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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Millions Written Off In Former Service Members' Debts--Future Losses Can Be Cut

During fiscal 1977 through 1979, \$67 million owed by former service members was written off by the military services as bad debts while only \$19.8 million was collected. Defense can substantially reduce these losses in the future by



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- making sure that service members' debts are offset against amounts due them at the time they separate from the service,
- acting more quickly to initiate collection of those debts remaining after separation, and
- using effective, businesslike, collection techniques.

GAO is recommending ways to reduce overpayments and to improve the efficiency and effectiveness of Defense's collection of amounts owed by former service members.



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

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

In the past few years, the Congress has expressed much interest in accounts receivable and the collections on those accounts. The Department of Defense has millions of dollars in accounts receivable resulting from former service members' debts and has been writing off millions of dollars annually as uncollectible. This report addresses how the Department of Defense can reduce this annual loss to bad debts.

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

A handwritten signature in black ink that reads "Milton J. Rowland".

Acting Comptroller General
of the United States

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D I G E S T

The Department of Defense can substantially reduce its annual bad debt losses by making sure that service members' debts are offset against amounts due them at the time they separate from the service, acting more quickly to initiate collection of those debts remaining after separation, and using effective, businesslike, collection techniques.

During fiscal 1977 to 1979, over \$152 million was owed to the military services, primarily by separated service members. During the same 3 years, the military services collected about \$19.8 million, or only about 13 percent of the total amount, while writing off \$67 million as bad debts. The collections made by the services were barely more than the costs incurred for processing and collecting the debts. (See pp. 5-6.)

DISBURSING OFFICES FAILED TO COMPLY
WITH SEPARATION PAY REGULATIONS

When service members separated from the military, disbursing offices frequently did not compute the separating member's final pay in accordance with Defense regulations. Deductions were not made for unearned pay and allotment checks, bonuses, and advanced leave. Statistics obtained from the military services showed that millions of dollars of overpayments were made by disbursing offices when members separated. Also, GAO's review of separation payments confirmed that many overpayments were being made. GAO reviewed \$50,179 in payments made to separating members by disbursing offices. Only \$13,300 of the payments reviewed were valid and the remainder (\$36,879) consisted of overpayments. 1/

1/Due to the method of selecting some of the payments in GAO's sample, the findings cannot be projected. (See p. 3.)

A large number of members separate on short notice before they complete their terms of service. At the three disbursing offices GAO visited, disbursing personnel said that in many cases early separation pay records were incomplete or in error and that there was not enough time to obtain all the required information to properly compute separation pay and identify outstanding debts before members had to leave the military installations. GAO was advised that separation processing checklists, which are designed to ensure that pay data are complete and correct, were not properly completed and that disbursing offices have had as little as 1 hour's notice to prepare final payments. Discharge of a member before final pay or a substantial part of it is ready for delivery is prohibited by 10 U.S.C. 1168. (See pp. 6-11.)

GAO was told by Army officials that virtually no formal training was given Army disbursing personnel on how to compute separation payments and identify members' debts. Army bad debts accounted for over \$49 million of the \$67 million written off. (See p. 11.)

Defense should strengthen controls and provide enough time to ensure that pay records are complete so that debts can be identified and offset against separation pay. Also, GAO believes disbursing offices and their commanders need to be informed of separation disbursement errors so corrective action will be taken.

LONG DELAYS IN INITIATING COLLECTION ACTION

Millions of dollars in debts were not being recovered from former service members because it took the military services from 3 months to 2 years to initiate collection actions. A Navy internal audit shows that the older a debt becomes, the more difficult it is to collect. (See p. 12.) Generally, the other services waited until after lengthy, detailed reviews of each separation payment at their finance centers before the separated member was sent a notification letter stating the amount of the debt and requesting payment. Much of the delay was caused by the time it took to accumulate and send the necessary documents to the centers. Having all military finance offices formally notify members of their debts upon separation would help the offices initiate collection actions more promptly. (See pp. 12-16.)

NEED FOR MORE EFFECTIVE
COLLECTION EFFORTS

The military services must become more effective and businesslike in their collection actions. With only a 13 percent collection rate on amounts owed over the past 3 years, the services have barely covered the cost of processing and collecting the debts. The services, however, have not used some techniques that could increase their collections. For example, they do not attempt (as required by the Federal Claims Collections Standards) to arrange for personal interviews with debtors where feasible, nor do they attempt to reach delinquent debtors by telephone. Further, although the charging of interest has been a Collection Standards requirement since April 20, 1979, debtors were not threatened with or charged for interest if they did not pay debts promptly. (See pp. 17-18.)

