audit report in the past 5 years on Surface Mining's debt collection activity. The report, "Fee Compliance **Program**, Office of Surface Mining Reclamation and Enforcement" (No. 90-99), issued on September 27, 1990, stated that timely action was not taken to collect debt owed by 87 of 100 companies reviewed. Specifically, we found that Surface Mining had not initiated collection efforts within established time frames or monitored collection agencies to ensure that timely collection actions were taken. We also reported that the Solicitor had not taken timely action to process debt cases. The report concluded that the "lack of timely collection actions substantially reduced the Government's chances for collecting the \$4.5 million in delinquent fees" reviewed. In its response to the report, Surface Mining stated that it would establish a tracking system and that it had realigned duties of the Collection Branch to improve case processing and monitoring. The Solicitor agreed to review every active case on a routine basis "to insure that appropriate action is being taken."

In our current audit, we found that Surface Mining had developed a tracking system and established a 30-day performance period for processing debt. However, the Division of Debt Management often exceeded this 30-day limit and did not ensure that its collection contractor complied with the contract provision for 180-day debt processing. According to a Division official, these delays did not adversely affect collections.

Our current audit also found that the Solicitor had not fully implemented the debt processing procedures that it had agreed to institute in response to our prior audit report. However, we determined that the Solicitor has made significant progress in writing off uncollectible debt.

## **FINDINGS AND RECOMMENDATIONS**

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### **A. DEBT COLLECTION, OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT**

We found that most reclamation fees were paid before the accounts became delinquent. For example, of the \$242.6 million of reclamation fees paid in fiscal year 1994, fees of about \$238.1 million were paid before the accounts were referred to the Division of Debt Management for collection enforcement. While the Office of Surface Mining Reclamation and Enforcement performed most of the debt collection procedures required by Federal, Departmental, and bureau regulations, we identified areas in which actions could be taken to improve the cost effectiveness of operations and ensure compliance with applicable Office of Management and Budget guidance on debt collection. We found that debt collection activities were not conducted in a cost-effective manner because Surface Mining had not made sufficient reductions in the Division's staffing levels commensurate with a decreased work load, ordered unneeded asset information reports on debtors, and had not fully implemented Office of Management and Budget debt collection guidance. Based on our analysis of the Division's 1994 work load, we estimated that appropriate staffing reductions could save about \$820,000 annually. Also, Surface Mining could better protect the economic interest of the Government if regulations on debt collection were enforced more comprehensively.

#### **Cost Effectiveness of Debt Processing**

According to Part 344 of the Departmental Manual, bureaus are required "to ensure that the debt collection function is being carried out as accurately, efficiently, and economically as possible." We believe that Surface Mining could perform the debt collection function more cost effectively by reducing the Division of Debt Management's staff and by implementing greater controls over the ordering of reports on debtors' assets.

**Staffing.** Surface Mining significantly reduced the staffing level in the Division of Debt Management as the number of debt cases assigned to the Division decreased. In 1987, for example, the Division was staffed with 42 Federal and 42 contractor employees, who processed a backlog of debt cases in addition to currently assigned cases. In 1994, the Division had reduced its staffing level to about 21 full-time equivalent Federal employees. According to Surface Mining officials, this reduction was the result of attrition, early retirements, employee transfers, and termination of contractor support services.

We analyzed the Division's work load during fiscal year 1994 to determine whether the staffing level was appropriate for processing debt cases assigned to the Division in that year. For our analysis, we obtained information from the Division on the tasks involved in collecting debt and on the amount of work needed to perform each task. We also evaluated selected reclamation fee and civil penalty cases that were assigned to the Division in fiscal year 1994 to determine the amount of time and effort typically spent on each case. In computing work load requirements, we estimated the amount of time spent on each debt case and on related administrative support activities, and we factored in additional time needed to comply fully with Office of Management and Budget debt processing requirements.

Based on our analysis, we concluded that the Division, which had a staffing level of 21.25 full-time equivalent positions in fiscal year 1994, could have processed the assigned debt cases and performed the related administrative tasks with about 8 full-time equivalent employees in fiscal year 1994 and 7 employees in fiscal year 1995 (see Appendix 3). Had staffing been maintained at this reduced level, we estimated that Surface Mining could have saved about \$820,000 in Division staff expenses in fiscal year 1994, exclusive of any costs associated with staff reductions.

During the audit, Surface Mining officials indicated that they were committed to making further reductions as the debt collection work load decreased and that these reductions would occur after staff reduction plans were developed, approved by the Department, and presented to the local union. Prior to the completion of our audit, Surface Mining reduced the Division's staffing level from 21 to 17 employees and implemented a reduction in force after the completion of our audit, which decreased the Division's staffing level to 7 employees, the level suggested in our report. These actions will result in substantial cost savings in the debt management program.

**Net Worth Determinations.** The Division obtained information on debtors' assets by ordering net worth determination reports, which ranged in cost between \$273 and \$305 in fiscal years 1993 and 1994. In fiscal years 1993 and 1994, Division collection specialists ordered 260 net worth reports, at a cost of about \$74,000. According to a Surface Mining official, these reports are used to "decide whether to terminate delinquent debts, refer debt to the Solicitor's Office, or whether to accept installment payment plans from debtors." The Division established a threshold for obtaining these reports: \$3,650 for reclamation fees and \$7,000 for civil penalties. The Division also limited the number of reports that could be ordered, basing the number on whether the debtor was a corporate or a noncorporate entity.

