DOCUMENT RESUME

07395 - [C2968052]

The Government Needs To Do a Better Job of Collecting Amounts Owed by the Public. FGMSD-78-61; B-159687. October 20, 1978. 41 pp. + 6 appendices (12 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).
Contact: Financial and General Management Studies Div.
Budget Function: General Government: Executive Direction and Management (802); General Government: Central Fiscal Operations (803); Miscellaneous: Financial Management and Information Systems (1002).
Organization Concerned: Department of the Treasury; Office of Management and Budget.
Congressional Relevance: House Committee on Armed Services; Senate Committee on Armed Services; Congress
Authority: Federal Claims Collection Act of 1966 (31 U.S.C. 951). Budget and Accounting Procedures Act of 1950. Anti-Deficiency Act. =4 C.F.R. 101. OMB Circular A-11.

Government accounts receivable are generally identified as assets from the time transactions giving rise to a claim are complete until payment is received or a claim is determined to be uncollectible. Payments usually are required within 30 days from billing, and interest charges may be levied if payments are not made when due. The public's debt to the Federal Government has increased from $10.4 billion in 1973 to $14.6 billion in 1977. Findings/Conclusions: Errors amounting to $1.5 billion in accounts receivable were identified at 12 agencies. Problems included: failure to include unrecovered beneficiary overpayments as accounts receivable, failure to include amounts because of delays, amounts shown as due for the wrong time period, overstatements due to errors, and amounts already collected shown as due. Most agencies did not take prompt and agressive collection action on delinquent accounts or adhere sufficiently to prescribed collection procedures. Other problems involved inadequate identification and followup action on delinquent accounts, lack of knowledge relating to collection actions, lack of documentation in claims files, and failure to take required action in referring delinquent receivables for further action. During fiscal year 1976, five Federal agencies wrote off claims of about $200 million. There were inconsistencies in agencies' practices relating to charging interest. Improvements are needed in accounting systems and financial management. Recommendations: The Secretary of Treasury should revise the Treasury Fiscal Requirements Manual instructions for preparation of financial statements to require: accounts receivable not due within a year or less to be classified as noncurrent assets, unrecovered beneficiary overpayments to be reported and identified as accounts recievable, and consideration to be given to past collection

experience in computing an allowance for uncollectible accounts. He should also emphasize the need for agencies to review financial statements for completeness and accuracy. The Director, Office of Management and Budget, in concert with the Department of the Treasury, should issue guidelines providing that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The Director should emphasize to the heads of departments and agencies the need to obtain the Comptroller General's approval of their accounting systems and assure that an adequate portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury. (HTW)

8052

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public

Prompt collection action on amounts the public and others owe the Government, amounting to about $15 billion, has been hindered by

--inaccuracies in accounting for and reporting of accounts receivable,

--lack of prompt and aggressive collection action,

--low or no interest charges being imposed on delinquent accounts, and

--inadequate provisions or no provisions for uncollectible accounts in most agencies.

Because the issues in this report are Government wide, GAO is sending it to all departments and agencies and is making recommendations to the Secretary of the Treasury and the Director, Office of Management and Budget. Adoption of GAO's recommendations should contribute to improved accounting for, and billing and collection of, the Federal Government's accounts receivable.

UNITED STATES GENERAL ACCOUNTING OFFICE

FGMSD-78-61

OCTOBER 20, 1978

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

B-159687

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our Government-wide review of how Federal agencies handle accounts receivable. It shows that improvements are needed in recording, billing, and collecting accounts receivable. It also points out that procedures for charging interest on delinquent accounts are not uniform and that overall financial management should be improved.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53) and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the heads of other departments and agencies.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE GOVERNMENT NEEDS TO DO A BETTER JOB OF COLLECTING AMOUNTS OWED BY THE PUBLIC

D I G E S T

The public's debt to the Federal Government is growing. Amounts increased from $10.4 billion in 1973 to $14.6 billion in 1977. The Government has not been aggressive in collecting amounts due. Moreover, many Government agencies, unlike commercial concerns, have not charged interest when debtors failed to pay on time.

Government accounts receivable--amounts due from others--generally are identified as assets from the time transactions giving rise to a claim, such as sale of goods or services, are completed until payment is received or a claim is determined to be uncollectible. These receivables are included in Federal agencies' financial statements submitted annually to the Treasury for consolidation. Payments usually are required within 30 days from the billing date. Interest charges may be levied if accounts receivable are not paid when due.

RECORDING AND REPORTING OF ACCOUNTS RECEIVABLE NEED IMPROVEMENTS

GAO identified errors of $1.5 billion in accounts receivable at 12 agencies. (See p. 5.) Specific problems included:

--At least $742 million of unrecovered beneficiary overpayments not included in financial statements as accounts receivable.

--About $48 million not included in financial statements because of billing and other delays.

Tear Sheet. Upon removal, the report cover date should be noted hereon.

FGMSD-78-61

--About $380 million shown as due within the following year when the amounts actually were not due until more than a year later.

--An overstatement of about $12 million in accounts receivable on financial statements because of clerical and miscellaneous reporting errors.

--About $270 million shown as due on financial statements which had already been collected by the Government.

Most agencies either made no provision for uncollectible receivables or the amount established was inadequate. (See p. 14.) Errors in recording and reporting accounts receivable primarily were attributable to a need for increased management attention to accounting system problems, more specific guidance for recording and reporting amounts, and increased internal audit coverage of financial operations.

MORE AGGRESSIVE COLLECTION EFFORTS NEEDED

Most Government agencies did not take prompt and aggressive collection action on delinquent accounts receivable nor adhere sufficiently to prescribed collection procedures. Although they prepared initial bills promptly, they did not collect many receivables within a reasonable period because they did not always follow established debt collection procedures. (See p. 18.)

Problems included:

--Delinquent accounts not promptly identified for followup action.

--Inadequate followup collection efforts.

--Administrative costs of collection actions not known may have resulted in collection action being suspended prematurely on some accounts and excessive costs being incurred in attempts to collect others.

--Documentation not available in claims files, and delinquent receivables not being referred to GAO or the Department of Justice for further action, as required.

Agencies whose operations give rise to the indebtedness to the Government are primarily responsible for collection. All agencies' collection programs generally must be in conformity with the Federal Claims Collection Act of 1966. The act requires each agency to establish collection procedures and to prescribe criteria for collecting, compromising, suspending, or terminating collection action and for referring claims to GAO and the Department of Justice. If the collection efforts, which may include legal action, are unsuccessful, the account is written off.

Overall statistics on the number and value of claims written off by the Government were not available. During fiscal year 1976, five Federal agencies wrote off claims of about $200 million. This volume of write offs and an increase in outstanding receivable balances are indicative of the need for better collection efforts by Federal agencies.

UNIFORMITY NEEDED IN CHARGING INTEREST

Some agencies did not impose interest charges on delinquent receivables; other agencies had recently established interest penalties but charges imposed were often inconsistent. (See p. 28.) Some agencies had problems identifying delinquent accounts. These agencies usually had established due dates for accounts receivable but when accounts were not identified as delinquent, interest charges for late payments were not imposed.

ACCOUNTING SYSTEMS NEED IMPROVEMENT

Although this report discusses accounts receivable, its findings indicate that Federal managers need to strengthen financial management generally. Managers of Government departments and agencies need to make special efforts to

--assure that the financial statements submitted to the Department of the Treasury for consolidation are complete and accurate,

--obtain the Comptroller General's approval of their accounting systems, and

--assure that an adequate but balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Department of the Treasury.

RECOMMENDATIONS

The Secretary of the Treasury should revise the Treasury Fiscal Requirements Manual instructions for preparation of financial statements to require:

--Accounts receivable not due within a year or less to be classified as noncurrent assets.

--Unrecovered beneficiary overpayments to be reported as accounts receivable and identified as such.

--Consideration to be given to past collection experience in computing an allowance for uncollectible accounts.

The Secretary also should emphasize to Government agencies the need to review their financial statements for completeness and accuracy before submitting them for consolidation.

The Director, Office of Management and Budget, in concert with the Department of the Treasury, should issue guidelines providing that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The guidelines should provide that the:

--Secretary of the Treasury compute periodically the minimum interest rate to be used.

--Rates be in line with the cost of borrowing by the Treasury from the public.

--Charges be imposed on debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist.

The Director, Office of Management and Budget, should emphasize to the heads of departments and agencies the need to

--obtain the Comptroller General's approval of their accounting systems and

--assure that an adequate but balanced portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury.

AGENCY COMMENTS

Both the Office of Management and Budget and the Treasury agreed with the recommendations and commented on recent Treasury actions to require Government agencies to charge interest on many delinquent accounts receivable. (See p. 34.) The Office of Management and Budget also raised some related issues. (See p. 17.) GAO is sending copies of this report to all departments and agencies for their information, use, and guidance in the management of their collection activities pending completion of recommended actions.

Contents

CHAPTER 1

INTRODUCTION

The Treasury Fiscal Requirements Manual defines "accounts receivable - public" as amounts due the Government for goods or services and other receivables arising from current operations. These receivables include all amounts chargeable to customers for goods delivered or work performed during a given period, whether or not billed. Accounts receivable from other Federal Government agencies and loans receivable are not included in receivables from the public.

The outstanding balance of accounts receivable from the public on September 30, 1977, was $14.6 billion. This amount had increased $1.9 billion since June 30, 1975, and $4.1 billion since June 30, 1973. We obtained these balances from data agencies reported to the Department of the Treasury in their statements of financial condition. The accounts receivable reported by Federal agencies are shown in appendix I. Receivables from the public result from tax assessments; sales of Government services, such as missile launchings for other governments; sales of Government goods, such as natural resources from Federal lands and water and electric power from irrigation and flood control projects; and overpayments made by the Government, such as educational assistance to veterans and social security payments.

RESPONSIBILITY FOR ACCOUNTING FOR RECEIVABLES

The head of each Federal agency is responsible for establishing and maintaining adequate systems of accounting and internal control over accounts receivable. These systems should conform with the principles and standards and related requirements prescribed by the Comptroller General under authority granted by section 112 (a) of the Budget and Accounting Procedures Act of 1950. Section 111 (a) of this act states:

> "* * * The accounting of the Government provide[s] full disclosure of results of financial operations, adequate financial information needed in the management of operations and the formulation and execution of the Budget, and effective controls over income, expenditures, funds, property and other assets."

