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United States General Accounting Office

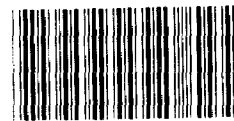
GAO

Briefing Report to the
Honorable William Proxmire, U.S. Senate

December 1985

DEBT COLLECTION

Army Efforts to Collect Debts From Former Service Members



128834



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

December 13, 1985

B-203648

The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

In a July 8, 1985, letter, you requested the General Accounting Office (GAO) to examine several aspects of the Army's efforts to collect debts. You expressed concern about recent increases in Army debt, its relatively low debt collection rate, and the small number of cases the Army refers to the Department of Justice for litigation. Specifically, you asked us to examine

- the Army's efforts and practices in collecting debts,
- the manner by which it incurs debt,
- Army procedures for referring debts to the Justice Department, and
- the Army's criteria for writing off such debts.

At the request of your staff, we concentrated on Army out-of-service debt (that is debt owed to the Army by former service members or civilian employees). None of this debt was related to maturing educational loans. We reviewed a random sample of 20 cases the Army had declared closed that might provide additional information on difficulties the Army has with debt collection. Also, at the request of your staff, we correlated discharge status with recoupable bonus payments to identify any relationship between honorable discharges and outstanding debt.

In briefings with your staff on September 13 and October 18, 1985, we discussed the following problems and conclusions regarding the Army's debt collection process. In general, we found (numerals refer to appendixes of this document):

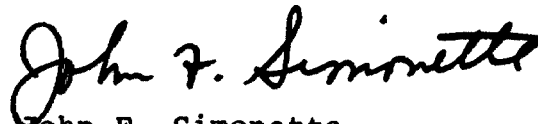
- The Army's efforts to collect debts produce minimal returns. (II)

- The largest portion of out-of-service debt results from bonus program payments that have not been fully recouped. (III)
- Army efforts to use litigation as a collection tool result in few collections. (IV)
- Army write-off criteria comply with the Federal Claims Collection Standards. (V)
- Sample closed cases reveal processing delays and inconsistent application of procedures. (VI)

Prior GAO reports have identified these and similar problems. (See Millions Written Off in Former Service Members' Debts--Future Losses Can Be Cut, AFMD-81-64, July 28, 1981.) As we will discuss, some of the problems still exist. The Army has recognized this and has taken some steps to prevent future increases in out-of-service debt.

As your staff requested, we did not obtain written agency comments on our findings. We did, however, discuss the contents of this document with Army officials and have included their comments where appropriate. In general, they are aware of these problems and stated that collection efforts, especially compliance with collection procedures, need improvement. Unless you publicly announce its contents earlier, we do not plan to distribute copies of this document until 30 days after issuing it to your office. After 30 days, we will send copies to the Secretary of the Army and other interested parties. Copies will also be made available to others on request at that time. If there are any questions regarding the contents of this document, call me on (202) 275-9490.

Sincerely yours,



John F. Simonette
Associate Director

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ABBREVIATIONS

| | |
|------|------------------------------------|
| GAO | General Accounting Office |
| IRS | Internal Revenue Service |
| OMB | Office of Management and Budget |
| OSAR | Out-of-Service Accounts Receivable |

BACKGROUND INFORMATION

GAO, the Congress, and the Office of Management and Budget (OMB) have long recognized the lack of success federal agencies have had in collecting delinquent debts. Since 1978, we have issued more than 36 reports detailing the need for improved debt collection governmentwide, as well as by specific agencies. For example, we found

- a lack of prompt and aggressive agency collection actions taken on delinquent debts, and unreliable systems to account for and report on accounts receivable;
- the government's use of slow, expensive, and ineffective collection methods relative to commercial practices;
- the opportunity for the government to realize billions of dollars in budget savings through strengthened debt collection; and
- the need for continued oversight by agencies and OMB to ensure that debt collection receives high priority.

Tools of the Debt Collection Act of 1982

In conjunction with our recommendations and those of OMB, congressional concern over the debt collection problems resulted in passage of the Debt Collection Act in October 1982. The act (1) allows the disclosure of information about an individual's delinquent debt(s) to credit bureaus, (2) requires applicants for some federal loans to provide taxpayer identification numbers, (3) requires agencies to assess interest, penalties, and administrative costs on delinquent debts, (4) allows agencies to contract for debt collection services, (5) allows agencies to redisclose addresses obtained from the IRS to third parties for debt collection purposes, (6) provides for salary offsets for government employees who owe delinquent debts, (7) allows federal agencies to withhold current and/or future payments to individuals to recover delinquent debts, and (8) allows IRS disclosure to federal agencies that applicants for loan programs have delinquent tax accounts.

Debt collection responsibilities

Each federal agency is responsible for collecting its debts. OMB assists them in this function by providing advice and direction and by monitoring agencies' efforts to implement the act. For example, in May 1985, OMB issued circular A-129, "Managing Federal Credit Programs," which prescribed policies and procedures for collections of loans and other receivables. It also set standards for writing off uncollectible accounts.

In addition, OMB is the focal point for debt collection initiatives that are not necessarily provided for in the act.

GAO and the Justice Department are responsible for revising the Federal Claims Collection Standards to reflect the act's provisions and issued revised standards in March 1984. While GAO and Justice are responsible for keeping these standards current, each military department is responsible for using them to collect its own claims. To help the military departments accomplish this, the Department of Defense provides instructions regarding debt collection policies and procedures.

The standards require that collection efforts be aggressive, timely, and comprehensive, and that they lead to the earliest practicable conclusion of administrative efforts to collect from the debtor. The responsibility for establishing, maintaining, and pursuing debts owed to the Army by former service members has been delegated to the U.S. Army Finance and Accounting Center, located at Ft. Benjamin Harrison, Indiana. Within the Finance Center, the Collections Division has responsibility for administering the Federal Claims Collections Standards and other laws pertaining to the establishment, adjustment, adjudication, and control of collection accounts against out-of-service debtors. However, field finance and accounting officers are responsible for initiating collection actions on out-of-service debt when it is discovered at the field level.

OVERVIEW OF ARMY DEBT

During July 1981, we issued a report¹ which recommended ways for the Department of Defense, including the Army, to improve the efficiency and effectiveness of its efforts to collect money owed to it by former service members. This report showed that the Army's collection rate on former service-member debt was about 8 percent.

Like other federal agencies, the Army was not promptly identifying debt and was not taking aggressive collection actions by using effective and businesslike collection techniques. The Army concurred with the results and recommendations of our report, and it recognized the potential that pending legislation could offer to strengthen its collection activities.

In its response to our report, the Army identified an action plan to reduce its debt. The plan included immediate, short-range and long-range actions to be implemented from fiscal year 1982 through fiscal year 1987. Immediate actions

¹Millions Written Off In Former Service Members' Debts--Future Losses Can Be Cut (AFMD-81-64, July 28, 1981).

were primarily directed at increasing the visibility of and management attention given to debt collection activities. Short-range plans included using new collection tools, such as credit bureaus and collection agencies, provided by the Debt Collection Act of 1982 and enhancing the military pay system to prevent overpayments when service members separate. The Army's long-range plans involved financial system redesign projects which were not directly related to improving the collection process, but would affect the reporting of Army accounts receivable.

About the same time as this report on former service member debt was issued, OMB issued a report on strengthening federal credit management. The OMB report emphasized the need for government agencies to use collection tools, techniques, and services available to the private sector. Several of these tools were incorporated into the Debt Collection Act of 1982.

As table I.1 illustrates, Army receivables from individuals and organizations outside the Army were about \$108 million (as of June 30, 1985). Of this amount, approximately \$60 million was related to out-of-service debt, or receivables owed by former civilian employees or members of the armed forces. The remaining \$48 million is spread among three other major classifications: delinquent contracts, transportation, and field receivables.

Table I.1: Army Public Debt June 30, 1985

| | <u>Amount</u> (millions) | <u>Percent</u> |
|----------------------|-----------------------------|----------------|
| Out-of-service debt | \$ 60 | 56 |
| Delinquent contracts | 8 | 7 |
| Transportation | 1 | 1 |
| Field receivables | <u>39</u> | <u>36</u> |
| Total | <u>\$108</u> | <u>100</u> |

Between September 30, 1980, and September 30, 1985, the out-of-service portion of Army public debt grew from approximately \$20 million to its current level. However, in fiscal year 1985, new receivables dropped to \$52 million, compared to almost \$65 million in fiscal year 1984. Army officials told us, however, future increases may occur as the Army's enlistment bonus programs expand in response to legislation.

