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Improvements Noted In Payment
And Debt Claims Operations

B-117604(4)

Air Force Accounting and Finance Center

UNITED STATES
GENERAL ACCOUNTING OFFICE

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MAY 29, 1973



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

TRANSPORTATION AND
CLAIMS DIVISION

B-117604(4)

The Honorable
The Secretary of the Air Force

Dear Mr. Secretary:

We have completed our second review at the Air Force Accounting and Finance Center in Denver. We evaluate periodically Center regulations, procedures, and operations in settling claims against the United States and in collecting debts due the United States.

We previously reported to you on claims activities on November 25, 1969. This followup report includes our findings during the second review and also information on a meeting we held with Center officials some months after this review to help expedite settlement of claims.

Please advise us of the actions taken or planned concerning the matters discussed.

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

Sincerely yours,

A handwritten signature in cursive script, appearing to read "A. Sullivan".

Director, Transportation and
Claims Division

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	3
2 PAYMENT CLAIMS	4
Problems with administrative reports	4
Information given to claimants contrary to GAO manual	5
Claims processed	5
Instruction revised	5
Conclusion	6
3 REGULATIONS, INSTRUCTIONS, AND OPERATING PROCEDURES FOR DEBT CLAIMS	7
Recommendation	7
4 DEBT CLAIMS	8
Financial information	8
Collection letters	8
Need to consider using Internal Revenue Service (IRS) to locate debtors	10
Recommendation	10
Collection actions not fully documented	11
Class Q allotment overpayments	11
Problems with bad checks	12
Need for a system to increase offset collections	13
Conclusion	14
Air Force Auditor General reports	14
Conclusion	15
Suggestions	15
APPENDIX	
I Debt collection activity, fiscal year 1971	17
II Debt collection activity, July 1, 1971, through April 1, 1972	18

ABBREVIATIONS

ACFM Centralized Accounts Receivable Branch
ARPC Air Reserve Personnel Center
BAQ basic allowance for quarters
IRS Internal Revenue Service
SJA Staff Judge Advocate

D I G E S T

WHY THE REVIEW WAS MADE

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This is a followup review on recommendations made to the Secretary of the Air Force on November 25, 1969, concerning the Air Force Accounting and Finance Center in Denver. GAO reviewed regulations, procedures, and operations for settling claims and collecting debts at the Center. GAO also evaluated the Center's compliance with GAO's Policy and Procedures Manual for Guidance of Federal Agencies and the Joint Standards issued under the Federal Claims Collection Act of 1966.

FINDINGS AND CONCLUSIONS

Payment claims

In some instances the Center:

- Did not fully comply with the GAO manual in submitting administrative reports. (See p. 4.)
- Informed claimants of administrative recommendations in claims submitted to GAO, contrary to the manual. (See p. 5.)

But the Center:

- Revised its Operating Instruction 302 to conform with the GAO manual. (See p. 5.)

- Generally adhered to guidelines in chapter 2, title 4, of the GAO manual. (See p. 6.)

Debt claims

With one exception, regulations, instructions, and operating procedures adequately implemented the Federal Claims Collection Act. (See p. 7.)

RECOMMENDATIONS AND SUGGESTIONS

GAO recommends that the Center:

- Invite compromises in notices of exception cases. (See p. 7.)
- Consider using the Internal Revenue Service for locating debtors. (See p. 10.)

GAO suggested that the Center:

- Request financial information with the initial demand letter. (See p. 8.)
- Invite a compromise if the debtor cannot increase the size of his payments. (See p. 9.)
- Fully document its files. (See p. 11.)
- Periodically inform the payee in an allotment case of the date entitlement will end. (See p. 12.)

--Not always furnish detailed statements of account. (See p. 15.)

--Initiate a new procedure to notify a member of indebtedness at time of discharge. (See p. 15.)

CONCLUSIONS

The Air Force is satisfactorily handling its payment claims (see p. 6) and attempting to insure that Air Force regulations and instructions are properly applied (see p. 15).

AGENCY COMMENTS

Center officials assured GAO that they would:

--Comply with the GAO manual. (See p. 4.)

