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

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MONDAY, DECEMBER 18, 1978



STATEMENT OF  
ELMER B. STAATS  
COMPTROLLER GENERAL  
OF THE UNITED STATES

54112

BEFORE THE  
SUBCOMMITTEE ON TAXATION AND DEBT  
MANAGEMENT GENERALLY OF  
THE SENATE FINANCE COMMITTEE

ON  
IMPROVING GOVERNMENT COLLECTION OF  
AMOUNTS OWED BY THE PUBLIC

HEW A22  
VA A16  
TRANS A38

Mr. Chairman and members of the Subcommittee:

We are here today at your request to discuss the results of our Government-wide reviews of how Federal agencies handle accounts receivable and how the Government can be more productive in collecting its debts by following commercial practices.

As you are no doubt aware, the inventory of debts owed the U.S. Government has become enormous, and is growing. As of September 30, 1977, the public owed the Government about \$118 billion; of this total about \$84 billion is owed to Federal agencies which are included in the Federal budget. For these agencies this represents a 21 percent increase from 1976. Much of this will, of course, be paid routinely; however, a large and growing part requires some type of collection action, and, of this, a substantial amount will be written off as uncollectible if collection methods are not improved.

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The large amount owed the Government results from a host of Federal activities including tax assessments; sale of Government services, such as missile launchings for other governments; sale of Government goods, such as natural resources from Federal lands; overpayments to people like veterans and annuitants; and various loan programs such as student and housing loans.

Under the Federal Claims Collection Act of 1966 and the implementing Joint Standards, administrative agencies are primarily responsible for collection of claims arising out of their activities. The Joint Standards provide specific guidelines for collection action. These standards require agencies to take prompt and aggressive action to collect amounts due the Government.

Overall figures are not available on the number and value of claims written off by Federal agencies. However, we have some information which will provide insight into the magnitude of the Government's collection problems. For example:

--According to information reported to the Treasury Department, the estimated allowance for bad debts was \$3 billion as of September 30, 1977, a 35 percent increase since 1976. This figure is probably understated.

--In 1978, three agencies - Small Business Administration, Veterans Administration and Farmers Home Administration - wrote off

as bad debts \$274 million, a 60 percent increase compared to 1976.

--Many debts result from overpayments by the Federal Government. For example, Social Security Administration reported \$1.5 billion in overpayments as of September 30, 1978. It estimated that it would not collect one-third of this amount. It should be noted that the agency is authorized to and will grant relief for part of this amount. During 1978, it wrote off \$108 million as uncollectible.

--The Veterans Administration reported overpayments of over \$400 million at September 30, 1978. In 1978, most of the \$93 million written off by this agency stemmed from overpayments.

--The Office of Education has over \$4 billion in receivables. About one billion of these loans are in default and the rate is increasing rapidly.

When amounts owed the Government are not paid , or payment is late, the Government is deprived of the current use of funds, its losses due to bad debts increase, and its administrative workload goes up. As receivables age, they become increasingly difficult to collect. In addition, people who are consistently delinquent will be prompted to pay on time only when they know the Government is enforcing collection.

When debts are not collected, people are given benefits to which they are not entitled; self-help programs are, in effect, converted into grant unauthorized programs and, as word spreads

that repayments can be avoided, fewer people will pay voluntarily, resulting in agencies having to devote more and more time to collection. Further, it is unfair to the taxpayer and those who pay their debts to the Government to allow these debts to go uncollected. This is especially important when the individual owing the debt has the ability to pay.

We believe there are two basic reasons why debt collection in Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection and second, present collection methods are expensive, slow, and ineffective when compared with commercial practices.

We have two recent reports which relate to these problems. One is titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public" (FGMSD-78-61), issued October 20, 1978. The other is titled "The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices" and will be issued in the next few weeks. The first of these reports deals primarily with problems the Government has in accounting for receivables and failing to follow the established collection procedures. The second deals with how Government efforts to collect receivables compare with those followed by the private sector and proposes adopting certain private sector practices that appear to have potential for improving Government collections.

I will summarize the principal findings of each report.