Section 111 also requires the Secretary of the Treasury to prepare reports on the financial operations of the U.S. Government as a whole. These reports are consolidations of data provided by various Government departments and agencies. One such report, the Statement of Financial Condition (Standard Form 220), shows in condensed form all assets, liabilities, and equities of the Government. Thus, all accounts receivable should be included in this report.

RESPONSIBILITY FOR COLLECTING RECEIVABLES

Under the Federal Claims Collection Act of 1966 and the implementing Joint Standards promulgated by the Attorney General and the Comptroller General (4 CFR 101-105), administrative agencies are primarily responsible for collecting claims arising out of their activities. A basic tenet of good business practice for any enterprise, including Federal agencies, is to promptly bill for and collect amounts due. To be effective, agency debt collection programs must be comprehensive, aggressive, and uniformly applied.

The Joint Standards provide specific guidelines for collection action on accounts receivable. Heads of Federal agencies or their designees are required to take prompt and aggressive action to collect accounts receivable due the Government. Appropriate written demands are to be made upon debtors, informing them of the consequences of failure to pay. Three written demands at 30-day intervals should normally be made. Also, personal interviews should be held whenever feasible. All collection actions should be documented and the documentation should be retained in the claims file.

An agency can terminate collection action and close the file on a claim under $20,000 under the following circumstances:

--Collection is not currently possible because the debtor is unable to pay and the debtor's present and potential income and inheritance prospects make it clear that the Government cannot expect to collect any significant amount.

--The debtor cannot be located and the statute of limitations has expired.

--The cost of further collection action is expected to exceed the amount collected.

--The claim is not valid or cannot be supported by available evidence.

Generally, when aggressive collection efforts are unsuccessful and a receivable is less than $600, agencies may terminate collection action without resorting to legal action because enforced collection of amounts below $600 is not considered economically feasible. Legal action ordinarily requires evidence that the debtor potentially has the ability to pay the amount due.

If an agency collection action is unsuccessful and cannot be suspended or terminated but the claim has the potential for legal action, the complete file should be referred to GAO or, if the agency is authorized, to the Department of Justice for further collection action. The referral action should be completed as early as possible consistent with aggressive collection action.

The highest levels of the Government recognize the importance of timely and effective billing and collection procedures. On November 14, 1977, the President announced that his reorganization staff, in conjunction with the Treasury Department, was beginning a comprehensive review of cash management policies, practices, and organization throughout the Federal Government. The staff study of cash management will evaluate the incentives it provides for making Federal managers more aware of the implications of their decisions.

AUTHORITY TO CHARGE INTEREST

The courts have established standards which are generally used in awarding interest as damage for delinquent payments. Under these standards, Federal agencies may charge debtors interest on overdue accounts as long as the rate fairly compensates the Government, notice of the debt has been given, and the amount of the debt is firm.

Although specific statutes authorize some agencies to levy interest on delinquent accounts, there is no general statutory provision authorizing agencies to charge interest. However, on several occasions the Supreme Court has affirmed the right of creditors, including the Federal Government, to collect interest in the absence of statutory provisions.

OTHER REVIEW EFFORTS

In addition to this overall report, we have published individual reports to the following agencies discussing the need for them to improve their policies and procedures used to establish, control, account for, and collect accounts receivable.

Agency	Report number and date issued
Energy Research and Development Administration	FGMSD-77-25, June 22, 1977
Forest Service	FGMSD-77-42, July 11, 1977
General Services Administration	FGMSD-77-29, July 27, 1977
Department of Labor	FGMSD-77-30, Aug. 17, 1977
Department of the Treasury	FGMSD-77-31, Aug. 30, 1977
Department of Health, Education, and Welfare	FGMSD-77-32, Sept. 6, 1977
Civil Service Commission	FGMSD-77-41, Sept. 15, 1977
National Aeronautics and Space Administration	FGMSD-77-89, Oct. 21, 1977
Department of the Interior	FGMSD-77-66, Feb. 3, 1978

Short synopses of these reports and the agencies' actions taken on our recommendations are included in appendix III.

We are also performing a review to determine whether or not the Government should adopt certain private-sector practices to increase the productivity of debt collection opera tions. We plan to issue a separate report to the Congress on this review.

CHAPTER 2

ACCOUNTS RECEIVABLE NOT ACCURATELY RECORDED AND REPORTED

Federal agencies should record and report accounts receivable more promptly and accurately to establish and maintain effective financial control. In reviews at 12 departments and agencies, we identified errors of $1.5 billion in recording and reporting accounts receivable. Most of these errors resulted from confusion as to how overpayments to the public should be recorded and reported. However, some errors arose because most agencies either had no provisions for uncollectible receivables or the amounts established were inadequate. As a result of these problems, controls over collection and write-offs of receivables were ineffective, asset balances were incorrect, and expected future losses due to uncollectible receivables were not fully disclosed.

Errors in recording and reporting accounts receivable were primarily attributable to a need for increased management attention to accounting systems problems, specific guidance for recording and reporting, and increased internal audit coverage of financial operations.

At September 30, 1976, Federal agencies reported total outstanding balances to the Department of the Treasury of

--$12.6 billion in accounts receivable due from the public and

--$134 million in allowances for uncollectible accounts receivable.

Overall, the outstanding balance of accounts receivable from the public as reported to the Department of the Treasury has increased from $10.4 billion on June 30, 1973, to $14.6 billion on September 30, 1977.

REQUIREMENTS FOR RECORDING AND REPORTING ACCOUNTS RECEIVABLE

The Budget and Accounting Procedures Act of 1950 requires the Treasury Department to prepare reports on the financial operations of the U.S. Government as a whole. However, the Treasury Department does not serve as the central accounting department for all agencies. Instead, it receives and consolidates reports from Federal departments and agencies. The reports show, in condensed form, the assets, liabilities, and equities of the U.S. Government. Each agency submits its statements of financial condition to the Treasury as of fiscal year end.

Guidance for preparation of these statements is contained in the Treasury Fiscal Requirements Manual, which defines accounts receivable as

> "* * * all accounts receivable and notes receivable (not included in loans receivable) which arise as a result of sales of goods and services of the agency as well as accrued interest and unamortized premium and discount on securities."

These receivables are then further divided into receivables from other Federal agencies and receivables from the public. Receivables from the public should include all amounts arising from the sale of goods and services and other receivables arising from current operations involving the public, such as overpayments. This account should cover all amounts chargeable to customers for goods delivered or work performed during the period, whether or not billed. Loans receivable are not included.

Section 112 (b) of the Budget and Accounting Procedures Act of 1950 provides for approval of agency accounting systems by the Comptroller General. The Comptroller General has issued specific accounting principles and standards which require that agency accounting systems provide a complete and systematic record of the amounts due. Specific accounting principles and standards for agency accounting systems are provided in title 2 of the "GAO Policy and Procedures Manual for Guidance of Federal Agencies." These principles and standards require that:

--Accounts receivable be recorded accurately and promptly on completion of the acts which entitle an agency to collect amounts owed to it (billing for performance of service, sales of materials, etc.).

--Amounts to be accounted for as receivables consist of amounts actually due under contractual or other arrangements governing the transactions which result in the receivables.

--Separate accounts for major categories of receivables be maintained to facilitate clear and full disclosure of an agency's resources in its financial reports.

--Accounting records for receivables be maintained so that all transactions affecting the receivables for each reporting period, and only such transactions, are included.

ACCOUNTS RECEIVABLE NOT ACCURATE

Our review at 12 agencies disclosed that accounts receivable due from the public were not being accurately recorded and reported. About $1.5 billion in recording and reporting errors have resulted from vague reporting guidelines, inadequate emphasis on full disclosure of operating results, and insufficient internal audit efforts to identify recurring accounting problems. Specific problems found at one or more of the agencies reviewed were:

--Overpayments of at least $742.2 million to program recipients were not reported.

--Amounts due of $47.8 million were not included in financial statements because of billing and other delays.

--About $379.7 million was shown as due within the following year when the amounts were actually not due until more than a year later.

--About $270.2 million was reported as due although the Government had already made the collection.

--Clerical and miscellaneous reporting errors resulted in the overstatement of accounts receivable by $12.3 million.

Accounts receivable resulting from overpayments not reported

Receivables resulting from overpayments to program recipients were not recorded in accounting records and reported to the Treasury Department. The Social Security Administration's Statement of Financial Condition did not include at least $742.2 million in accounts receivable resulting from overpayments of benefits to retirees, health insurance intermediaries, and other beneficiaries. The statement also excluded additional receivables for which estimates were not available during our review. Other agencies such as the Veterans Administration and the Department of Agriculture also have substantial amounts of unreported accounts receivable resulting from overpayments of educational assistance and food stamp benefits.

Prompt and accurate accounting for receivables is an important form of control because it provides management with a systematic record of total overpayments, amounts recouped, adjustment actions taken, and the overall effectiveness of recovery actions.

As of September 30, 1976, the Social Security Administration reported $90.9 million in accounts receivable to the Treasury Department. These receivables included $7.9 million due from other Government agencies for reimbursable work and $83 million due from States for supplemental security income payments. These reported amounts did not include cumulative overpayments compiled by the management information systems of the Social Security Administration's four operating bureaus. The following schedule summarizes the amounts unreported by the Social Security Administration, much of which was a result of overpayments in prior years.

Bureau	Unreported overpayments
	(millions)
Supplemental Security Income	$441.7
Health Insurance	141.7
Retirement and Survivors Insurance	84.8
Disability Insurance	74.0
Total	$742.2

This schedule represents only part of the unreported overpayments for the Bureau of Retirement and Survivors Insurance and the Bureau of Disability Insurance. During our review, these bureaus were developing a computerized system to control, account for, and report overpayments. The first phase had been implemented and the system could compile data on overpayments to individuals no longer entitled to benefit payments. These overpayments, amounting to $84.8 million for retirement and survivors insurance and $74 million for disability insurance, are included in the above schedule.

When the second phase is completed, the computerized system should compile data on overpayments to individuals currently receiving benefit payments. Once identified, these overpayments should be collected by deductions from future payments to recipients. Social Security Administration personnel believe these receivables constitute a large portion of all overpayments. Although the second phase of this system was not yet completed, estimated program overpayments were included in financial reports to the Treasury for the fiscal year ended September 30, 1977.

Our prior reviews at the Veterans Administration and the Department of Agriculture disclosed that program overpayments resulted in outstanding receivables. However, these receivables were not included on the fiscal year 1977 financial statements.