--Request financial statements with the initial demand letter. (See p. 8.)

--Document the files. (See p. 11.)

--Change the manual regarding overpaid-at-discharge cases. (See p. 15.)

CHAPTER I

INTRODUCTION

We review agency regulations, procedures, and operations for claims against the Government (payment claims) and claims by the Government (debt claims). We ascertain if agencies are complying with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and with decisions of the Comptroller General of the United States.

The Federal Claims Collection Act of 1966 (31 U.S.C. 951-953) placed responsibility on agencies and departments for collecting all claims of the United States for money or property arising out of their activities. In accordance with the law, the Comptroller General and the Attorney General of the United States jointly issued regulations to provide for the administrative collection, compromise, or termination of agency collection action and for referral of debt claims to us. These regulations, referred to as the Joint Standards, appear in 4 CFR 101-105.

CHAPTER 2

PAYMENT CLAIMS

Payment claims are processed at the Air Force Accounting and Finance Center in Denver by the Directorate of Military Pay Operations or by the Comptroller's office, depending upon the item claimed and the military or civilian status of the claimant. Our review was limited to military pay and allowance claims at the Directorate and to civilian pay and allowance claims at the Comptroller's office.

PROBLEMS WITH ADMINISTRATIVE REPORTS

In some instances the Center has not complied with 4 GAO 8.2, which states that claims referred to us should be accompanied by an administrative report containing:

1. A statement of the facts out of which the claim arose.
2. A statement of the doubt or other reason for forwarding the claim.
3. A recommendation on the disposition.
4. A citation to any pertinent supporting documents, such as contracts and vouchers.
5. A statement that the claim has not been and will not be paid except pursuant to certification in the name of the Comptroller General.
6. A citation to the applicable appropriation or fund.

It would also help if the report cited the appropriate statute and controlling regulations.

The administrative reports in two of the four claims reviewed did not have statements that the claims had not been paid (item 5) and one claim did not show the reason for forwarding the claim to us (item 2). Center officials assured us that in the future they would include all required information in the reports.

INFORMATION GIVEN TO CLAIMANTS
CONTRARY TO GAO MANUAL

According to 4 GAO 8.4, the agency should inform claimants that their claims have been referred to us. Notices to claimants, however, should not include information relating to the administrative recommendation. (See item 3.)

According to a Center official, although the same pre-printed administrative report forms accompany claims forwarded to us and to inform claimants, the administrative recommendation is recorded only on the reverse side of the report sent to us. The front of the report form, however, includes a disposition block with the following statement:

"All records pertinent to subject account have been examined and it has been administratively concluded that payee is entitled to payment in net amount shown below."

On the claimant's copy of one report, this block was checked.

Agency officials agreed that they would not be complying with the GAO manual if this block is checked on the claimant's copy. They informed us that this problem could be resolved by eliminating the printed statement on the report but that they had to check with other users of the form before making the revision.

CLAIMS PROCESSED

During fiscal year 1971 the Examination and Claims Branch of the Directorate processed 14,271 pay and allowance claims involving members and former members of the Air Force. From July 1, 1971, through April 30, 1972, the Branch processed 8,981. During these same periods, the Special Accounts Section of the Comptroller's office processed 48 and 51 civilian claims, respectively.

INSTRUCTION REVISED

Our 1969 report pointed out that 4 GAO 5.1 requires agencies to forward to us for adjudication, unless otherwise provided by law, reclaims of items previously denied by the agency unless it is determined administratively that the action taken was clearly in error and properly can be

corrected by the agency. The Center revised its Operating Instruction 302 to conform with the GAO manual.

CONCLUSION

Our discussions with Center officials and our review of procedures indicate that payment claim decisions are made at fully responsible levels and that generally the Center is adhering to the guidelines in chapter 2 of title 4 of the GAO manual.

CHAPTER 3

REGULATIONS, INSTRUCTIONS, AND OPERATING

PROCEDURES FOR DEBT CLAIMS

Regulations, instructions, and operating procedures issued by the Air Force and the Center adequately implement the Federal Claims Collection Act of 1966, except Centralized Accounts Receivable Branch (ACFM) Office Instruction 01 #10, dated April 5, 1972. This instruction covers processing claims due to notices of exception. Paragraph 3 on follow-ups states:

"These accounts will be subjected to the 30 day followup processing except that no compromise offer can be made."

