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# Administration Of Debt And Payment Claims Can Be Improved

B-117604(15)

Agency for International Development

**UNITED STATES  
GENERAL ACCOUNTING OFFICE**

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FEB. 7, 1973



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

TRANSPORTATION AND  
CLAIMS DIVISION

B-117604(15)

Dear Dr. Hannah:

This is our report on the administration of debt and payment claims at the Office of the Controller and debt claims at the Office of International Training, Agency for International Development, Washington, D.C. We shall appreciate being advised of the actions taken or planned on the matters discussed herein.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Deputy Assistant Secretary for Budget and Finance, Bureau of Administration, Department of State.

Sincerely yours,

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

Director  
Transportation and Claims  
Division

The Honorable John A. Hannah  
Administrator  
Agency for International Development

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GENERAL ACCOUNTING OFFICE  
REPORT TO THE ADMINISTRATOR  
AGENCY FOR INTERNATIONAL  
DEVELOPMENT

ADMINISTRATION OF DEBT AND  
PAYMENT CLAIMS CAN BE IMPROVED  
Agency for International  
Development B-117604(15)

D I G E S T

WHY THE REVIEW WAS MADE

The General Accounting Office (GAO), as one of its continuing functions, reviews agency instructions, procedures, and operations for claims by the Government (debt claims) and claims against the Government (payment claims). One such review in the Agency for International Development (AID) involved the Office of the Controller and the Office of International Training.

GAO evaluated practices in settling the claims to determine whether there was compliance with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and with the Joint Standards promulgated by the Comptroller General and the Attorney General of the United States.

FINDINGS AND CONCLUSIONS

Office of the Controller  
debt claims

Instructions relating to debt claims were generally consistent with the GAO manual and the Joint Standards. There are areas in which instructions should be modified or revised. (See pp. 4 and 6.) Collection operations could be improved by:

- Making demand letters more forceful. (See pp. 7 and 10.)

- Requesting the assistance of Government agencies employing delinquent debtors. (See pp. 8 and 9.)
- Obtaining financial information on debtors. (See p. 9.)
- Processing demand actions more promptly. (See p. 10.)
- Exploring the feasibility of compromise. (See p. 11.)
- Taking more frequent followup actions with the Office of the General Counsel. (See p. 11.)
- Reviewing status reports. (See p. 12.)
- Disposing of claims on a timely basis. (See p. 14.)
- Making greater use of personal interviews and telephone contacts. (See p. 16.)
- Adding more information to status reports. (See p. 18.)

Office of International Training

The accounts receivable report did not include billings involving overpayments to participants in training programs. (See p. 22.) GAO representatives met with AID officials to resolve a longstanding disagreement in handling these overpayments. (See p. 22.)

Payment claims

AID does not follow GAO manual requirements that under certain conditions reclaims be forwarded to GAO. (See p. 24.) AID's instructions concerning doubtful claims should be clarified. (See p. 24.)

RECOMMENDATIONS OR SUGGESTIONS

The report contains specific recommendations to the Administrator, AID, for achieving the improvements discussed above. (See pp. 6, 14, 17, 21, and 24.)

In general, AID should:

- Modify and revise its instructions.
- Emphasize the importance of timely collection action.
- Systematically review outstanding accounts.
- Periodically request status reports from the Office of the General Counsel.
- Prevent future backlogs in accounts of participants.
- Issue instructions concerning reclaims of items previously denied.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office, as one of its continuing functions, reviews agency regulations, procedures, and operations for claims by the Government (debt claims) and claims against the Government (payment claims). One such review involved the Office of the Comptroller and the Office of International Training, Agency for International Development (AID), Washington, D.C.

We made our review to determine whether AID was complying with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, the Federal Claims Collection Act of 1966 (31 U.S.C. 952), and the Joint Standards (4 CFR 101-105) issued by the Comptroller General and the Attorney General of the United States to implement the act.

We understand that, although a number of organizational changes were made effective July 12, 1972, claims operations remain in the Office of the Controller. That Office now processes claims against participants in the various AID training programs. These claims were formerly handled by the Office of International Training (OIT). Our report refers to the various AID offices, divisions, and branches by the names used during our review.