SCOPE AND METHODOLOGY

As agreed with your staff, our examination of Army debt collection activities centered only on the out-of-service portion of Army public debt.

We evaluated the Army's efforts from the time debt is established until it is terminated within the Collections Division. First, we examined the procedures used by the Army in its collection efforts and compared them with applicable Army regulations and the Federal Claims Collection Standards. Second, we reviewed out-of-service debt activity over the past 6 years to gain a perspective on the effectiveness of these procedures. Finally, we reviewed 20 cases to gain further information on the Army's compliance with its procedures.

To identify the manner in which the Army incurs these debts, we examined the current composition of Army out-of-service debt. To examine the Army's procedures for referring debts to the Department of Justice and write-off criteria, we obtained current Army procedures for these activities and compared them with relevant standards and regulations. We did not conduct any work within the Department of Justice.

We selected a sample of 20 collection cases to gain some insight into the Army's compliance with stated procedures. We randomly selected only cases terminated in fiscal year 1985 that were of a total value of \$600 or more. The results of this sample cannot be projected to the total universe of closed cases. They do illustrate, however, actions taken by the Army to collect debt, the type of debtor, discharge status, and reason for separation. We believe these are important considerations when examining Army collection efforts.

We developed a statistical summary to portray the overall results of the case review. We also developed individual case summaries for the 20 sample cases. We have included key information about 10 cases we reviewed which illustrate the problems we address in this briefing report. They are typical of the problems, type of separation, and composition of debt found in all 20 cases.

The financial data presented in this report were either the product of Army data systems or were manually computed by Army personnel. We did not conduct a complete reliability assessment of these data and, therefore, cannot attest to their accuracy. We did note, however, several instances where Army data did not agree with source documents or where manual calculations were inaccurate. We presented this information to Army personnel, and they revised their records based on our review comments. We discuss data inaccuracies in appendix II of this report.

In order to provide an expeditious response to your request, we examined activities at the Collections Division, which is ultimately responsible for collecting delinquent out-of-service accounts receivable. Therefore, we did not examine field-level procedures to collect debts. We conducted this review between August 16 and November 19, 1985, at the Army Finance and Accounting Center, Indianapolis, Indiana. Our

review was performed in accordance with generally accepted government auditing standards. Finally, as agreed with your staff, we did not obtain written agency comments.

ARMY EFFORTS TO COLLECT DEBTS

Our examination of Army out-of-service debt shows significant increases in receivables and write-offs with write-off rates significantly higher than collection rates. As illustrated by table II.1, the Army out-of-service debt was approximately \$20 million at the end of fiscal year 1980 and almost \$59 million at the end of fiscal year 1985. In fiscal year 1985, the write-off rate was about double the collection rate.

We believe several factors contribute to the Army's problems with debt collection. Foremost is the employability of some of the individuals owing this debt to the Army. However, other problems also adversely affect debt collection activities. Army regulations are not current, litigation efforts produce minimal returns, debtor financial information is questionable, and management information is incomplete and inaccurate. These problems are not new. We reported on Army collection rates and similar problems in our 1981 report. The report addressed problems at field finance and accounting offices, as well as at the Army Finance Center.

The Army is aware of its debt collection problems and has recently taken steps to evaluate and increase emphasis on its collection activities. In 1985, the Finance Center staff reviewed its out-of-service accounts receivable system and identified 79 improvements that need to be made in its debt collection process. In addition, the Army vice chief of staff has directed the Army to reduce outstanding public receivables by \$39 million by March 1986. This would be a reduction of more than one third of the current level of Army public accounts receivable. Longer range plans call for implementing system improvements that have experienced numerous delays. Several of these improvements were identified in the Army's response to our 1981 report.

SIGNIFICANT INCREASE IN RECEIVABLES

Table II.1 details the increase in out-of-service receivables since fiscal year 1980. It also highlights overall collection and write-off rates for each year. We computed overall collection rates for 1985 at 15 percent, and they have ranged from 10 percent to 18 percent since 1980. In contrast, the write-off rate has ranged from 25 percent to 37 percent, and in 1985 was approximately 30 percent.

Table II.1:

Collections Division Out-of-Service Accounts Receivable^a

| | Fiscal year | | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| Beginning balance | \$17,576,601 | \$19,570,466 | \$21,017,210 | \$28,453,567 | \$41,293,541 | \$58,411,861 |
| New receivables | 20,810,858 | 22,577,924 | 26,735,472 | 46,832,356 | 64,698,861 | 51,628,347 |
| Collections | (3,768,123) | (5,407,116) | (9,205,464) | (11,569,379) | (17,886,332) | (15,768,857) |
| Reclassified amounts ^b | (1,255,385) | (2,408,673) | 3,402,669 | (1,218,495) | (4,269,788) | (4,360,430) |
| Written off | <u>(13,793,485)</u> | <u>(13,315,391)</u> | <u>(13,496,320)</u> | <u>(21,204,507)</u> | <u>(25,424,422)</u> | <u>(31,235,671)</u> |
| Ending balance | \$19,570,466 | \$21,017,210 | \$28,453,567 | \$41,293,542 | \$58,411,860 | \$58,675,250 ^c |
| Installment accounts ^d | <u>1,963,774</u> | <u>2,944,903</u> | <u>4,807,271</u> | <u>5,910,122</u> | <u>8,732,669</u> | <u>10,274,634</u> |
| Receivables due current FY | \$17,606,692 | \$18,072,307 | \$23,646,296 | \$35,383,420 | \$49,679,191 | \$48,400,616 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Collection rate | 10.2% | 13.6% | 18.0% | 15.6% | 17.6% | 14.9% |
| Write-off rate | 37.2% | 33.5% | 26.3% | 28.6% | 25.0% | 29.6% |

^aWe computed the statistics presented in table II.1 based on information from Collections Division reports for inclusion in the Army's consolidated report to the U.S. Treasury. We consolidated both current and long-term receivables with accrued interest (late charges) to present an overall total in each category. The Army has reviewed these statistics and stated they were in agreement with their records.

^bReclassified amounts include erroneously established receivables and other adjustments to transactions recorded during the fiscal years.

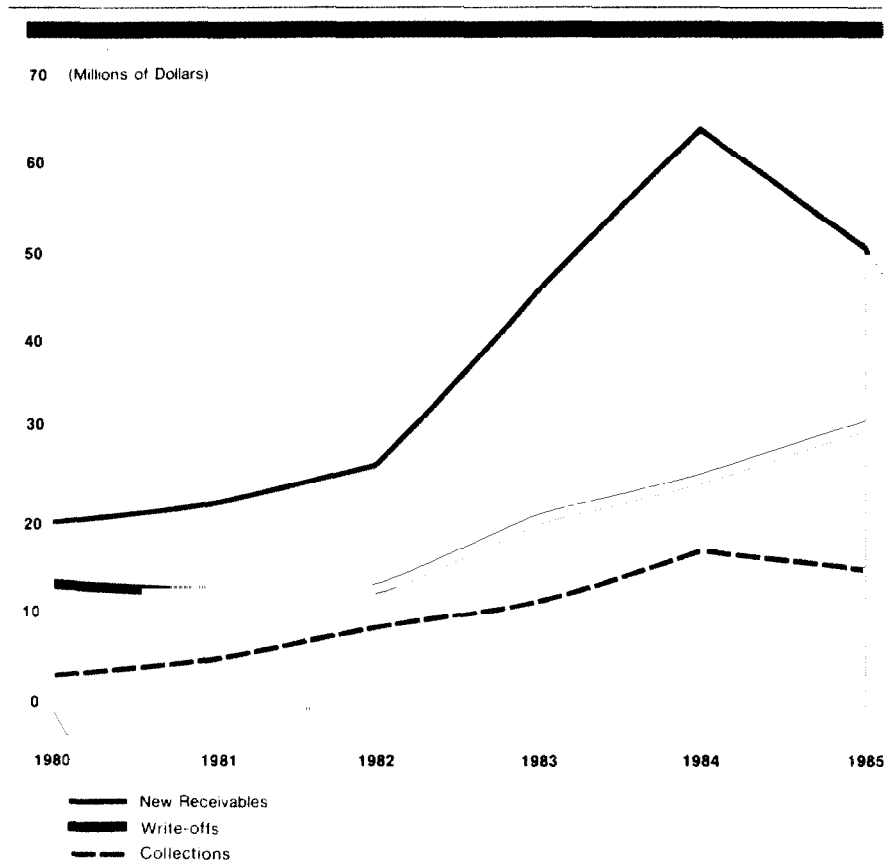
^cThis amount does not include travel advances to separated personnel (\$10,627) or receivables that are currently the responsibility of field finance and accounting officers (\$5,930,597).

