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The Defense Supply Agency's  
Administration Of Debt And  
Payment Claims B-117604(10)

UNITED STATES  
GENERAL ACCOUNTING OFFICE

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MAY 28, 1971



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CLAIMS DIVISION

IN REPLY PLEASE QUOTE

B-117604(10)

Dear General Hedlund:

This is our report on the Defense Supply Agency's administration of debt and payment claims. We made our review at the Defense Supply Agency Headquarters, Cameron Station, Alexandria, Virginia, and at four of its field activities in Philadelphia, Pennsylvania. We shall appreciate being advised of the actions taken or planned on the matters discussed in this report.

Copies of this report are being sent to the Director, Office of Management and Budget.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. M. Campbell".

Director, Claims Division

Lieutenant General Earl C. Hedlund, USAF  
Director, Defense Supply Agency

D I G E S T

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WHY THE REVIEW WAS MADE

The General Accounting Office (GAO), as a part of its continuing program of review of agency regulations, procedures, and operations in the areas of claim settlement and debt collection, made reviews at the Defense Supply Agency (DSA) Headquarters at Cameron Station, Alexandria, Virginia, and at the following field activities in Philadelphia, Pennsylvania.

1. Defense Contract Administration Services Region (DCASR).
2. Defense Industrial Supply Center (DISC).
3. Defense Personnel Support Center (DPSC).
4. Defense Surplus Sales Office (DSSO).

FINDINGS AND CONCLUSIONS

Instructions contained in the DSA Accounting and Finance Manual are generally adequate and in conformity with the GAO manual and the Federal Claims Collection Standards. GAO noted, however, several instances in which the instructions needed to be corrected or clarified. (See pp. 4, 5, and 10.)

In general the payment claims adjudication at DCASR, DISC, DPSC, and DSSO were handled fairly and properly. GAO noted, however, instances at DSSO in which appeals had not been submitted to higher authority, contrary to instructions issued by the Defense Logistics Services Center. (See p. 9.)

Debt claims collection operations in certain instances could be improved by:

- More aggressive collection action as contemplated by the Federal Claims Collection Standards. (See p. 12.)
- Greater use of personal interviews and telephone contacts in the collection effort. (See p. 12.)
- Charging interest on the principal indebtedness as provided under Department of Defense policy.

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- Better documentation by the four field activities of their administrative collection action, indicating the basis for compromise or for terminating or suspending collection action. (See p. 13.)

RECOMMENDATIONS OR SUGGESTIONS

The report contains specific recommendations to the Director, DSA, for bringing about the improvements discussed above. (See pp. 6, 9, 11, and 19.)

In general GAO is recommending that the Director:

- Emphasize to field activities the importance of timely execution of all necessary collection actions.
- Require more frequent supervisory reviews of claims in process to ensure greater compliance with prescribed requirements.

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ABBREVIATIONS

DSA	Defense Supply Agency
DCASR	Defense Contract Administration Services Region
DISC	Defense Industrial Supply Center
DPSC	Defense Personnel Support Center
DSSO	Defense Surplus Sales Office
DSAM	DSA Accounting and Finance Manual
DLSC	Defense Logistics Services Center
SCO	sales contracting officer
ASBCA	Armed Services Board of Contract Appeals
DDM	Defense Disposal Manual
DOD	Department of Defense
GAO	General Accounting Office

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- Require more frequent supervisory reviews of claims in process to ensure greater compliance with prescribed requirements.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has reviewed and evaluated claims operations in connection with the settlement of claims against the United States (payment claims) and the collection of debts due the United States (debt claims) at the Defense Supply Agency Headquarters and at the following field activities in Philadelphia, Pennsylvania.

1. Defense Contract Administration Services Region.
2. Defense Industrial Supply Center.
3. Defense Personnel Support Center.
4. Defense Surplus Sales Office.

We gave specific attention to compliance by DSA and its subordinate activities with:

1. Title 4 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, hereinafter referred to as the GAO manual.
2. Regulations issued jointly by the Comptroller General and the Attorney General of the United States under section 3 of the Federal Claims Collection Act of 1966 (31 U.S.C. 952). These joint regulations, hereinafter referred to as the Federal Claims Collection Standards, prescribe for the administrative collection, compromise, termination of agency collection action, and referral to GAO of debt claims (4 CFR 101-105).