As of June 30, 1977, the Veterans Administration had not collected $462 million in educational assistance program overpayments. These overpayments were not reported because the assets were not recorded on financial reports until the money was collected. On an accrual basis, the receivables, along with an allowance for uncollectible amounts, would be reported when the overpayment was discovered.

The Government was losing over half a billion dollars annually because of overissued food stamp benefits. Accounts receivable were not established for these overissues because adequate efforts were not being made to identify them. Until accounts receivable are identified, adequate efforts cannot be taken to recover amounts paid to individuals who were not entitled to them.

<u>Accounts receivable understated because of misclassifications and reporting errors</u>

Accounts receivable reported to the Treasury by 5 of the 12 agencies included in our review were understated by $47.8 million because of various accounting and reporting errors. These incorrect balances were primarily a result of

--receivables from the public being improperly classified as accounts receivable from Federal agencies and

--receivables not being recorded because billings had not been processed or the amount billed was subject to a later adjustment.

One basic requirement in establishing and maintaining effective financial controls is that all accounts, including receivables, be properly segregated and accurately recorded. Accurate accounting for receivables is necessary to control Government assets and to present fairly the Government's financial position.

Amounts shown for accounts receivable due from the public were incorrectly classified as being due from other Federal agencies in both the Civil Service Commission's and the National Aeronautics and Space Administration's 1976 financial reports. Reported accounts receivable from the public of the Civil Service Commission as of September 30, 1976, were understated by $7.3 million because a refund due from an insurance carrier was included with accounts due from Government agencies. The refund due was correctly classified in the accounting records but was misclassified in the report. The Commission's accounting staff discovered the error after the financial report had been filed with the Treasury. If the expected refund had been correctly classified, the accounts receivable from the public would have been $13.2 million instead of the $5.9 million reported.

As of September 30, 1976, the National Aeronautics and Space Administration understated accounts receivable from the public because $13.3 million was improperly classified and reported as due from Federal agencies. Also, this agency had about $14.7 million of accounts receivable which were neither recorded nor reported because of problems in mechanizing the accounting system. These problems have since been corrected.

The accounts receivable of the Department of the Interior were understated because it did not report receivables for work on the Trans-Alaska pipeline. Although $1.3 million had been billed for costs related to construction of the pipeline as of September 30, 1976, the Interior did not report these receivables to the Treasury. Also, costs of $3.2 million incurred from July 1, 1976, through September 30, 1976, had not been billed or included in accounts receivable.

As of September 30, 1976, the Department of Labor reported accounts receivable from the public of $3.7 million, which was primarily benefit payments due from employers and overpayments due from recipients. Labor's reported accounts receivable from the public of $3.7 million were understated by $1.7 million as a result of omissions, errors, and misclassifications. The net understatement consisted of overstatements of $2.2 million and understatements of $3.9 million. Labor has taken action to increase supervisory review over the preparation of financial statements to help insure their accuracy.

Accounts receivable overstated due to accounting and reporting errors

Accounts receivable reported to the Treasury by several agencies as of September 30, 1976, were overstated because of accounting and reporting errors. Our review disclosed instances in which

--deferred receivables were improperly classified as current assets,

- --accounting records were not correct,
- --unearned income was improperly classified as accounts receivable,
- --receivables from other Government agencies were included with accounts receivable from the public, and
- --receivables were already collected.

To fairly present the financial position of any entity, financial statements must accurately classify assets, including receivables, as current and noncurrent. Receivables which are normally converted into cash within a year are generally classified as current, while those which require more than a year are classified as noncurrent. Accounts receivable must be actual amounts due under contract or other arrangements.

Examples of overstatements in reported accounts receivable because of accounting errors follow.

- --As of September 30, 1976, the Treasury's Bureau of Government Financial Operations reported accounts receivable from the public of $920 million. These accounts receivable were overstated by $370.4 million because deferred interest receivable was improperly classified as a current asset under accrued interest receivable. This overstatement resulted from the way the Bureau accounted for interest to be paid by the United Kingdom. Under a March 1957 agreement the interest is to be paid beginning in the year 2001. The deferred interest of $370.4 million at September 30, 1976, was improperly included in the total current receivables and reported as a current asset. As a result of our review, the Treasury reclassified this item on the September 30, 1977, financial statement.
- --The General Services Administration's current assets were overstated by $9.3 million because long-term installments receivable were improperly classified as current receivables on the report to the Treasury. The overstatement resulted from the way the General Services Administration accounted for money provided to the District of

Columbia for hospital construction. The construction money was to be repaid in 33 annual installments. Although only $546,764 was due within the year, total unpaid installments of $9.9 million at September 30, 1976, were included in the total current receivables and reported as a current asset. The General Services Administration took action, based on our review, to insure proper classification of receivables.

--The Bureau of Land Management's accounts receivable were overstated by $1.6 million because of the method used to account and bill for fire suppression and prevention services. The billings for these services were prepared before the Bureau incurred the costs, and the accounts receivable were recorded when the billings were processed. However, the Treasury's definition of accounts receivable excludes billings for costs yet to be incurred.

--At the Social Security Administration, accounts receivable from the public were overstated because receivables from other Government agencies were included in the account. As of September 30, 1976, the reported accounts receivable of $90.9 million included $7.9 million due from other Government agencies.

--The National Aeronautics and Space Administration overstated its receivables by $200.6 million and the General Services Administration overstated its receivables by $69.6 million because they reported as accounts receivable amounts which had already been collected. The National Aeronautics and Space Administration's overstatement of $200.6 million in accounts receivable occurred because, although collections were timely, internal billings were not prepared and processed promptly. The inaccurate balance of accounts receivable reported to the Treasury Department by the General Services Administration was due to accounting and reporting errors. Both agencies initiated action to improve the accuracy of accounting records.

--The Bureau of the Mint paid in advance for the purchase of copper from the General Services Administration. As the General Services Admininistration made shipments, the advance account should have been decreased. The advance payment was properly recorded when it was received. However, beginning in 1975, the charges for delivery of the copper to the Mint were erroneously accumulated in another account. This amount was incorrectly reported as an account receivable of $69.6 million instead of being applied as a reduction to the advance account. General Services Administration accounting personnel did not make the necessary entries to reduce the advance account as deliveries were made to the Mint. Also, no one was reviewing the entries and adjustments made by the billing clerks to insure their accuracy.

SOME AGENCIES' ACCOUNTS RECEIVABLE WERE REASONABLY CORRECT

The balances of recorded accounts receivable at September 30, 1976, reported to the Treasury by the Energy Research and Development Administration and the Department of Agriculture's Forest Service were correct. Our examination of the balances reported to the Treasury by the Department of the Interior's Bureau of Reclamation showed only minor errors.

The Energy Research and Development Administration reported accounts receivable of $317.8 million, of which $118.5 million was controlled by its Oak Ridge field office. Our review at Oak Ridge showed that these receivables were promptly and accurately recorded.

As of September 30, 1976, the Forest Service reported accounts receivable from the public of $119.7 million of which $51.8 million was reported by national forest offices administered by Region 6 of the Forest Service. We limited our review to the Region 6 headquarters office, four national forests, and five ranger districts. The four forests reviewed accounted for $85.5 million of the $241.6 million collected by Region 6 in the year ending June 30, 1976. Our review showed that Region 6 was prompt and accurate in recording and reporting accounts receivable.

We reviewed the accounts receivable reported by the Upper Colorado River Basin Fund of the Bureau of Reclamation. This activity reported $6.7 million of the $19.4 million reported to the Treasury by the Bureau at September 30, 1976. This balance was overstated by $34,324 because of clerical errors. Bureau of Reclamation officials initiated action to eliminate these types of errors in the future.

ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS WERE INADEQUATE

Several agencies needed to develop adequate estimates for loss allowances on accounts receivable. As of September 30, 1976, Government agencies had $12.6 billion in reported accounts receivable but had established allowances for uncollectible accounts of only $133.8 million or about one-tenth of 1 percent of the total. Most agencies did not have any provision for losses.

Our "Policy and Procedures Manual for Guidance of Federal Agencies" states:

> "Regular estimates shall be made from time to time of the portion of amounts receivable that may not be collectible. Such estimates shall be accounted for and disclosed separately."

Relatively few Government agencies had established allowances for uncollectible accounts, as shown in appendix II. Only 3 of the 12 agencies included in our review established such allowances. It should be noted, however, that allowances were unnecessary at some agencies because of contractual arrangements, such as prepayment requirements, use of payment bonds, etc., under which their goods and services were sold.

Some examples where allowances should have been established follow.

--We reviewed 46 Bureau of Land Management billings totaling $1.9 million which were delinquent as of June 30, 1976. The collectibility of $706,612 of this amount was questionable for the following reasons:

Reasons	Amount
Debtor refused to pay	$546,831
Question as to who owed money	75,306
Under legal review to determine if debtor must pay	44,359
Accounts transferred to GAO for collection	30,614
Involved in litigation	7,831
Waiver requested	1,671
Total	$706,612

In addition to these delinquent receivables, portions of the current accounts receivable could also eventually become uncollectible.

--Interest receivable in the amount of $1.1 million was included in the Geological Survey accounts receivable balance as of September 30, 1976. The interest was assessed on loans made to encourage private exploration for certain minerals. However, repayment of the loan and interest is not required unless the loan results in the discovery of minerals and subsequent production. Geological Survey officials estimated that 95 percent of the amounts recorded as due will not be collectible because most exploration efforts do not result in mineral production.

--Our review at Region VI of the U.S. Customs Service showed that $624,543 in fines and penalties was billed and established as accounts receivable during fiscal year 1976. Of these receivables, all but $6,425 was subsequently written off. However, no allowance for uncollectible accounts had been established.

REASONS FOR ACCOUNTING AND REPORTING ERRORS

Accounts receivable in Federal agencies are not accurately recorded and reported because of limited management emphasis, including a lack of internal audit coverage, inadequate guidance by the Department of the Treasury, inadequate coordination between operational and accounting personnel, and inadequate supervision of accounting personnel.

Although agency heads are required to establish and maintain appropriate internal audit programs to provide effective control over assets, including receivables, internal audit coverage has not always been adequate. At some of the agencies included in our review, accounts receivable had not received recent audit coverage. We attributed this to limited audit resources and management decisions to emphasize external audits of Federal assistance programs. For example, the Department of Labor's internal auditors were spending only 20 percent of their audit efforts on internal reviews. As a result, the collection and write-off of receivables had not been reviewed in recent years. (See GAO report FGMSD-76-50, Nov. 29, 1976.)