^dThis is the noncurrent portion of receivables being paid on an installment basis.

Collection rates and write-off rates are based on total receivables available for collection action during each fiscal year. We combined the beginning balance and new receivables for each year and subtracted erroneously established accounts to compute the total receivables. Installment accounts not due in the current fiscal year are included because they can be written off in the current year, according to Army procedures. The Army has expressed concern over this computation because it includes accounts received late in the year which may not have received any collection action and because these rates may not be comparable to other collection rates computed by the other military services. We believe, however, it is the most accurate method of comparing collections and write-offs and, when consistently applied for each year, will provide an accurate representation of collection action results.

Figure II.1 (on page 9) illustrates the trend of new receivables, write-off amounts, and collected amounts from fiscal years 1980 through 1985. This figure illustrates the overall increase in write-offs, while new receivables and collections have actually decreased in fiscal year 1985.

Figure II.1: Army Out-of-Service Debt,
Fiscal Years 1980-85



PROBLEMS WITH ARMY COLLECTION EFFORTS

There are several problems which adversely affect the Army's debt collection effectiveness. These problems involve

- employability of the debtor,
- out-of-date Army regulations,
- litigation efforts,
- questionable debtor financial information, and
- incomplete and inaccurate management information.

Our review of closed cases illustrates the impact these problems have on collection efforts. The following is a discussion of each of these problems.

Employability of the debtor hinders collections

One of the most significant problems the Army encounters in collecting outstanding out-of-service receivables is the employability of the debtor. According to Army officials, the largest component of out-of-service debt, recoupable bonuses, results from soldiers leaving the Army before their terms of enlistment expire. Also, some of these individuals are separated because they are unable to adequately perform their assigned tasks.

Our case review illustrates these points. About 50 percent of the total debt in these 20 cases resulted from recoupable bonus payments. In at least 4 of these 20 cases, the reason for separation was directly related to unsatisfactory performance. The reason for separation in other cases, such as for drug or alcohol abuse, can also affect performance. These situations resulted in a less than honorable discharge. Collections Division personnel told us this type of discharge, combined with a lack of marketable skills and little prior work experience, hinders future employment of these individuals. Therefore, they have difficulty obtaining high-paying positions outside the service and cannot earn sufficient wages to satisfy their debt.

Army regulations are not current

The Army regulation which authorizes and directs the activities of the Collections Division has not been updated to incorporate legislative changes that provide new collection tools. In fact, chapter 5 of Army regulation 27-40, which prescribes procedures for investigation, determination, collection, compromise, and waiver of claims, has not been updated since June 1973. Therefore, it does not contain provisions of the Debt Collection Act of 1982, such as use of

consumer reporting agencies, contracting for collection services, contacting the IRS for mailing addresses, analysis of costs to collect debts, or assessment of penalty and administrative charges.

In spite of this, Collections Division procedures used to collect debts have incorporated many of these provisions, anticipating eventual changes in the regulation. For example, they refer delinquent accounts to consumer reporting agencies, contact the IRS for address information, and annually report on their cost to collect debts. They have not, however, begun using collection services or assessing penalty and administrative costs. A governmentwide General Services Administration contract for providing collection agency services was awarded in October 1985. The Army plans to begin referring cases on a limited test basis in December 1985. To incorporate penalty and administrative charges, the Army must reprogram its automated case management system. The Collections Division has authorized these changes, which are currently scheduled for completion in mid-1986.

Litigation efforts produce only minimal collections

We discuss in appendix IV the Army's procedures for referring cases to the Department of Justice for litigation and the collections resulting from those efforts. Army officials have stated they consider cases referred to Justice as very collectible, but needing litigation to promote payment by the debtor.

The procedures used by the Army for referral actions do comply with federal standards, but they result in minimal collections. In fiscal years 1983 and 1984, less than 1 percent of the total case value met the criteria for referral to Justice. Collections resulting from Justice actions during the past three fiscal years have averaged \$20,000 per year, or 4 percent of the total amounts referred.

Army uses questionable financial information to process cases

The Army obtains financial information from one of two sources on each debtor. Either the Army purchases a commercial credit bureau income-and-asset report or the debtor sends in a financial affidavit. We found evidence that neither of these sources may provide accurate information.

Income and asset reports are questionable because of the very limited amount of information they contain. For example, in our review of 20 cases, we found one report which contained no information on the debtor. It then estimated his annual income at \$25,000 with no additional support for this estimate.

In another case, a report had information on the debtor stating he was starting a new job as a steel erector on the date of the report with an annual income estimated at \$20,000. The debtor, however, sent in a financial affidavit 4 months after the report, stating he was unemployed. He sent in a second affidavit 14 months after that stating he was still unemployed and, in fact, had not worked since his release from the service. Eventually the Army wrote off his debt of \$2,578 on the basis of the financial affidavit information.

This case also illustrates a second point. If the Army receives contradictory information in the income-and-asset report and financial affidavits, the Army places more confidence in the financial affidavit because it is signed under the penalty of law. It does not make any attempt at verifying this information.

We found in our case examination, however, that in some cases unsigned affidavits are used to write off accounts. For example, an income-and-asset report stated that a debtor was married with two dependents, working at General Motors, and receiving an estimated annual income of \$21-\$23,000. It also reported he owned his own home, which had an estimated value of \$60-\$70,000. The debtor, however, sent in an unsigned financial affidavit stating he was single, had no dependents, and answered "no" to all questions about employment and assets. Army records indicate this debt of \$942 was written off based on the financial affidavit information even though the affidavit was unsigned. The Army now plans to reinstate collection action on this case.

Management information is incomplete and inaccurate

Another significant problem we found in this area is the lack of accurate information for management from the Army's automated system. For example, this system does not provide a summary report on new receivables during the reporting period. Therefore, the Army must go through a series of manual calculations to develop this information which is reported to the Treasury. In addition, the system does not provide summary reports on cases referred to the Department of Justice for litigation. Consequently, the Army maintains manual records on cases referred and their status.

A 1985 Finance Center study detailed potential improvements with the out-of-service accounts receivable process. The study examined certain elements of the collection process, including establishing new accounts, correspondence with the debtor, file maintenance, computer actions, and accounting and reporting. This study detailed 79 deficiencies, many of which contribute to delays in processing actions. Twenty-one of these deficiencies were considered problems in accounting and reporting for receivables.

While gathering this information, we found errors in the Army's reports. For example, the Collections Division reported on June 30, 1985, rescheduled receivables totaled \$16,851,145. We examined this information and found the total should have been \$16,086,332, a difference of \$764,813. The Army could not explain the reason for this inaccuracy.

CASE REVIEW TYPIFIES COLLECTION PROBLEMS

Our examination of 20 cases illustrates many of the problems we address in this report. We found the Army collected about \$2,000 (principal and interest), or about 5 percent, of the \$42,000 outstanding debt in these 20 cases. The bonus program payments comprised about 50 percent of this total debt. The Army did not refer any of the 20 cases to the Department of Justice for litigation because they did not meet the Federal Claims Collections Standards criteria for referral. Finally, these cases averaged over 5 months between separation of the debtor from the Army and initial collection action. (For further information, see appendix VI.)

ARMY ACTIONS TO REDUCE DEBT

In our 1981 report, we reported the Army's debt collection rate to be about 8 percent during fiscal years 1977-79. We also addressed the causes of the Army's difficulty with collecting debt. In our report, we stated that the Department of Defense, including the Army, could substantially reduce the amount of bad-debt losses incurred by making sure that service members' debts are offset against amounts due to them at the time they separate from the service. This could be done 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.