## CHAPTER 2

### REGULATIONS RELATING TO PAYMENT CLAIMS

Although we found the instructions contained in the DSA Accounting and Finance Manual (DSAM 7000.1) to be generally adequate and in conformity with title 4 of the GAO manual, we believe that the following instructions should be clarified.

1. Section 1, paragraph 120102, provides that claims against the United States be settled locally, if permitted, or be reported to the Comptroller at DSA Headquarters for transmission to GAO. Although section X, paragraph 121001, states that, as a general rule, all claims against the United States ultimately are settled by GAO either by postaudit or by prior adjudication, it does not describe specifically the classes of claims which must be referred to GAO for adjudication prior to payment or denial. Section 5, title 4, of the GAO manual enumerates the various classes of claims required to be settled by GAO.
2. It is stated in note 1, section X, paragraph 121001, that there are claims which executive agencies have statutory authority to settle and which are not subject to review by GAO. Since DSA has no such authority, this note could be confusing to the field activities unless the exceptions are listed and explained in detail. Note 2 of the same section and paragraph appears to confuse the settlement of a claim with the settlement of the disbursing officer's account, since it states that most payments made by a disbursing officer are preliminary, subject to acceptance by GAO of the action of the disbursing officer, and that acceptance by GAO is the final settlement.

Acceptance by GAO of the action taken by the disbursing officer is final only concerning the liability of the accountable officer. If a payment is found to be in error, collection action against the payee is proper even though the disbursing officer's account has been settled.

3. Section X, paragraph 121004, states that it is incumbent upon claimants to inform themselves regarding statutory limitations applicable to their particular claims. It is true that the basic responsibility for filing a claim before expiration of the statute rests with the claimant.

To protect the interests of persons unfamiliar with the provisions of the 10-year barring act (31 U.S.C. 71a), however, claims received by agencies for which the right of payment accrued 8 years or more prior to the date of receipt and which cannot promptly be approved and paid in the full amount claimed should be referred immediately to the GAO Claims Division, since the recording of a claim in GAO stops the running of the barring statute. (See 4 GAO 7.1.)

4. Section X, paragraph 121005-3, provides that:

"Requests for advance decisions on a voucher before a disbursing officer for payment will be addressed to the Comptroller General of the United States \*\*\*; it will be noted that the advance decision procedure is much more direct \*\*\* than the claims procedure prescribed herein. This advance decision method should be used on claims of individuals or a business entity which are of a nature such that they can be reduced to a voucher for payment, i.e. there are few variables which may affect the amount claimed if it is approved."

When doubt exists as to the propriety of certifying a claim for payment, the certifying officer either may refer the matter to the GAO Claims Division for direct settlement or may prepare and transmit a request to the Comptroller General for an advance decision. The former procedure is usually more desirable if the problem relates merely to the disposition of an individual claim since it is simpler and less time-consuming. The latter procedure is preferable if an authoritative decision is desired to serve as a precedent.

RECOMMENDATIONS RELATING TO DSAM  
FOR PAYMENT CLAIMS

We recommend that:

1. Section 1, paragraph 120102, be amended to enumerate the classes of claims set forth in 4 GAO 5 which must be referred to the GAO Claims Division for settlement or to make reference thereto.
2. Notes 1 and 2 of section X, paragraph 121001, be omitted.
3. Paragraph 121004, section X, be amended to provide that claims received by agencies for which the right of payment accrued 8 years or more prior to the date of receipt and which cannot promptly be approved and paid in the full amount claimed be immediately referred to the GAO Claims Division.
4. Paragraph 121005-3., section X, be reworded to point out the difference between a problem related to the disposition of an individual claim and a problem for which an authoritative decision is desired to serve as a precedent.