At another agency, the Veterans Administration, internal audit was not providing adequate coverage of accounts receivable. For example, although the internal audit coverage provided numerous instances of individual overpayments, it did not show the significant overall problem of overpayments in the educational assistance program--overpayments of over $1 billion that necessitated collection. (See GAO report MWD-76-109, Mar. 19, 1976.)

Another factor which contributed to the problems in recording and reporting accounts receivable was that the Treasury's instructions on preparing the financial statement were inadequate. These instructions did not specify that only assets which are normally transformed into cash within a year should be classified as current accounts receivable.

The Treasury Department instruction also did not specifically require unrecovered overpayments to beneficiaries to be included as accounts receivable. Even though overpayments resulting from these programs have increased dramatically over the last several years, Treasury's instructions have not been revised to specifically require reporting of uncollected overpayments. These overpayments should be identified under accounts receivable as refunds of overpayments.

Another factor which has contributed to reporting errors is the reluctance of agencies to establish allowances for uncollectible accounts. In addition to the normal problems encountered in estimating a reasonable allowance, this reluctance was partially attributable to a belief that such an allowance indicated to the debtor that the Government did not expect to collect the amount due.

CONCLUSIONS

At 12 departments and agencies we identified problems in accounting for accounts receivable from the public. These problems indicate a need for more management emphasis on full disclosure of operating results, more specific guidance on recording and reporting accounts receivable, and increased internal audit coverage of financial operations.

Accurate recording and reporting of accounts receivable and allowances for uncollectible accounts are essential if the Government's financial position is to be fairly presented. Also, accounting for receivables is an important form of control over agency resources in that it results in a systematic record of amounts due that must be accounted for.

RECOMMENDATIONS

We made specific recommendations for improving the recording and reporting of accounts receivable to those agencies included in our review. Because agency accounting systems differ, we are providing copies of this report to each agency head for use in determining the adequacy of their system of accounting for and reporting accounts receivable. In making this determination, the following areas should be evaluated:

--The emphasis placed on accurate accounting and reporting.

--The extent of internal audit coverage.

--The coordination between operational and accounting personnel.

--The supervision provided accounting personnel.

We recommend that the Secretary of the Treasury, to improve the recording and reporting of accounts receivable, revise the Treasury Fiscal Requirements Manual to specifically require that:

--Accounts receivable not due within a year or less be classified as noncurrent assets.

--Unrecovered beneficiary overpayments be reported under accounts receivable and identified as such.

--Consideration be given to past collection experience in computing allowances for uncollectible accounts.

AGENCY COMMENTS AND OUR EVALUATION

In a July 1978 letter, the Department of the Treasury stated that appropriate revisions would be made to the Treasury Fiscal Requirements Manual.

In an August 1978 letter, the Office of Management and Budget stated that receivables resulting from the sale of goods and services should be separated from receivables resulting from overpayments. This separation was considered necessary because different accounting treatment applies to these transactions.

We recognize the need for this separation of receivables and believe that this need should be considered in revising the Treasury Fiscal Requirements Manual.

CHAPTER 3

FEDERAL AGENCIES CAN IMPROVE BILLING

AND COLLECTION ACTIVITIES

Most of the agencies we reviewed did not take prompt and aggressive collection action on delinquent accounts receivable and did not fully adhere to prescribed collection procedures. Although the agencies prepared initial bills promptly, many receivables were not collected within a reasonable period. All the agencies reviewed had written debt collection procedures. These procedures, with certain exceptions which are discussed later in this chapter, were adequate in establishing viable debt collection programs. However, the agencies did not always follow the procedures.

CRITERIA FOR DEBT COLLECTION PROGRAMS

The Federal Claims Collection Act of 1966 (31 U.S.C. 951-953) imposes primary responsibility for collecting debts due the Government on agencies whose operations give rise to the debts. The heads of agencies or their designees are required to take aggressive collection action to collect amounts due. This law, as implemented through the Joint Standards (see p. 2), requires each agency to establish collection procedures and to prescribe criteria for collecting, compromising, suspending, or terminating collection action and for referring claims to GAO and the Department of Justice.

The Joint Standards require that collection efforts be aggressive and comprehensive and lead to the earliest practicable conclusion of administrative efforts to collect from the debtor. Agencies should pursue cost-effective collection procedures, consistent with good business practice, leading to collection, referral for legal action, or termination.

Appropriate collection steps and procedures can vary depending on the size and type of debt and other circumstances. Ordinarily, an agency's collection program should:

1. Maintain physical and accounting control of claims and document collection actions. An account is generally considered delinquent when it is not paid, cancelled, offset, or otherwise legally disposed of within 30 days from the issuance of the related bill.

2. Screen and categorize claims to insure that collection efforts are appropriate.

3. Take appropriate action to locate missing debtors.

4. Keep a constant watch over outstanding bills by periodically aging accounts receivable in order to prevent, as far as possible, the creation of new delinquencies and the worsening of old ones.

5. Take aggressive collection action against all liable parties with consideration being given to

   a. interviews with debtors;

   b. contacts with the employer if the debtor is federally employed;

   c. collection by offset, where feasible; and

   d. temporary suspension of collection action, where the debtor cannot be located or the prospects of collection are likely to improve in the foreseeable future.

6. Determine, at the earliest opportunity, the debtor's ability to pay.

7. Explore compromise as a means of settling the debt. A claim may be compromised when the debtor's financial ability will not permit payment in full, or the litigative risks and costs of litigation dictate such action.

8. Terminate collection action when it becomes clear that the Government cannot collect or enforce collection of any substantial amount or that the cost of further collection action is likely to exceed the amount recoverable. Cost of collection may be a substantial factor in the settlement of small claims. The cost of collecting claims normally will not carry great weight in the settlement of large claims.

9. Refer the claim to GAO or the Department of Justice for enforced collection. The Joint Standards require this referral to be made as early as possible, consistent with aggressive agency collection action and well within the time limit for bringing a timely suit against the debtor.

COLLECTION PRACTICES SHOULD BE IMPROVED

Billing and collection practices for accounts receivable, at most of the agencies we reviewed, were not fully effective and operating in accordance with the Joint Standards. Although receivables were generally billed in a timely manner, we found that:

--Delinquent accounts were not promptly identified for followup action because aging schedules or other means of identifying delinquent accounts were not prepared.

--Followup collection actions frequently were not made promptly.

--Agencies did not promptly complete required collection actions.

--Claim files were not adequately documented.

--Administrative costs of collection actions were not known. As a result, agency procedures for classifying delinquent accounts as uncollectible may have resulted in premature termination of collection action on some delinquent accounts and uneconomical collection action on other accounts.

Receivables were billed promptly

Most Federal agencies reviewed were promptly preparing bills for amounts due. Goods and services were often sold under contractual arrangements that required advance payments, payment when the services were performed, or payment bonds. Only one agency included in our review was slow in preparing billings.

When Federal agencies perform work on a reimbursable basis, contracts often require advance payment or payment as the work is performed. This is illustrated by the system prescribed by Department of Defense Instruction 2140.3 to collect for foreign military sales which amount to billions of dollars. The Joint Financial Management Office bills foreign countries quarterly with payment due within 30 days. However, these billings are based on forecasts of future deliveries and are designed to permit maintenance of a 90-day cash reserve for each military sales case.

The National Aeronautics and Space Administration uses a somewhat similar billing system. Public organizations that purchase missile launch services are required to place sufficient funds on deposit to pay for reimbursable work as the Government incurs related costs. These deposits are then used to reimburse the appropriated funds as costs are incurred.

Other Federal agencies had established procedures for rendering timely billings. For instance:

--The Energy Research and Development Administration billed for enriched uranium sales on the same day the product was shipped.

--The Forest Service billed timber purchasers within 15 days after the end of the cutting month.

--The Social Security Administration had established a system which provided for an initial notice of overpayment and a collection letter to be sent to the beneficiary when an overpayment was identified.

<u>Delinquent accounts were not always identified</u>

Although initial billings were promptly processed, several agencies did not have adequate systems for identifying delinquent accounts. This problem was primarily attributable to failure to prepare aging schedules.

An aging schedule usually lists each account according to the period of time it has been outstanding. The schedules are a basic tool for identifying delinquent accounts and are thus a valuable management tool for assuring prompt and adequate collection action.

Some examples of problems which occurred when aging schedules were not properly used follow.

--The General Services Administration did not require receivables to be placed on the monthly aging schedule until they were at least 60 days old. During our review there were 165 delinquent bills totaling $1.7 million. Our review of collections of 77 of these delinquent bills totaling $684,000 showed that the average time until initiation of the first collection letter was 55 days. This was 25 days over the General Services Administration requirement. The system was revised so that followup action is taken 30 days after the invoice date.

--Department of the Interior's Bureau of Land Management requires demand letters to be sent if accounts are not collected in 30 days. We reviewed 41 delinquent accounts totaling $775,000 as of June 30, 1976. On 40 of these bills, the Bureau had not sent demand letters in accordance with its requirement. Although there was some justification for not sending the demand letters on 15 billings, no explanation was offered on why the other demand letters were not sent. We found that preparation of demand letters was dependent upon detailed reviews of the accounts receivable register. However, these reviews were not performed regularly. Corrective action was taken by the Bureau.

--Our review covered one of six Social Security Administration program service centers. The center was responsible for collecting many of the overpayments made under the retirement and survivors insurance and disability insurance programs. After an individual was sent the initial notice of the overpayment and payment was requested, the center was responsible for finalizing the collection action. However, the center was not acting promptly. We examined 117 randomly selected overpayment cases and found that 49 case files, or 42 percent, contained no indication that followup action had been taken after the initial notice of overpayment and request for payment. These 49 cases had been dormant for more than 1 year. The Social Security Administration planned corrective actions.

Intervals between collection letters were excessive

Although all agency collection policies required demand letters to be sent on delinquent accounts, the intervals between the letters were frequently excessive.

The Joint Standards require collection letters to be sent at 30-day intervals. However, we found the following procedures to be in effect:

--Geological Survey's administrative operations required demand letters to be sent at 30-, 90-, and 180-day intervals.

--Geological Survey's royalty accounting system did not specify time frames and, as a result, demand letters were sent infrequently.