We also discussed some problems at the local finance and accounting offices. Local disbursing offices were not following regulations in making payments to separating members. In many cases, they did not follow instructions for timely notification to the Finance Center in order 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 separating members before the end of their full term of service. After members separated, it was taking the service too long to initiate actions to collect debts that were not or could not be offset by separation pay. The Army had established procedures at the Finance Center to review separation payments to identify overpayments and debts. These reviews, however, entailed a lot of time and, as a result, collection action was usually not initiated until several months to 2 years after the members separated. The delays contributed to the low collection rate.

As this report illustrates, some of the conditions described in our 1981 report are still present today. Similar problems with identifying debt at the time of separation and initiating timely collection action still exist, the Army's debt collection rate has improved but is still low, and important components of the Army's plan to prevent and reduce the growing debt have not been implemented. The Army has advised us, however, they have taken action to track and remedy these conditions. We discuss some of these actions in the following paragraphs.

The more promising components of the Army's plan to reduce debt included several short-range initiatives to be implemented during fiscal years 1982-84. These initiatives, as mentioned earlier, included using credit bureaus and collection agencies, and implementing computer system changes to the Army's military pay system which would identify debt before a service member separates from the Army. The system improvement, as it was planned, will centralize, automate, and control the final pay calculation when a service member separates. This system capability could ensure that outstanding debts are considered when a final pay voucher is computed.

As of November 1985, the Army was not using collection agencies to help collect debt, was not charging penalties and administrative charges to outstanding debt as provided by the Debt Collection Act (see page 11), and has not implemented the computer system changes to the pay system that would identify debt before a service member is separated. This system capability, although planned since 1973, is not expected to be operational until sometime in 1987. Although the Army's response to the 1981 report identified the implementation date as fiscal year 1983, this date has been delayed several times since our earlier report was issued. Likewise, other long-range planned financial system improvements for recording and reporting accounts receivable have not been implemented.

In addition, the Army has recently given attention to out-of-service debt and Army public debt in general. During March 1985, the Army vice chief of staff directed that debts due the Army from the public be reduced from \$109 million to \$70 million by March 1986. In addition, to prevent future debt, he directed the Army to

- identify installation level procedures to prevent overpayments at time of separation,
- develop a demographic profile of early separatees, and
- consider changing advance leave policy.

In a September 1985 briefing to the vice chief regarding his directive, the Finance Center showed a \$20 million decrease in public receivables. Table II.2 shows how the debt reduction

was achieved. Included in this decrease was \$2 million in write-offs of medical debt and a \$12-million reduction resulting from offsetting receivables and payables, which was related to nonappropriated fund activities such as the commissary and the Army/Air Force Exchange. This latter accounting technique decreases reported debt without actually decreasing Army receivables. Other reductions were accomplished through better tracking and earlier collections of out-of-service debt, improved medical debt processing, and other "miscellaneous actions."

Table II.2: Army Public Debt, Analysis
of Debt Reduction Efforts,
September 1984 - June 1985

| | (millions) |
|--------------------------------------|--------------------|
| Offset against payables | \$12 |
| Medical debt write-off | 2 |
| Improved medical claims processing | 2 |
| Better tracking, earlier collections | 1 |
| Miscellaneous | <u>3</u> |
| Total Reductions | <u><u>\$20</u></u> |

COMPOSITION OF ARMY OUT-OF-SERVICE DEBT

As shown in table III.1 and figure III.1, we have categorized Army out-of-service debt into seven major classifications: bonuses, pay and travel, disciplinary actions, medical care, retired pay, interest, and other. The two largest categories are recoupable bonus payments made to soldiers upon enlistment and reenlistment, and pay and travel overpayments. These two categories comprise 61 percent of the out-of-service debt. The following is a description of these classifications:

Bonuses

The largest component of out-of-service debt results from bonus payments to individuals. The Army pays these bonuses to soldiers who sign up in shortage specialities, typically a hazardous or skilled area. According to Army statistics, bonus payments totaled \$202 million, \$162 million, and \$179 million in fiscal years 1982, 1983, and 1984 respectively.

The Army pays a portion of this bonus upon enlistment with the remainder paid over the term of enlistment. When the soldier separates from the service before his term of enlistment expires, a prorated portion of the advance bonus payment is recoupable by the Army. If the soldier cannot satisfy this amount at the time of separation, the Army then establishes a receivable for the unpaid amount.

Pay and travel

Various types of overpayments, advances, erroneous payments, or improper payments made by the Army to a soldier, relating to either pay or travel for that individual. The Army has various explanations for these debts and has identified potential solutions. In some cases, the debt results from errors in the computation of final separation vouchers or basic allowances at the field finance and accounting offices. In other cases, the overpayment resulted from separations occurring after the cutoff date for changes to the automatic processing of paychecks.

Disciplinary actions

Debt established due to disciplinary action taken by the Army against a service member, or to replace lost or damaged property.

Medical care

Unpaid hospital bills by former service members, retirees, or civilians.

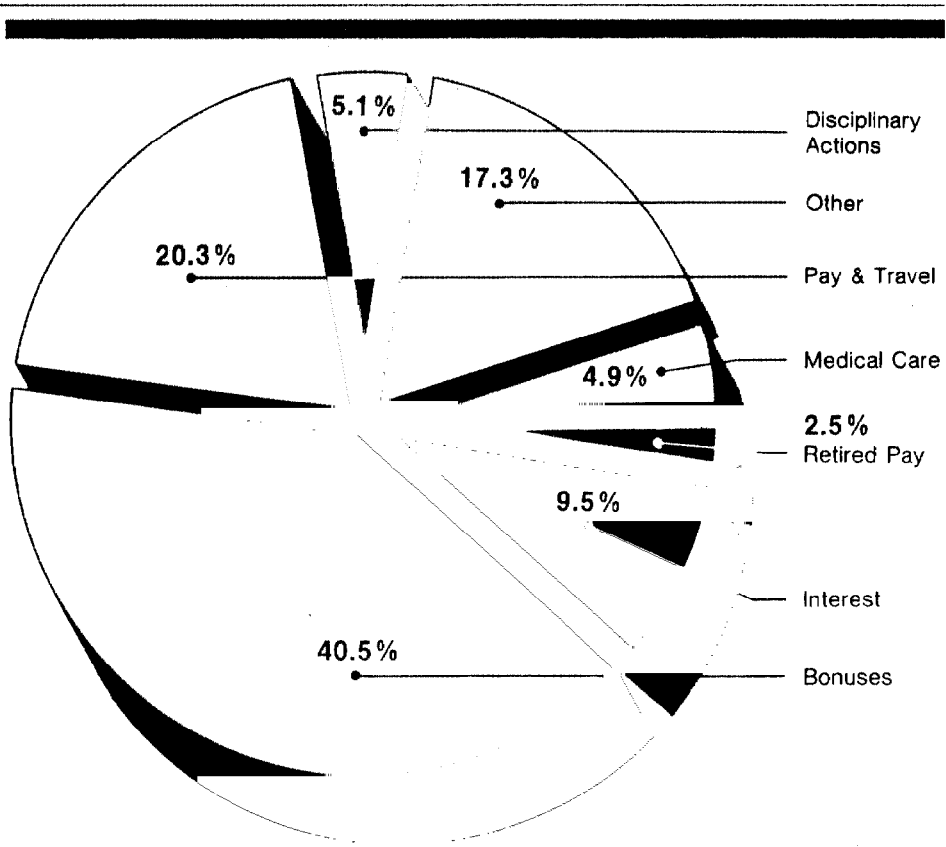
| | |
|--------------------|--|
| <u>Retired pay</u> | Debts being recovered from former service members through reduction of retirement benefits. |
| <u>Interest</u> | Interest that has accrued on all out-of-service debt. The Army applies various interest rates to these accounts, depending on the current rate published quarterly by the Treasury. |
| <u>Other</u> | Overpayments from previous periods that the Army pay system cannot identify without manual intervention, debts arising from education-assistance programs, and miscellaneous-type debt. The largest portion of the "other" category is overpayments carried forward. These items lose their identity once they are entered into the out-of-service accounts receivable system. |

Table III.1: Army Out-of-Service Debt,
Fiscal Year 1985

| SOURCE | TOTAL |
|----------------------|---------------------------------|
| Bonuses | \$26,148,991 |
| Pay and travel | 13,144,258 |
| Disciplinary actions | 3,268,387 |
| Medical care | 3,147,484 |
| Retired pay | 1,639,040 |
| Interest | 6,109,435 |
| Other | <u>11,158,878</u> |
| Total | <u>\$64,616,473^a</u> |

^aThis amount includes travel advances to separated personnel (\$10,627), receivables that are currently the responsibility of field finance and accounting officers (\$5,930,597), and \$58.4 million reported by the Army Collections Division on its schedule 9 report to the Department of Treasury.