## CHAPTER 3

### REVIEW OF PAYMENT CLAIMS OPERATIONS AT

#### DCASR, DISC, DPSC, AND DSSO

##### DCASR

The Auditor General of DSA issued a report in August 1967 on the results of his audit of the accuracy of the contingent liability records at DCASR. He recommended that existing controls be strengthened to ensure that progress payment limitations are properly applied and that contracts containing multiple funds with outstanding progress payments are reviewed. During fiscal years 1968 and 1969, the DCASR Internal Review Group also made reviews. Therefore we limited our review to those claims which had been opened or closed subsequent to December 1968.

We gave special attention to (1) termination of contracts for the convenience of the Government, (2) unearned discounts taken by the Government, and (3) invoices aged 90 days or over. From our review of various claims against the Government and our discussions with responsible personnel, it appears that DCASR is properly disposing of its payment claims and is adhering to the principles established in the GAO manual.

##### DISC

No internal review was made of the processing of payment claims at DISC. During fiscal year 1969 it received 31 payment claims. These claims resulted from (1) bid mistakes, (2) repackaging charges, (3) overshipments of material, and (4) damages to equipment. As of May 28, 1969, 10 of the 31 cases were still open. Five cases were denied, two were forwarded to GAO, and 14 were resolved in favor of the claimant.

From our review of 10 of the settled cases, it appears that DISC is properly and fairly disposing of its payment claims. We found that the GAO manual was being followed, that the decision to forward doubtful claims to GAO had

been made by a person having final responsibility for deciding appropriate administrative action, and that DISC officials were aware of a claimant's right to appeal a denial of his claim to GAO.

#### DPSC

We found that an audit of the practices and procedures used by DPSC in recording, controlling, and reporting commitments and unliquidated obligations had been made by the Auditor General, DSA, in February 1968. To ascertain whether payment claims were being handled properly, we selected for review one open and three closed cases. In addition, we reviewed 10 claims for unearned discounts. There was no indication that DPSC was not properly disposing of payment claims.

#### DSSO

In December 1967 the DSA Inspector General issued a report on a general inspection conducted at DSSO during the period October 30 to November 3, 1967. Although the report made one recommendation pertaining to a minor matter involving claims, it did not discuss compliance by DSSO with claims-processing procedures. The March 1969 report of the Defense Logistics Services Center (DLSC), which has cognizance of DSSO activities, likewise did not involve the processing requirements of claims.

From July 1, 1968, through May 2, 1969, 51 payment claims were processed by DSSO. Of the 51 claims, 46 were settled. We selected nine of the settled claims for review, of which eight were for adjustments due to alleged misdescriptions of the property for sale and one was for missing property.

The sales contracting officer (SCO) denied requests for adjustments in seven of the eight claims for misdescriptions of property. The purchasers appealed the decision of SCO in four of the seven claims. SCO properly submitted two of the four claims to DLSC in accordance with DLSC instructions which provide that, if a purchaser requests further consideration after the denial of a request for

adjustment, the matter be referred to DLSC for review. The other two claims were denied improperly the second time by SCO.

In discussing the improper handling of two of the claims, we learned that, unless the purchaser clearly makes known his desire to appeal or to have his claim reviewed by higher authority, ordinarily it will not be so processed. Instead, SCO will make another decision which usually results in a second denial. We pointed out that the DLSC instructions should be followed when further consideration is requested. In addition, we pointed out that 4 GAO 5.1(3) provides that reclaims of items previously denied by the administrative agency be forwarded to the GAO Claims Division, unless it is determined administratively that the action taken was clearly in error and can be corrected properly by the agency.

RECOMMENDATIONS RELATING TO  
PAYMENT CLAIMS OPERATIONS AT DSSO

We recommend that appropriate action be taken to ensure that, after SCO has denied a request for adjustment, any appeal for reconsideration is forwarded to DLSC for review. We recommend also that, unless DLSC determines that the claim should be paid, appropriate action be taken to ensure that all appeals to final administrative disallowances are transmitted to the GAO Claims Division for settlement.