Our review of 39 (\$11,200) of the 260 reports identified 18 reports (\$4,600) that were ordered unnecessarily. Specifically, collection specialists did not cancel orders for reports when the debt was paid prior to the contractor's performing a net worth review; ordered an excess number of reports on the same debtor; and ordered reports on debtors owing less than the threshold amounts.

We found that there were insufficient supervisory controls to ensure that net worth reports were obtained only when appropriate. According to a Division official, no supervisory approval was needed to order reports, and there was no requirement that specialists should cancel orders if the debt was paid before the contractor conducted a financial review,

## **Implementation of Debt Collection Guidance**

Federal guidance requires that certain actions be taken to manage debt and to enforce collections. The Debt Collection Act of 1982, for example, requires agencies to charge debtors interest and penalties and an administrative fee sufficient to recover an agency's "costs of processing and handling delinquent claims." Office of Management and Budget Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires agencies to refer debtors to credit bureaus and to report certain debtors to the Internal Revenue Service. According to Department of the Treasury guidance, use of "collection tools," such as those required by Circular A-129, "provides Federal agencies with a strong and effective tool to collect delinquent [debt]."

**Administrative Fees.** We found that Surface Mining did not charge debtors an administrative fee sufficient to recover the cost of processing delinquent debt, as required by Federal and Departmental regulations. During fiscal year 1994, Surface Mining assessed a \$16 per month fee on each unit of reclamation fee debt and a \$15 per month fee on each unit of civil penalty debt to recover the Division's administrative costs. The administrative fee charged to each unit of reclamation debt had been set in fiscal year 1991 and had not been updated since that time. Although we estimated that a rate of \$28 would have been required to recover the Division's fiscal year 1994 operating costs (exclusive of space, utilities, and communications costs), we concluded that charging such a rate would be inappropriate, considering the overstaffing conditions in the Division. In our opinion, the administrative fee should be recomputed once appropriate staffing reductions are made.

**Credit Bureau Referral.** Circular A-129 requires Federal agencies to report debtors who owe more than \$100 to credit bureaus. Although Surface Mining reported reclamation fee and civil penalty debtors to a credit bureau during most of fiscal years 1993 and 1994 (it discontinued referral of reclamation fee debt in March 1994), it did not report debtors identified by audit to the credit bureau and it did not report debtors to all the credit bureaus listed in the Department of the Treasury's "Credit Bureau Reporting Guide." According to a Financial Management official who said that reporting debt to credit bureaus was a "top priority," Surface Mining needs to program its computers to implement this requirement.

**Treasury Reporting.** Surface Mining did not fully comply with requirements of Circular A- 129's Tax Refund Offset Program. Under the Program, agencies are

required to report all debt (more than \$25 and from 90 days to 10 years delinquent) to the Internal Revenue Service for repayment through an offset to a debtor's tax refund. Surface Mining, however, reported only a portion of this debt (only the principal amount of debt and only debt that had been assigned to the Solicitor's Knoxville office). A Division official said that Surface Mining did not fully participate in the Offset Program because the Program was labor intensive and because Surface Mining did not have a consolidated data base with information needed for cost-effective implementation.

According to Part 344 of the Departmental Manual, bureaus need to ensure that "aggressive action [is taken] on a timely basis with effective follow-up to collect all debts." Circular A-129 further requires Federal agencies to service and collect their receivables "in an efficient and effective manner to protect the value of the Federal Government's assets." We believe that by reducing costs (through staff reductions and more prudent net worth report ordering), by ensuring that the administrative cost of collecting delinquent debt is recovered, and by using available collection enforcement tools (as described in Circular A-129), Surface Mining could better achieve Departmental and Federal debt management objectives.

## **Recommendations**

We recommend that the Director, Office of Surface Mining Reclamation and Enforcement:

1. Ensure that the Division of Debt Management's staff is maintained at the level needed to process current levels of delinquent debt efficiently.
2. Establish supervisory controls over the ordering and cancellation of net worth determination reports.
3. Recalculate the administrative cost recovery rate after the Division's staffing level has been reduced.
4. Develop administrative systems and procedures to implement, in a more cost-effective manner, requirements of Office of Management and Budget Circular A-129 for reporting delinquent debt to credit bureaus and to the Department of the Treasury.

## **Office of Surface Mining Reclamation and Enforcement Response and Office of Inspector General Reply**

In its March 28, 1996, response (see Appendix 5) to the draft report, the Office of Surface Mining Reclamation and Enforcement concurred with all of the recommendations, stating that it had implemented corrective action on

Recommendation 1 and that it would “implement administrative controls to ensure that debt collection functions are performed in compliance with Federal regulations” and develop guidelines on net worth determination report ordering. Based on the response, we consider Recommendation 1 resolved and implemented and Recommendations 2, 3, and 4 resolved but not implemented (see Appendix 6).

## **B. DEBT COLLECTION, OFFICE OF THE SOLICITOR**

Although the Office of the Solicitor has made significant progress in writing off uncollectible debt, we found that additional action is needed to process the Solicitor's backlog of debt cases for termination and, to a lesser extent, for further collection effort. According to Department of the Treasury guidance, agencies are required to process debt in a timely manner and to write off debt that is uncollectible. However, because Solicitor staff members who formerly processed Surface Mining debt have been reassigned or terminated, and Solicitor field offices that previously worked solely on Surface Mining cases have been assigned additional work, the remaining backlog of debt at the Solicitor's offices may not be processed in a timely manner. We found that \$8.0 million of \$16.1 million of debt that was assigned to two Solicitor's field offices as of September 30, 1994, had not been processed in a timely manner.