--Energy Research and Development Administration required collection letters to be sent 60, 90, 120, and 150 days after the original invoice.

The interval between collection efforts should not exceed 30 days and there should be no undue time lag in responding to any communication received from the debtor. Aggressive followup action would, in our opinion, increase payments and shorten the overall collection cycle.

Delays in finalizing collection action

Although the agencies had procedures which provided for referring certain uncollectible claims to GAO and the Department of Justice for further collection action, these procedures were not always followed. Also, due to recent judicial decisions, procedures relating to offsetting debts have become more complicated by requiring that evidence of due process protection be included in the files.

Under the Joint Standards, delinquent receivables can be referred for possible legal action only after attempts have been made to collect, and certain processing actions have been completed. However, some agencies did not assure that cases entering the system were processed systematically to this point. For the most part, those cases on which collection efforts were not successful were retained in inventories rather than being finalized.

As the number retained grew, it became more impractical for collectors to pursue collection action on all cases. As a result, collections were not quickly finalized.

The Joint Standards require that adequate records be maintained as collection actions are taken. Unless all required data, including information on the debtor's ability to pay is obtained, the case cannot be processed for possible legal action.

Also, as a result of recent court decisions acknowledging that certain due process procedures are necessary before the Government deprives someone of property, the procedures relating to the offset technique of collecting debts from individuals has become somewhat more complicated. For instance, a court ruling enjoined the Civil Service Commission from making offsets against annuitant accounts unless the annuitants were given proper due process protection. The Commission revised its procedures to collect by offset only after agencies certified to the Commission that due process requirements had been met.

<u>Costs of collection efforts unknown</u>

The Federal Claims Collection Act of 1966 authorizes agencies attempting to collect debts of less than $20,000 owed the Government to terminate or suspend collection action when the cost of further collection action will exceed the amount recoverable. The agencies reviewed had not recently analyzed their collection activities to determine their collection costs. Without this analysis, agencies could not adequately determine when to terminate collection action. We also found that the number of demand letters sent on claims of less than $100 varied widely among agencies. For example:

--Geological Survey required one demand letter on accounts of less than $10, two demand letters on accounts of $10.00 to $99.99 and three demand letters on accounts over $100.

--The Bureau of Land Management required one letter on accounts of less than $10, two letters if the amount was $10.00 to $24.99 and three letters if the delinquent accoun was $25 or more.

--Social Security Administration did not request refunds if the amount involved was less than $15 and sent one demand letter on accounts between $15 and $200.

--Several agencies followed the general policy of terminating collection efforts if the cost of further collection action was likely to exceed the amount recovered.

Although these collection policies were inconsistent, the agencies could not determine when collection action should be terminated because data on the cost of collection efforts was not available. We believe each agency should evaluate its collection programs and periodically update the criteria for determining when collection action should be terminated.

COLLECTION DELAYS REDUCE CASH FLOW AND INCREASE BAD DEBTS

Extensive delays in completing collection actions deprive the Government of the use of funds, contribute to increased losses due to bad debts, and increase administrative workload.

Delinquent accounts are not normally a problem in Government agencies that sell goods or services because contractual stipulations require purchasers to make advance payments or submit payment bonds. On the other hand, agencies with accounts resulting from Government overpayments, claims for damages, fines and penalties, and loose contractual arrangements can be expected to experience greater payment delinquencies. We found this to be true in the agencies in our review.

The growth of accounts receivable in the Government is shown in appendix I. This increase is caused partly by the lack, in some agencies, of an aggressive collection program. Because of the large amount of accounts receivable--$14.6 billion at September 30, 1977--the Treasury's borrowing requirements could be reduced if accounts receivable were more promptly collected.

More prompt collection of accounts receivable would also reduce the amount of bad debts being experienced. Good business practice calls for timely billing and collections. As Government 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.

The extent of losses from bad debts is illustrated by the following schedule of amounts written off by selected agencies during fiscal year 1976.

Agency	Amount written off as uncollectible
	(000 omitted)
Small Business Administration	$ 94,053
Department of Agriculture:	
Food Stamp Program	373
Farmers Home Administration	18,150
Veterans Administration	a/67,960
Department of Housing and Urban Development:	
Federal Housing Authority	12,000

a/Does not include the transition quarter (July-September 1976).

In addition to the amounts which were written off, other agencies have accumulated growing inventories of uncollected receivables. More of these receivables can be expected to become uncollectible as they get older.

In addition to increasing the chances that accounts receivable will not be collected, delayed or inadequate enforcement of collection procedures can increase administrative workloads. This condition existed in the Forest Service. The "Forest Service Manual" and timber sales contracts provided that, if the contractor did not pay for timber sales within 15 days after billing, the forest office could, after notifying the purchaser's representative, suspend any or all of the purchaser's operations. If payments are consistently late, the manual encourages immediate suspension. Of the four national forest offices we reviewed, only one, Willamette, followed the established procedures and suspended logging operations. Doing so was apparently effective because the percentage of delinquent accounts at this forest office was much lower than the percentage at the other three.

CONCLUSION

The cost of ineffective collection efforts in terms of lost money and program integrity is too high for the Federal Government to treat it lightly. However, agencies are not carrying out their responsibility to identify and collect delinquent accounts.

Agency management should stress the need to: (1) prepare aging schedules, (2) prepare definitive and aggressive collection letters which explain why the moneys are due the Government, (3) reduce the intervals between collection letters to not more than 30 days, (4) determine the costs of collection efforts so that a good basis exists for terminating collection efforts, and (5) strengthen the agency system of referrals of delinquent receivables to GAO or the Department of Justice. In other words, aggressive, consistent efforts are needed to assure the collection of the billions of dollars due the Government.

RECOMMENDATION

We made specific recommendations for improving debt collection procedures to those agencies included in our review. Because of the disparity between agency collection systems, all agencies should analyze their debt collection system and, if necessary, take corrective actions. In addition to this report, we are sending a letter to the heads of all departments and agencies stressing the need for increased managerial emphasis on compliance with the requirements of the Joint Standards. In a separate review, we are also considering whether further collection procedures should be instituted by Federal agencies.

AGENCY COMMENTS AND OUR EVALUATION

Treasury commented that GAO should consider revising the authority given agencies to terminate collection action on small claims when enforced collection is not considered to be economically feasible.

The Federal Claims Collection Act gives agencies authority to terminate claims up to $20,000 without referral to GAO or the Department of Justice under certain conditions. (See p. 3.) In September 1978, GAO issued revised guidelines to agencies on referring claims for enforced collection. These guidelines state that the decision on referral of a debt should be governed by the potential for recovery through legal action.

CHAPTER 4

NEED FOR UNIFORMITY IN CHARGING

INTEREST ON DELINQUENT ACCOUNTS

Government agencies have different practices for assessing interest charges on untimely payments. Although a few agencies charge high rates of interest on delinquent accounts, other agencies charge little or no interest.

These inconsistencies exist because there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent amounts receivable. The March 31, 1978, revision to the Treasury Fiscal Requirements Manual requires agencies to establish charges for late payments in all contracts or other formal payment agreements. However, the manual does not require charges for late payments which are not provided for by contract, agreement, or other formal payment arrangement. Also, some agencies have not implemented the manual requirements.

Because interest rates on delinquent accounts receivable due the Government are often well below the rates of interest that businesses or individuals can earn on investments or must pay to borrow funds, debtors have little incentive to pay their accounts promptly. This encourages late payments and, as a result, some individuals and corporations have delayed paying their debts to the Government for several years.

INTEREST CHARGES NOT CONSISTENTLY IMPOSED

Government agencies are not consistent in charging interest on delinquent accounts. Some agencies assess interest based on rates established when the Government's cost of borrowing money was low. Other agencies, which have recently revised their rates, considered various factors in establishing interest charges, and some agencies do not charge any interest on delinquent accounts.

During fiscal years 1938 through 1966, the annual interest rate on public debts averaged about 2.6 percent. In the last 12 years, interest rates have increased considerably, and Treasury's cost of borrowing at September 30, 1977, was 6.424 percent. Although the Government's cost of borrowing funds has increased, many agencies have not increased interest charges for delinquent accounts.

The Government's cost of borrowing money is one of the most important factors to be considered in establishing interest rates on delinquent accounts; however, agencies also considered other factors. These factors and the methods used to determine interest rates varied among departments and agencies. As a result, different interest rates were being charged for comparable delinquent receivables and, on some, no interest was charged. The wide difference between interest charges on delinquent accounts is illustrated by appendix III.

AUTHORITY TO CHARGE INTEREST

Federal agencies may generally charge interest on overdue accounts as long as the rate fairly compensates the Government. Interest is assessed only after notice of the debt is given and the amount of the debt is firm. Although many agencies have specific statutes authorizing interest charges, there is no general statutory provision authorizing agencies to charge interest on delinquent accounts or specifying when accounts are delinquent.

Federal agencies usually establish due dates to result in prompt payment, but interest charges for late payments cannot be imposed unless an account is identified as being delinquent. Under standard commercial practice, accounts are considered delinquent when they are not paid within 30 days from the date of the invoice. Because the courts have held that interest begins to accrue only after notice of the debt is given, interest may only be collected on delinquent accounts.

Definitive criteria exist to support the charging of interest. The Supreme Court, in one decision, said:

> "If a debt ought to be paid at a particular time, and is not, owing to the default of the debtor, the creditor is entitled to interest from that time by way of compensation for the delay in payment. * * * If there is no statute on the subject, interest will be allowed by way of damages for unreasonable withholding payment of an overdue account."

The question of the proper rate of interest to charge on overdue accounts needs to be resolved. Fairness is an important consideration in fixing the rate of interest. An acceptable rate for agencies to charge on overdue accounts is the average prime rate banks charge to large businesses. This is essentially the rate presently required for over payments and underpayments of Federal income taxes.

The Department of the Treasury's March 31, 1978, revision to its Fiscal Requirements Manual established an interest rate of three-fourths of one percent of the overdue payment for each 30-day period or portion thereof that payment is delayed. Such charges for late payment are now required to be specified in all contracts, agreements, or other formal payment arrangements. The manual states that charges for late payments are not to be made when they are not provided for by contract, agreement, or other formal payment arrangement.

COLLECTION DELAYED WHEN LITTLE OR NO INTEREST IS CHARGED ON DELINQUENT ACCOUNTS

Many debtors have little incentive to promptly pay amounts due the Government when agencies charge little or no interest on delinquent accounts. As a result, some individuals and corporations have delayed paying their debts due the Government for extended periods.