## CHAPTER 4

### REGULATIONS RELATING TO DEBT CLAIMS

Recently we discussed with representatives of DSA Headquarters a proposed revision of section II, chapter 12, Accounting and Finance Manual. At that time we pointed out that section I, paragraph 120109, was in error in that collection action could not be terminated solely because the debtor had not been located. We directed attention to the fact that section 104.3(b) of the Federal Claims Collection Standards couples the inability to locate a debtor with the additional factors that (1) no security remains to be liquidated; (2) the prospects of collection by offset, notwithstanding the bar of the statute of limitations, is too remote to justify retention of the claim; and (3) the applicable statute of limitations has expired. We were informed that the manual would be amended to conform with the standards.

Section I, paragraph 120118, provides that the Department of Justice request that claims of less than \$250 exclusive of interest not be referred for litigation, except under certain conditions. The Federal Claims Collection Standards recently were amended to establish a minimum of \$400 for debt referrals to the Department of Justice.

On April 8, 1969, a letter was issued by DSA Headquarters containing instructions for implementing 5 U.S.C. 5584, as added by Public Law 90-616, approved October 21, 1968. Such instructions are effective until they are incorporated in DSAM. This act provides, under certain conditions and in accordance with standards prescribed by the Comptroller General of the United States, for waiver of claims arising out of erroneous payments of pay to present and former civilian employees.

It is noted that in section VI, paragraph 120601, subparagraph 2, the statement is made that dual compensation claims cannot be processed as erroneous payment claims. If the erroneous payment consists of civilian rather than military pay, it may be considered for waiver under 5 U.S.C. 5584 and in accordance with the implementing standards for waiver.

RECOMMENDATIONS RELATING TO DEBT REGULATIONS

We recommend that DSAM be amended to:

1. Conform with the Federal Claims Collection Standards concerning termination of collection action based on inability to locate a debtor.
2. Raise the amount limitation on debts to be reported to the Department of Justice to \$400.
3. Revise paragraph 120601, section VI, relating to the waiver of claims statute and the implementing standards.



## CHAPTER 5

### REVIEW OF DEBT CLAIMS OPERATIONS AT

#### DCASR, DISC, DPSC, DSSO, AND DSA HEADQUARTERS

The Federal Claims Collection Standards provide that an agency responsible for processing and collecting claims take aggressive action on a timely basis with effective follow-up, normally three written demands at 30-day intervals. The DSA implementing procedures provide for three demands to be issued at 15-day intervals, the initial demand to be made immediately upon ascertainment of the debt and the final demand to be sent by registered or certified mail, return receipt requested.

If collection action is unsuccessful, the procedures require that the field activities, with the exception of DSSO, forward claims to DSA Headquarters, unless DSA Headquarters has granted permission for retention of the claim beyond the 45-day collection period. In each of the field activities examined, we found deficiencies in sending the required number of demands and in taking collection action on a timely basis.

Section 102.4 of the Federal Claims Collection Standards requires agencies to undertake personal interviews with their debtors when feasible, having regard for the amount involved and the proximity of agency representatives to such debtors. We found significant use of this technique by DPSC and DSSO. Conversely, at DCASR the files showed that the personal interview technique--contacting a debtor by telephone--had been used in only five of the 39 claims included in our review. We were informed that undoubtedly other telephone calls had been made but that the files had not been documented.

Section 102.10 of the Federal Claims Collection Standards provides that, in cases in which prejudgment interest is not authorized by statute, contract, or regulations, an agency may forego the collection of prejudgment interest as an inducement to voluntary payment. It is the policy of the Department of Defense (DOD), however, to charge interest on any claim amount unpaid 30 days after the first demand for payment. DSA implementing procedures are in accordance with

DOD policy, but they state that mitigating circumstances might indicate that interest should not be charged although interest normally will not be waived except as part of a compromise. Our reviews showed that this policy had not been followed at DCASR and DPSC and that interest was not being collected on all claims aged 30 days or over.

In connection with the charging of interest, it is the practice of GAO to demand interest on those claims which are referred to the Department of Justice for litigation but not on ordinary debts due the Government if they do not provide for interest. In response to a request from DOD, however, the Secretary of Defense was informed (B-131925, July 13, 1964) that administrative interest charges assessed on contract debts pursuant to a DOD directive thereafter would be included in the demands for payment and certificates of indebtedness issued by the GAO Claims Division.