Though 4 CFR 103.1 provides that only the Comptroller General or his designee may effect the compromise of a claim that arises from an exception made by us in the account of an accountable officer, this provision does not prohibit an agency from inviting a compromise in an appropriate case.

RECOMMENDATION

We recommend revision of this instruction to permit inviting compromises in appropriate cases. If a compromise offer is received, either as the result of an invitation from the Center or of an offer submitted by a debtor, it should be forwarded to our Transportation and Claims Division for determination as to its acceptability. We should be informed whether relief has been granted to the accountable officer under 31 U.S.C. 82a-2. (See 3 GAO 29.)

CHAPTER 4

DEBT CLAIMS

At the Center the Comptroller's office is to maintain a centralized collection program and take all collection actions on claims originating at or referred to the Center. The Accounts Receivable Section of ACFM, Accounting and Finance Division, of that office administers the debt claims reviewed. Claims operations generally comply with the GAO manual and the Joint Standards, but we did find opportunities for improvements.

A few months after our review, we met with Center representatives to discuss accounts receivable activities and to explore the possibility of modifying certain debt collection procedures and operations to expedite collection actions. This chapter discusses the agreements reached.

FINANCIAL INFORMATION

Knowledge of a debtor's current financial situation is essential in evaluating any payment plan--except payment in full. Such information also provides a basis for determining whether to accept a compromise offer, terminate collection action, or refer the debt to us.

The Center did not request financial information in either the initial demand letter or regular followup letters. It was requested only in the final demand letter in which a compromise was invited.

We have found from our experience that we can more promptly determine what collection action to take if a financial statement is obtained in response to the initial demand letter or to regular followup demands. Center officials agreed to request financial statements with the initial demand letter.

COLLECTION LETTERS

The demand letters used by the Center are generally satisfactory. We do have a suggestion for use in connection with Form Letter 0-275/Dec 71, which states:

"We have reviewed your account and find that your payments have been less than \$10.00 per month. The Comptroller General of the United States has stated that installment payments of less than \$10.00 per month should be accepted in only the most unusual circumstances.

"Please increase your payments to at least \$_____ per month or furnish evidence that you are financially unable to do so. Your next payment should arrive by the date specified on your last receipt."

When, as a result of the debtor's financial condition, his repayment plan would take over 3 years to liquidate the debt, inviting a compromise should be considered, keeping in mind the administrative costs of processing small payments over an extended period. (See 4 CFR 102.8, 103.2(a), and 103.4.)

Our prior report called attention to a letter used by the Center which informed a debtor that it "has been determined to be in the best interest of the Air Force to terminate collection action." We told Center officials to inform the debtor that the debt still existed and that setoff would be made against any amounts which may become due him. The form letter was revised. We now suggest that the following additional statement be added:

"When your financial situation improves, we expect you to liquidate this debt. Your check or money order should be made payable to the Air Force Accounting and Finance Center."

Some of the demand letters direct debtors to make remittances payable to the Treasurer of the United States. We suggest that checks and money orders be made payable to the Center, in accordance with 7 GAO 11.4.

NEED TO CONSIDER USING INTERNAL REVENUE
SERVICE (IRS) TO LOCATE DEBTORS

Section 105.2 of the Joint Standards requires that reasonable and appropriate steps be taken to locate missing debtors, and section 104.2 mentions IRS District Directors as one source of obtaining debtors' addresses. Though ACFM Office Instruction No. 16, dated March 27, 1972, refers to sources which may be used to locate debtors, IRS is not included.

Center officials informed us that locator service from District Directors had been tried on a limited basis and that it had not been productive. In 12 out of 25 cases which were being referred to us at the time of our review, current addresses of debtors were unknown. No attempt had been made to locate them through IRS. Agency officials did not agree that further use of IRS was warranted, but they told us they would try it again.