Historically, a significant amount of debt that was referred to the Solicitor's field offices by Surface Mining has been written off, and a relatively small amount of debt has been collected. During fiscal years 1990 through 1994, \$99.4 million of debt was referred to the Solicitor's offices. Of this amount, \$82.5 million was written off and \$7.4 million was collected by the Solicitor. The amount of debt assigned to the Solicitor's offices decreased by \$10.6 million (from \$64.9 million to \$54.3 million) during this same time period. In fiscal years 1993 and 1994, 1,044 new debt cases were referred to the Solicitor, and the Solicitor closed 3,049 debt cases.<sup>2</sup>

To determine the status of cases currently assigned to the Solicitor's offices, we reviewed 142 cases, involving receivables totaling \$16.1 million, that were assigned to the Knoxville and Pittsburgh field offices as of September 30, 1994. Overall, we found that 77 (54 percent) of the cases had not been processed in a timely manner. Specifically, \$6.3 million of debt, or 54 cases, had not been written off, even though the attorneys said that they considered the debt to be uncollectible. Another 23 cases, for \$1.7 million of debt, had been inactive for years, or the attorneys had taken no action to collect or to determine the collectibility of the debt during the scope of our audit (fiscal years 1993 and 1994).

In interviews, attorneys said that recent staff reductions and the loss of administrative support personnel who had assisted in the termination of uncollectible debt had adversely impacted the Solicitor's ability to process debt cases. According to the

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<sup>2</sup>These debt "cases" are actually units of debt that Surface Mining reported to the Department of the Treasury as accounts receivable. The Solicitor accounts for debt differently, classifying the aggregate debt owed by a company as a "case." Therefore, Surface Mining and the Solicitor report a different number of debt cases. For example, in the internal report "Enforcement and Collection Statistics," the Solicitor reported that it had closed 738 debt cases and received 312 new debt cases in fiscal years 1993 and 1994.



attorneys, debt cases, particularly those having minimal collection prospects, have a “lower priority” than other types of litigation, such as enforcement of the environmental, health, and safety standards of the Surface Mining Control and Reclamation Act.<sup>3</sup>

Based on staffing data supplied by attorneys at the Solicitor’s Knoxville and Pittsburgh offices, we found that the number of personnel at these field offices had been reduced from about 28 attorneys and 13 administrative support personnel in fiscal year 1993 to about 20 attorneys and 7 administrative support personnel in fiscal year 1995. While the staffing level in the two field offices has decreased, we found that the range of litigation services rendered by these offices may increase substantially. For example, under a fiscal year 1995 reorganization, Solicitor’s field offices that previously worked exclusively on Surface Mining cases were scheduled to assume responsibility for cases referred by other bureaus and agencies within the Department. As such, debt write-off, which historically has not received a high priority, may receive even less attention.

To ensure that staff reductions do not adversely affect debt collection efforts and to comply with Department of the Treasury guidance entitled “Managing Federal Receivables,” which states that an agency should “act to resolve its delinquencies as quickly as possible, since the collectibility of the agency’s debts will decrease as the debts become older,” the Solicitor needs to change its method of processing debt. Such a change might be accomplished if Surface Mining assumed some of the tasks now being performed by the Solicitor. According to attorneys at the Solicitor’s offices, there are several post-referral processing tasks, such as obtaining affidavits on debtors’ assets, preparing termination memoranda, and referring cases to the Department of Justice, that do not require an attorney’s expertise. We believe that with Surface Mining’s assistance in these post-referral administrative tasks, debt processing could be expedited.

At the time we completed our fieldwork, Surface Mining’s Division of Debt Management and the Solicitor’s Division of Surface Mining were working on a special project to improve debt processing. As part of this project, the Division’s collection specialists were being trained to assume greater responsibility for debt that historically was referred to the Solicitor. Although we did not evaluate the results of this project, we consider the collaboration to be potentially beneficial because it may strengthen the Solicitor-Surface Mining working relationship and resolve a

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<sup>3</sup>The need for additional staff resources to process debt cases at the Solicitor’s offices has been a continuing issue. In the August 1991 report “Recommendations to Expedite Collection and Minimize Processing of Uncollectible Debt,” a Solicitor-Debt Management working group wrote: “This gap between staffing and workload has contributed to delays in processing cases. Cases in litigation are given the highest priority, but at the expense of cases in the pre-litigation and post-judgment stages. This has resulted in a backlog of both unfilled cases and post-judgment cases.”

number of debt cases prior to the cases being referred to the Solicitor's offices. However, based on the results of our audit, we do not believe that this arrangement will ensure that once debt is referred to the Solicitor, it will be processed in a timely manner.

## **Recommendation**

We recommend that the Solicitor of the Department of the Interior and the Director, Office of Surface Mining Reclamation and Enforcement, negotiate an agreement that provides for Surface Mining to assume responsibility for the administrative tasks related to processing debt that has been referred to the Office of the Solicitor.

## **Office of the Solicitor Response and Office of Inspector General Reply**

In its March 25, 1996, response (see Appendix 4) to the draft report, the Solicitor concurred with the recommendation, stating that "planning is currently underway to implement it." The response, however, took exception to our audit approach. Specifically, the response stated, "By refusing to review files which were closed during the two year period, the [auditors] eliminated the most active cases: the ones which were successfully resolved during that time" and only included debt cases that were "lower priority" and "less collectible." The response also stated that "collection cases are reviewed upon receipt to determine the chances of success; and those with higher potential for collecting money due the Government are pursued before those with lower potential . . . a simple policy which prioritizes work to maximize collections."