## CHAPTER 2

### INSTRUCTIONS RELATING TO DEBT CLAIMS

The Joint Standards provide that regulations prescribed by heads of agencies pursuant to section 3 of the Federal Claims Collection Act of 1966 be reviewed by our Office as a part of its audit of an agency's activities. We examined the following AID Manual Orders (M.O.) and a memorandum of the Controller:

1. Agency for International Development, Washington, D.C. (AID/W), Billing and Collection Procedures (M.O. 751.1).
2. Mission Billing and Collection Procedures (M.O. 751.1.1).
3. Collection of Employee Indebtedness by Payroll Deduction or Other Administrative Action (M.O. 751.2).
4. Statute of Limitations under the Federal Claims Collection Act of 1966 (Controller's Office Memorandum No. 72-1).

AID's instructions generally are adequate; however, some revisions would be beneficial.

There was no reference in M.O. 751.1 to the statute of limitations (28 U.S.C. 2415, 2416) except in paragraph V.E.I.c.(2), which deals with terminating collection action. We suggest that this M.O. include a reference to the United States Code or to the Controller's Office Memorandum No. 72-1.

According to paragraph IV.E.3.a. of M.O. 751.1.1, the indebtedness of a mission employee should be settled promptly. We believe, however, that the collection procedures in paragraph IV.E.3.b., concerning employees who depart from a mission, are not conducive to promptly settling an indebtedness.

Paragraph IV.E.3.b. states that, when an employee has left a mission and has not replied to collection notices sent by the releasing mission, collection assistance may be requested from the Controller at the receiving mission. If the employee has not begun to repay his debt within 6 months

after his departure from the releasing mission and if a prior request to AID/W for withholding of pay has not been made, such request should be made immediately. A request for set-off should be made within 90 days from the initial billing date if a satisfactory reply from the employee has not been received. This is also applicable in cases involving employees who continue on duty at the mission where the debt arose.

Procedures for the collection of employee indebtedness by payroll deduction or other administrative action are set out in M.O. 751.2. Although title 4, chapter III, parts 201-203 of the Code of Federal Regulations were redesignated on December 20, 1969, as chapter I, subchapter G, parts 91-93, citations in M.O. 751.2, paragraphs VII.A and VII.E.4.(c), concerning the waiver of claims, still show the original references to the Code of Federal Regulations.

M.O. 751.2, paragraph VII.B, provides that, if collection is made on a claim by a mission or a billing office but the debtor continues to contest the claim, the matter may be referred to the General Counsel on the merit of the employee's contention. If the General Counsel's decision is against the employee, he is informed of his rights to further legal remedies. We cannot determine whether "legal remedies" imply that the debtor is advised of his right to appeal to our Transportation and Claims Division.

Memorandum No. 72-1 provides guidelines for complying with statutory limitations on filing suit to recover amounts due on civil claims, as prescribed in 28 U.S.C. 2415, 2416. Paragraph 3.c of this memorandum states, in part, that action to recover amounts due from AID employees or former employees for erroneous payments is barred unless the legal complaint is filed within 6 years after the right of action accrues.

Title 28 U.S.C. 2416(c) states that, for the purpose of computing the limitations periods, all periods shall be excluded during which facts material to the right of action are not known and reasonably could not be known by a U.S. official responsible for acting in the circumstances. Therefore a strong argument can be made in favor of the statute of limitations' running from the date of discovery of an employee's overpayment.



From statements in the Senate and House reports and in the House hearings, however, to the effect that the statute gives the Government a "6-year time period for discovering and acting upon these claims" (underscoring supplied), it appears that the safest course is to process the claims on the basis that the period begins to run on the date of the erroneous payment. As stated in Memorandum No. 72-1, paragraph 3.c, the right of action accrues again at the time of each partial payment or written acknowledgment of the debt by the employee.

#### RECOMMENDATIONS

We recommend that:

1. M.O. 751.1, paragraph V., be modified to refer to the statute of limitations.
2. M.O. 751.1.1, paragraph IV.E.3.b., be revised to provide that, in the absence of a satisfactory reply or repayment plan from the debtor within 90 days from the initial billing date, the Mission Controller immediately request AID/W to withhold amounts due from the employee's salary.
3. M.O. 751.2, paragraph VIII.B., be revised to inform a claimant of his right to appeal to our Transportation and Claims Division if collection has been made on his claim but he disagrees with the action taken. (See 4 GAO 5.1(3).)