Figure III.1: Army Out-of-Service Debt, Fiscal Year 1985



Percents do not equal 100 due to rounding.

INFORMATION ON JUSTICE REFERRALS

The Army Justice referral process can be divided into three steps. First, the Collections Division's Out-of-Service Accounts Receivable (OSAR) system identifies all accounts which are potential Justice referrals. Second, Collections Division personnel review each of these cases to determine if they contain all elements necessary for litigation. Third, they determine a disposition for each case. These cases may be referred to Justice, written off, or returned for further collection action.

The OSAR system is programmed to identify all cases over \$600 that have not been collected using normal collection procedures. These cases are listed on a monthly report and sent to the Collections Division. Division personnel then pull the file on each listed case for manual review.

REFERRAL CRITERIA

The Collections Division reviews each case to determine if all items necessary to initiate legal action are present. Generally, Justice will not accept (1) a referral under \$600, (2) a case that has not been subjected to all collections actions prescribed by the Federal Claims Collection Standards, (3) a case that is not supported by specific evidence, or (4) referrals that the Army can compromise or terminate. These criteria will limit the number of cases referred to the Department of Justice, while identifying cases which have a high potential for collection through litigation.

Justice will not accept an account as a referral if it can be compromised. The Collections Division will accept a compromise which satisfies more than 40 percent of the debt if financial information shows the debtor is unable to pay the full debt amount by installments within a reasonable time. Each compromise must be approved by the appropriate authority.

Justice will not accept an account if it meets the standards for termination. The debtor's income, as shown by either a signed financial affidavit or an income-and-asset report, is the major factor in terminating any account. If the debtor's income is less than a terminable level, the Collections Division will terminate the debt (as described on page 22) when approved by the proper authority.

Justice will not accept a debt for litigation without certain legal evidence. All cases must have financial and current residence data for the debtor which are less than 6 months old. Justice must also receive documentation supporting the validity of the debt and the actions the agency took to collect the debt.

The Collections Division will forward a case containing all the preceding elements to the Department of Justice for litigation. Once it is referred, the Collections Division suspends the case from further Army collection actions. If a potential Justice referral does not contain all the required elements, it can either be written off as uncollectible or returned for further collection actions. For example, a debt for which no debtor address is found can be closed in a status which will generate automatic locator actions after a 12-month waiting period.

Table IV.1 summarizes the Collections Division action on accounts which have been identified as potential Justice referrals by the OSAR system.

Table IV.1: Collections Division Actions on Potential Justice Referrals

| | Fiscal year | | | Total |
|--------------------------------|--------------------|--------------------|-------------------------|--------------------|
| | <u>1983</u> | <u>1984</u> | <u>1985^a</u> | |
| Beginning balance | \$ 104,403 | \$ 857,156 | \$1,221,433 | \$ 104,403 |
| New potential referrals | <u>2,484,895</u> | <u>1,527,350</u> | <u>2,193,184</u> | <u>6,205,429</u> |
| Total potential referrals | \$2,589,298 | \$2,384,506 | \$3,414,617 | \$6,309,832 |
| Less: actual Justice referrals | (76,007) | (95,687) | (54,525) | (226,219) |
| Other than referred | <u>(1,656,134)</u> | <u>(1,067,387)</u> | <u>(1,158,280)</u> | <u>(3,881,801)</u> |
| Ending balance | \$857,157 | \$1,221,432 | \$2,201,812 | \$2,201,812 |
| Referral rate: | 2.9% | 4.0% | 1.6% | |

^aThrough August 30, 1985.

The beginning balance shows the dollar amount of potential Justice referrals awaiting the Collections Division review at the start of each year. The new potential referrals item represents the amount OSAR identifies during the year. These two items equal the total potential referrals available for review and referral during the period. From this amount, we subtracted the actual Justice referrals and those on which the Collections Division took other actions during the period in order to arrive at the ending balance for the year. It is important to note that all "other than referred" actions are not write-offs; rather, the Collections Division takes further collection actions on some of these accounts as described in the preceding section. The referral rate was calculated by dividing the actual Justice referrals for the year by the total potential referrals for the period.

Table IV.2 summarizes the results of litigation on Army out-of-service receivable referrals during fiscal years 1983-85. The beginning balance is the amount the Collections Division referred to Justice that was available for litigation at the start of each period. New referrals are the amounts referred during the period. These two rows equal the total referrals available for litigation during the period. We subtracted from this amount the collections and write-offs to arrive at the ending balance for the period. We computed collection and write-off rates by dividing collections and write-offs by the total referrals for each year.

Table IV.2: Collections Division Referral Results

| | Fiscal year | | | Total |
|-------------------|--------------------|--------------------|--------------------|--------------------|
| | 1983 | 1984 | 1985 ^a | |
| Beginning balance | \$425,127 | \$470,508 | \$436,948 | \$425,127 |
| New referrals | <u>76,007</u> | <u>95,687</u> | <u>50,991</u> | <u>222,686</u> |
| Total referrals | \$501,134 | \$566,195 | \$487,939 | \$647,813 |
| Less: Collections | (27,403) | (21,821) | (11,123) | (60,348) |
| Write-offs | <u>(3,223)</u> | <u>(107,425)</u> | <u>(19,048)</u> | <u>(129,697)</u> |
| Ending balance | \$470,508 ===== | \$436,949 ===== | \$457,768 ===== | \$457,768 ===== |
| Collection rate | 5.5% | 3.9% | 2.3% | |
| Write-off rate | 0.6% | 19.0% | 3.9% | |

^aThrough April 30, 1985.

Our work did not include an evaluation of the policies and procedures in effect at the Department of Justice to manage the case inventory of Army referrals. Consequently, we cannot comment on Justice's debt collection practices or effectiveness.

ARMY WRITE-OFF CRITERIA

The Army will write off debts at various points in the collection process on the basis of dollar amount and circumstances surrounding each case. In general, a write-off decision depends on the information available about the debtor. The Army Finance and Accounting Center has authority to write-off individual debts in amounts up to \$20,000.

The Army writes off many debts based on financial information indicating the debtor is unable to pay. The basis for this decision is the income stated in either a financial affidavit returned by the debtor or in a commercial credit bureau income-and-asset report. This income is compared to a terminable level of income the Collections Division has established on the basis of the geographic location and number of dependents of the debtor. If the reported income is below this level, the account is terminated.

ARMY STATED WRITE-OFF CRITERIA/PROCEDURES

Table V.1 on page 24 shows the actions taken by the Army's Collections Division to write off debts over \$25 in five specific circumstances. Field finance and accounting offices are authorized to write off debts under \$25. This table covers write-off criteria when a debtor does not respond to Collections Division letters, mailings are returned undeliverable, installment accounts are in arrears, accounts are compromised, or the Army waives repayment of the debt.

No response from debtor

For debts of \$25 to \$150, the Collections Division will send one letter to the debtor. They write off these debts if no response is received in 60 days. The Collections Division will write off debts between \$150 and \$600 after receiving no response to three delivered letters. In addition, they will report information regarding these debts to a credit bureau. They also plan to report these debts to collection agencies.

Debts over \$600 necessitate additional collection actions. The Collections Division requests an income-and-asset report from a commercial credit bureau. If the Collections Division's review of this report reveals insufficient financial information to litigate, they request a post office check to verify their debtor address. If it is verified, they will send a mailgram which informs debtors that a commercial credit bureau will obtain financial information to be used in referring the debt for litigation. If this mailgram is unanswered or returned, they will write off the debt.

For debts over \$800, a more "in-depth" manual review will be completed before writing off the debt.

Letters returned undeliverable

Debts under \$150 will be written off when mail is returned undeliverable, without any further actions. The Army will contact the IRS for address information on debts over \$150. If the IRS has a better address, the Collections Division will restart the collections process with this new address; otherwise, they will write off debts under \$600.