Most Government agencies prepared bills promptly, but amounts due were not always collected promptly. As of September 30, 1977, the Government reported accounts receivable of $14.6 billion from the public. However, we could not determine the total amount of delinquent receivables because aging schedules had not always been prepared and different criteria had been used to classify accounts as delinquent.

Agencies that levied substantial interest charges generally collected most accounts in a timely manner. For example, one office of the Energy Research and Development Administration had about $100 million in receivables during our review. This office charged 1 percent interest a month on accounts not paid within 30 days. Our review showed that 95 percent of the office's bills were paid within 30 days. We concluded that the imposition of interest was a positive factor in encouraging timely payment.

The General Services Administration which makes substantial sales to the public was another agency which imposed interest on delinquent accounts. It imposed interest on delinquent payments for sales of strategic stockpile materials (metals, minerals, etc.) and did not have a significant problem with delinquent accounts. We attributed its timely collection of most accounts to the imposition of interest charges.

Other Government agencies which had not established interest charges for late payments were encountering more significant collection problems. For example, the Geological Survey did not impose any interest charges for late payments of oil and gas royalties and we found that nearly 50 percent of their payments were received late.

In contrast, the Bureau of Indian Affairs imposes interest charges of 1.5 percent a month on certain late payments for oil and gas royalties. As shown in our March 1976 report to the Senate Committee on Interior and Insular Affairs, 1/ an examination of 4,824 royalty payments for a 3-month period for oil and gas royalties on the Osage Reservation showed only 13 late payments. Again, we concluded that charging interest provided an incentive for timely payments.

The Bureau of Reclamation uses contracts which permit interest charges. Interest rates charged under its contracts vary from 1/2 percent to 2 percent a month. We found that two of the Bureau's regional offices were not retaining records of when customer remittances were received. The two offices also were not assessing interest because they could not determine whether payments received were timely or delinquent. After we brought the problem to the attention of the regional officials, procedures for keeping records were revised and methods of assessing proper interest charges were implemented at one of the offices. Implementation was promised at the other office. The new recordkeeping procedures identified additional delinquent accounts.

We believe the Government's charging of low or no interest on delinquent accounts has encouraged debtors to pay late because they cannot borrow money as cheaply. Because the Government depends on being paid promptly to finance its operations and to keep its cash requirements to a minimum, these delayed payments harm the Government's cash flow. When the Government is not paid promptly, it

---

1/"Indian Natural Resources--Part II: Coal, Oil, and Gas, Better Management Can Improve Development and Increase Indian Income and Employment," RED-76-84, Mar. 31, 1976.

must obtain money from internal sources or through borrowings. Either way represents an added cost. Interest charges on debts to the Government would effect quicker collection of accounts receivable, improve the Government's cash flow, and reduce the amount of administrative time and effort required to collect accounts receivable.

REASONS FOR NOT CHARGING INTEREST

There is no law or Government-wide policy requiring departments and agencies to impose standard or consistent interest charges on delinquent accounts receivable. Some Government agencies with large amounts of outstanding receivables have not established interest charges because of the nature of their receivables. For example, some agencies do not collect interest on delinquent accounts because they expect to collect in advance or when the Government incurs the cost. Thus, the assumption is that the agencies will not have delinquent debtors. The National Aeronautics and Space Administration uses such a billing system, acquiring and launching missiles on a reimbursable basis for foreign governments and international organizations. Organizations are required to pay for reimbursable work as costs are incurred.

Because billing by agencies using concurrent or advanced billing systems is based on estimates, it is more difficult to determine when accounts are delinquent. If payments are not received in a timely manner and costs are not incurred as expected, the agencies may still have sufficient funds on hand to meet their expenses under the contract involved. Also, excess funds may be available under one contract which can be diverted to cover a shortfall under another contract. However, situations have occurred in which sufficient funds were not on hand to meet the agency's needs.

Emphasis on interest charges has also been limited because interest collected generally does not increase an agency's budget. Agencies are to deposit interest collections with the Treasury as miscellaneous receipts unless there is specific authority to credit such collections to appropriations or funds.

Some agencies did not charge interest because of precedent, uncertainty as to when payment was due, or because the receivables resulted from overpayments which could be partially attributed to agency error. In the past, when interest rates were below current levels and the dollar volume of receivables of some activities was relatively small, administrative determinations were made not to impose interest charges. The precedents established have been continued. In other instances, activities have not established specific dates after which accounts are considered delinquent. Finally, activities with overpayments which can be at least partially attributed to agency error--such as the Social Security Administration's programs, the Veterans Administration's Educational Assistance Program, and the Department of Agriculture's Food Stamp Program--consider receivables to be due when the overpayment is identified. Thus, these activities find it unrealistic to charge interest when the account is not paid when due.

The Geological Survey did not charge interest on delinquent payments of royalties by oil and gas companies because accounting records did not reliably show the amounts due. However, these royalties exceed $1 billion annually.

CONCLUSIONS

The Government should generally charge interest on delinquent accounts to encourage the public to pay its bills; however, this is not the case. Uniform interest charges are not imposed on delinquent accounts.

It seems reasonable that interest 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, interest charges may be warranted if the money due is not repaid within a reasonable time.

The fairness of the rate charged depends on the nature of the transaction giving rise to the debt and the particular statutory role of the collection activity. In general, the debtor should have to pay at least the same interest charge for using Government funds without approval that a large business has to pay for similar borrowings from private institutions. We believe that, at a minimum, the rate should approximate the cost of borrowing by the Treasury.

RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, in concert with the Department of the Treasury, issue guidelines stipulating that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The guidelines should provide the following:

--The Secretary of the Treasury periodically compute the minimum interest rate to be used.

--Rates be in line with the cost of borrowing by the Treasury from the public.

--Interest charges be imposed on debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist.

AGENCY COMMENTS AND OUR EVALUATION

Both the Office of Management and Budget and the Treasury commented on the March 31, 1978, change to the Treasury Fiscal Requirements Manual which now requires agencies to include a stipulation in all contracts, agreements, or other formal payment arrangements that interest will be charged for late payments. We believe this requirement will materially improve cash management in the Government. However, we believe the Treasury Fiscal Requirements Manual should be further revised to provide for interest charges on delinquent payments not covered by contract, agreement, or other formal payment arrangements.

CHAPTER 5

A GOOD ACCOUNTING SYSTEM--A KEY TO GOOD MANAGEMENT

Although this report discusses problems and opportunities for improving the recording, control, and collection of accounts receivable in Federal agencies, our findings indicate that Federal managers need to strengthen financial management generally. In other reports sent to the Congress and heads of departments and agencies, we have pointed out deficiencies in accounting and reporting related to appropriations, cash, loans receivable, property and equipment, inventories, obligations, liabilities, revenues, and expenses--in other words, in virtually all balance sheet and income and expense accounts. Similarly, internal audit staffs have identified accounting system and financial reporting problems which need improvement.

Accountants need to do a better job of showing management--including new managers as they come along--that good accounting systems mean good information and good information means better and sounder decisions. Accountants need to do more to convince management that good accounting

--goes beyond mere fund control,

--means accounting on the accrual basis in accordance with the Comptroller General's prescribed principles and standards,

--is worthwhile because it provides the basis for sound financial decisions, and

--will result in obtaining the Comptroller General's approval of the system as required by law.

We believe department and agency managers need to make special efforts to (1) assure that financial statements submitted to the Department of the Treasury for consolidation are complete and accurate, (2) obtain the Comptroller General's approval of their accounting systems, and (3) assure that an adequate but balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Department of the Treasury.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE GOVERNMENT

The Budget and Accounting Procedures Act of 1950 requires the Department of the Treasury to prepare reports on the financial operations of the Federal Government. Treasury consolidates the departments' and agencies' reports rather than serving as the Government's central accounting department. The reports show, in condensed form, the Government's financial condition at the fiscal year end.

Recently there has been a renewed interest in consolidated financial statements for the Federal Government because of a recognized need for better financial management. However, conceptual problems and data deficiencies must be resolved before consolidated financial reports can be prepared which conform to generally accepted accounting principles. The major conceptual problems include the methods to be used to establish asset values and to make sure that the amounts shown for pensions are a fair presentation of accrued liabilities. The data deficiencies which must be overcome before accurate preparation of financial statements is possible will require increased management emphasis, not only on accounts receivable, but also on all aspects of financial reporting.

An advisory committee of accountants, economists, and business people primarily from outside the Government completed a study to identify the conceptual problems of preparing accurate financial statements. An interagency committee, chaired by the Comptroller General, is now studying some of these conceptual problems.

Much remains to be done to resolve data deficiencies. As chapter 2 indicates, data deficiencies exist because of limited management emphasis, inadequate coordination between operating and accounting personnel, and inadequate supervision of accounting personnel. Agency heads need to assure that accounting systems are operating effectively.

STATUS OF GAO APPROVAL OF FEDERAL AGENCY ACCOUNTING SYSTEMS

The Budget and Accounting Procedures Act of 1950 requires the Comptroller General to prescribe accounting principles and standards which executive agencies are to follow in their accounting systems. The Comptroller General, in 1952, issued tentative principles and standards and proceeded to grant formal approval of accounting systems that conformed to them.

However, all accounting systems have not been approved and most major accounting problems involve unapproved systems. As of September 30, 1977, of 330 identified accounting systems subject to approval, only 198 complete systems designs had been approved.

As summarized in the February 1978 issue of the "Journal of Accountancy," the Comptroller General attributes the delays in approval to

--frequent changes in agency top management,

--the failure of accountants to convince agency management that better accounting is worthwhile, and

--the lack of strong support by the Office of Management and Budget to make accounting systems more effective and thus approvable.

Effective accounting systems are needed in all Government agencies not only to properly account for changes in assets, liabilities, revenues, and costs but also to provide the administrative control over funds necessary to prevent violations of the Anti-Deficiency Act.

INTERNAL AUDIT OF ACCOUNTING AND FINANCIAL REPORTING

The principal reasons that financial accounting and reporting problems go undetected for extended periods are that management does not react adequately to audit results and audit coverage is insufficient. We believe an adequate and balanced portion of available internal audit resources should be dedicated to financial reporting because it is essential to the Government's efforts to achieve a meaningful consolidated balance sheet.