## CHAPTER 3

### DEBT CLAIMS OPERATIONS, OFFICE OF THE CONTROLLER

The debt claims we examined were limited to receivables involving employees, suppliers, contractors, and participants in various training programs.

We evaluated the effectiveness of collection operations by reviewing written procedures, interviewing management and operating personnel, and examining cases under active collection and those in which collection actions had been suspended or terminated. We also evaluated the actions taken by the Office of the Controller and OIT in response to recommendations in internal audit reports.

This chapter covers our review in the Accounting Division and in the Financial Review Division, which are under the jurisdiction of the Office of the Controller.

#### ACCOUNTING DIVISION

In the Accounting Division, we limited our review to the Central Payroll, Central Accounts, and Washington Accounts Branches.

##### Central Payroll Branch

This Branch bills AID employees for amounts due as a result of erroneous payments of pay. On June 24, 1970, the Auditor General issued Report 70-219 on the results of his internal audit. He found that collection action was minimal, that regular followup procedure in the Branch was nonexistent, and that there had been no followup collection action on employees' outstanding claims since May 1968. As a result of this report, an improved system of orderly followup was instituted. Although the system was generally effective, the Branch could improve its collection operations.

This Branch is responsible for sending a bill for collection and, if necessary, three followup demand letters to separated employees indebted to the Government. These followup letters did not inform a debtor of the consequences of his failure to cooperate, contrary to section 102.2 of the Joint Standards.

The Branch is also responsible for requesting collection assistance from a debtor's employer if the debtor is serving in another Government agency or if he is in the military service, requesting setoff of amounts available in the Civil Service Retirement and Disability Fund, and referring uncollected debts to the Central Accounts Branch.

#### Examination of debt claims

We examined 67 cases which had an outstanding balance of over \$53,000 and which involved debts of former employees. In five of the 67 cases, the amounts due ranged from \$3.03 to \$11.30. The Central Payroll Branch sent two or three followup demand letters, in addition to the bills of collection. This followup action was not required, we believe, in view of the small amounts.

In a number of the cases involving more substantial amounts, the Branch sent an excessive number of demand letters to debtors. As examples, each of three cases--later forwarded to the Central Accounts Branch--contained eight to nine demand letters. The Joint Standards provide for three demands in most instances.

When debts are liquidated by installment payments, each remittance is acknowledged by a letter to the debtor, even though an acknowledgment was not requested. In one case under active collection, 10 acknowledgment letters were sent. Unless a debtor requests that his payment be acknowledged, we believe, a letter is unnecessary.

#### Former employees currently employed in other Federal agencies

The Central Payroll Branch makes an excessive number of demands against a former AID employee before requesting collection assistance from his current Government employer. For one claim the Branch sent the debtor the third followup letter furnishing an explanation of the debt but did not request collection assistance from his employer until four additional demands were made. For two other claims, at least three followup letters were sent in each case but the debts were not referred to the debtors' employing agencies. At no time were these debtors informed that their debts could be referred to their current employers. We suggested

that letters be sent to the two debtors, advising them of the possible referral of their debts to their employers. These letters were sent. In one of the cases, the debtor repaid the debt. The disposition of the second case is unknown.

In our opinion, if the debtor does not respond to the initial billing, a letter informing him that his debt may be referred to his employing agency increases the probability of collection. If the debtor does not respond to this letter, the debt should be referred to his employer.

#### Financial information not obtained

AID procedures do not provide for obtaining financial statements. Financial information, furnished either by a commercial firm or by a debtor is necessary, however, to determine whether (1) the debt may be liquidated by installment payments, (2) the size of payment proposed by a debtor is commensurate with the amount of the debt and with the debtor's ability to pay, (3) the debt may be compromised, (4) collection action should be suspended or terminated, or (5) the debt should be referred to us.

#### Collection by offset against retirement funds

M.O. 751.2, paragraph V.E.1. states, in part, that the Branch may request the Civil Service Commission (CSC) to set off the amount due from funds in a former employee's Civil Service Retirement and Disability Fund.