## REVIEW OF GOVERNMENT ACCOUNTS RECEIVABLES

We reviewed Government accounts receivables as part of our continuing effort to evaluate agency accounting systems. We performed work at 12 departments and agencies which have large accumulations of accounts receivable from the public. We also drew from other related GAO reviews on debt collection to develop a broad picture of how Government agencies handle these assets and collect debts. A list of these reports is included as an attachment to my statement.

Our review showed that prompt collection action on the Government's accounts receivable from the public has been hindered by

- a lack of prompt and aggressive collection action in accordance with the Joint Standards,
- low or no interest charges being imposed on delinquent accounts, and
- inaccuracies in accounting for and reporting accounts receivable, including inadequate allowances for bad debts.

I will discuss each of these problem areas.

### Federal agencies can improve billing and collection activities

Most agencies we reviewed did not take prompt and aggressive collection action on delinquent accounts receivable. Although the agencies prepared initial bills promptly, they did not collect many receivables within a reasonable period. All the agencies

had formal debt collection procedures. Generally, these procedures were adequate to establish viable debt collection programs, but they were not always followed. For example:

1. Delinquent receivables were not promptly identified for followup action.
2. Followup letters were not regularly sent within 30 days and sometimes were not sent at all.
3. Appropriate delinquent debts were not promptly referred to GAO or the Department of Justice after agency collection efforts were exhausted.
4. Agencies did not analyze their collection activities to identify their cost of collection. Without this analysis, agencies did not have an adequate basis for making the required decisions on when to terminate collection efforts. As a result, the number of demand letters sent on claims of less than \$100 varied widely.

We made recommendations to the agencies covered in our review and they have initiated corrective action. Because other agencies not included in our review are experiencing similar problems, we sent a separate letter to all Federal activities and urged them to take a hard look at their collection efforts.

Need for uniformity in charging  
interest on delinquent accounts

Because interest rates on delinquent accounts receivable due the Government are often significantly below the going rate of interest, debtors have little incentive to promptly pay their accounts. This, in turn, encourages late payments and, as a result, some individuals and corporations have delayed paying their debts due the Government for several years.

Government agencies have widely divergent practices for assessing interest charges when payments are not timely. Although a few agencies charge high rates of interest on delinquent accounts, other agencies charge little or no interest.

One reason these inconsistencies exist is because there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent accounts receivable. Although general statutory provisions authorizing agencies to charge interest do not exist, the courts have ruled that creditors, including the Federal government, may charge interest on overdue accounts.

Agencies that charge substantial interest generally collected most accounts in a prompt manner. For example, one office of the Energy Research and Development Administration which sold uranium enrichment services had about \$100 million in receivables at the time of our review. This activity charged interest of 1 percent a month on accounts not paid within 30 days. Our review showed that 95 percent

of the activity's bills were collected within 30 days and we concluded that the imposition of interest was a positive factor in encouraging prompt payment.

Other Government agencies that had not established interest charges for late payments were encountering serious collection problems. For example, Geological Survey did not charge interest on late payments for oil and gas royalties and nearly 50 percent of the payments it received were late.

We believe that interest probably should not be applied to collection of overpayments made by the Government to recipients under Federal programs when the recipients are not at fault. However, we also believe that interest charges may be warranted if the money due is not repaid within a reasonable time.

To overcome this problem, we recommended that guidelines be issued providing that Government receivables bear interest at not less than an established minimum rate.

Guidelines now exist which require Federal agencies to include a stipulation in all contracts and agreements that interest will be charged for late payments. This is a step in the right direction but we believe the guidelines should be further revised to provide for interest charges on delinquent receivables not covered by contracts or agreements.

Accounts receivables not accurately recorded and reported

Another problem identified in our review was the way agencies record and report accounts receivable. We identified



understated balances of nearly \$800 million which resulted mainly because certain agencies did not report unrecovered overpayments as receivables. We also found overstatements in other agencies of about \$660 million because of accounting errors. As a result of these errors, controls over collection and writeoffs of receivables are weakened, asset balances are incorrect, and expected future losses are not fully disclosed. We attributed these problems to a need for increased management attention to accounting systems, a need for specific guidance for recording and reporting, and a need for increased internal audit coverage of financial operations.