RECOMMENDATIONS

GAO is recommending that the Secretary of Defense require the military services to:

- Designate an official at each military separation point who is responsible for certifying on separation processing checklists that a reasonable attempt was made to ensure that all documentation and entries affecting debts and separation pay are included in the separating members' pay records.
- Provide sufficient time to disbursing offices to identify debts and correctly calculate separation pay. A minimum standard time for effectively performing this task should be established.
- Review training programs for disbursing office personnel to ensure that personnel are being adequately trained for computing and processing final separation payments.

GAO also is making recommendations that are designed to reduce overpayments, reduce the amount of time it takes the services to initially bill for debts owed by former service members, and help the services become more effective and businesslike in their collection actions.

AGENCY COMMENTS

In a May 18, 1981, meeting, the Department of Defense substantially concurred with all of GAO's recommendations except that Defense does not consider appointing an official to certify separation processing checklists as being necessary to ensure correct and accurate payments.

GAO believes that appointing an official for that purpose is vital to ensuring correct and accurate separation payments.

CHAPTER 1

INTRODUCTION

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), each military department is primarily responsible for collecting its own claims. The Joint Standards require that collection efforts be aggressive, timely, comprehensive, and lead to the earliest practicable conclusion of administrative efforts to collect from the debtor. The military departments are required to pursue cost-effective collection procedures, which in our opinion would be consistent with good business practices, leading to collection of the debt, referral of the debt to the Department of Justice for legal action, or termination of the debt. Responsibility for establishing, maintaining, and pursuing debts owed the military by former service members--the subject of this report--has been delegated to the four military finance centers. 1/

Identification of debts owed the Government should be determined before separation payments are made to members leaving the service. Discharge of a member before final pay or a substantial part of it is ready for delivery is prohibited by 10 U.S.C. 1168. In order to ensure that all debts are paid before the member leaves the military installation, the local disbursing office is normally required to deduct for amounts owed to the U.S. Government.

Normally, disbursing offices could rely at least in part on the central computerized system to calculate members' pay. However, as shown on p. 6, a large number of service members separate on short notice, before their service is scheduled to end. In these cases, there often is not enough time for finance centers to calculate separation payments, identify amounts owed the U.S. Government, and in accordance with the law, pay these members before they are separated. For those separations that can be forecasted, the Air Force uses its centralized system to determine final pay. Officials at the Army and the Marine Corps finance centers told us that their central pay system's design did not include calculation of separation pay because of automatic data processing equipment limitations. The Navy's central system attempts to provide disbursing offices with the amount to pay separating members;

1/Army Finance and Accounting Center, Indianapolis, Ind.; Navy Finance Center, Cleveland, Ohio; Air Force Accounting and Finance Center, Denver, Colo.; and the Marine Corps Finance Center, Kansas City, Mo.

however, as noted in a previous GAO report, 1/ the automated system was wrong most of the time and disbursing offices had to make the calculations themselves.

After members leave the service, their local pay records are sent to the finance center. The finance center reviews the records to make sure all the final pay computations are correct and all amounts owed the U.S. Government have been collected. If any amount is still owed by the former service member, the finance center is responsible for pursuing the debts.

When collection efforts are unsuccessful and a receivable is less than \$600, the centers may terminate collection action without resorting to legal action by the Justice Department because enforced collection of amounts below \$600 is not considered economically feasible. Legal action ordinarily requires evidence that the debtor has the potential ability to pay the amount due.

The Comptroller General emphasized the importance of debt collection and the prevention of overpayments in recent testimony before the Senate Committee on Governmental Affairs. He pointed out that in fiscal 1979, Federal agency records showed receivables amounting to over \$1 billion were written off. He told the Committee that Federal agencies need to deal more effectively with the causes of overpayments, delinquent loans, and defaults.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our review was designed to evaluate the effectiveness of Defense pay systems in identifying, collecting, and controlling debts owed the military departments by former service members.

To attain this objective, we:

- Reviewed that portion of military pay systems related to separation indebtedness to determine the causes of service members' indebtedness at separation.
- Reviewed each service's organization, policy, and procedures for establishing, controlling, billing, and collecting out-of-service debts.
- Discussed separation debt processing and collecting efforts with officials at each of the finance centers.

1/Our report "The Navy's Computerized Pay System Is Unreliable and Inefficient--What Went Wrong?" FGMSD-80-71, Sept. 26, 1980, discussed the problems the central system is experiencing.

--Reviewed reports prepared by the service's audit agencies and the individual center's internal review.

We did not verify the accuracy of accounts receivable balances on the books of the military departments.

Most of our work was performed at the Navy Finance Center, Cleveland, Ohio; the Air Force Accounting and Finance Center, Denver, Colo.; the Marine Corps Finance Center, Kansas City, Mo.; and the Army Finance and Accounting Center, Indianapolis, Ind. We also visited disbursing offices at Fort Knox, Ky., Ellsworth Air Force Base, Rapid City, S. D., and Fort Dix, N.J.