We have been informed that this Branch does not request collection assistance from CSC if the former employee has had more than 5 years' service and if it is unlikely that he is eligible for immediate annuity payments. Instead the Branch prefers to request payment directly from the debtor. If not repaid, the debt is referred to the Central Accounts Branch for further action and for collection assistance from CSC. It is therefore possible for a former employee to withdraw the amount credited to his retirement account between the time of referral and the time the Central Accounts Branch requests collection assistance from CSC. In our opinion, if recovery is not made from an employee's final pay or lump-sum leave payment, the Branch should promptly contact CSC for collection assistance.

Our recommendations for improving collection procedures may be found in a later portion of this chapter.

### Central Accounts Branch

Paragraph VI.C. of M.O. 751.1 states, in part, that, when it is determined under agency policy that it is not feasible to continue billing a debtor, the billing office refers the claim to this Branch. When appropriate, the billing office recommends that the debt be reviewed and reported to us as uncollectible (4 GAO 56) or that consideration be given to suspending or terminating collection action and to writing off the uncollectible amount.

We reviewed the Branch's collection practices concerning active claims, suspended claims, and claims on which collection action had been terminated. In addition, we examined procedures used in reviewing missions' status reports of actions taken on delinquent accounts receivable.

#### Active claims

Most claims which the missions refer to the Branch involve debts of separated employees. The balance of the active claims in the Branch is referred by the Financial Review Division. We examined 64 cases having a value of approximately \$113,000. There were areas in which improvements should be made.

#### Duplication of collection efforts

Although the billing offices issued a series of demand letters to debtors, the Branch also made numerous requests for repayment. These letters were not aggressive because they did not inform the debtors of the consequences if payments were not received.

#### Timely followup action not taken

Although a control system had been established indicating the dates on which followup actions were due, at the time of our review, in some cases no followup letters had been sent for as long as 6 months. Due to a decrease in personnel, only one employee processed the claims. Because of his other duties, he could process claims only part time.

The inventory of claims in the Branch included cases which had been referred to the General Counsel for legal assistance or for a determination regarding disposition. Despite repeated followup requests, the General Counsel had not acted on several of these cases. We suggest that internal procedures be adopted to prevent this delay.

We informed those in charge that, since the statute of limitations would bar legal action in July 1972 in a number of cases, these cases should be handled promptly. We were assured that the processing of these cases would be expedited.

#### Feasibility of compromise not explored

Section 102.9 of the Joint Standards provides that agencies attempt to compromise (preferably during personal interviews) claims of \$20,000 or less, exclusive of interest. Part 103 of the Joint Standards enumerates the criteria for compromising claims and refers specifically to those cases in which a debtor's financial circumstances do not permit paying the claim in full or to those cases in which litigative risks or the cost of litigation warrant compromising the debt. No attempts were made to explore the feasibility or desirability of compromise.

#### Suspended claims

The Branch may request the CSC to set off an indebtedness against an individual's account in the Civil Service Retirement and Disability Fund. If CSC furnishes information that the former employee has more than 5 years of civilian service and that the amount credited to the employee in the retirement account is not available for setoff until he files an application for refund, the Branch suspends collection action until a remittance is received from CSC.

If the debtor does not apply for a refund, his annuity payments are available for setoff when he establishes his eligibility for an annuity. Unless a debtor applies for refund or establishes eligibility for an annuity, however, the claim remains in the suspense file, and any legal action necessary to enforce collection may be barred by the statute of limitations. We discussed these possibilities with a Branch official, and he said that demand letters would be sent to

these debtors whose cases were placed in the suspense file. If remittances are not received from these debtors, the claims will be referred to us, if otherwise proper.

#### Status reports from missions

Mission billings and collection activities are reported monthly to the Central Accounts Branch and these data are prepared for input into the computer system. As of December 31, 1969, most of AID's accounts receivable were included in the computerized accounting system, which produces the quarterly Accounts Receivable Report (W-236). Every 3 months, the Branch prepares and collates various computer summaries, listings, or other analyses and develops narrative information for reproducing and publishing this report.

On June 30 and December 31 of each year, the missions are furnished with detailed lists of the outstanding accounts receivable balances. Missions reconcile the listings with balances shown in their accounts receivable records and insure that AID/W and mission records agree. After it was pointed out in the internal audit report that there was no systematic review of aged accounts receivables, procedures were adopted for reporting to the Branch the status of mission accounts.