As a result of our recommendations, agencies have taken corrective action to provide better accounting and reporting. For example, the Social Security Administration began including program overpayments as accounts receivable in its 1977 financial reports. As a result, its reported receivables went from \$83 million in 1976 to \$1.5 billion in 1978.

We recommended that Treasury revise its guidelines in order to strengthen financial reporting by all departments and agencies. Treasury is making appropriate revisions.

#### USE OF COMMERCIAL COLLECTION PRACTICES

We undertook our second review at the request of Senators Long and Packwood. In this review, we studied debt collection practices used by the public and private

sectors to determine each sector's efficiency and effectiveness. After analyzing the comparative data, we concluded that significant improvement can be achieved in the debt collection operations of the Federal Government by using selected private sector practices. Since we have not formally reported the results of this review, I will discuss our interim findings.

Unit cost comparisons reveal that Federal debt collection practices are expensive and slow

As a first step in comparing public/private sector debt collection practices, we reviewed comparable unit cost and related performance data. These comparisons indicated that the Federal debt collection process is expensive and slow.

One indicator of the contrast between Federal and commercial debt collection practices is the size of the debt that each sector considers cost effective to pursue to the point of obtaining a court judgment. Several commercial firms said it was cost effective to pursue collection to the point of obtaining a court judgment on debts as small as \$25. The Government generally does not seek judgments on debts of less than \$600. While the private sector has maintained the \$25-figure over the past 8 years, in this same period the Government's minimum dollar level has risen from \$200 to \$600. Until the Government can improve its debt collection systems through the adoption of commercial practices, such as automation, it will not be able to significantly reduce the \$600 cut-off level in preparing for and litigating a court action.

As another indication, it cost one Federal agency with a large collection activity an average of \$8.72 to pursue collection of an account until the debt was collected, written off, or referred to GAO or Justice. One large retail firm, on the other hand, reportedly spent less than \$3.50 for the same functions.

Federal collection is also slower. Commercial firms told GAO they were generally able to pursue collection to the point of obtaining a court judgment within 5 months. In the Federal Government it takes a year and frequently longer to reach that point in the process.

Because of the requirements placed on Federal collectors by the Joint Standards and by agency operating procedures, the Government cannot be expected to fully match the cost effectiveness record of private industry. But processing time and costs can be reduced by prompt and aggressive collection actions and by implementing certain successful private collection practices that make good sense and seem adaptable to Government.

Selected private sector practices that can be adopted by the Federal Government

In analyzing the reasons for the differences in performance, we identified several commercial practices that we believe would significantly improve Federal debt collection performance. These include

--reporting debts to credit bureaus,

--using the credit bureau debtor locator service  
to help find delinquent debtors,  
--improving the content of demand letters, and  
--making greater use of automation, including  
automation of demand letters.

It may also be appropriate to employ private debt collectors to collect debts that agencies have written off, but this will have to be evaluated further.

I would like now to briefly address each of these commercial practices.

Report debts to credit bureaus

Credit bureaus are widely used by the private sector, while the Federal Government relies primarily on persuasion, offset, and legal action to collect debts. While effective in many cases, these methods are not fully adequate when debtors delay or try to avoid paying.

In contrast with the Federal Government, commercial firms place primary reliance in collecting unsecured debts on aggressive collection action backed by the consequence of adversely affecting the debtor's credit rating. In addition, the private sector limits the extent of credit available to individuals by reporting loans and installment payments when incurred to the credit bureau network. This network is a consortium of credit bureaus that is systematically linked together. These commercially used inducements have potential for use in the Federal Government.

Private industry officials told us that the single most powerful motivation for an individual to pay a debt was the stigma of having that person's credit rating reflect that he or she has not paid debts promptly. The vast majority of Americans rely on credit and a good credit rating to buy the things they need.

The potential effectiveness of reporting debts to the credit bureau network is illustrated by the results reported by the New Jersey Office of Student Assistance. I understand that Mr. Nestor, Director of the agency, will provide you with data which shows how successful they have been in preventing students from defaulting on their loans and in collecting defaulted loans utilizing this approach.

Based on this evidence, we believe that reporting indebtedness to the credit bureau network can help Federal agencies collect from debtors who are delaying or trying to avoid paying.