Limited management emphasis on the preparation of accurate financial statements was reflected by limited internal audit coverage of this area. For example, as stated in our report to the Congress on the "Army's Efforts To Restore Integrity to Its Financial Management Systems" (FGMSD-78-28, Apr. 27, 1978), the two principal reasons why the Army's financial management problems became so widespread and went undetected for so long were (1) inadequate reaction on the part of management to audit results and (2) insufficent audit coverage.

In a report issued to the heads of all audit agencies regarding the extent and frequency of internal audits of financial reports (FGMSD-76-43, June 18, 1976), we stated that most agencies we surveyed

--audited only a few of the financial reports submitted to the Treasury;

--reviewed accounting systems that produce the reports occasionally, not regularly; and

--emphasized audits of program results and economy and efficiency rather than audits of financial reports.

We concluded that increased emphasis was needed on audits of agency financial reports required by the Treasury and reviews of accounting systems that produce the reports to provide more effective control over, and accountability for, all funds, property, and other assets for which agencies are responsible.

CONCLUSIONS

Federal managers need to emphasize the development and implementation of good accounting systems. This need takes on added importance in light of the Federal Government's efforts to develop and publish Government-wide consolidated statements.

Good accounting systems go beyond fund control. They produce timely financial information to assist managers in making better and sounder decisions. In this connection, Federal managers need to exert special efforts to (1) make sure that financial statements submitted to the Department of the Treasury for consolidation are complete and accurate, (2) obtain the Comptroller General's approval of their accounting systems, and (3) assure that an adequate and balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Treasury.

RECOMMENDATIONS TO THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director, Office of Management and Budget, emphasize to the heads of departments and agencies the need to

--obtain the Comptroller General's approval of their accounting systems and

--assure that an adequate and balanced portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury.

RECOMMENDATION TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury emphasize to Government agencies the need to review their financial statements for completeness and accuracy before submitting them to the Treasury for consolidation.

AGENCY COMMENTS

The Office of Management and Budget agreed with the recommendations and advised us of actions it has taken or will take to achieve the objectives of our recommendations. The actions it indicated are helpful and useful.

The Department of the Treasury stated that its planned revision of the Treasury Fiscal Requirement Manual should give added impetus to improved reporting.

CHAPTER 6

SCOPE OF REVIEW

Our review was designed to determine the adequacy of policies and procedures used to establish, control, account for, bill, and collect accounts receivable. Our specific objectives were to

--evaluate aspects of departments' and agencys' accounting systems related to accounts receivable to determine if they resulted in accurate reporting and financial statements,

--determine and evaluate adequacy of billing and collection efforts, and

--determine and evaluate the policies and practices regarding the imposition of interest for delayed payment of bills due the Government.

We reviewed legislation, regulations, policies, procedures, and practices pertaining to accounts receivable which are due to the Federal Government from the public. We performed our review at the following headquarters and field locations:

Department of Agriculture:
- Forest Service

Department of Defense:
- Defense Agencies
- Foreign Military Sales

Department of Health, Education, and Welfare:
- Social Security Administration

Department of the Interior:
- Bureau of Reclamation
- Bureau of Land Management
- U.S. Geological Survey

Department of Labor

Department of the Treasury:
- Bureau of Government Financial Operations
- U.S. Customs Service

Civil Service Commission

Energy Research and Development Administration

General Services Administration

National Aeronautics and Space Administration

We concentrated our review on the agencies' reported receivables. We did not assess the reliability of the computer systems used to determine the fairness of recorded accounts receivable. Although we did not determine the impact of computer system errors on the amounts of recorded accounts receivable, we did examine the accounting systems, including detailed testing of the billing and collection systems to determine if procedures and practices were adequate to maximize collection and could be relied on to produce accurate accounting data. Through this examination, we identified and included substantial amounts of accounts receivable which were not reported on the agencies' financial statements.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG 17 1978

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Staats:

This is in reply to the draft report, "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public."

The report recommends that the Director, Office of Management and Budget, in concert with the Department of the Treasury, issue guidelines providing that Government receivables bear interest at not less than an established minimum rate, unless otherwise specified or precluded by statute. Charges for late payments have recently been provided for by the Treasury Department in Section 8020.20 of the Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies. This section provides in part that "Except where prohibited or expressly provided for by law, agencies will ensure that charges for late payments are stipulated in all contracts, agreements, or other formal payment arrangements at the rate of 3/4 of 1% (.0075) of the overdue payment, for each 30-day period or portion thereof that the payment is delayed, and that such charges are collected for payments received after the due date." It would appear, therefore, that the issuance of further guidelines by OMB would not be necessary.

The report also recommends that the Director, Office of Management and Budget, emphasize to the heads of departments and agencies the need to:

-- obtain the Comptroller General's approval of their accounting systems,

-- assure that an adequate but balanced portion of internal audit resources are devoted to reviewing financial statements submitted to Treasury.

With regard to approval of accounting systems, the Office of Management and Budget, through the Joint Financial Management Improvement Program, has placed major emphasis on the approval of systems. In our annual bulletin, which calls for a progress report from each agency on its financial management improvement program, we ask specifically for the status of accounting systems development and approval. If approval by the Comptroller General has not been obtained, we ask for target dates for submission of systems for approval. If previously established target dates have not been met, we ask for an explanation. Based upon this information, we have followed up with individual agencies on numerous occasions in an effort to speed up progress.

With regard to internal audit of financial statements submitted to Treasury, it must be realized that internal audit resources in most agencies are limited. As a result, priorities must be established for audit coverage of areas where greatest return is anticipated. The priority rating of the audit of financial statements is something that each agency has to consider in the development of audit programs. We recognize the desirability of the review of such statements and will bring the matter to the attention of agency audit directors, in an effort to assure that audit of financial statements is given balanced consideration in the development of audit priorities.

We have one final observation on the draft report. Amounts owed the Government for the sale of goods and services, as well as the amounts owed because of overpayments previously made, are treated in the report as "accounts receivable." We believe that the amounts due because of overpayments should be treated as "refunds receivable," since a different accounting treatment applies to such transactions. Refunds are treated as deductions from previously recorded obligations, costs, and outlays (OMB Circular A-11, section 21.2(h)(3)). The report should also make clear that interest collections should be credited to miscellaneous receipts unless there is specific authority to credit such collections to appropriations or funds.

We appreciate the opportunity to review the draft report.

Sincerely,

W Bowman Cutter

W. Bowman Cutter
Executive Associate Director
for Budget

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
WASHINGTON, D.C. 20226

OFFICE OF THE COMMISSIONER
IN REPLYING QUOTE:

ACC:A

July 19, 1978

Mr. D. L. Scantlebury
Director, Division of Financial
and General Management Studies
U. S. General Accounting Office
441 G Street N. W.
Washington, D. C. 20548

Dear Mr. Scantlebury:

This is in response to your request for comments on the recommendations and other proposed actions in the draft report titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public (90117)." Overall, the report highlights the need for agencies and their Federal managers to emphasize the development and implementation of good accounting systems and the need for increased audit coverage of accounting systems and the financial reports the systems produce.

The report indicates that there is a definite need in many agencies to establish adequate systems for identifying and collecting delinquent accounts. We generally agree with your recommendations to improve recording, collecting, and reporting accounts receivable, and we will make appropriate revisions to the Treasury Fiscal Requirements Manual. The revisions should provide additional impetus for agencies to improve the recording and reporting of accounts receivable not presently specified in GAO's Accounting Principles and Standards.

The report states that "when aggressive collection efforts are unsuccessful and the receivable is less than $600, agencies should terminate collection action because enforced collection is not considered economically feasible." We agree that in many cases concerned personnel continue collection efforts on small losses past the point of economic feasibility. As you know, Government agencies have the authority at present to administratively resolve losses up to $500. If GAO would increase the amount that may be administratively resolved to $1000, this would reduce costs since it is less expensive to administratively resolve a case than to submit it to GAO for relief.

In Chapter 4, the report states there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent accounts receivable. GAO recommends that OMB, with assistance from Treasury, issue guidelines providing that Government receivables bear interest. Treasury Department Circular No. 1084 was issued December 29, 1976, and required all agencies to develop agency cash management regulations within six months of the release of Treasury's fiscal requirements. Transmittal Letter No. 241, dated March 31, 1978, released I TFRM 6-8000, the Treasury's fiscal requirements for cash management within the Government. Chapter 8000 establishes the guidelines for interest rates for delinquent accounts receivable. The rate established is three-fourths of one percent of the overdue payment for each thirty-day period or portion thereof that the payment is delayed.

We appreciate the opportunity to comment on the draft report.

Sincerely,

D A Pagliai

D. A. Pagliai
Commissioner

ACCOUNTS RECEIVABLE DUE FROM THE PUBLIC

REPORTED TO TREASURY (note a)

Department or agency	June 30, 1973	June 30, 1974	June 30, 1975	September 30, 1976	September 30, 1977
	(millions)				
Agriculture	$ 942.4	$ 574.4	$ 489.6	$ 840.8	$ 1,010.4
Commerce	15.1	26.6	18.6	29.6	10.1
Defense	866.4	1,586.8	1,374.2	544.9	866.2
Energy and predecessor agencies	43.4	68.8	83.3	178.3	166.6
Health, Education, and Welfare	45.4	194.2	334.5	251.2	975.5
Housing and Urban Development	442.0	425.8	521.2	520.3	662.9
Interior	83.9	151.8	314.2	290.1	349.8
Justice	6.2	3.6	4.6	5.7	15.2
Labor	281.1	479.2	50.3	5.9	2.4
State	7.3	51.9	32.2	12.3	3.8
Transportation	24.3	27.7	34.4	168.2	49.1
Treasury	6,617.9	6,807.9	8,376.9	8,497.4	9,022.6
Agency for International Development	106.4	110.4	149.9	117.8	99.8
Civil Service Commission	208.7	193.1	112.4	5.9	8.5
Federal Deposit Insurance Corporation	39.6	89.9	201.4	243.8	223.7
Federal Home Loan Bank Board	40.0	14.3	41.2	25.7	89.0
General Services Administration	171.7	508.5	72.0	108.0	62.9
National Aeronautics and Space Administration	37.0	132.6	157.1	191.1	202.9
National Foundation on the Arts and Humanities	2.4	-	8.4	41.8	20.4
Office of Emergency Preparedness	227.7	-	-	-	-
Overseas Private Investment Corporation	-	3.7	7.3	54.3	15.8
Railroad Retirement Board	4.0	4.4	4.3	76.3	7.5
Small Business Administration	56.2	65.1	78.5	109.1	135.8
Tennessee Valley Authority	70.7	93.1	133.3	174.2	217.5
Veterans Administration	43.3	45.5	51.7	64.8	58.9
Other (includes Export-Import Bank, at 9/30/77)	57.2	15.6	53.9	26.4	278.7
Totals (excludes off-budget agencies)	$10,440.3	$11,675.1	$12,705.4	$12,583.9	$14,555.9

a/This financial data was taken from Treasury Bulletins dated February 1974, February 1975, February 1976, March 1977, and March 1978. For the most part, these bulletins were a product of the agencies' accounting systems. While agency systems, by law, must conform to the principles, standards, and related requirements prescribed by the Comptroller General, only 60 percent of these systems had been evaluated and approved by the Comptroller General as of September 30, 1977. The data, for the most part, is unaudited.

ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

DUE FROM THE PUBLIC REPORTED TO TREASURY (note a)

Department or Agency	September 30, 1976	September 30, 1977
	(millions)	
Agriculture	$ 44.0	$ 54.6
Commerce	1.0	-
Defense	8.0	9.0
Energy and predecessor agencies	.3	1.0
Health, Education, and Welfare	33.8	218.9
Housing and Urban Development	17.9	189.2
Interior	-	-
Justice	-	-
Labor	-	-
State	-	-
Transportation	.4	6.6
Treasury	-	54.4
Agency for International Development	-	-
Civil Service Commission	18.8	-
Federal Deposit Insurance Corporation	-	-
Federal Home Loan Bank Board	-	-
General Services Administration	-	-
National Aeronautics and Space Administration	-	-
National Foundation on the Arts and Humanities	-	-
Office of Emergency Preparedness	-	-
Overseas Private Investment Corporation	-	-
Railroad Retirement Board	2.0	-
Small Business Administration	-	-
Tennessee Valley Authority	.5	.3
Veterans Administration	6.6	5.3
Other	.5	5.2
Totals (excludes off-budget agencies)	$133.8	$544.5

a/This financial data was taken from Treasury Bulletins dated March 1977 and March 1978. For the most part, these bulletins were a product of the agencies' accounting systems. While agency systems, by law, must conform to the principles, standards, and related requirements prescribed by the Comptroller General, and only 60 percent of these systems had been evaluated and approved by the Comptroller General as of September 30, 1977. The data, for the most part, is unaudited.

SUMMARY OF OUR REPORTS

CONCERNING THE

RECORDING, BILLING, AND COLLECTION OF

AMOUNTS OWED BY THE PUBLIC

Report to the Administrator, Energy Research and Development Administration. June 25, 1977, FGMSD-77-25.

The report, which made no recommendations, concluded that the Energy Research and Development Administration's system of accounting for accounts receivable, including related billing and collecting procedures, was operating effectively in accordance with the accounting system approved by the Comptroller General in March 1975.

Report to the Chief, Forest Service, Department of Agriculture. July 11, 1977, FGMSD-77-42.

Our review showed that the accounting, billing, and collection practices for accounts receivable at Region 6 of the Forest Service were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in June 1970. Specifically, we found that receivables were promptly and accurately recorded, and billing and collection procedures were effective. However, procedures designed to encourage timely payment by contractors were not followed by all forest offices in Region 6.

The Forest Service headquarters took action on our recommendations to obtain more timely collection of all accounts receivable.

Report to the Administrator of General Services. July 27, 1977, FGMSD-77-29.

Our review showed that the General Services Administration's billing and collection system for accounts receivable from the public was, for the most part, operated effectively and in accordance with the accounting system approved by the Comptroller General in June 1965. However, the accounting for and reporting of receivables needs improvement. Specifically we found that:

--One fund was overstated by $69.6 million, and two others were understated by $4.1 million. These errors resulted in a $65.5 million overstatement of accounts receivable as reported to the Treasury and a corresponding overstatement of liabilities in the same amount.

--About $9.3 million of long-term installments receivable was improperly classified as current assets.

--Delinquent accounts were not promptly identified for followup action.

Officials at the General Services Administration agreed with our findings and said that procedures and controls would be revised to improve the recording and reporting of accounts receivable.

Report to the Assistant Secretary for Administration and Management, Department of Labor. August 17, 1977, FGMSD-77-31.

Our review showed that the accounts receivable recorded in the accounting system approved by the Comptroller General in October 1972 were not accurate. Consequently, the balance of accounts receivable from the public reported to the Department of the Treasury was not accurate. Officials of the Office of Accounting agreed with our findings and initiated corrective action to provide more accurate accounting and reporting.

Report to the Commissioner, Bureau of Government Financial Operations, Department of the Treasury. August 30, 1977, FGMSD-77-30.

Our review showed that the billing and collection system for accounts receivable from the public was, for the most part, operating effectively in accordance with the accounting system approved by the Comptroller General in March 1969. However, the accounting for and reporting of these receivables needed improvement. Specifically, we found that about $370 million of deferred interest receivables was improperly classified as a current asset in Treasury accounting records and reports.

Accounts receivable which were not due within a period of 1 year were reclassified as noncurrent assets.

Report to the Secretary, Department of Health, Education, and Welfare on the Social Security Administration's Accounts Receivable. September 6, 1977, FGMSD-77-32.

Our review showed that the Social Security Administration's procedures and practices for recording and controlling accounts receivable did not comply fully with the principles, standards, and related requirements prescribed by the Comptroller General. Specifically, we found that

--more than $742 million in overpayments were not reported as receivables and

--many followup collection actions were not promptly made.

The Social Security Administration is developing a computerized system which is being designed to provide current and reliable data on overpayments. When fully implemented, this system should compile data on all social security overpayments. Accounts receivable for program overpayments were included in the latest financial reports.

Report to the Chairman, Civil Service Commission. September 15, 1977, FGMSD-77-41.

Our review showed that the accounting and reporting practices for accounts receivable were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in May 1970. However, we found that the balance of accounts receivable from the public as reported to the Department of the Treasury was inaccurate. Also, the Civil Service Commission's procedures did not provide for charging interest on Government claims which were collected through reduction of an employee's annuity.

The Commission stated that interest would be collected when included in claims forwarded to it by other Government agencies. However, the Commission's position was that an authorizing statute was preferable to existing case law as the basis for charging interest on debts. Such a statute, according to the Commission, would eliminate any uncertainty about authority to charge interest and provide specific guidance on the charging of interest. Also, a court case affecting due process requirements was pending. Until the court case was settled, the Commission would not charge interest unless it was part of the basic claim by the creditor agency.

Report to the Administrator, National Aeronautics and Space Administration. October 21, 1977, FGMSD-77-89.

The National Aeronautics and Space Administration was promptly collecting amounts due from other Federal agencies and the public under an accounting system approved by the Comptroller General in June 1969. However, internal accounting procedures did not assure that accounts receivable were accurately recorded and reported. Specifically, the $267.2 million balance of accounts receivable reported to the Department of the Treasury on September 30, 1976, was incorrect because:

--The National Aeronautics and Space Administration had already collected $200.6 million of the recorded accounts receivable.

--About $13.3 million of accounts receivable from the public was improperly classified as accounts receivable from Federal agencies.

--About $14.7 million of accounts receivable was neither recorded nor reported.

Officials at the National Aeronautics and Space Administration headquarters agreed with our findings and stated that procedures were being revised to improve the accuracy of reported accounts receivable.

Report to the Secretary of the Interior on Management of Accounts Receivable at the Bureau of Reclamation, Bureau of Land Management, and U.S. Geological Survey. February 3, 1978, FGMSD-77-66.

This report described the need for (1) more accurate recording and reporting of accounts receivable and (2) better followup of delinquent accounts. Specifically, at one or more of the agencies reviewed

--recorded receivables were not accurate,

--allowances were not established for uncollectible accounts receivable, and

--delinquent accounts were not promptly identified for followup actions.

APPENDIX VI

SUMMARY OF INTEREST CHARGES AT SELECTED DEPARTMENTS AND AGENCIES

Department or agency	Description of receivables	Interest rate charged on delinquent receivables
Department of Agriculture: Forest Service	Sale of timber cut and removed from public lands.	Six percent interest is charged on delinquent accounts beginning 30 days after the due date.
Department of Defense: Foreign Military Sales	Sale of military supplies and equipment to other countries.	Procedures provide for collection in advance, and no interest charges are assessed on delinquent accounts.
Department of Health, Education, and Welfare: Social Security Administration	Overpayments to organizations responsible for paying providers for health services.	No interest is assessed on delinquent accounts.
	Overpayments to recipients of social security.	No interest is charged on delinquent accounts.
Department of the Interior: Bureau of Land Management	Charges for grazing rights, fire suppression, right-of-way charges, and trespassing.	No interest is charged on delinquent accounts.
Bureau of Reclamation	Sale of electric power generated by Government projects.	Liquidated damages of 2 percent are charged if bill is not paid when due plus interest charge of 1 percent of unpaid amount each month.
	Sale of water from Government projects.	One-half percent per month is charged on accounts over 30 days delinquent.

Department or agency	Description of receivables	Interest rate charged on delinquent receivables
Geological Survey	Royalty on oil and gas removed from public lands.	No interest is charged on delinquent accounts.
Department of Labor	Disability and miscellaneous overpayments.	No interest is charged on delinquent accounts.
Department of the Treasury: Customs Bureau	Supplemental duties and imported items, fines and penalties, and reimbursable Government services.	No interest is charged on delinquent accounts.
Bureau of Government Financial Operations	Accrued interest on loans to foreign countries.	Interest rates range from 0 to 4 percent on the loans only.
Civil Service Commission	Amounts are due from former Federal employees for unearned leave, overpayments, and miscellaneous other reasons.	No interest is charged on delinquent accounts.
Energy Research and Development Administration	Sale of enriched uranium to domestic and foreign concerns for power generation.	Interest is charged at 1 percent per month on any balances not paid within 30 days of the invoice.
General Services Administration	Sale of strategic and critical materials sold from national stockpile.	Interest is charged at the commercial prime rate when payment is not received within 30 days of the invoice date.
National Aeronautics and Space Administration	Acquisition and launching of missiles on a reimbursable basis.	Payment is required as costs are incurred. No interest charges are imposed.

(90117)