Our Transportation and Claims Division recently made a reimbursable agreement with IRS to furnish debtors' addresses. The agreement requires us to forward to IRS batches of prepunched cards which include the debtors' social security numbers. IRS makes a monthly machine run of the cards against its master file and furnishes us with the debtors' names, addresses, and last filing dates. This information is stored in an IRS facility in Martinsburg, West Virginia.

Contact with District Directors of IRS is regional; however, the service referred to above is national. We find this method more productive than requests for information from District Directors.

RECOMMENDATION

We are exploring another source for locating debtors. In the meantime, however, we recommend that the Center consider using the IRS facility at Martinsburg to trace unlocated debtors. Detailed information may be obtained from Mr. Donald G. Elsberry, Director, Accounts and Data Processing Division (Attention: Mr. James Wescott), Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, D.C. 20224.

COLLECTION ACTIONS NOT FULLY DOCUMENTED

According to 4 CFR 102.11, all administrative collection actions should be documented. Details of the bases for compromise or for termination or suspension of collection action should be documented in the claims file. File copies of Center collection letters sent after initial demand letters showed only names, addresses, dates, and dollar amounts; handwritten numbers in the right corner indicated the form letters which had been sent.

An agency official agreed with us that a person unfamiliar with this procedure could not determine what collection actions had been taken. Immediate action was taken to remedy this problem. Copies of the appropriate form letters were included in the files referred to us. According to a Center official, a new three-part form will be developed to provide copies of collection actions for the files.

Corrective measures taken and promised should properly resolve the problem of inadequately documented collection actions.

CLASS Q ALLOTMENT OVERPAYMENTS

An enlisted member may claim, as a part of his pay and allowances, basic allowance for quarters (BAQ) for such periods as he has in effect an allotment of pay for supporting his dependents on whose account the BAQ is claimed. This has been designated as a Class Q allotment.

Pay and Allotment Division Operating Instructions 1130, dated April 1, 1972, which outlines the Center's policy for processing Class Q allotment overpayments, cites Comptroller General decisions B-116606 and B-118007, January 27, 1954 (33 Comp. Gen. 309) as a guide for determining liability. The instructions state that in the case of a former member the payee is liable for the month of discharge. The member is jointly liable if he participated in the proceeds of the check.

In applying the rules contained in 33 Comp. Gen. 309 we agree that a class Q allotment payment for the month of discharge ordinarily may be regarded as having been made after discharge, except when notice of discontinuance is received too late to prevent payment of the allotment for

the month of discharge. In such case, the member is liable for nondeduction of the allotment. (See B-108186, July 28, 1952.)

We do not have information concerning the percentage of allotment payments made after servicemen's separation, but Center officials informed us that allotment overpayments represent over 15 percent of the debts processed by the Center. It is their opinion that allotment overpayments will decrease when the Joint Uniform Military Pay System for the Department of the Air Force is fully implemented.

The following suggestions may reduce further the allotment overpayments made after separation.

1. Periodically include notices with allotment checks informing payees that they are not entitled to allotment checks issued after the servicemen's discharge and that the checks should be returned.
2. Before discharge servicemen should be informed of when entitlement ceases.
3. If erroneously issued allotment checks are not returned, the above instructions may possibly be considered in determining whether collection action should be pursued or whether the debt should be waived under Public Law 92-453, approved October 2, 1972.

PROBLEMS WITH BAD CHECKS

The Joint Standards (4 CFR 101.3) provide that only the Department of Justice can terminate collection action or compromise debt claims when fraud is involved. The Staff Judge Advocate (SJA) at the Center believes that debts caused by the return of checks for insufficient funds or for lack of an account can involve fraud.

When we questioned why collection actions on some bad checks were terminated without review by the SJA office, we were informed that in the future that office would review claims involving bad checks over \$25 to ascertain if fraud was involved. Most of these checks were for purchases at post exchanges or commissaries. The Comptroller General

held in 43 Comp. Gen. 431 that non-appropriated-fund activities, such as post exchanges, are not debts due the United States and that there is no authority to set off amounts otherwise due.