We further believe, based on our present understanding of the law and of the procedures for notification to debtors, that agencies may both comply with the Privacy Act of 1974 and, for legitimate purposes, share with credit bureaus data on loans made and delinquent debts.

We believe it is appropriate to report debts to credit bureaus, both to collect from debtors who are trying to avoid paying, as well as to make it more difficult for debtors to overextend themselves on credit.

It should also be noted that when individuals are prompt in making payments to the Government and this data is recorded at the credit bureaus, their credit rating can be enhanced, providing them with additional credit.

Use the credit bureau  
debtor locator service

Finding people who do not voluntarily pay the Government the amounts they owe is a problem for many agencies, particularly those dealing with students. A technique debtors use to avoid paying debts is to elude being found; they move and do not leave a forwarding address. Agencies have accumulated a large backlog of delinquent debts and have written off several hundred million dollars in debts because they could not locate debtors.

Agencies use a variety of ways to locate debtors, but they have not made full use of the nationwide debtor service provided by the credit bureau network. Because millions of Americans have credit records, the service, which is inexpensive, can be a good source that is readily available. It has proven useful for commercial firms, and at least one Federal law enforcement agency uses it to locate people. We believe that a test of the use of the debtor locator service is warranted.

Improve the content of demand letters

As mentioned previously, we identified a number of

deficiencies in the way agencies prepare demand letters. Concerning the letters' contents, we found that Government demand letters were not as specific as those in the private sector in describing actions that would be taken. This results in a less forceful message to the debtor and thus lessens the likelihood of prompt repayment.

Based on our analysis of the content of agency demand letters, the following changes would enhance their effectiveness.

--Debtors who do not agree to pay, or are delinquent in paying, should be advised that action will be taken if payment is not made by a given date and that interest will be charged for each day the debt is delinquent; and

--debtors should be told that they must provide evidence to support assertions that they do not owe the debt, that the amount is wrong, that they have paid, or that they are not able to pay.

Make greater use of automation

As I have already stated, it is more expensive to collect debts in the public sector than in the private sector. Private sector officials attribute their low costs to automation. We found that agencies use varying degrees of automation, but a significant potential remains for more automation. Further, for some agencies, such as the Veterans Administration,

automation is essential to efficiently handle the large volume of collections they must process. In the long run we believe many agencies could reduce their unit costs for debt collection by automation.

Employ private debt collectors

Another problem we have noted is that agencies are writing off a number of debts because it is not cost effective to further pursue collection. While we would expect this problem to be reduced by taking some of the actions I have mentioned, it nonetheless could remain a problem. One approach that has been suggested is to refer such debts to private collectors. This would be consistent with the commercial practice of referring debts to private collectors before considering them totally uncollectible.

Our interpretation of the Claims Collection Act of 1977 is that only Federal departments and agencies are authorized to attempt collection of debts owed to the Federal Government. We continue to believe that, in general, this is a sound policy. There may, however, be merit in using private debt collectors to collect debts which Federal agencies have administratively written off as not being economical for them to pursue. Here one should keep in mind that the cutoff point for pursuing debts through legal action is \$600 in the public sector and \$25 in the private sector.



Employing private debt collectors would require a change in legislation because Federal agencies are now precluded from using them except when given legislative authority. The Office of Education was given such authority in 1976 and is proceeding to use private collectors on a test basis. GAO plans to monitor this test and examine the merits of proposing legislation to allow agencies to employ independent collectors for debts they administratively write off.

#### Recommendations

In order to test these commercial practices, we have proposed that the Secretary of Health, Education, and Welfare and the Administrator of Veterans Affairs take action on defaulted student loans and educational assistance overpayments

- by reporting loans to the credit bureau network when they are incurred, information on installments being paid, and the failure of debtors to pay amounts owed when due; and
- by making arrangements to use the debtor locator service offered by credit bureaus and other firms and evaluate the cost benefit of this service.

To gain experience, we believe it would be best to begin such reporting to the credit bureau network incrementally, beginning with student loans and overpayments at the Veterans

Administration and the Office of Education. If these practices prove successful, GAO will initiate action to revise the Federal Claims Collection Standards to provide for using these collection procedures by other agencies.