Regarding the Solicitor's statement that the cases we reviewed were not representative, our report clearly acknowledges (the transmittal letter and page 9) that the Solicitor's Office made significant progress in reducing the backlog of cases during fiscal years 1993 and 1994. In reducing the backlog of delinquent debt by \$47.9 million, we noted that the Solicitor's offices collected \$3.7 million (8 percent) and wrote off \$44.2 million (92 percent) of debt. Notwithstanding those efforts, we also noted that the cases referred to the Solicitor's Office as of September 30, 1994, represented delinquent debt of \$66.7 million. We focused our review on these cases because this sampling approach provided the most current information available for identifying causes of delays in processing cases for termination or collection; therefore, we believe that this information will be more useful to the Solicitor's Office. We found that approximately one-half of these open cases had been pending at the Solicitor's Office for over 2 years, and, as such, our review covered debt collection activities taken during fiscal years 1993 and 1994. Finally, we discussed our sampling method with attorneys at the Knoxville and Pittsburgh offices, who did not question our approach or suggest that closed cases be reviewed. Had comments about our sample selection been provided before we completed our audit fieldwork,

we could have clarified our methodology further or possibly expanded our sample to address specific concerns of the Solicitor's Office.

We are fully supportive of the Solicitor's policy of prioritizing debt based on an assessment of the debt's collectibility, but since we did not review specific closed cases, we did not comment on whether this policy was implemented effectively.

### **Office of Surface Mining Reclamation and Enforcement Response and Office of Inspector General Reply**

In its March 28, 1996, response (see Appendix 5) to the draft report, the Office of Surface Mining Reclamation and Enforcement concurred with the recommendation, stating that Surface Mining would define the administrative tasks to be assigned to its office and would "develop a debt collection strategy to provide a systematic uniform method for collecting delinquent debt." Based on the response, we consider the recommendation resolved but not implemented (see Appendix 6).

## **C. ACCOUNTING RECORDS**

The Office of Surface Mining Reclamation and Enforcement's fiscal year 1994 financial statements presented fairly the net amount of reclamation fee and civil penalty receivables because Surface Mining had offset uncollectible receivables with an allowance for doubtful accounts. However, gross accounts receivable were overstated because Surface Mining had not written off debt cases that had been closed by the Office of the Solicitor; improperly reinstated terminated debt; and had not recorded bankruptcy debt at the collectible amount. The Chief Financial Officers Act requires Federal agencies to implement effective financial management practices to ensure that reliable financial information is provided. Further, Federal and Departmental regulations and guidance require that debt be written off if it is uncollectible. However, Surface Mining had not implemented effective controls to verify the status of debt referred to the Solicitor or to ensure that previously terminated and bankruptcy debts were recorded accurately. As a result, Surface Mining accumulated uncollectible debt that should have been written off. According to the Department of the Treasury, this practice has an adverse effect on receivables management because uncollectible receivables create a "distortion" in delinquency figures that "seriously undermines efforts to implement sound [debt] management practices and procedures." Overall, we found that of the \$16.1 million of September 30, 1994, receivables reviewed, receivables of \$2.5 million and \$1.6 million were uncollectible and overstated, respectively.

In its fiscal year 1994 financial statements, Surface Mining reported that it had net accounts receivable of \$14.7 million, of which \$14.6 million was attributable to reclamation fee and civil penalty receivables. These net receivables consisted of gross reclamation fee and civil penalty debt of \$83.2 million (of which \$71.9 million was delinquent), which was offset by a \$68.5 million allowance for uncollectible debt.

Although the use of an allowance for uncollectible debt is an appropriate means of accounting for potentially uncollectible receivables, Federal agencies are required to write off or terminate debt when a receivable is determined to be uncollectible. Because Surface Mining included uncollectible receivables in its allowance rather than writing off these accounts, it overstated its gross accounts receivable in its fiscal year 1994 financial reports.

### **Inactive Cases**

During our review of 142 debt cases that Surface Mining reported as having been referred to the Solicitor, we found that 23 cases, for \$2.5 million, of reclamation fee and civil penalty receivables at September 30, 1994, were uncollectible. This debt consisted of 14 cases (\$2,127,000) closed by the Solicitor that remained as receivables in Surface Mining's accounting system, 6 cases (\$283,000) for which the Solicitor had no record of referral, and 3 cases (\$54,000) for which the Solicitor could not locate

the files. Overall, more than 54 percent of the debt reviewed was not in a collectible status, including the \$2.5 million of uncollectible debt (15 percent of the reviewed debt) and the \$6.3 million of debt discussed in Finding B that had not been processed for termination (39 percent of the reviewed debt).

Although Surface Mining has procedures for monitoring debt that has been referred to the Solicitor (the written acknowledgement of referred debt and the preparation of memoranda and coding sheets for terminated debt), these controls did not ensure that referred debt was reported accurately in the accounting system. To determine why referred debt was reported inaccurately, we compared Surface Mining's records of reclamation fee receivables (referred to the Solicitor's Knoxville office) with cases included in the Knoxville attorneys' debt tracking system. Based on a computer match of these two data sources, we identified 23 cases, with debt totaling \$538,000, that were included in Surface Mining's accounting records but that were not listed in the Solicitor's tracking system for the following reasons:

- The Solicitor had closed the case but had not prepared a termination memorandum or coding sheet to terminate the debt (six cases for \$221,000).

- The Solicitor had terminated all but a portion of the outstanding debt, which also should have been terminated, and the remaining debt had "grown" as additional interest, penalties, and administrative costs accrued on the balance (two cases for \$6,000).