The Branch recently requested Mission Controllers to review all accounts receivable which had been outstanding for more than 90 days, to insure that aggressive collection action is taken. It also requested reports of collection actions taken on all individual accounts outstanding for 90 days or more. Because of the lack of aggressive collection action by some missions and the resulting delays in referring uncollectible debts to AID/W, we suggested that the Branch examine the status reports from the missions. This examination would reveal any delays and should prompt the missions to take the aggressive collection action required by the Joint Standards.

#### Failure to advise missions of statute of limitations

On March 22, 1971, in a letter addressed to the heads of departments, independent establishments, and others concerned, we called attention to the act of July 18, 1966 (28 U.S.C. 2415), which limits the time within which the

Government must sue for recovery of certain claims. This letter stressed the necessity for each Government agency to screen its debt files to determine the barring date for legal action on each debt of \$400 or more and to take all required actions on a timely basis. On July 30, 1971, we issued additional instructions regarding the statute of limitations.

Although available records, such as the Quarterly Status of Outstanding Billings, disclosed a number of aged accounts receivable at the missions, apparently no instructions for screening cases had been furnished. This omission was brought to the attention of the Accounting Division, and on February 12, 1972, airgrams containing the screening instructions were sent to the Mission Controllers.

#### Washington Accounts Branch

This Branch forwards the Quarterly Status of Outstanding Billings to AID/W billing offices to enable them to reconcile their records with the information in the list. M.O. 751.1, paragraph VI.B.1, provides that the billing offices, with the exception of the Financial Review Division, show the latest actions on bills outstanding 90 days or more and return one copy of the list.

The Branch did not require billing offices to furnish status reports regularly on bills outstanding 90 days or more, nor did it review this information when received. We discussed this situation with a Branch official. He said that action would be taken to insure that the billing offices submit status reports. This information was requested in the next quarterly transmittal of outstanding bills for reconciliation.



ACTIONS TO IMPROVE COLLECTION  
OPERATIONS IN THE ACCOUNTING DIVISION

During our review, we informed Accounting Division officials of our findings and made suggestions which, we believe, should result in less duplication of collection efforts among organizational units and should increase overall efficiency.

We helped revise collection procedures and devised letters for use by both the Central Payroll Branch and the Central Accounts Branch. This revision included instructions that financial information be requested from debtors, when appropriate. In addition, we provided copies of letters and forms we use in locating debtors.

We stressed the importance of screening debt files and of taking timely collection action to avoid the possibility of legal action's being barred by the statute of limitations.

RECOMMENDATIONS

Although there were improvements in the collection operations of both the Central Payroll Branch and the Central Accounts Branch, we recommend that the Administrator, AID, insure that:

1. Employees are made aware of the necessity for timely collection actions.
2. Spot checks are made periodically to determine whether timely and aggressive collection actions are being taken.
3. If final salary and lump-sum leave payment do not liquidate an indebtedness, the Central Payroll Branch requests CSC to set off any remaining indebtedness against an employee's retirement account.
4. Available resources are used in the Central Accounts Branch for timely processing of collection actions.
5. Compromises are solicited, when appropriate, in accordance with the Joint Standards.

6. Systematic reviews and followups are made of mission billing offices by the Central Accounts Branch concerning the status of collection actions taken on accounts receivable which have been outstanding 90 days or more. We recommend similar action regarding the responsibility of the Washington Accounts Branch to AID billing offices.

#### FINANCIAL REVIEW DIVISION

We reviewed this Division's Voucher Examination Branch and the Commodity Eligibility and Price Branch.

#### Voucher Examination Branch

##### Claims under the Foreign Service Medical and Health Program

The Comptroller General has held that employees and their dependents receiving medical care at Government expense under the Foreign Service Medical and Health Program and covered by private medical insurance policies shall claim and transfer to the Government such benefits as may be payable under these policies, less approved out-of-pocket medical expenses. Policies and procedures for recovery of medical insurance benefits are contained in M.O. 758.2; M.O. 751.1, paragraph IX.E.; and volume 4, section 437, Foreign Affairs Manual (FAM).