Since the Navy Audit Service has issued a report entitled "Separation Functions," dated July 23, 1979, which covered administration of debts owed by former service members, we curtailed the amount of work we did in the Navy.

During fiscal 1979, the number of new indebtedness cases in the military services amounted to 50,368. We sampled 347 separation indebtedness cases to (1) determine whether separation payments were made even though members were in debt to the Government at the time they separated and (2) find out why debts were being incurred.

<u>Military service</u>	<u>Number of cases selected</u>	<u>Method of selection</u>
Army	100	Used random numbers
Air Force	100	Used random numbers
Marine Corps	147	Selected every 22nd case beginning with the 8th case on file

We were not able to project the results of the above sample because all cases were not selected randomly.

We also sampled all 252 Army separation indebtedness cases processed in February and March 1979 by the Fort Knox disbursing office to determine whether all of the debts were subsequently established as accounts receivable at the finance center.

Further, we examined a sample provided by the Army of 100 cases of members who had pay or allotment checks mailed to their homes or financial institutions after they had separated. We used these cases to evaluate the effectiveness of the Army's procedures for stopping unearned pay or allotment checks to separating service members. The Army advised us that the sample was taken randomly.

Finally, during 1980 and 1981, we performed work at the military service finance centers and some disbursing offices to

identify the causes of the overpayments to separating members. We also reviewed selected transactions and reports and interviewed key officials on the separation payment procedures.

CHAPTER 2

DEFENSE CAN REDUCE SEPARATION DEBT

LOSSES BY MILLIONS OF DOLLARS

The Department of Defense can substantially reduce the amount of bad debt losses incurred by making sure that service members' debts are offset against amounts due them at the time they separate from the service, by initiating collection actions promptly for those debts that are not paid off at the time of separation, and by using effective, businesslike, collection techniques. During fiscal 1977 to 1979, about \$67 million owed by former service members was written off by the military services as bad debts while only \$19.8 million was collected of \$152.1 million owed, a collection rate of only 13 percent. 1/

Local disbursing offices were not following regulations in making payments to separating members. For example, in many cases they did not follow instructions for timely notification of the central finance centers to stop unearned pay and allotment checks from being sent to members after they separate. In other cases, they did not comply with regulations to make sure that unearned benefits were recouped where possible from members separating before the end of their full term of service. A large number of members separate early. At the three disbursing offices we visited, we were told that in many cases early separatee pay records were incomplete or in error and that often not enough time was provided to properly compute separation pay and identify outstanding debts before members had to leave the military installations. Further, we found that disbursing offices and their commanders need to be informed of separation payment errors so corrective action will be taken.

After members separated, it was taking the military services too long to initiate actions to collect debts that were not or could not be offset by separation pay. The military services had established procedures at their respective finance centers to review separation payments in order to identify overpayments and debts. However, since these reviews entailed accumulating the necessary documents and auditing the records, they required a lot of time. As a result, collection action was not initiated until 3 months to 2 years after members separated. The extensive delays contributed to the poor collection rate. According to a Navy audit, the older a debt becomes, the more difficult it is to collect. Collections would increase if members were served notice by local disbursing offices of their debts at the time they separate from the service.

1/See app. I for schedule showing, by military service, former service member debts, service collections, collection rates, and bad debts.

The debt collection rate could also be improved by more effective followup on the part of the military services. The amounts collected barely covered the costs of processing and collecting the debts. Some effective business techniques, such as charging interest on delinquent payments and interviewing the debtors, have not been attempted by the centers even though required by the Federal Claims Collections Standards.

DISBURSING OFFICES FAILED TO
COMPLY WITH REGULATIONS

Statistics obtained from the military services and through our review of sampled cases show that many service members were overpaid by disbursing offices when the members separated from the military services. Overpayments occurred because local disbursing offices did not comply with regulations. They failed to deduct millions of dollars from final separation payments for unearned pay and allotment checks disbursed by the central finance centers and for unearned benefits, such as advanced leave and bonuses.

In our review of 347 separation indebtedness cases, we found that disbursing offices had in 126 of the cases made a total of \$50,179 in separation payments. (In most of the remaining cases, no payments were made.) Had the payments been computed properly, about \$36,877 would not have been paid and, therefore, would not have become a debt to the military services. 1/

Disbursing office personnel told us that in many cases they are not given enough time to properly compute separation pay and identify all debts. A large number of military persons are separating before their full term of service. Many of these individuals are considered undesirable and commanders want them to leave the military installation as soon as possible. Disbursing offices must rush through the job of computing separation pay and identifying debts, and in many cases, we were told, early separatee pay records were incomplete or in error.

We found that there was a need for the services to tell disbursing offices and their commanders about separation payment errors so that corrective action could be taken. Defense also needs to examine the training for disbursing personnel to determine if they receive adequate training in how to compute and process payments. Details of our findings follow.