- Neither the Solicitor nor the Division had a record of the debt, and we were unable to determine the status or the validity of the debt (15 cases for \$311,000).

Although the Division performed periodic reconciliations on debt that had been referred to the Solicitor, we found that these reconciliations did not provide sufficient assurance that debt was reported accurately. For example, during a July 1992 reconciliation project, the Division asked the Solicitor to provide information on the status of certain debt cases that had been referred to the Solicitor's Knoxville office. In response, the Solicitor stated that although it had no record of the debt's referral, it had terminated collection effort on other debt owed by a related company. Despite this response, the Division took no further action to terminate or refer the debt to the Solicitor's offices. For another company (with reclamation fees payable from 1979 through 1982), the Division reviewed the debt in 1987, 1988, and 1990, with the last notation on the case stating, "No [information] available on current status of referral." Although the Solicitor's records showed that this case was closed in 1983, Surface Mining's fiscal year-end 1994 records reported that this receivable totaled more than \$134,000.

To ensure that the status of debt cases is reported correctly, a comprehensive reconciliation of Surface Mining and Solicitor records is needed. Such a reconciliation could be performed by comparing reclamation fee and civil penalty debt listed in Surface Mining's automated accounting systems with debt recorded in the Solicitor's Litigation Tracking System, which provides information on both active and closed cases.

## **Reinstated Debt**

We identified five cases in which previously terminated debt was reinstated inappropriately. According to the Department of the Treasury's June 1990 report "The Governmentwide Task Force Final Report on Write-Off," agencies should not reinstate debt that has been written off previously. Instead, at the time of collection, the agencies should reverse the write-off to document that "recovery of the debt is realized."

Contrary to this guidance, debt previously written off was reinstated before any agreement was reached on the amount or date of repayment. In one case, an attorney requested the reinstatement of debt that had been written off in July 1994 so that the case could be reopened for negotiation and so that updated financial information could be obtained. This debt, which totaled \$473,000 as of September 30, 1994, had not been repaid as of March 1995.

## **Bankruptcy Debt**

The United States Code (11 U.S.C. 362) states that the filing of a petition for bankruptcy "operates as a stay" and prevents creditors from "any act to collect, assess, or recover a claim against the debtor that arose before the [filing]." As interpreted by a Solicitor's staff attorney, this provision "expressly notes" that the Government is not entitled to recover penalties and administrative costs that are accrued on petition debt (that is, debt that arose before the bankruptcy filing) after the debtor filed for bankruptcy and "interest is a low priority bankruptcy claim and is almost never recoverable."

The automated systems that account for reclamation fees report bankruptcy debt separately. However, these systems have not been designed to "freeze" debt at the amount owed when the debtor filed a petition for bankruptcy or at the amount of the claim filed by the Government. As such, the systems accrue interest, penalties, and administrative charges on prepetition debt, even though these additional charges are uncollectible. Of the \$16.1 million of debt reviewed at the Solicitor's offices, we identified \$1.6 million of uncollectible interest, penalties, and administrative costs that had been accrued on prepetition bankruptcy debt after the petition date.

Unlike the reclamation fee accounting systems, the civil penalty system can block interest accruals on bankruptcy debt. However, when the interest accrual is deactivated, the system eliminates all interest that has been accrued (even though this interest might be recoverable under bankruptcy law). Also, because the civil penalty system does not freeze penalty or administrative fee accruals, these uncollectible charges on prepetition bankruptcy debt continue to accrue.

We also found two bankruptcy debt cases in which the Government had entered into an agreement to accept partial payment or had been notified that funds would be distributed to creditors for less than the full amount of the receivable. In these cases, no action had been taken to adjust the receivables to the collectible amount.

## **Recording Receivables**

Surface Mining established an allowance for uncollectible debt that covered over 95 percent of its delinquent receivables as of September 30, 1994. As such, any overstatement of gross receivables in Surface Mining's financial statements was largely offset by the allowance and did not have a material effect on the overall reasonableness of the reported net accounts receivable. Nonetheless, Federal guidance discourages the overstatement of receivables and requires agencies to write off delinquent debts "as soon as they are determined to be uncollectible."

We believe that the retention of uncollectible debt in the accounting records has an adverse effect on debt management. For example, it distorts the number of cases that is actively being handled by the Solicitor. It also creates additional work for collection specialists who periodically review delinquent accounts. For example, the Division estimated that in fiscal year 1993, it spent about 1,000 hours reviewing the status of debt that had been referred to the Solicitor.

In our opinion, the ability of Surface Mining to collect debt would not be adversely impacted by its taking aggressive action to write off uncollectible debt. Because Surface Mining has the Applicant Violator System, an automated system that contains information on coal mine operator and permittee debtors, including those having debt that was written off, it retains the ability to enforce payments by denying permits to debtors.

## **Recommendations**

We recommend that the Director, Office of Surface Mining Reclamation and Enforcement:

1. Reconcile debt recorded in Surface Mining's automated accounting system with debt recorded in the Office of the Solicitor's Litigation Tracking System. Based on the reconciliation, the debt found to be closed should be terminated, and

debt should be referred to the Solicitor as appropriate if the Solicitor does not have a record of the debt's referral.

2. Issue guidance on the reinstatement of previously terminated debt. The guidance should be consistent with Department of the Treasury policy that authorizes the restoration of inactive debt "at the time recovery of the debt is realized."

3. Program the automated accounting systems so that interest, penalties, and administrative costs related to bankruptcy debt are reported accurately.