Finally, we plan to encourage the heads of departments and agencies to improve the content of their demand letters and to assess the cost savings and other benefits that can result if they automate their debt collection process.

#### Agency comments

Our report is now out for agency comments. In preparation for this testimony, we obtained oral comments from the Departments of Health, Education, and Welfare, and Justice. These agencies have generally concurred in the findings, conclusions, and recommendations contained in our draft report. The Office of Education has already begun making arrangements to implement some of the recommendations.

Agencies from which we have requested comments have not yet responded with their views concerning the ramifications of the Privacy Act on reporting debt information to credit bureaus. However, our understanding of the Privacy Act is that it does not preclude agencies from reporting this information if prior consent is obtained or if appropriate procedures are published to authorize the sharing of this data.

## Conclusions

In closing, we have found debt collection in the Federal Government to be an expensive and slow process, and we in GAO have long been concerned about the adequacy of agency collection efforts. The attachment to my statement lists several reports issued in recent years which relate to debt collection matters. Because of the ever growing amounts owed the Government and written off as uncollectible and the concern expressed by the Congress and the public, we will continue to give this area priority attention.

By adhering to the Joint Standards and by adopting the private sector practices described in this testimony, we believe the Federal Government can better collect its debts and will have the potential to recover billions of dollars.

Finally, this approach can result in the public gaining a more positive view of the competence of the Government. This improved opinion will happen when it becomes clear to Americans that the Government is not derelict in its duty to administer the public business of the Nation in the most efficient and effective manner possible.

\* \* \*

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions you and other members of the Subcommittee may have.

LIST OF RECENT GAO REPORTS ON DEBT COLLECTION

FOD-76-7 April 16, 1976	Small Business Administration Need For Improvement In Small Business Administration's Financial Management
B-1170604 October 11, 1973	Department of the Army Improvements that have been made but problems that still exists in Claims Army Finance-Support-Agency
B-117064 April 4, 1975	Social Security Administration Lengthy delays in processing delays in processing of over-payments under Part-A of the Medicare Program may result in losses of millions of dollars
CED-77-112 July 18, 1977	Department of Agriculture The Food Stamp Program overissued benefits not recovered and fraud not punished
CD-77-1 August 11, 1977	Department of Health, Education and Welfare Office of Education Collection efforts not keeping pace with growing number of defaulted student loans
FGMSD-77-33 September 8, 1977	Department of Housing and Urban Development Millions of dollar in delinquent mortgage insurance premiums should be collected by HUD
HRD-78-45 February 16, 1978	Veterans Administration Further action needs to resolve Veterans Administration's educational assistance over-payment problem
CED-78-14 December 12, 1977	Department of Housing and Urban Development/ Department of Defense The unnecessary practice of requiring DOD to pay mortgage insurance premium on Wherry and Copehart family housing properties owned by DOD and insured by HUD

HRD-77-131  
August 23, 1977

Social Security Administration  
Supplemental security income over-payments  
to medicaid nursing home residents can be  
reduced

B-114860  
October 7, 1977

Department of Agriculture  
Letter report to the Secretary of Agriculture  
concerning improving FmHA's practice of  
charging either a standard fee or nothing  
for credit reports for evaluating the credit  
history of loan applicants

B-114589  
March 19, 1976

Veterans Administration  
Educational assistance over-payments, a  
billion dollar problem--a look at the causes,  
solutions and collection efforts

HRD-78-112  
May 11, 1978

Veterans Administration  
Improvements Needed in VA's Education  
loan program

HRD-78-94  
May 2, 1978

Office of Education, HEW  
Status of Office of Education's National  
Direct Student Loan Funds at selected  
post secondary education institutions

FGMSD-77-46  
September 16, 1977

Department of Defense  
Weaknesses in billing and collection for  
foreign military sales

CED-77-134  
October 7, 1977

Department of Agriculture  
Need for the Farmers Home Administration  
to charge a fee for credit reports used to  
evaluate the credit history of housing loan  
applicants .