1/Due to lack of information on the universe of separation cases and the method of selecting Marine Corps cases, our findings cannot be projected. (See p. 3.)

Unearned pay and allotment checks
and unearned benefits were not deducted

Millions of dollars in unearned pay and allotment checks are being issued by the central finance centers to service members after they separated. In many cases, the amounts are not deducted by local disbursing offices from members' separation pay. Further, disbursing offices failed to deduct for unearned benefits, such as bonuses and advanced leave.

The Department of Defense Pay Manual and the services' regulations detail specific deductions to be considered by disbursing offices in computing separation payments. Proper deductions from final pay include erroneous payments, such as unearned pay and allotment checks, and administratively determined indebtedness, such as unearned advanced leave. Recovery of unearned bonuses is required by 37 U.S.C. 308.

Unearned pay and allotment checks

Disbursing offices created many overpayments by failing to deduct from final payments the unearned pay and allotment checks sent by the central finance center to separating service members. Regulations require these deductions to be made. The military services each have a centralized military payroll system at their finance centers which regularly issue many pay and allotment checks to members' homes or financial institutions. Because of the magnitude of the central pay systems, cutoff dates are established each month beyond which no new information can be processed from the field. (For example, after the 25th of the month, one of the finance centers cannot accept any requests to stop the system from sending pay and allotment checks to members.) Therefore, the military service procedures require that if members separate after the established cutoff date, the disbursing office must deduct the amount of the pay or allotment check from the final separation payment to avoid overpayment. If the member separates before the cutoff date, the disbursing office is required by military regulations to notify the finance center immediately, and the system is instructed to stop issuing pay or allotment checks to the separated member.

Army statistics show that from October 1, 1977, through June 30, 1980, \$13.5 million of indebtedness was caused by overpayments in the form of unearned pay checks and allotments sent to members after they separated. In fiscal 1978, the Air Force recorded \$757,000 in former member debts which were caused by issuance of unearned pay and allotment checks. In a report entitled "Allotment Payments System" dated April 12, 1979, Navy auditors reported that 732 discharged individuals were still being sent allotments and some were paid unearned allotments for as long as 14 months. The Marine Corps maintained no statistics on issuance of unearned pay and allotment checks.

Since, as indicated above, the problem is most severe in the Army, we reviewed 100 cases provided by the Army in which \$24,000 was overpaid in the form of unearned pay and allotment checks. (The Army says the 100 cases were randomly selected.) We found that \$20,000 of the \$24,000 in overpayments (83 percent) could have been prevented had Army disbursing offices followed the required procedures for pay and allotment checks for separating service members.

Unearned bonus and advanced leave

A large number of military members separate from the service before completing their full term of service. (See p. 6.) As a result, some benefits the members received, such as bonuses and advanced leave, have not yet been fully earned. Disbursing offices frequently failed to deduct the value of unearned benefits from separation payments. As a result, millions of dollars in overpayments were made.

Unrecouped bonuses account for a significant amount of debt owed by service members. The Army, with the largest bonus program, recorded \$3.3 million in unrecouped bonuses during fiscal 1978. The Air Force reported that for fiscal 1978 over \$676,000, or nearly 20 percent, of its separation debts were for unearned bonuses, while the Navy reported over \$177,500. Similar debt information was not maintained by the Marine Corps.

Army center officials told us that disbursing offices do not properly compute unearned bonuses and frequently do not consider them at all when making separation payments. As a result, the center must audit all separation cases which involve unearned bonuses. Of the \$994,000 in unearned bonuses reviewed at the center during the first 6 months of fiscal 1979, only \$114,000 had been collected at the time of our audit. Subsequent to the completion of our audit, the Army took action to have bonus information included on the leave and earnings statement. This will help to better identify unearned bonuses at the time of early separation.

Unearned advanced leave also frequently was not deducted by disbursing offices from separation payments. The Naval Audit Service's report, "Separation Functions," stated that over 21 percent of the debt cases in its sample resulted from members owing advanced leave at separation. Also, in our review of the 347 debt cases, we found that over 20 percent of the debts were the result of unearned advanced leave at the time of separation.

More time and better data are needed to compute debts and separation payments

To determine why disbursing offices were not complying with regulations, we visited three disbursing offices. Disbursing personnel at all three offices indicated that many personal financial

records which are used to determine debts and calculate pay were incomplete or in error. Further, they said that they frequently did not have sufficient time to accumulate the necessary documents. This was particularly true when a service member separated before the completion of his or her full term of service and the disbursing office was provided little, if any, advance notice.

The military services have been experiencing considerable difficulty in retaining enlisted members for their full term of service. Over 72 percent of the debt cases we reviewed involved members who were separated before they had completed their term. During 1978 appropriation hearings, Defense reported that early separation rates for first-term enlisted personnel were 25 to 30 percent in the Air Force, 35 to 40 percent in the Marine Corps, 40 percent in the Navy, and 42 percent in the Army. We were informed by Defense officials that many of these early separatees are considered undesirable and leave the services on very short notice.