On accounts over \$600, the Collections Division will send a mailgram as above. If this is unanswered or returned, the Collections Division will make a manual review, generally suspending action on this account for 1 year. If the IRS has no better address at this time, the Collections Division will write off the debt.

The Collections Division will check with the post office for a better address before closing accounts over \$800.

Installment, compromise, and waivers

The Collections Division stated criteria for writing off debts being paid by installment are the same for all debts over \$25. They will write off an installment debt that is more than 3 months behind in payments if (1) they have already attempted to compromise the debt, or (2) the debtor's current financial information shows an income below terminable level.

When the Collections Division compromises on a debt, they will write off an amount of debt in return for a partial payment. They will only compromise debts if current financial information shows the debtor unable to pay the debt within 3 years by installment payments. Under the compromise agreement, the debtor must agree to pay 40 percent or more of the debt. The appropriate Army official must approve any compromise agreement.

Army regulations provide for waivers of erroneous payments of pay and allowances. The Army will waive debts only when the soldier could not be aware of the error or when his/her field finance and accounting office informed the soldier upon inquiry that the payment was correct.

Table V.1: Army Write-Off Criteria

| | No response, letters not returned ^a | Letters returned by Post Office | Installment payments | Compromise of debt | Waiver of debt |
|--------------------------|--|---|---|--|--|
| Under \$25 | No action | No action | No action | No action | No action |
| \$25-\$150 | Write off 60 days after one letter with no response | No action | <u>Written off if:</u> -Account delinquent (more than 3 months past due), -Current affidavit shows income as terminable, or -Compromise offer already made | <u>Write off balance if:</u> -40 percent or more will be paid, -Current affidavit shows debtor cannot pay in full within a reasonable time by installment, or -Approved by proper authority | <u>Waive if:</u> -Erroneous payment of salary and allowances, -Soldier could not be aware of error, or -Soldier was informed that payment was correct |
| \$150-\$600 | Write off after three letters with no response (credit bureau notification at second letter, then referred) | Write off if IRS address file shows no better address | | | |
| \$600-\$800 ^b | Write off after the following actions: three letters, credit bureau notification, skip trace mailgram, negative credit report, negative post office check, and manual review | Write off after the following actions: IRS provides no better address, skip trace mailgram is unanswered or returned, and manual review | | | |
| \$800+ | Same as \$600-\$800 with additional manual review showing the case cannot be referred to Justice | Same as \$600-\$800 plus post office has no better address | | | |

^aCollections Division assumes the debtor received all letters sent.

^bAccounts in the "no response, letters returned" columns over \$600 (and special cases under \$600) will close in status P, "unable to locate," before write-off. P-status accounts are held on the OSAR system for 12 months, then checked against IRS files again to determine the debtor's current address. If a new address is found, the collections process resumes; otherwise, OSAR closes the account and writes off the debt.

ANALYSIS OF CLOSED COLLECTION CASES

We selected and reviewed 20 closed collection cases to evaluate the Army's efforts to collect outstanding debt. To address your request, we further attempted to determine the reason each Army member was separated and the type of discharge each member received.

REASONS FOR TERMINATION

The selected cases were terminated from the OSAR collection system because the

- debt was paid in full (1 case),
- debt was erroneously established (1 case),
- debtor was unable to pay the debt (14 cases), or
- debtor could not be located (4 cases).

RESULTS OF CASE REVIEW

For the 20 cases, as shown in table VI.1, there was a combined initial debt of \$40,092, of which \$20,177, or about 50 percent, was attributable to unearned bonus payments. In total, only \$1,759 was collected against the debts prior to termination. In addition, once the initial debt was established in the collection system, subsequent post audit by Finance Center personnel identified

- 5 of the 20 cases as having additional overpayments of \$3,862, and
- 5 of the 20 cases in which either a portion of or the entire debt was erroneously established.

In reviewing the cases, we noted significant delays have been encountered in initiating collection action after the debtor has been separated from the Army. An average of over 5 months elapsed before the first collection notice was sent by the Collections Division. In one instance, we noted a delay of over 10 months in identifying that an overpayment occurred and a subsequent delay of almost 6 months in establishing the debt in OSAR.

In our 1981 report, we reported that debts were not being recovered from former service members because it took from 3 months to 2 years to initiate collection action. Moreover, the older a debt becomes, the more difficult it is to collect.

In reviewing the 20 cases, we again found significant delays were being experienced in identifying and notifying

debtors that additional debts had been established. On the average, there was a delay of over 17 months between the separation date and the date of notification of an additional debt. In two instances, the additional overpayment was never established in OSAR because the case had already been terminated.

The overall results of our case review are shown in tables VI.1, VI.2, VI.3, and VI.4. In addition, we have prepared a narrative analysis of 10 examples which generally reflect the collection efforts on the 20 sampled cases.

Table VI.1: Statistical Summary of Case Review

| <u>Composition of debt</u> | <u>Total debt</u> | | <u>Unearned bonus</u> | |
|--|-------------------|-----------------------------|-----------------------|-----------------|
| | <u>Cases</u> | <u>Amount</u> | <u>Cases</u> | <u>Amount</u> |
| Initial amount of debt | 20 | \$40,092 | 10 | \$20,177 |
| Additional debt identified | 5 | <u>3,862</u> | 1 | <u>1,130</u> |
| | | \$43,954 | | \$21,307 |
| Less: erroneous debt | 5 | <u>4,918</u> | 3 | <u>1,656</u> |
| Total valid debt | 19 ^a | <u>\$39,036</u> | 10 | <u>\$19,651</u> |
| <u>Disposition of valid debt</u> | | | | |
| Payments received against principal | 5 | \$ 1,759 | 5 | \$ 1,759 |
| Written off | 19 | <u>37,278</u> | 10 | <u>17,892</u> |
| Total | | <u>\$39,037^b</u> | | <u>\$19,651</u> |

^aIn one case the entire amount was erroneously established.

^bDoes not equal total valid debt due to rounding.

Table VI.2: Discharge Status for 20 Sample Cases

| <u>Case #</u> | <u>Reason for separation</u> | <u>Type of discharge</u> | <u>Unearned bonus amount</u> |
|---------------|---|--|------------------------------|
| 1 | For good of service--in lieu of court martial | Discharged under other than honorable conditions | 0 |
| 2 | Drug abuse--rehabilitation failure | Discharged under honorable conditions | \$ 1,750 ^a |
| 3 | For good of service | Discharged under other than honorable conditions | 0 |
| 4 | Unsatisfactory performance | Discharged under honorable conditions | 4,634 |
| 5 | Transferred to reserves | Honorable discharge | 0 |
| 6 | Hardship | Honorable discharge | 0 |
| 7 | Failure to meet minimum standards for retention | Discharged under honorable conditions | 3,874 |
| 8 | Drug abuse--rehabilitation failure | Discharged under honorable conditions | 2,581 |
| 9 | Expiration of term of service | Honorable discharge | 0 |
| 10 | Court martial | Bad conduct discharge | 0 |
| 11 | Dropped out of Army Reserve | Honorable discharge | 575 |
| 12 | For good of service--in lieu of court martial | Discharged under other than honorable conditions | 0 |
| 13 | Unsatisfactory performance | Discharged under honorable conditions | 0 |
| 14 | For good of service | Discharged under other than honorable conditions | 615 |
| 15 | Alcohol abuse--rehabilitation failure | Discharged under honorable conditions | 602 ^b |
| 16 | Transfer to another reserve component | None involved | 667 ^c |

| <u>Case #</u> | <u>Reason for separation</u> | <u>Type of discharge</u> | <u>Unearned bonus amount</u> |
|---------------|-------------------------------|---------------------------------------|------------------------------|
| 17 | Unsatisfactory performance | Discharged under honorable conditions | 3,576 |
| 18 | Unsatisfactory performance | Discharged under honorable conditions | 1,303 |
| 19 | Expeditious discharge | Discharged under honorable conditions | 1,130 |
| 20 | Expiration of term of service | Honorable discharge | <u>0</u> |
| | | TOTAL | <u><u>\$21,307</u></u> |

a overstated by \$777

b overstated by \$213

c overstated by \$667

Table VI.3 Recap of Discharge Status

| | <u>Total cases</u> | <u>Bonus cases</u> |
|---|------------------------|------------------------|
| Honorable discharge | 5 | 1 |
| Discharged under honorable conditions | 9 | 8 |
| Discharged under other than honorable conditions | 5 | 1 |
| Reserve member--no discharge involved | <u>1</u> | <u>1</u> |
| TOTAL | <u>20</u> | <u>11</u> |