We pointed out to the Center that there is no prescribed dollar limit for reporting fraud cases to the Department of Justice but that an official of the Department's Criminal Division had informally advised us that prosecution is not undertaken unless the check is for a large sum or a particular individual has a pattern of issuing bad checks.

In a letter to Counsel for the Comptroller of the Navy on October 31, 1966, the Acting Assistant Attorney General said that officers' clubs and other non-appropriated-fund activities could substantially facilitate Government recovery of losses on bad checks by requiring each person who cashes checks at such facilities to sign a form agreeing that any obligation arising out of nonpayment of the check on presentation may be set off against moneys due him. The letter further stated that many of the bad checks were for small amounts and that experience has shown that collection other than by offset is difficult.

NEED FOR A SYSTEM TO INCREASE OFFSET COLLECTIONS

The Joint Standards (4 CFR 102.3) provide that offset collections be undertaken administratively on claims which are liquidated or which are certain in amount, when feasible. Offset collections from persons receiving pay or compensation from the Government shall be effected over a period not greater than the period during which pay or compensation is to be received.

Procedures for offsetting former members' debt claims did not include coordination with the Air Reserve Personnel Center (ARPC) to identify those cases in which ARPC records show that the debtors are employed by the Government. According to an ARPC official, ARPC records can provide this information for Air Force Reserve personnel in certain Reserve categories. He also told us that, although it would not be difficult or time consuming to determine whether Air Force debtors are in these categories, he did not believe

such determinations would be too productive. He suggested that ARPC records be searched on a trial basis for this information.

Center procedures for administratively offsetting debt claims of former servicemen against Federal Civil Service current or retirement pay is limited to those cases when either the debtor volunteers information that he is or has been employed by the Federal Government or a credit report provides information to facilitate such an offset when the claim is being processed. After the initial collection efforts have been terminated, no action is taken toward offset collection.

Since July 1, 1968, over 20,000 cases involving a total of over \$1.6 million have been terminated without the Center's being able to determine whether offset collection action was available. Though the Center recognizes that collection may still be made by offset after collection efforts are terminated, there is no system whereby the Federal Civil Service status for all debtors can be determined before terminating or compromising collection actions or for any subsequent followup on those cases in which collection action was terminated.

CONCLUSION

Until a system whereby agencies can determine the Federal Civil Service status of all debtors is developed the offset procedures authorized by 4 CFR 102.3 cannot be fully effective.

AIR FORCE AUDITOR GENERAL REPORTS

Since our last review, which covered fiscal years 1967 and 1968, the Auditor General has issued four reports covering accounts receivable activities in the Air Force. These reports and our followup of their findings showed that:

1. Accounts receivable activities at the Center were generally satisfactory and the Center had adequately resolved its problems.
2. Air Force base-level procedural errors and directive weaknesses had contributed to problems in the

delinquent accounts receivable referred to the Center for further collection action.

Though our review was directed only toward operations at the Center, it did include a limited number of debt claims forwarded to the Center for further collection action. This limited review did not reveal significant problems.

CONCLUSION

The number of reviews of accounts receivable and related activities by the Auditor General since our last review indicates that the Air Force is attempting to insure that Air Force regulations and instructions are properly applied. The Center has adequately resolved the accounts receivable problems reported by the Auditor General.

SUGGESTIONS

Following our meeting we suggested that the Center process claims more expeditiously by making demands on debtors without preparing statements of account in unsatisfied debt cases and that detailed statements of account over extended periods not be furnished when it is obvious that the debtor is using "stalling" tactics, especially if credit information is adverse. We also suggested that priority be given to correspondence in which a debtor indicates a willingness to liquidate his debt.

We suggested that the Center change its manual regarding known "overpaid-at-discharge" cases to provide that a member be informed of indebtedness at the time of separation, before receipt of final pay. If collection of the debt from final pay is unsuccessful, the member's signature should be obtained on a copy of the letter or form used to notify him of the debt. The member should be given the original letter or form, and the copy bearing his signature should be forwarded to the Center with his pay record. His signature, though not necessarily constituting acknowledgment of the debt, will constitute evidence of his having been notified.

The Center informed us in January 1973 that our suggested change was in the final stage.