FGMSD-77-45  
June 25, 1977

Energy Research and Development Administration  
Review of (ERDA's) accounting system for  
accounts receivable including related billing  
and collection practices

FGMSD-77-42  
July 11, 1977

Forest Service  
Review of accounting systems for accounts  
receivable including billing and collection  
practices and improvements need in the  
accounting, billing, and collection system

FGMSD-77-29  
July 27, 1977

General Service Administration  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-30  
August 17, 1977

Department of Labor  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-31  
August 30, 1977

Department of the Treasury  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-32  
September 6, 1977

Social Security Administration  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-41  
September 15, 1977

Civil Service Commission  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-89  
October 21, 1977

National Aeronautics and Space Administration  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system

FGMSD-77-66  
February 3, 1978

Department of the Interior  
Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system



100. Review  
Rm 7000B

COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20348

B-159687

February 1, 1979

The Honorable W. Michael Blumenthal  
The Secretary of the Treasury

Dear Mr. Secretary:

As we both know, the amount of Government spending is always a popular and often controversial subject. Now, the other side of the ledger is commanding more and more attention--the amount of money owed the Government. The most recent financial data available from Treasury shows the Government was owed about \$118 billion -- an amount which has grown steadily and will continue to increase. Much of this amount will, of course, be paid routinely as it becomes due. However, an increasingly large amount requires some type of collection action. Of even more concern to both of us is the fact that substantial amounts of receivables will be written off as uncollectible unless agency management devotes greater attention to this problem area.

We have been continually concerned about the adequacy of agencies' collection efforts and have issued many reports on needed improvements. One of our recent reports, titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public" (FGMSD-78-61, Oct. 20, 1978), deals with accounts receivable from the public. We also have several other efforts currently underway.

The Congress is also becoming increasingly concerned about the Government's debt collection problems. On December 18, 1978, I testified on this subject before the Subcommittee on Taxation and Debt Management Generally of the Senate Finance Committee. It is very likely that the Congress will hold additional hearings on debt management early this year.

We believe that basic information on delinquent amounts owed the Government is essential to both the legislative and executive branches for effective management. We recognize that your Department is cognizant of the need for improved governmental accounting and reporting and requires agencies to establish and report balances of allowances for losses or bad debt reserves. In August 1977, the Interagency Advisory Committee on Consolidated Financial Statements established a task group on allowances for losses on accounts and loans receivable. We are participating in and actively supporting the efforts of this task force to review problems in establishing adequate allowances and to recommend possible improvements. We will continue to lend our support and participation.

In our work in this area, we have found that overall financial reporting of receivables is inaccurate and incomplete and is not receiving adequate attention from agency management. For instance, agencies are not required to report how much the Federal Government writes off as bad debts. We do know, however, that the amount is alarmingly high. In preparing for the December 18 hearings, we were able to obtain information showing that nine agencies wrote off \$428 million in fiscal 1978. I might add, however, that we had to individually contact each agency to determine this.

We noted in our accounts receivable study that many agencies did not prepare aging schedules of amounts owed. Such a schedule is a basic tool used in commercial practice to identify delinquent accounts. In fact, one of the questions asked by the Subcommittee Chairman during the December 18 hearings was how much of the \$118 billion was past due. Unfortunately we had to reply that such information was simply not available.

Both the GAO Policy and Procedures Manual for Guidance of Federal Agencies and the Treasury Fiscal Requirements Manual require agencies to establish allowances for uncollectible accounts. Most agencies either made no allowance for uncollectible receivables or the amount established was inadequate as reported on their statements of financial condition filed annually with the Treasury Department. (At September 30, 1977, the reported allowances totaled \$3 billion.) For example, the Office of Education with over \$600 million in defaulted direct student loans provided no allowance for anticipated uncollectible accounts in its September 30, 1977, statement of financial condition.

In view of these problems, we believe the Department of the Treasury needs to take the lead in seeing that all agencies report adequate information on debts owed the Government so that the Congress, the President, agency management, and the public will be accurately informed on financial management matters.

Specifically, we suggest that you require each agency to periodically report:

- The portion of its accounts and loans receivable that are past due and an aging schedule of delinquent accounts.
- The amount it wrote off or otherwise terminated collection action on during specified periods.

In addition, we urge you reemphasize to the agencies that they are required to make and report reasonable estimates of allowances for uncollectible amounts.



As a general rule, we believe amounts should be considered as past due if payment has not been made within 30 days from date of invoice or notice of payment due, unless terms of the contract or other agreement require a shorter payment period.