At the Fort Knox, Ky., Army disbursing office, we were told that about half of the more than 1,000 separations processed monthly were for individuals leaving the service early, that many of these individuals were considered undesirable, and that local regulations require them to leave the base within 72 hours of their discharge. The chief of the separations branch told us that the personal financial records often are lacking data (such as leave data) which is supposed to be furnished by other organizations. However, because of the limited time available, the disbursing office often does not have sufficient time to accumulate all the documents necessary to identify all debts, properly calculate the separation pay, and make the payment. In some cases, disbursing personnel said that they had less than 1 hour to perform the separation pay function.

The Air Force Accounting and Finance Center office at Ellsworth Air Force Base, S. D., was experiencing problems similar to the Army's. Although Air Force regulations require 10 days for separation processing, the base commander exercises his prerogative in about half the cases to waive the requirement and directs that the separatees leave the base in a very short period of time. As a result, separating members arrived at the disbursing office anywhere from 1 hour to several days before they had to leave the base. Again, we were told by disbursing personnel that they often had insufficient time to gather all the documents pertaining to a separating member. Although a comprehensive separation processing checklist had been devised to ensure that a member's pay record is complete and correct, this important control is often circumvented because of the short time factor.

The third installation we visited, Fort Dix, N.J., is one of the Army's three central separation processing centers. We were

told by an Army official that an average of 120 soldiers are separated each workday, that 30 to 50 percent of the soldiers are early separatees, and that the last assignment for most of the soldiers separating is in Europe.

The departing soldiers arrive at Fort Dix by aircraft at night. The disbursing unit has up to 2 p.m. the following day to examine the personal financial records, identify and issue any debt notices, and complete the members' final separation payments.

The chief of the separation finance section advised us that Army finance offices in Europe are supposed to make sure that personal financial records are in order by using a checklist, but apparently perfunctory use is made of the lists because the financial records are generally in such poor condition. She said that:

- Documents and pay entries that are needed for computing separation payments and identifying debts are missing from many of the personal financial records. For example, bonus information often is not included in the record nor is information on the latest leave taken by the separating soldier.
- Many documents evidencing debt are sent to Fort Dix by finance offices in Europe months after members have been separated.
- In some cases, separating members purge their personal financial records of pay documents while in transit to Fort Dix. The record is not put in a sealed envelope when given to the soldier to handcarry.

The section chief told us that since her clerks have only a few hours to identify debts and compute separation pay before the separatee must leave the installation, there is no time to query finance offices in Europe about suspected missing or erroneous information.

In order to properly compute separation pay and identify remaining debts, the personal financial records must be complete and accurate and disbursing offices must have a reasonable amount of time to perform the separation pay function.

Feedback should be required on errors made by disbursing offices

The Army finance center does not have a system that identifies and informs disbursing offices and their commanding officers of the nature and extent of errors made in computing and processing separation payments. Without this information, it is unlikely that disbursing offices will improve their performance.

A system that identifies the errors made by disbursing offices in computing separation pay could be used to (1) determine which disbursing office staffs need additional training and (2) help focus internal audit reviews where the problems are most serious.

We were told by Army officials that officers and enlisted personnel are offered virtually no formal training on the completion of separation pay and identification of debts. The U.S. Army Finance School offers only 1 hour of instruction on normal separations and none on early separations.

The Air Force has a system in which each installation receives a monthly report on overpayments that could have been prevented. This provides the disbursing office with information to use in taking corrective action.

Conclusions

The military services can substantially reduce the amount of debts owed by separating members, and thereby reduce bad debt losses, if disbursing offices become more effective in identifying debts and offsetting them against separation payments.

Recommendations

We recommend that the Secretary of Defense require the military services to:

- Designate an official at each military personnel separation point who is responsible for certifying on separation processing checklists that a reasonable attempt was made to ensure that all documentation and entries affecting debts and separation pay are included in the separating members' pay records.
- Provide sufficient time to disbursing offices to identify debts and correctly calculate separation pay. A minimum standard time for effectively performing this task should be established.
- Issue instructions to disbursing offices emphasizing the need for correct computation of separation payments and identification of all debts.
- Inform disbursing offices and their commanders of errors made in computing and processing separation payments so corrective action can be taken. The data on errors can also be used to help focus internal audit reviews on serious problems.

- Review training programs for disbursing office personnel to ensure that personnel are adequately trained for computing and processing final separation payments.

Agency comments and our evaluation

In a May 18, 1981, meeting, the Department of Defense substantially concurred with all the above recommendations except that it does not consider appointing an official to certify separation processing checklists as being necessary to ensure correct and accurate payments. The Department said that disbursing offices are already responsible for certifying the correctness and accuracy of all disbursements and that an additional review level would be duplicative and unnecessary.