4. Decrease, as appropriate, the amount of bankruptcy debt to the collectible amount when a payment plan or a bankruptcy court distribution plan provides for repayment at less than the recorded amount of the receivable.

### **Office of Surface Mining Reclamation and Enforcement Response and Office of Inspector General Reply**

In its March 28, 1996, response (Appendix 5) to the draft report, the Office of Surface Mining Reclamation and Enforcement concurred with the recommendations, stating that Surface Mining would "reconcile debt reported in [Surface Mining] and Solicitor accounting and tracking systems; issue guidance on the reinstatement of previously terminated debt; waive interest, penalties and administrative costs for bankruptcy debt after the petition date; and decrease the amount of bankruptcy debt to the amount collectible when repayment will be less than the recorded amount of the receivable." Based on the response, we consider all four recommendations resolved but not implemented (see Appendix 6).



## CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Funds To Be Put To Better Use</u>
Debt Collection Practices - Division of Debt Management Staff Reduction	\$820,000 <sup>1</sup>

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<sup>1</sup>The cost savings have been achieved as a result of the reduction in force implemented by Surface Mining subsequent to the completion of our review.

**SAMPLING RESULTS OF  
SOLICITOR'S OFFICES IN KNOXVILLE AND PITTSBURGH**

(Amounts in 000's)

	<b>AML-Fee</b>		<b>AML-Audit</b>		<b>Civil Penalty</b>		<b>Bankruptcy</b>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Universe	356	\$15,493	224	\$11,322	316	\$22,774	109	\$9,689
Sample	49	4,986	42	3,519	24	1,553	30	6,147
Uncollectible								
Sample	10	754	1	97	7	877	5	736
Projection	117	4,127	4	298	74	6,115	24	1,575
Should be Terminated								
Sample	26	3,030	12	1,034	7	303	9	1,912
Projection	157	7,831	67	3,217	111	8,195	21	2,374
Subtotal - Uncollectible Status								
Sample	36	3,784	13	1,131	14	1,180	14	2,648
Projection	274	11,958	71	3,515	185	14,310	45	3,949
Timely								
Sample	5	251	18	1,764	5	198	14	3,395
Projection	18	775	81	4,950	72	5,183	52	5,321
Untimely								
Sample	8	951	11	624	2	68	2	104
Projection	64	2,760	72	2,857	26	843	12	419
Total <sup>1/</sup>								
Sample	49	4,986	42	3,519	21	1,446	30	6,147
Projection	356	15,493	224	11,322	283	20,336	109	9,689
Overstated <sup>2/</sup>								
Sample		72		220	-	-		1,290
Projection		127		379	-	-		2,119

<sup>1/</sup>The universe and sample amounts do not agree with the total sample and projected amounts because there were three cases pending appeal as of September 30, 1994, that were not analyzed because they were in a suspended collection status.

<sup>2/</sup>The overstated amounts are included in the "Timely" and "Untimely" categories above (see page 2 of this appendix).

## SAMPLE SELECTION AND ANALYSIS

### Selection

We selected sample items for review from computer listings of reclamation fee and civil penalty receivables. These receivables listings are the same data bases the Office of Surface Mining Reclamation and Enforcement used for financial reporting purposes.<sup>1</sup> Of \$66.7 million of debt that was classified as having been referred to all of the Solicitor's offices, we reviewed debt that reportedly had been referred to the Solicitor's offices in Knoxville, Tennessee, and Pittsburgh, Pennsylvania. The sample debt selected for review consisted of 145 cases, totaling \$16.2 million, of the 1,005 cases and the \$59.3 million of debt reported as assigned to the Solicitor's two field offices. We excluded from our analysis three civil penalty cases, totaling \$107,000, that were pending appeal as of September 30, 1994. Therefore, we reviewed \$16.1 million of debt (142 cases).

To perform our statistical analysis, we established as our sampling unit the aggregate amount of debt owed by each company and separated the debt into the following categories: reclamation fee debt, reclamation fee audit debt, civil penalty debt, and reclamation fee debt in bankruptcy status. Each category of debt was stratified based on the age (the period of time at the Solicitor's office) and the amount of debt.

### Analysis

Based on our analysis, we classified the sample debt cases into the following categories:

- Debt that was in an uncollectible status. ("Uncollectible") These cases included debt cases that were closed by the Solicitor yet remained as receivables in Surface Mining's accounting systems; debt for which the Solicitor had no record of referral; and debt cases for which the Solicitor had no file.

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<sup>1</sup>For sampling purposes, from the universe of debt referred to the Solicitor, \$66.7 million, we excluded: the \$2.3 million of debt that had been referred for termination; about \$300,000 of bankruptcy debt; \$700,000 of debt that the Solicitor had referred to the Department of Justice; and \$200,000 of reclassified interest. The adjusted universe from which our sample was selected totaled \$63.2 million.

- Debt that should have been terminated. (“Should be Terminated”) These are debt cases that should have been terminated, according to the responsible attorney.

- Debt that was processed in a timely manner. (“Timely”) These debt cases were processed for collection during the scope of our review. This category also included cases for which the attorneys provided a valid explanation for not processing the cases for collection.

- Debt that was not processed in a timely manner. (“Untimely”) These debt cases were not processed for collection during the scope of our audit, and attorneys provided no explanation (other than that debt collection work had a low priority) for the lack of collection efforts. The category also included cases that were unassigned for long periods of time, during which no collection action was taken.