Regarding the frequency and method of reporting, we recognize that each agency is now required to submit statements of financial condition to the Treasury at each fiscal year end. The additional information we are suggesting could be reported as part of these statements. However, we believe you should consider requiring the agencies to report this additional information on a more frequent basis, such as quarterly. This would enable the users of this information to make comparative analyses more readily, to spot trends, and to initiate timely corrective action.

In conjunction with these expanded reporting requirements, we believe the Treasury Department, in cooperation with the Office of Management and Budget, should take an active monitoring, analysis and followup role to help ensure that executive agencies are doing as much as they can to collect amounts owed. Once the agencies begin to report the additional information on a regular basis, the Treasury Department could, for example

- determine which agencies have large past due amounts and writeoffs;
- identify trends, such as steady or rapid buildups of past due amounts and writeoffs, and large increases in claims arising from overpayments;
- consider the adequacy of allowances for uncollectibles in relation to total amounts owed and amounts past due;
- consider whether a comprehensive review of an agency's collection activities appears necessary either by internal auditors or by an external organization such as the Treasury Department or the Office of Management and Budget.

The type of financial reporting and analyses described in this letter are normal practices in the private sector. In this connection we have a report in process titled, "The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices." We believe the suggestions included in this report will help to greatly improve the Government's debt collection performance.

We recognize that primary responsibility for the recording, reporting, and collection of receivables rests with the departments and agencies. We also recognize that our suggestions to you will require additional efforts on the part of both the Treasury Department and other executive agencies. However, we are convinced that better financial reporting and collection of the billions of receivables will be achieved only if there is a central focus on the existing problems.

We have discussed these matters with your Deputy Commissioner for Government Financial Operations. If you desire further information we would be happy to meet with you or your staff.

We are sending copies of this letter to the Director, Office of Management and Budget. We are also sending a copy to the Chairman, Subcommittee on Taxation and Debt Management Generally, Senate Finance Committee. Copies are also being sent to the Chairmen, Senate Committees on Governmental Affairs, Appropriations, and Finance and House Committees on Government Operations, Appropriations, and Ways and Means.

Sincerely,

**(SIGNED) ELMER B. STAATS**

Comptroller General  
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

*M Keller*  
*7/1/70*

B-159687

FEB 1 1970

The Honorable James T. McIntyre, Jr.  
Director, Office of Management  
and Budget

Dear Mr. McIntyre:

The enclosed letter to the Secretary of the Treasury suggests that Federal agencies be required to report additional information on debts owed the Government. We are also asking the Treasury Department, in cooperation with your Office, to take an active role in seeing that the agencies are doing as much as they can to collect amounts due the Government. We believe that a close cooperative effort between your Office and the Treasury Department can do much to help ensure that the Government has an effective and aggressive debt collection program.

Because our work shows that agency collection efforts need considerable improvement, we plan to give this area continuing attention.

Sincerely,

(SIGNED) ELMER B. STAATS

Comptroller General  
of the United States

Enclosure

NOTICE OF HEARINGS

COMMITTEE : Senate Finance Committee  
Subcommittee on Taxation and Debt Management  
Generally

SUBJECT : Accounts Receivable/Federal Government's Debt  
Collection Practices

DATE : December 18, 1978

TIME : 9:30 a.m.

ROOM : 1114 Dirksen SOB

Membership : Senator Harry F. Byrd, Jr. (D-Va.), Chairman

Majority : Senators Byrd, Talmadge (Ga.), Gravel (Alaska), and Haskell  
(Colo.)

Minority : Senators Packwood (Ore.), Hansen (Wyo.), and Roth (Del.)

Principal staff : Ed Beck, Majority Counsel  
John Colvin, Minority Counsel

GAO Witness : Mr. Staats

Accompanied by : D. L. Scantlebury, Director, FGMS  
Brian Usilaner, Assistant Director, FGMS  
John Simonette, Assistant Director, FGMS  
T. Vincent Griffith, Legislative Attorney, OCR

Two cars will leave G Street, first basement, at 9:15 a.m.

A photographer will be present

T. Vincent Griffith  
Legislative Attorney  
Office of Congressional  
Relations