We do not believe that appointing an official to make sure separation processing checklists are used as intended is either duplicative or unnecessary. As pointed out in the report, we found that these checklists were either not being used or not being used effectively. Although we recognize that disbursing officers are responsible for certifying all disbursements, we believe they can do a better job of making correct payments if the preparation and the use of separation processing checklists is improved. In order to make this improvement, it is vital that someone be made responsible for certifying that a reasonable attempt has been made to ensure that all documentation and entries affecting debts and separation pay are included in the separating members' pay records. (See pp. 10-11.)

INITIAL COLLECTION EFFORTS ARE DELAYED

Millions of dollars in debts were not being recovered from former service members because of the long time it took for the services to initiate collection efforts. Only the Army attempted to formally ask members at the time they separated for payment of any debts they owed. The other services waited until after a detailed review by the finance center, which took from 3 months to 2 years, of each separation payment before the separated member was sent a letter asking for payment.

Even though the Army attempted to notify members of their debts at separation, the Army (see pp. 7-9), needs to considerably improve debt identification at the time of separation. The Army also lacked adequate controls to ensure that collection action was initiated for all debt cases.

Prompt billing for debts owed by former service members could materially improve the military services' collection rates. In its report, "Separation Functions," the Naval Audit Service indicated that the Navy's overall collection rate for 16,500 accounts reviewed was 14 percent. However, accounts established within 30 days of a member's discharge had a 30-percent collection rate; conversely, accounts established 22 to 24 months after a member's discharge had only a 4-percent collection rate.

Details of our findings concerning delays at the Army, Navy, Air Force, and Marine Corps finance centers follow.

Army

We found that during the first 6 months of 1979, about \$7.1 million, or 60 percent, of the \$11.8 million of Army recorded indebtedness was identified after the member had returned to civilian life by various organizations within the U.S. Army Finance and Accounting Center. Although the center was able to identify a significant amount of indebtedness, its administrative procedures for processing cases required an inordinate length of time to accumulate the necessary documents and complete a detailed review of the debt cases. Our review of 100 Army debt cases showed that (1) in only about 27 percent of the cases, collection action began within 3 months of separation, (2) in 60 percent of the cases, it began within 4 months to 2 years, and (3) in 13 percent of the cases, it took 2 years or more to begin collection action. For example, one of the center's organizations usually takes between 2 to 4 months to find out if members erroneously receive pay and allotment checks after they separated from the Army. We were told that the delay was due to the high volume of unearned pay and allotment checks that must be reviewed. During fiscal 1978, for example, the organization identified 18,863 pay and allotment checks, totaling about \$5.5 million, which were sent erroneously to members after they separated.

Another organization at the center is charged with auditing each separation case in which former members had received bonus payments. During fiscal 1978, 5,500 separatees had been paid bonuses. The audits took about 3 to 4 months to complete because of delays in receiving the documentation needed to perform the audit.

In many cases where it took an exceedingly long time to start billing the separatees, Army records do not account for the long delay. Examples of these cases follow:

- A soldier was separated from the Army on December 3, 1976, after completing the term of service. The member left the service owing the Army \$900 for a travel advance. The account receivable was finally established on May 24, 1978 (approximately 1-1/2 years after separation), and collection action began shortly thereafter. The account was closed on June 13, 1979, as uncollectible.
- A soldier was separated from the Army on July 14, 1977, before completing the term of service. After the member was discharged, the finance center erroneously issued an allotment check amounting to \$191. The account receivable was established on May 5, 1979 (more than 9 months after separation), and collection action started. At the time of our review, the account balance was \$171.

In addition to the lengthy delays in initiating collection action, the Army lacked adequate controls to ensure that collection action was initiated for all debt cases. When disbursing offices identify a debt that exceeds the member's final pay, a letter is given to the separating service member stating the amount of the debt and asking for payment. A copy of the letter is sent to the finance center. There the letter is used to establish an account receivable for the debt, which triggers an action to collect. We reviewed all 252 separation indebtedness cases that were originated by the Fort Knox disbursing office in February and March 1979 to see whether these debts were established as accounts receivable at the center. Of the 252 cases, 16 had not been established as accounts receivable 8 months or more after the members were discharged. Apparently, the center did not exercise proper controls to ensure that the letters were received and given to the group responsible for establishing accounts receivable.

Navy

The Navy Finance Center audits all of the approximately 100,000 separation payments made each year by disbursing offices in the field to determine whether or not the payments were correct. We found that it was taking an average of 8 months after the member was discharged for the center to determine whether or not an overpayment was made and the amount the former member owed the Navy.