- Overstated debt. This is the amount of uncollectible debt and consists of: (1) interest, penalties, and administrative costs charged to prepetition bankruptcy debt after the debtor filed a bankruptcy petition; and (2) the amount of recorded debt that exceeds the amount of recoverable debt under a settlement agreement or a bankruptcy court notification of distribution.

We used a weighted average to compute statistical estimates of the number and amount of debt in each category and calculated 90 percent confidence intervals for the number and amount of debt.

**90% CONFIDENCE INTERVALS FOR PROJECTIONS AT THE  
KNOXVILLE AND PITTSBURGH SOLICITOR'S OFFICES**

	AML-Fee		AML-Audit		Civil Penalty		Bankruptcy	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
		(In 000's)		(In 000's)		(In 000's)		(In 000's)
Uncollectible								
Estimate	117	\$4,127	4	\$298	74	<b>\$6,115</b>	24	\$1,575
Lower Bound	53	2,083	1	97	12	<b>1,198</b>	6	819
Upper Bound	180	6,171	14	724	135	<b>11,032</b>	42	2,331
Should be Terminated								
Estimate	157	7,831	67	3,217	<b>111</b>	<b>8,195</b>	21	2,374
Lower Bound	91	5,650	32	2,007	<b>42</b>	<b>2,684</b>	9	1,912
Upper Bound	224	10,011	102	4,427	<b>180</b>	<b>13,707</b>	39	2,973
Timely								
Estimate	18	775	81	4,950	72	<b>5,183</b>	52	5,321
Lower Bound	5	251	44	3,625	11	<b>348</b>	30	4,436
Upper Bound	47	1,727	117	6,275	133	<b>10,018</b>	74	6,206
Untimely								
Estimate	<b>64</b>	2,760	72	2,857	<b>26</b>	<b>843</b>	12	419
Lower Bound	<b>13</b>	1,108	36	1,639	<b>2</b>	<b>68</b>	2	104
Upper Bound	<b>116</b>	4,413	108	4,075	<b>66</b>	<b>2,982</b>	26	925
Overstated								
Estimate	N/A	127	N/A	379	-	-	N/A	2,119
Lower Bound	N/A	72	N/A	238	-	-	N/A	1,729
Upper Bound	N/A	257	N/A	582	-	-	N/A	2,610

**WORK LOAD ANALYSIS OF  
THE DIVISION OF DEBT MANAGEMENT  
BASED ON FISCAL YEAR 1994 ACTIVITY**

<b>Collection Effort</b>	<b>Staff Hours for Work Performed</b>	<b>Staff Hours to Perform Required Work in Fiscal Year 1995<sup>1</sup></b>
Reclamation Fee Cases	2,794	2,794
Audit Fee Cases	1,033	1,033
Civil Penalty Cases	358	358
Compromises and Settlements	130	130
Net Worth Report Processing	57	57
Tax Offset Program <sup>2</sup>	425	860
Systems Maintenance	430	430
Management Tracking	287	287
Task Force Work <sup>3</sup>	512	120
Archiving Records <sup>4</sup>	5,911	
Solicitor Termination Reviews	252	252
Other <sup>5</sup>	280	280
Management and Supervision	1,720	1,720
Backlog Processing <sup>6</sup>		<u>3,960</u>
<b>Total</b>	<b>14,189</b>	<b>12,281</b>
<b>Staff Requirements<sup>7</sup></b>	<b>8.2</b>	<b>7.1</b>

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<sup>1</sup>Fiscal year 1995 staff hours are based on a work load comparable to fiscal year 1994 and on time needed to complete record archiving and initiate backlog processing.

<sup>2</sup>Additional staff days to comply with all Office of Management and Budget Circular A-129 requirements.

<sup>3</sup>Task force staff hours have been decreased to reflect reduced staffing levels.

<sup>4</sup>Debt Management estimate. This work was largely completed in fiscal year 1994.

<sup>5</sup>Includes affidavits, information requests, internal control reviews, and procedures development.

<sup>6</sup>Based on 990 cases at the Solicitor's offices as of September 30, 1994, which required an estimated 4 hours per case to review.

<sup>7</sup>The staff hour requirements were computed by dividing the total number of hours by the 1,720 hours. (The 1,720 hours represents the annual work hours per year computed based on 43 workweeks times 40 hours.)



# United States Department of the Interior

OFFICE OF SURFACE MINING  
Reclamation and Enforcement  
Washington, D.C. 20240

MAR 28 1996

## Memorandum

To: Acting Assistant Inspector General for Audits  
From: ~~Acting~~ Director *Ed Kay*  
Subject: Response to Draft Audit Report on Debt Management, Office of Surface Mining Reclamation and Enforcement and Office of the Solicitor (Assignment No. E-IN-OSM-024-94)

This is in response to your January 17, 1996 memorandum and draft audit report entitled "Debt Management, Office of Surface Mining Reclamation and Enforcement and Office of the Solicitor (Assignment No. E-IN-OSM-024-94)". We appreciate the opportunity to review the draft report and to provide our comments.

I understand that as part of the review, our staffs met to resolve several concerns. Based on the results of the discussions, I concur with the revised findings and recommendations.

Our specific plans for implementing your recommendations are shown on the attachment. The Assistant Director, Finance and Administration will be the responsible official for carrying out the implementation plan.

If you have any questions concerning our response, please contact George Stone, Audit Coordinator, Office of Strategic Planning and Budget, at (202) 208-7840.