Table VI.4: Profile of 20 Sample Cases
Debt, Collections, Write-offs

| <u>Case #</u> | <u>Initial debt</u> | <u>Additional debt</u> | <u>Erroneous debt</u> | <u>Valid debt (P) plus accrued interest (I) on total debt</u> | <u>Collected</u> | <u>Uncollected balance</u> | <u>Written off from OSAR</u> |
|---------------|---------------------|------------------------|-----------------------|---|------------------|----------------------------|------------------------------------|
| 1 | \$ 736 | \$ 0 | \$ 0 | (P) \$ 736 (I) 50 | \$ 0 | \$ 736 50 | \$ 736 50 |
| 2 (A) | 1,750 | 0 | 777 | (P) 973 (I) 124 | 5 35 | 968 89 | 1,745 ^a 89 |
| 3 | 845 | 0 | 0 | (P) 845 (I) 110 | 0 | 845 110 | 845 0 ^b |
| 4 (B) | 4,634 | 0 | 0 | (P) 4,634 (I) 190 | 535 95 | 4,099 95 | 4,099 95 |
| 5 (C) | 952 | 0 | 952 | (P) 0 (I) 190 | 0 | 0 190 | 952 ^c 0 ^b |
| 6 | 2,578 | 0 | 0 | (P) 2,578 (I) 462 | 0 25 | 2,578 437 | 2,578 437 |
| 7 | 3,874 | 90 | 0 | (P) 3,964 (I) 468 | 0 | 3,964 468 | 3,964 0 ^b |
| 8 | 2,581 | 0 | 0 | (P) 2,581 (I) 77 | 0 | 2,581 77 | 2,581 77 |
| 9 (D) | 1,789 | 1,581 | 2,309 | (P) 1,061 (I) 17 | 0 | 1,061 17 | 2,309 ^{c&d} 17 |
| 10 (E) | 822 | 0 | 0 | (P) 822 (I) 12 | 0 | 822 12 | 822 12 |
| 11 | 619 | 0 | 0 | (P) 619 (I) 19 | 0 | 619 19 | 619 19 |
| 12 (F) | 838 | 487 | 0 | (P) 1,325 (I) 172 | 0 | 1,325 172 | 1,325 0 ^b |
| 13 | 812 | 574 | 0 | (P) 1,386 (I) 129 | 0 | 1,386 129 | 812 ^d 129 |
| 14 | 938 | 0 | 0 | (P) 938 (I) 187 | 0 | 938 187 | 938 0 ^b |
| 15 | 1,428 | 0 | 213 | (P) 1,215 (I) 107 | 0 | 1,215 107 | 1,428 ^a 107 |

| Case # | Initial debt | Additional debt | Erroneous debt | Valid debt (P) plus accrued interest (I) on total debt | Collected | Uncollected balance | Written off from OSAR |
|---------------|-----------------|-----------------|----------------|--|----------------|---------------------|--------------------------------|
| 16 (G) | 669 | 0 | 667 | (P) 3 ^e (I) 0 | 0 | 3 | 0 ^f 0 |
| 17 (H) | 3,800 | 0 | 0 | (P) 3,800 (I) 296 | 1,014 171 | 2,786 125 | 2,786 125 |
| 18 | 1,303 | 0 | 0 | (P) 1,303 (I) 98 | 40 | 1,263 98 | 1,303 ^g 98 |
| 19 (I) | 545 | 1,130 | 0 | (P) 1,675 (I) 400 | 165 | 1,510 400 | 1,545 ^g 400 |
| 20 (J) | 8,579 | 0 | 0 | (P) 8,579 (I) 193 | 0 | 8,579 193 | 8,579 193 |
| TOTALS | \$40,092 | \$3,862 | \$4,918 | (P) \$39,037 (I) 3,301 | \$1,759 326 | \$37,278 2,975 | \$39,966 ^h 1,848 |

Note: (A) through (J) in "Case #" column indicates cited case example.

^aNo adjustment for erroneous debt.

^bInterest reduced to zero at termination.

^cWritten off as erroneously established.

^dAdditional debt never established.

^eDoes not equal initial debt less erroneous debt due to rounding.

^fErroneously considered as "paid in full".

^gAll collections not recorded in OSAR.

^hBecause of errors made in recording debts and collections in the OSAR system and the methodology used in terminating certain types of debts, a total of \$39,966 in principal and \$1,848 in accrued interest was written off from OSAR for the 20 cases, instead of the actual amounts of \$37,278 in uncollected principal and \$2,975 in accrued interest.

CASE EXAMPLE A

This individual separated from the service for "drug abuse--rehabilitation failure" in July 1983 and was discharged under honorable conditions. Prior to separation, he had served about 18 months of a 48 month enlistment bonus period. All but \$1,750 of unearned bonus money was recouped on the final pay voucher (individual was entitled to \$40 at separation for travel expenses home). This indebtedness was reported to the Collections Division in September 1983. The debt was established in OSAR in October 1983 and collection action was initiated.

Between November 1983 and April 1984, the debtor made five partial payments totaling \$40. In January 1984, the debtor submitted a signed affidavit of financial status which showed monthly income of \$504 as a stock clerk, two dependents, and no assets. The debtor promised to pay \$5 per month toward the debt. The individual also complained that he never received his end-of-month pay for July 1983 and requested it be deducted from his total debt.

A post audit of the debtor's pay account disclosed that there was a mistake made on the final pay voucher and he had been underpaid \$777. In September 1984, the debtor was notified that his initial indebtedness was being reduced from \$1,750 to \$973 and that further collection action would be deferred because of his current financial condition.

The debt was terminated from OSAR in September 1984. The reason given for termination was the debtor's inability to pay, which was based on his January 1984 affidavit of financial status. No adjustment was made in OSAR for the erroneously established debt of \$777. The termination action was approved in May 1985, and the case was considered closed.

CASE EXAMPLE B

This individual was discharged under honorable conditions for "unsatisfactory performance" in September 1983. At the time of separation, he had served about 2 years of a 6 year reenlistment bonus period. All but \$4,634 of unearned bonus was recouped on the final pay voucher (individual received no pay). This indebtedness was reported to the Collections Division in November 1983. The debt was established in OSAR in December 1983 and collection action was initiated.

Between February and June 1984, the debtor made five monthly payments totaling \$790; however, the March payment check of \$160 was returned for insufficient funds. In March 1984, the debtor submitted an unsigned affidavit of financial status which showed he was unemployed and living with relatives on welfare. In June 1984, he submitted \$160 plus a signed affidavit showing employment as a security guard at \$64 per week.

Ten days after posting of the June 1984 payment, the case was terminated from OSAR. The reason given for termination was the individual's inability to pay, which was based on his unsigned March 1984 affidavit of financial status. The termination action was approved in May 1985, based on a signed affidavit from June 1984, and the case was considered closed. At the time of termination, the debtor was only 1 month behind in his payment schedule.

This case deviated from established collection procedures in that the account was written off before installment payments were 3 months in arrears.

CASE EXAMPLE C

This case involved an officer who was transferred from active Army to reserves in February 1982 and received an honorable discharge. In August 1982, Finance Center personnel identified an overpayment of \$952 for failure to perform reserve drills in March, April, and May 1982. The debt was not established in OSAR until December 1982.

In May 1983, the individual challenged the validity of the debt and furnished documented evidence supporting his claim. There was an unexplainable 18 month delay before the Collections Division resolved the situation and notified the officer in November 1984 that no debt existed.

The case was closed in December 1984 as erroneously established.

CASE EXAMPLE D

This case involved an individual who went on extended leave in June 1983 pending honorable discharge in October 1983 for expiration of term of service. While on leave, he drew four casual pays (local payments made, usually for emergency reasons):

- \$520 received June 29, 1983,
- \$1,789 received August 30, 1983,
- \$1,456 received September 29, 1983, and
- \$1,061 received October 21, 1983.

The final pay voucher was not prepared until January 1984, at which time the \$520, \$1,789, and \$1,456 casual pays were recouped. Through an oversight, the \$1,061 casual pay was not recouped and the individual was sent a check for \$1,033 when he should have been billed for \$28. This resulted in an overpayment of \$1,061.

