

## Processing Bankruptcies

To ensure the OCSE, FMS and State databases are synchronized, the following procedures have been developed to process cases that are involved in bankruptcy.

- **Bankruptcy notifications received from FMS**

1. If FMS receives a bankruptcy notification within a year of the bankruptcy filing, they inactivate the case to ensure that an offset doesn't occur. Then they send the bankruptcy notification to OCSE.
2. When OCSE receives the bankruptcy notification from FMS, we will do an on-line update using the "R" transaction to turn **on** the TAX and ADM exclusion indicators. This information will be sent to FMS with the next update. Because the "R" transaction replaces what is already on the system, if either the FIDM or PAS exclusion indicator is turned on, they will also be entered by OCSE during the data entry process.
3. When the update file is returned from FMS, OCSE will verify that the proper exclusion indicators are set. Then OCSE will reactivate the bankruptcy case at FMS.
4. OCSE will send a notification letter to States indicating which obligors have filed bankruptcy (see Attachment 2). OCSE will attach a consolidated list of obligors and indicate which exclusion indicators were set for the obligors (see Attachment 3). In addition, OCSE will include any paperwork that we receive from FMS. The State should set the exclusion indicator in their own system to mirror the FMS and OCSE databases.
5. When the obligor completes the bankruptcy process, it is the responsibility of the State to remove the exclusion indicators. This can be accomplished by submitting an "R" transaction to set the appropriate exclusion indicators for the case.
6. If the Tax and/or ADM exclusion indicators are removed, OCSE strongly encourages the State to provide the taxpayer with a notice informing them that their case is again eligible for offset. This may be the Pre-Offset Notice if the State sends its own notice, or another notice written by the State.
7. If OCSE sends your notice and a year has passed since the obligor filed bankruptcy, we strongly encourage States to delete the case and resubmit it so that a new Pre-Offset Notice can be issued.
8. OCSE will keep a log of all actions – date notification received from FMS, Exclusion Indicators entered/checked, and when the notice was sent to the State.

- **State Receives notification of a Bankruptcy**

1. If a State receives a bankruptcy notification, you should immediately do an on-line update using the “R” transaction to set the TAX and ADM exclusion indicators. Remember to include the FIDM and PAS exclusion indicators if they were originally in the record.
2. States can confirm a case status by doing an on-line check with SIMPC.
3. States may also choose to delete bankruptcy cases when they are notified of the bankruptcy filing. Remember, when a case is deleted, it is not subject to any federal enforcement remedies.

- **Internal Revenue Service (IRS) sends Bankruptcy Notification to OCSE**

1. If the IRS notifies OCSE of a bankruptcy filing, OCSE contacts the State to determine if the money has been returned to the obligor. If not, the IRS makes a reversal on the account. The State should then take appropriate action on the case to ensure proper future processing. OCSE suggests that these cases be processed as if the State received notification of the bankruptcy.
2. Once the obligor completes the bankruptcy process, it is the responsibility of the State to remove the exclusion indicators. This can be accomplished by submitting an “R” transaction to set the exclusion indicators appropriate for the case.
3. If the Tax and/or ADM exclusion indicators are removed, OCSE strongly encourages the State to provide the taxpayer with a notice informing them that their case is again eligible for offset. If OCSE sends your notice and a year has passed since the obligor filed bankruptcy, we strongly encourage States to delete the case and resubmit it so that a new Pre-Offset Notice can be issued.