The Office of Medical Services, Department of State, authorizes payment in full to the hospital and to the doctor furnishing medical care to AID employees or their dependents. That Office then sends a letter to the employee requesting that he file a claim with his carrier for benefits due him under his medical insurance policy and that he refund to AID the amount which he receives. Copies of these letters are forwarded to the Administrative Section of the Branch, which is the billing office for recovery of amounts due from employees or other liable parties for medical care.

The Quarterly Status of Outstanding Billings as of December 31, 1971, listed approximately 130 bills arising from the Foreign Service Medical and Health Program, of which more than 50 bills were issued prior to 1971. Two of these bills were issued in 1967; one in 1968; and two were

issued in 1969. At the time of our review (March and April 1972), we were informed that the number of outstanding bills had increased to approximately 255.

We reviewed billings and collection action in 22 cases which had a total value of approximately \$22,000. Although bills were sent promptly, timely followup action had not been taken in a majority of the cases; and, in some instances, there was no followup action for as much as 1 year. Further, there was no contact with insurance carriers and minimal telephone contact with debtor-employees to determine whether they had filed claims with their carriers. Although AID Form 7-77 (Clearance for Final Salary Payment or Transfer) is forwarded to this section, these medical accounts receivable were not checked for amounts outstanding against employees.

We discussed the condition of the receivables with the billing clerk and Branch officials. We stressed the need for aggressive collection actions because insurance carriers were reluctant to honor claims which were not timely filed and because it was more difficult to pursue effective collection against an employee after he separated from service.

Similar claims are processed in the Department of State, Office of Financial Services (OFS). Following our review of its procedures in late 1969 and early 1970, OFS strengthened its collection operations. We suggested that the Branch's Administrative Section contact OFS and the Office of Medical Services to discuss more effective methods of processing these claims, which they agreed to do.

## Recommendations

We recommend that, to improve collection procedures of the Administrative Section, AID:

1. Establish controls for operating personnel to insure timely processing of demand actions. No more than 3 months should elapse between the initial billing and the followup action.
2. Make more use of personal contact with debtors, if the means are available, as well as contact with insurance carriers.
3. Maintain a closer liaison with the Office of Medical Services, particularly if doubt arises concerning further action to be taken.

## Claims against contractors

According to the Auditor General's report of June 24, 1970, the Financial Review Division had not regularly followed up on long outstanding claims against contractors either to collect the amount due or to resolve the claims. The Auditor General recommended that the Office of the Controller establish adequate followup procedures to insure that contracting officers promptly resolve outstanding claims against contractors. In his reply dated August 4, 1970, the Controller stated that, effective September 1, 1970, procedures would be established requiring contracting officers to furnish quarterly status reports on all bills for collection.

During our review we found that the procedures then in effect in the Branch provided for effective regular followup actions on outstanding claims against contractors. We did note, however, delays in several instances. According to the following Branch statistics, progress has been made in achieving effective collection action.

<u>Date</u>	<u>Number of claims outstanding</u>	<u>Value</u>
3-31-71	35	\$380,146.26
3-31-72	14	157,649.30
6-20-72	9	36,887.30

## Commodity Eligibility and Price Branch

This Branch bills suppliers, shippers, and carriers for commodity and transportation charges resulting from violating statutory and administrative pricing requirements or for paying or receiving ineligible commissions, credits, allowances, etc.

The internal audit report of June 24, 1970, referred to weaknesses in the Branch in collection procedures for billings to suppliers, in the lack of vigorous collection actions, in the lack of a reporting system on the status of claims outstanding more than 90 days, and in the failure to request status reports periodically from the Office of the General Counsel and the Department of Justice of actions taken on claims referred to them.

According to Branch officials, meetings may be held with a supplier even before a bill is sent and approval by the Office of the General Counsel is required before a bill is sent. If demand for payment is made and the debt is disputed or if the Branch cannot make collection, the claim is returned to the Office of the General Counsel for disposition. Officials also informed us that, if the General Counsel determined that the debt was valid and susceptible to litigation, it was usually referred to the Criminal and Civil Divisions of the Department of Justice because fraud or illegal procedures might be involved.

### Status reports

Procedures established by the Division chief require that the Branch furnish him with a quarterly report showing the status of supplier claims outstanding more than 90 days. We examined the status report dated April 18, 1972, which listed 75 claims against suppliers. These claims were in various stages of collection; some were receiving Branch consideration, and others were receiving consideration by the Office of the General Counsel, the Central Accounts Branch, or the Department of Justice.