Section 102.11 of the Federal Claims Collection Standards provides that all administrative collection action be documented and that the bases for compromise or for termination or suspension of collection action be set forth in detail. Such documentation should be retained in the appropriate claims file. This action was not followed by any of the four field activities.

The revision of section II, paragraph 120202, DSAM 7000.1, provides for the use of Contractor Debt Record Form 1190 which was developed as a uniform "cradle to grave" control over claims against contractors. This record of actions will assist greatly in making documentation uniform in the DSA field activities as well as in DSA Headquarters.

#### DCASR

Reviews relating to claims processing were made by the Auditor General of DSA and the Internal Review Group in fiscal years 1968 and 1969. In three reports which they issued, weaknesses were identified in the timeliness of claims processing in DCASR. The reports recommended (1) additional training of clerks in processing credit memoranda, (2) revisions of accounts receivable and credit memo processing to insert tighter controls and to install more safeguards for balancing against listings, and (3) establishment of a system to account for all receivables.

As of July 1969 the procedures had not been revised and a system to account for all receivables had not been established. Personnel at DCASR were aware that actions to process claims were not timely but attributed these conditions to the lack of adequately trained personnel and to the heavy work load.

DCASR records showed that 71 claims were closed between January 10 and 27, 1969, and that 127 claims were open as of the latter date. These 198 claims had a value of almost \$1 million. For our review we selected 39 claims (of which 10 were closed and 29 open) having a value of \$695,000.

In six of the closed and 23 of the open claims, either demand letters were not sent within the DSA-prescribed time limits or the required three letters were not sent. The delay in processing collection actions for the six closed claims occurred most often from the time that a claim was established until the initial demand letter was issued. For the 23 open claims, delays occurred during all phases of the collection procedure. Eight claims had not been forwarded to DSA Headquarters upon the expiration of the 45-day collection period, contrary to the regulations.

As an example, the first letter requesting payment of a \$3,100 claim under contract DSA 100-67-C-3401 was sent to Baldwin Dye Works, Inc., on November 7, 1968. No response was received to this demand nor were responses received to the two subsequent demands made on December 3, 1968, and January 9, 1969. The claim was not submitted to DSA Headquarters until February 13, 1969, or 98 days after the first demand letter and 53 days after the 45-day limit prescribed by DSA Headquarters regulations.

We were informed that telephone calls may have been made but had not been documented in the files. Failure to document such calls is contrary to section 102.11 of the Federal Claims Collection Standards.

Every demand letter contained a statement that interest would be computed and added to the claim if payment was not made within 30 days. DCASR placed primary emphasis, however, on collection of the principal and made collection of interest a secondary matter. It is the consensus of responsible

personnel that the amount of interest which could be collected would not warrant the time and effort required.

## DISC

In August 1968 the DSA Auditor General issued a report on a review conducted to evaluate the adequacy of operating procedures and management controls for ensuring that debt claims were being properly and promptly initiated, recorded, collected, or otherwise disposed of in accordance with applicable regulations and directives. This review covered the 6-month period September 1, 1967, through February 29, 1968, during which time DISC processed 51 claims having a total value of less than \$4,000.

The Auditor General stated in his report that, although no significant instances of adverse effect had been found, improvements were needed in operating procedures and management controls. The audit papers prepared in connection with the report indicated that the audit had been thorough and adequately documented. One of the recommendations provided that controls be established to ensure prompt and aggressive follow-up action in connection with delinquent accounts.

For the last half of calendar year 1968, the records showed 27 claims representing a total indebtedness of \$4,400. In view of the Auditor General's report and the low volume and value of claims processed by DISC, we did not consider it necessary to conduct our own detailed review of debt claims. Consequently, we limited our examination of debt claims to a review of the action taken to correct the deficiencies identified in the report and found that the recommended improvements had been implemented.

DPSC

At DPSC the contracting officers are responsible for handling the bulk of the claims and are required to maintain the records necessary to process and follow up on claims. There are no centralized records of claims. Supervisory personnel review claims processing at monthly intervals, but each case is not reviewed individually to make certain that all the required standards are met.