One of the major reasons the center took so long was that in many cases the amounts paid separatees by disbursement offices did not agree with amounts indicated by the central computerized pay records at the center. Clerks at the center must first reconcile these out-of-balance accounts before they can determine whether overpayments have occurred. During the first 4 months of 1979, 40,000 out-of-balance accounts were backlogged. 1/ A center official said that it would take 2 years to reduce the backlog to the point where the Navy will know what former members owe within 60 days of the date of discharge.

Other reasons for delayed identification of debts were discussed in the Navy Audit Service's report, "Separation Function." Among those cited were:

- Existence of a time-consuming duplication of effort by two organizations within the center in determining whether overpayments were made.

1/The problems the Navy is experiencing in maintaining accurate pay records is discussed in detail in our report to the Congress, "The Navy's Computerized Pay System is Unreliable and Inefficient--What Went Wrong?" FGMSD-80-71, Sept. 26, 1980.

--Pay-related documents that were needed to audit separation payments were not submitted promptly to the center.

--No procedures existed to ensure that clerks gave older accounts first priority.

Air Force

Our review of 100 debt cases showed that the Air Force took an average of over 5 months from the date a member was separated until action was initiated to collect any amount owed. In 26 percent of the cases, it took more than 6 months to begin collection efforts. Examples of such cases we sampled follow:

--A member was separated from the Air Force on August 4, 1978, before completing the term of service. The member became indebted to the Air Force in the amount of \$221 for advance leave. The account receivable was established on March 21, 1979, more than 7 months after the member was separated.

--A member was separated from the Air Force on June 30, 1978, after completing the term of service. The member became indebted to the Air Force in the amount of \$184 because the rent for Government quarters had not been paid. The account receivable was established on January 11, 1979, more than 6 months after the member was separated.

The time taken to process debt cases at the Air Force Accounting and Finance Center delayed initiation of collection action. Twenty days after separation, each member's individual pay account was recomputed to ensure that amounts due were proper and accurate. Accounts in which additional payment was due the separated member were processed and paid daily; however, accounts in which payment was due the Air Force were processed only monthly. Consequently, after the 20-day delay from member separation to account recomputation, another delay of up to 30 days occurred until the monthly listing of indebted accounts was generated. After this delay the cases were given to the directorate of adjudication and settlement at the center. The directorate had 13 adjudicators to review debt cases, but before the review was started the cases were deferred another 50 days to allow for late receipt of transactions which may affect the separation payments. After this 50-day wait, adjustments were made to less than one-third (27) of the 100 cases we sampled. These adjustments were relatively insignificant and hardly worth delaying collection action for such a long period of time.

Marine Corps

Our review of 147 Marine Corps debt cases showed that in only 4 percent of the cases were collection actions initiated within 3 months of member separation. In 54 percent of the cases it took

from 3 months to a year to begin collection action, while in 6 percent it took over 18 months. We were unable to determine when collection action began for 36 percent of the cases because of a lack of documentation. The following case taken from our sample demonstrates the delays experienced in processing debt cases:

A member was discharged on February 22, 1978, before completing the term of service. The disbursing office computed final pay without deducting \$189 for the member's February allotments. On February 23, 1978, the disbursing office notified the finance center to stop the allotments; however, the notification was received too late and the member became indebted for \$189. Subsequently, the account receivable was established at the center and the first collection letter was issued on November 8, 1978--over 8 months after the member was discharged.

Separation indebtedness identification procedures at the Marine Corps Finance Center delayed the establishment of accounts receivable and the initiation of collection actions. All separation debt identification and processing was performed manually, requiring tedious calculations and time-consuming research. The separations section was required to review all separation pay records submitted from the field disbursing offices. But before the review was made, the pay records were held for 6 weeks to allow documents not yet in the records to arrive at the center. After this lengthy process, the pay records were transferred to the indebtedness and collection section for still another review and to initiate collection action. These duplicate and manual reviews of the pay records delayed collection action against former Marines for several months.

Conclusions

The military services need to streamline their debt processing so amounts owed by former members of the service can be accurately and promptly identified and billed. The sooner separated members are notified of their indebtedness the better are the chances of collecting the debts. The most effective time to notify separating members of their debts would be on the day they separate from the service. The Air Force, Navy, and Marine Corps did not notify separated members of their debts until after a detailed, time-consuming review.

Although the Army requires its disbursing offices to notify members of their debts upon separation, many of the debts were identified at the Army center long after the members returned to civilian life. Our recommendations on pages 11 and 12 are directed at improving the performance of the disbursing office.

Also, the Army must maintain adequate control over debt letters initiated by disbursing offices to enable the finance center to follow up on the initial collection attempt.

Recommendations

We recommend that the Secretary of Defense require the military services to:

- Have disbursing offices issue collection letters to indebted members at the time they separate.
- Streamline procedures at the centers so that debts not identified by disbursing offices can be determined and collection actions can be quickly initiated. These actions should include
 - (1) expediting accumulation of the documentation needed to review the separation cases, and
 - (2) processing debt cases faster through elimination of duplicate reviews.

