

Internal Control Assessment Bankrupt Debtors

Purpose

To ensure that FSA's internal control policies and standards regarding the collection of bankrupt debtor accounts comply with policies established by the Treasury Financial Manual.

Background

In accordance with the Treasury Financial Manual, FSA must cease collection attempts when a debtor files for bankruptcy. When FSA becomes aware of a bankruptcy, a copy of the bankruptcy notification with the list of creditors and the court's ruling must be obtained. Upon confirmation of bankruptcy all collection activity ceases. If the bankruptcy is dismissed, collection efforts may resume. However, if it is discharged and the debt is included on the list of creditors, the case is returned to FSA. FSA must also report debts discharged in bankruptcy on a 1099C. The Internal Revenue Service will then determine whether or not there is any tax consequence and proceed further.

Internal Control Standard

FSA must cease collection efforts in the event of debtor bankruptcy.

Assessment of FSA's Compliance*

We held meetings with FSA staff and determined that collection attempts of bankrupt debtor accounts ceased when the bankruptcy was confirmed. However, of XX bankrupt debts sampled, XX% had not been confirmed with a copy of the court's ruling. No explanation was given for the XX% of debts, which had not been confirmed by the court.

*The actual testing phase including interviews and examination of sampled records has not yet occurred. This write up is only a sample of what may be discovered during the testing phase of the FMFIA process.