During fiscal year 1968 and early fiscal year 1969, DPSC handled a total of 50 claims valued at over \$500,000. Of the 50 claims, we selected for review 31 claims (62 percent) having a value of about \$153,100. Of the 31 claims, 11 were collected, four were collected by offset, two involved bankruptcy, one was before the Armed Services Board of Contract Appeals (ASBCA), 10 were forwarded to DSA Headquarters, and three were open. These claims resulted from delivery shortages, overpayments, termination for default, additional testing, and excess usage of Government-furnished material.

In 12 of the 31 claims, we found that either the demand letters had not been sent within the time limits prescribed by DSA or the required three letters had not been sent. For example, a claim of \$2,394 under contract DSA 100-3224 was established on April 30, 1968, against Betsy Ross Flag Co., Inc., after the contractor's appeal to ASBCA was denied. The first demand letter was sent on July 24, 1968, or 85 days after the appeal was denied. A follow-up letter was issued within the prescribed 15-day period; however, the second follow-up was mailed 20 days thereafter.

Nine claims had not been submitted to DSA Headquarters upon the expiration of the 45-day collection period. In one case an initial demand for \$345 was made on July 1, 1968, against the J. B. Manufacturing Company. A follow-up letter was sent on August 7, 1968. The file showed no other contact with the company until January 17, 1969, when a telephone call was made to it. This claim was in the process of being forwarded to DSA Headquarters on February 28, 1969, or 242 days after the first demand letter was issued and 197 days after the prescribed 45-day limit.

We noted five claims on which, in our opinion, interest should have been collected but was not. Personnel at DPSC felt that their noncompliances with DSA-prescribed requirements were due to misunderstanding, oversight, and the need for additional training in claims processing.

### DSSO

At this activity SCOs are responsible for handling claims as part of their overall responsibility for administration of sales actions. Each SCO maintains a file of contracts on which there are outstanding claims. There are no specific periodic reviews of each claim case to ensure that the required collection standards are being met.

DSSOs operate under instructions issued by DLSC. The instructions relative to the processing of claims supplement the Defense Disposal Manual (DDM) which prescribes the policies and procedures to be followed by all installations in the disposition of personal property. Although the basic requirement of three written demands within 45 days was promulgated and made applicable to claims against surplus sales contractors by DSA in its DSAM in June 1967, this requirement was not incorporated into DDM until September 1968. DDM required only one written demand for payment, with optional follow-up by the individual DSSO.

During fiscal year 1968 and through May 2 of fiscal year 1969, of 41 claims having an aggregate value of \$16,200, 21 were collected, three were written off, 15 were forwarded to DLSC as uncollectible, and two were in the process of collection action. We selected 20 of the 41 claims for review. In 10 claims we found that either the demand letters had not been sent within the prescribed time limits or the required number of letters had not been sent. In eight of the 10 claims, however, it appeared that failure to incorporate the provisions of DSAM into DDM had contributed materially to the SCOs' noncompliance.

In July 1969 DSSO established a system providing for the use of a diary for recording the date on which additional letters were due to be sent. This file was established because of the weakness in processing claims on a timely basis. Under this system the employee responsible for

maintaining the diary must notify SCO when additional action is required. DSSO personnel stated that the basic reasons for noncompliances were lack of knowledge of the provisions set forth in DSAM and administrative oversight.

#### DSAH

Debt claims of \$50 or more, except those against surplus sales contracts, that are not collected by the field activities within 45 days from the date of the first demand should be forwarded to DSA Headquarters for processing to completion. Since November 1968, claims arising out of surplus property sales have been forwarded by the field activity (DSSO) to DLSC.

The Federal Claims Collection Standards provide for prompt referral to GAO of debt claims which cannot be collected or compromised or on which collection action cannot be terminated by the administrative office so that GAO's collection action, as well as any necessary legal action, may be initiated on a timely basis. Consequently, since DSA Headquarters and DLSC are responsible for effecting compromise, suspension, or termination of collection action at the administrative level, it is imperative that claims determined to be uncollectible by DSA field activities be forwarded promptly to DSA Headquarters and DLSC.