The manner of presenting the status of claims is generally satisfactory. However, the following information would assist in analyzing the reports.

1. In many cases the last date for filing suit was not indicated. If a claim has not been referred to the Department of Justice, the last date on which suit could be filed should be shown, in addition to the date of the bill.
2. Sometimes the dates of referral to the various offices or departments were shown. This date should be listed in all cases. If a status report has been requested, the date of request should also be shown.
3. In a number of instances, the status of the cases is reported as current discussions. This notation should be expanded to show with whom the discussions are being held and the date on which a discussion was last held.

#### Weaknesses in collection operations

The Branch should take more vigorous followup actions against suppliers and should promptly initiate action to resolve outstanding claims.

On April 20, 1972, the Branch submitted a list of outstanding claims against suppliers to the Voucher Examination Branch showing the dates on which suit would be barred. According to this list and the status report, suit would be barred in July 1972, in whole or in part, on 16 bills involving suppliers. We questioned the reasons for the apparent delays in resolving these claims. We were told that the claims in question were but a small part of the entire claims operation, that claims referred to the Office of the General Counsel for determination or advice were often retained in that Office for substantial periods, that suppliers or their attorneys employed delaying tactics, and that a great deal of time was required to document the material for possible litigation.

On May 16, 1972, we discussed the 16 bills with a representative of the General Counsel. He said that these old cases were difficult to resolve and that the number involved was rather insignificant, considering the total volume of claims. He recommended canceling several of these bills because they lacked a valid basis for suit and said that three of the bills involving one supplier had been referred to the

Department of Justice the previous day and that prompt action would be taken on the remainder.

These bills represent a significant percentage of the 75 bills for collection outstanding 90 days or more. Claims against one supplier amounted to more than \$2 million, and suit would have been barred in July 1972 for a portion of the aggregate claim.

It may not be a matter of substantive concern to carry a case on the accounts receivable register indefinitely if it is believed that the case should not be referred either to the Department of Justice or to us; however, a decision concerning the disposition of the claim should be made promptly, and, if proper, the bill should be removed from the register. A review of the case may show that the merits of the claim justify referral to the Department of Justice or to us, but a delay in deciding whether it should be referred may bar the claim from suit.

We cannot pinpoint the reasons for the lack of aggressive collection action in each case. However, contributing factors include delays in establishing a debt, requesting approval by the Office of the General Counsel to issue a bill for collection, following up collection actions against a debtor, and returning the claim to the Office of General Counsel for a determination when the debt has been contested or if it is uncollectible.

#### Actions to improve operations

The Branch requires shippers to submit AID Form 11 so that a determination may be made as to whether the commodity which the supplier has described on the form is eligible for AID financing and whether the price is reasonable. If the price appears unreasonable, an agreement concerning the price is required before the shipment is approved. AID approval of this form does not preclude an AID claim for refund based on a postaudit of the transaction.

Statistical information furnished by the Branch indicated that using AID Form 11 enabled the Branch to reduce the price of commodities by more than \$480,000 from June 1971 to February 1972. We were informed that this practice resulted in fewer overpayments and thereby decreased the number of claims.

## Recommendations

We recommend that, to improve the Branch's collection operations, AID insure that:

1. Quarterly status reports contain sufficient information to enable the chief of the Financial Review Division to determine the exact status of a claim and the date on which the claim arose.
2. Aggressive followup action is taken in accordance with prescribed procedures.
3. The terminal date for suit is prominently shown on the claims jacket and on transmittals to the Department of Justice.
4. Status reports are requested periodically from the Office of the General Counsel on claims referred to it for further consideration.



## CHAPTER 4

### DEBT CLAIMS OPERATIONS, OIT

Internal audit report 67-34 dated August 1, 1966, indicated disagreement between OIT and the Office of the Controller concerning procedures for recovering overpayments made to foreign nationals participating in training programs involving AID-cooperating countries. The Office of the Controller believed that OIT should prepare and issue bills for collection arising from participants' debts and should monitor the debts to insure early recovery. OIT felt that it could not collect or monitor these receivables and that this was more properly a mission function.