In January 1984, both the \$520 and \$1,789 casual pays were erroneously identified by the Finance Center as overpayments and were reported to the Collections Division. The \$1,789 debt was established in OSAR in February 1984 and collection action was initiated. The \$520 debt was not established in OSAR until June 1984, which raised the total indebtedness in OSAR to \$2,309.

In April 1984, the individual challenged the validity of the \$1,789 debt and furnished proof that it had been recouped on the final pay voucher. The Collections Division notified the debtor in June 1984 that his debt had increased from \$1,789 to \$2,309. During this period, the individual declared Chapter 13 bankruptcy and listed the Army as a \$1,789 creditor.

Also in April 1984, the \$1,061 casual pay was identified by the Finance Center as an overpayment and was reported to the Collections Division, where it was misplaced until September 1984.

In August 1984, the Collections Division realized that the \$1,789 and \$520 debts were invalid and the case was terminated from OSAR as erroneously established. Both the debtor and bankruptcy court were notified in September 1984 that no debt existed. However, 9 days later the Collections Division found the misplaced overpayment of \$1,061 but made no attempt to reestablish the debt in OSAR or to notify the debtor of its existence. The termination action was recategorized as "inability to pay," apparently because the individual had filed bankruptcy, and the termination action was approved in November 1984.

CASE EXAMPLE E

This case involved an individual who received a bad conduct discharge from the Army as a result of a court martial in August 1983. The final pay voucher was not prepared until January 1984, at which time it was determined that the individual was indebted for \$822 as a result of excess leave. The individual received no pay on the final voucher. The debt was established in OSAR, and collection action was initiated in February 1984.

In March 1984, a letter was received from the debtor's grandmother stating that he was in jail and had no income.

The case was terminated from OSAR in April 1984 after failure to obtain a financial affidavit from the debtor. The reason given for termination was the debtor's inability to pay. The termination action was not approved until 1 year later, in April 1985, after the Army was again unable to obtain an affidavit from the debtor.

CASE EXAMPLE F

This individual was discharged under other than honorable conditions in December 1982, "for the good of the service--in

lieu of court martial." The individual had been absent without leave for two separate periods between August 2 and October 31 and was apprehended on November 1, 1982. The final pay voucher was prepared in January 1983, at which time the following indebtedness was listed:

| | |
|---|--------------|
| --unearned December pay | \$106 |
| --cumulative debts from leave and earning statement | 311 |
| --government property lost or damaged | <u>421</u> |
| Total indebtedness | <u>\$838</u> |

The individual received no pay on the final voucher. The debt was established in OSAR in March 1983, and collection action was initiated.

In June 1983, an additional debt of \$100 was identified by Finance Center staff based on the cost of apprehending and returning the individual. This debt was reported to the Collections Division in July 1983, but there was a delay of over 10 months, until May 1984, in establishing this additional debt in OSAR.

In August 1983, an additional debt of \$387, identified by a field unit for more lost government property, was reported to the Collections Division. There was a 9 month delay, until May 1984, in establishing this additional debt in OSAR.

The debtor was notified in April 1984 that his total debt had increased from \$838 to \$1,325. Subsequent efforts to contact the debtor were in vain, and the case was terminated from OSAR in November 1984. The reason given for termination was the inability to locate the debtor. The termination action was approved in June 1985. For some reason, accrued interest of \$172 was reduced to zero at termination.

CASE EXAMPLE G

This case involves an individual who enlisted in the Pennsylvania National Guard and received a \$1,000 bonus. After serving only 1 year of the bonus period, he transferred to another reserve component in December 1984. A notice of indebtedness in the amount of \$667 was prepared by the Commonwealth of Pennsylvania in January 1985 and sent to the individual informing him of the unearned bonus. A copy of this notice was received by the Collections Division in April 1985.

A post audit by the Finance Center of the individual's pay account in February 1985 identified an overpayment of \$669 consisting of

--unearned enlistment bonus of \$666, and

--unpaid government life insurance premium of \$3.

The debt was established in OSAR, and collection action was initiated in April 1985.

The debtor challenged the validity of the debt and furnished proof that he had satisfied the enlistment bonus debt on February 6, 1985--about 2 months before the debt was established in OSAR. The case was terminated from OSAR as "paid in full" in May 1985 even though the Collections Division received no money. It appears that this case should have been terminated as erroneously established.

CASE EXAMPLE H

This case involves an individual who was discharged under honorable conditions in October 1983 for "unsatisfactory performance." Prior to separation, he had served a little over 1 year of a 4 year reenlistment bonus period. The final pay voucher was prepared in November 1983 and listed the following indebtedness

--court martial/forfeiture of \$224, and

--unearned bonus of \$3,576.

The individual received no pay on the final voucher. The debt was not established in OSAR until April 1984, at which time collection action was initiated.

The debtor made the following payments against his debt:

--\$30 in October 1984,

--\$30 in November 1984, and

--\$75 in December 1984.

On December 22, 1984, the debtor sent an additional \$1,050 plus a signed affidavit of financial status showing \$200 in assets, no income, unemployed, and living with parents. The debtor made a compromise offer of \$130 a month for 10 months to settle the debt.

In March 1985, the Collections Division notified the debtor that payments totaling \$1,185 had been credited to his account:

--\$1,014 was applied to principal, and

--\$171 was applied to accrued interest.

The debtor was also informed that payments of \$50 per month would be acceptable until his financial condition improved. No comment was made concerning his compromise offer.

No further payments were received from the debtor, and the case was terminated from OSAR in May 1985. The reason given for termination was the debtor's inability to pay, based on the December 1984 affidavit of financial status. The termination action was approved in August 1985.

CASE EXAMPLE I

This case involves an individual who was given an "expeditious discharge" under honorable conditions in September 1981. A post audit by the Finance Center of the individual's pay account in January 1982 identified overpayments of pay and entitlements totaling \$545. This debt was not established in OSAR until April 1982, at which time collection action was initiated.

Also, in January 1982, it was learned that the debtor had served less than 1 year of a 4 year reenlistment bonus period and was, therefore, indebted to the Army for an additional \$1,130 in unearned bonus. This information was conveyed to the Collections Division, but the additional debt was not established in OSAR until September 1982.

The Collections Division encountered problems in contacting the debtor because she had apparently married, divorced, and remarried. She had, therefore, changed last names and addresses several times. In June 1982, the debtor notified the Collections Division that she was married to an active Army soldier and was living in Germany. She also made the following partial payments against her debt:

- \$100 paid in June 1982,
- \$35 paid in September 1982, and
- \$30 paid in March 1983.

In January 1983, the debtor submitted a signed affidavit of financial status showing that she was a housewife with no income of her own but was married to an E-4 pay grade soldier. She requested a "letter of indebtedness" so that her husband could start a \$50 per month allotment to pay the debt.

It took the Collections Division 14 months to respond to the debtor's request and, in March 1984, she was erroneously notified that an allotment could not be taken out to pay an indebtedness to the government.

No further payments were received from the debtor and the case was terminated from OSAR in April 1985. The reason given

for termination was the debtor's inability to pay based on the January 1983 affidavit of financial status. Termination action was approved in September 1985; however, the clerk approving the termination was not authorized to write off an amount that high.

CASE EXAMPLE J

This individual received an honorable discharge in July 1984 for expiration of term of service. At the time of separation, he was indebted to the Army for \$8,579 as a result of:

| | |
|---|------------------------|
| --overpayment of basic allowance for quarters | \$13,544 |
| --overpayment of variable housing allowance | 922 |
| --debt to noncommissioned officers' club | 661 |
| --damage to government property | <u>115</u> |
| | \$15,243 ^a |
| --less amount recouped at discharge | <u>6,664</u> |
| Total indebtedness | <u><u>\$ 8,579</u></u> |

^aDoes not add up due to rounding.

The debt was established in OSAR in September 1984, and collection action was initiated.

In November 1984, the debtor submitted an unsigned affidavit of financial status showing \$490 per month income as a school bus driver, no assets, four dependents, and the debtor on the food stamp program. The case was terminated from OSAR in January 1985. The reason given for termination was the debtor's inability to pay based on the unsigned November 1984 affidavit.

In June 1985, the debtor was requested to provide an updated affidavit of financial status, but he did not respond. The termination action was approved in July 1985.



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