During our review at DSA Headquarters beginning in June 1970, we examined 48 of the 78 active debt claims. We determined that collection action had been initiated promptly and that follow-up demands generally had been issued on a timely basis. In 13 of the 48 claims, appeals were pending before ASBCA; one claim was suspended; 17 were being collected; three were being settled by offset; and 14 were under various stages of collection action, such as issuing first or second demands.

As a general rule, DSA Headquarters does not solicit compromises. DSA Headquarters officials stated that they had not yet encountered a claim in which solicitation of an offer in compromise appeared to be to the advantage of the Government. DSA Headquarters personnel informed us that, on occasion, mostly during visits of indebted contractors or during telephone conversations with them,

DSA Headquarters had offered to waive interest charges if the claim was paid in full by a stipulated date. Such offers have not been considered or recorded as solicitations of compromises. Paragraph 120112, section I, DSAM, however, provides that interest normally not be waived on a claim against a contractor except as part of a compromise reached under provisions of paragraph 120107, section I.

RECOMMENDATIONS RELATING TO  
DEBT CLAIMS OPERATIONS

On the basis of our review of the enumerated activities, we recommend that:

1. DCASR improve its existing system for ensuring timely and proper processing of claims actions. If not accomplished since our review, necessary action, if required, should be taken on the three recommendations made by the Auditor General of DSA and the Internal Review Group.
2. Personal interviews--or at least telephone contact--be utilized to the maximum extent practicable in processing debt claims.
3. All collection actions be fully documented as required by the Federal Claims Collection Standards.
4. Paragraph 120112, section I, DSAM, be followed by the field activities; that is, that interest be charged on claims unless mitigating circumstances indicate that it should not be charged. In such event, the file should indicate the reason.
5. DSA Headquarters emphasize to DSA field activities the importance of timely execution of all necessary collection actions and require more frequent supervisory reviews of claims in process to ensure greater compliance with prescribed requirements.
6. Consideration be given to the advisability of DSA Headquarters' requiring individual DSA field activities to report periodically on their debt claim collections.



## CHAPTER 6

### STATISTICAL INFORMATION

The various branches within the DPSC Directorate of Procurement and Production issue reports semiannually on the status and volume of claims handled. These reports are in terms of numbers of claims only and cite the opening balance, additions, dispositions, and closing balance. Active claim statistics are segregated by fiscal year and by type of claim. The individual reports are summarized in a report to the Chief of the Directorate. No report is made to the DPSC commander or to DSA Headquarters.

At DCASR and DSSO we learned that there is no periodic compilation of statistics summarizing the status of claims for submission either to the local level or to DSA Headquarters.

DSA activities do not, on a regular and frequent basis, compile statistics necessary to permit an adequate evaluation of claims-processing operations. Helpful statistics in this area would include (1) the number and value of claims on hand, (2) the number and value of claims added and closed during the period, (3) the age of claims on hand, and (4) the manner in which cases were closed. Without these statistics, DSA activities cannot measure the effectiveness of their debt collection efforts.

The Federal Claims Collection Act of 1966 and the Federal Claims Collection Standards provide for the termination of collection action on debt claims if it appears that the costs will exceed the amount of expected recovery. Further, in accordance with 4 GAO 55.3, administrative collection procedures should provide for the establishment of realistic points of diminishing returns beyond which further collection efforts by the agency would not be justified.

We did not find information on the cost of claims processing at any of the four DSA field activities included in our review. Without such information DSA cannot establish realistic points of diminishing returns in determining the amount of collection effort that should be expended by the

field activities. DSA regulations do provide a point of diminishing returns to the extent that, for claims up to \$50, a minimum of two demands will be made and thereafter collection action may be terminated at the field-activity level.

RECOMMENDATION RELATING TO  
STATISTICAL INFORMATION

To achieve more effective management and control over claim collection efforts, we recommend that DSA Headquarters develop procedures providing for periodic reporting of debt claim collections made by individual DSA field activities. Included should be the total claims on hand and their aggregate value, together with estimates of costs of collection, particularly of small debts so that realistic points of diminishing returns may be determined and applied.