As of December 31, 1971, no bills for collection involving participants had been included in the accounts receivable report. According to Accounting Division officials, the subject of billing participants had been discussed for several years and, in early 1971 OIT had agreed, on the basis of mutually acceptable criteria, to review the validity of approximately 700 apparent overpayments to participants which had been made between 1957 and 1970. OIT was to close the claim or prepare a bill for collection and send copies of the bills to the Washington Accounts Branch for recording in the accounts receivable ledgers. As of March 15, 1972, no bills had been forwarded.

Since it was a matter of mutual concern, a meeting was held on March 23, 1972, which included representatives from OIT, the Accounting Division, the Office of the Auditor General, and our Office to determine the action taken on the old claims and the action to be taken on future claims involving participants.

OIT reported that, although it had not submitted copies of the bills for collection to the Washington Accounts Branch, a great deal of work had been done involving the closing of 610 of the 700 old cases for such reasons as (1) the claim was insignificant in amount or lacked evidence to support the indebtedness, (2) the mission was phased out, or (3) the former participant had died. The remaining 90 cases were submitted to the Program Development Branches for examination, together with 43 additional bills for

overpayments made in 1971. According to an OIT representative, sending copies of the bills to the Washington Accounts Branch was delayed because 57 of the 133 bills were transmitted to the missions for collection assistance, copies of the bills intended for the Washington Accounts Branch were inadvertently included, and OIT was unable to identify which of the 133 bills were involved.

It appears that the problems in collection procedures which we discussed at the meeting were resolved, since the bills were forwarded to the Washington Accounts Branch on March 29, 1972. We understand that, as of July 12, 1972, claims operations involving overpayments to participants were transferred to the Office of the Controller.

### CONCLUSIONS

We cannot determine the loss to the Government resulting from failure to establish promptly the validity of the debts and to take timely collection actions. It is reasonable to assume, however, that it will now be more difficult to collect the 90 old accounts, especially those of participants who left the continental United States a number of years ago.

It appears that a problem still exists in promptly closing out the accounts of participants. A senior-level in-house meeting was imperative, an OIT official felt, to prevent future backlogs of these overpayment cases, since participants' accounts could not be closed out promptly without some revision of internal timetables. We believe that, if the reorganization in July 1972 did not solve this problem, the suggested meeting should be held to resolve the issue.

## CHAPTER 5

### PAYMENT CLAIMS INSTRUCTIONS AND OPERATIONS

We reviewed the practices followed by the Administrative Section, Voucher Examination Branch, concerning payment claims. Our activities were limited to discussions with the section official and with operating personnel.

We were told that, when doubt existed concerning the propriety of certifying a claim for payment, the certifying officer requested an advance decision from the Comptroller General of the United States.

Under the provisions of 4 GAO 5.1, a doubtful claim may be referred to our Transportation and Claims Division for direct settlement or an advance decision from the Comptroller General may be requested. Because it is simpler, the first procedure is usually more desirable if the problem relates merely to the disposition of an individual claim. This last procedure is preferable if an authoritative decision is desired to establish a precedent.

Section 5.1(3), title 4, of the GAO manual requires that agencies forward to our Transportation and Claims Division reclaims of items previously denied by the administrative agency, unless it is determined administratively that the action taken was clearly erroneous and can be properly corrected by the agency. This requirement is also included in 4 FAM 481. The Voucher Examination Branch did not comply with these requirements.

#### RECOMMENDATIONS

We recommend that instructions be issued to clarify whether a doubtful claim should be referred to our Transportation and Claims Division or to the Comptroller General.

We also recommend that instructions be issued to provide that reclaims of items previously denied be forwarded to our Transportation and Claims Division unless it is determined administratively that the action taken was clearly erroneous and can be properly corrected.

## CHAPTER 6

### SCOPE OF REVIEW

We reviewed debt and payment claims operations in the Accounting Division and in the Financial Review Division, both components of the Office of the Controller, and examined debt claims operations at OIT. In addition, we discussed debt claims with an official of the Office of the General Counsel.

At the Office of the Controller, we examined claims by AID against suppliers, contractors, and AID employees. Our review of claims against the Government consisted primarily of discussions with officials. At OIT our review covered collection procedures involving excess payments to participants in various training programs.

We interviewed officials and operating personnel and examined instructions, records, and correspondence relating to claims by the Government. To supplement our review, we used internal audit reports.