We also recommend that the Secretary of Defense have the Army ensure that collection letters initiated by disbursing offices are properly controlled by the center so that followup action can be taken as necessary.

Agency comments

In a May 18, 1981, meeting, the Department of Defense substantially concurred with the above recommendations.

MORE EFFECTIVE COLLECTION EFFORTS ARE NEEDED

The military services were not effective in following up their collection efforts. Accounts receivable of \$67 million owed by former service members were written off as uncollectible during fiscal 1977 through 1979. Further, using military services' statistics (see app. I) we determined that only \$19.8 million, or 13 percent, of the \$152.1 million available for collection had been collected. Overall, the amount recovered by the services was barely more than the cost of processing and collecting the debts. The military services must become more businesslike in their collection actions to reduce losses and increase collections.

Our comparison of the costs of processing debt cases and the dollar amount of debts collected in fiscal 1978 indicated that overall, the military services are spending almost as much as they are collecting. The Marine Corps and Navy, taken separately, actually had debt processing costs that exceeded the collections made during the year. The following table shows costs of processing and collecting debts in fiscal 1978 versus the amounts collected, by military service.

	<u>Costs</u>	<u>Collections</u>	<u>Collections over (under) costs</u>
	------(millions)-----		
Air Force	\$1.4	\$2.5	\$1.1
Army	2.0	2.5	.5
Navy	1.8	1.3	(.5)
Marine Corps	<u>.6</u>	<u>.2</u>	<u>(.4)</u>
Total	<u>\$5.8</u>	<u>\$6.5</u>	<u>\$.7</u>

More effective collection techniques would increase the amount collected and improve the ratio of costs to collections.

The military services' collection efforts consist primarily of sending debtors a series of computer-generated letters. In general, for debts under \$600, if a debtor fails to respond to the letters or indicates unwillingness to pay, the military service either offers to compromise the debt or writes off the debt without first ascertaining the debtor's financial ability to pay.

We found that during collection efforts the military services do not attempt (as required by the Collection Standards) to arrange personal interviews, nor do they attempt to reach the debtor by telephone. Further, although the charging of interest has been a Collection Standards requirement since April 17, 1979, the debtor is not threatened with or charged interest on the debt if it is not paid promptly.

The results of our review of 100 Air Force closed debt cases indicate the general ineffectiveness of the military services' collection efforts. As one would expect, debtors often respond to the initial collection letter without protest and promptly pay their debts, requiring no collection pursuit. While this occurred in many of the cases we reviewed, collection history in the following cases shows the result of an ineffective collection program.

--Forty-nine cases (with total debts of over \$13,000) were closed by the Air Force with no collections. In 32 of these cases the debtors ignored all correspondence.

--Four cases (with total debts of \$1,564) were closed with only \$101 collected.

Recommendations

In order to improve collection results, we recommend that the Secretary of Defense require the military services to:

- Arrange for personal interviews with selected debtors where feasible and make telephone contact with debtors when possible.
- Charge interest on debts that are not paid promptly.

Agency comments and our evaluation

The Department of Defense substantially concurred with the above recommendations, but indicated that telephone contact with debtors has been attempted by the military services with limited success.

The Department said that since most early separations occur under adverse circumstances it is unlikely that collections can salvage more than the pay accrued on the separation date.

Finally, the Department indicated that for debts of less than \$600, debt waiver procedures issued by the Comptroller General are weighted in favor of the debtor.

We recognize that many of the individuals who leave the service early may not be the best candidates for recovery of debts. Further, in cases of minor debt amounts the cost of collection versus termination of the debt collection must be weighed. Nonetheless, the extremely low debt collection rate (13 percent) coupled with our considerable experience in debt collection 1/ leads us to believe that a far higher amount could be collected if the military services became more businesslike in their collection actions.

1/GAO has certain responsibilities under 31 U.S.C. 71 for collection of governmental debts that other agencies have failed to collect.

FORMER SERVICE MEMBER DEBTS,
COLLECTIONS, COLLECTION RATES, AND
BAD DEBTS INCURRED BY MILITARY SERVICES
FISCAL 1977-1979

	Amounts available for collection (note a)	<u>Collections</u>	<u>Bad debts</u>	Percent collected (note b)
	----- (millions) -----			
Army	\$ 95.9	\$ 8.1	\$49.3	8.4
Navy	21.8	3.6	4.8	16.6
Air Force	24.8	7.6	9.2	30.6
Marine Corps	<u>9.6</u>	<u>.5</u>	<u>3.7</u>	<u>5.2</u>
Total	<u>\$152.1</u>	<u>\$19.8</u>	<u>\$67.0</u>	<u>13.0</u>

a/Determined from statistics provided by the military services.

b/Represents the amount available for collection divided into the amount collected.

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