Attachment

OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT  
IMPLEMENTATION PLAN - RECOMMENDATIONS RESULTING  
FROM AUDIT BY OFFICE OF INSPECTOR GENERAL  
DEBT MANAGEMENT

The table below reflects the actions planned to implement the recommendations and a projected target date for completion of those actions. The official responsible for plan implementation is the Assistant Director, Finance and Administration.

RECOMMENDATION	ACTION	PROJECTED COMPLETION DATE
GENERAL : Enter into an agreement with the Office of the Solicitor to ensure the timely processing of debt and to facilitate the termination of uncollectible debt.	Develop a debt collection strategy to provide a systematic uniform method for collecting delinquent debt and defining administrative tasks to be performed by OSM.	9/30/96
1. Maintain the Division of Debt Management staff at the level needed to process delinquent debt efficiently.	Ensure that future budget requests reflect appropriate resource needs.  NOTE : OSM is not requesting additional resources for debt management in its FY 1997 budget request. Future resource needs will be determined as a normal course of OSM's strategic planning activity and annual budget submissions.	Completed.
2. Implement administrative controls to ensure that required debt collection functions are performed in compliance with Federal regulations.	Develop guidelines covering the ordering of net worth determinations, the recalculation of the administrative cost recovery rate, and to actively report delinquent debt to credit bureaus and the Department of the Treasury.	9/30/96
3. Review the status of debt that has been referred to the Solicitor to ensure that receivables are reported accurately and accounted for fully.	Reconcile debt reported in OSM and Solicitor accounting and tracking systems; issue guidance on the reinstatement of previously terminated debt; waive interest, penalties and administrative costs for bankruptcy debt after the petition date; and decrease the amount of bankruptcy debt to the amount collectible when repayment will be less than the recorded amount of the receivable.	9/30/96





# United States Department of the Interior

OFFICE OF THE SOLICITOR

MAR 25 1996

## MEMORANDUM

TO: Office of the Inspector General  
FROM: Ed Cohen, Deputy Solicitor *Ed Cohen*  
SUBJECT: Draft Audit Report on Debt Management;  
Office of Surface Mining and Office of the Solicitor

Attached please find comments to the draft audit report issued last month.

SOLICITOR'S COMMENTS  
ON  
OFFICE OF INSPECTOR GENERAL  
DRAFT AUDIT REVIEW - DEBT MANAGEMENT

The Office of the Solicitor offered both documentary evidence and verbal comments to representatives of the Inspector General during and after a meeting last September which also included the Office of Surface Mining. Most of the information submitted was fairly incorporated into the draft report, eliminating any necessity for lengthy comments at this time.

One significant comment is still necessary. On page three of the draft under the heading "Objective and Scope," appears the following sentence: "The scope of our audit included debt collection activities that occurred during fiscal years 1993 and 1994, but did not include a review *of* debt cases that the Solicitor had closed during this period." The second half of this sentence was added at the request of the Solicitor's representatives in an attempt to explain that the case files reviewed were selected from a limited category, and *were* not a random sample. However, the point is not adequately explained.

The inspectors began with a list of case files which were open on the last day *of* the two-year period, and examined a number of those files for collection activity. They found that approximately half *of* the cases reflected delays in processing, and reported that finding; leading one to the conclusion that only half of the Solicitor's collection caseload is pursued in a timely manner.

The fact is that by refusing to review files which were closed during the two year period, the inspectors eliminated the most active cases: the ones which were successfully resolved during

that time. Cases which were pursued actively to collection in full , or to completed documentation of uncollectibility, were closed, and therefore omitted from review. These are the very cases where the activity was concentrated. The pool of files from which the inspectors took their sample were the least active files because staff attorneys had evaluated them and determined that their potential for successful collection was low.

All debt is not equal. In both Pittsburgh and Knoxville, collection cases are reviewed upon receipt to determine the chances of success; and those with higher potential for collecting money due the Government, are pursued before those with lower potential. It is a simple policy which prioritizes work to maximize collections. This policy was explained to the inspectors, **together with the** fact that high-potential collection cases are high priority in the Solicitor's office and are pursued quickly. However, it was mostly lower-priority, less collectible cases which they ended up reviewing, by limiting themselves to files that were open at the end of the two-year period. As one would expect, those files were less active; many are simply awaiting documentation of uncollectibility. Those are the files that should be lower-priority. As one would also expect, the inspectors "did not find significant amounts of unprocessed collectible debt" (cover letter of Acting Assistant IG for Audits) .

The inspector General draft report correctly recognizes that the Solicitor's Office has made significant progress in writing off uncollectible debt, and acknowledges two important factors in case processing delays: personnel reductions and assignments to other

legal work. Its recommendation for improvement is basically advice to "change its method of processing debt" (p. 18), by getting some help with the workload. The proposal is to obtain assistance with the non-legal tasks of collection from the Office of Surface Mining. The Solicitor's Office agrees with that proposal, and planning is currently underway to implement it.

## STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A. 1	Implemented	No further response to the Office of Inspector General is required.
A.2-A.4; B.1; and C.1-C.4	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL BY:**

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Sending written documents to:

calling:

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**U.S.** Department of the Interior  
Office of Inspector General  
1550 Wilson Boulevard  
**Suite 402**  
**Arlington, Virginia 22210**

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**Suite 410**  
**Arlington, Virginia 22209**

**(703) 235-9221**

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Office of Inspector General  
North Pacific Region  
238 Archbishop F.C. Flores Street  
Suite 807, PDN Building  
**Agana Guam 96910**

**(700) 550-7279 or**  
**COMM 9-011-671-472-7279**

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1550 Wilson Boulevard

Suite 402

Arlington, Virginia 22210

