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Debt and Payment Claims Procedures and Operations Show Improvement

B-117604(2)

Navy Finance Center

**UNITED STATES
GENERAL ACCOUNTING OFFICE**

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APRIL 30, 1973



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

TRANSPORTATION AND
CLAIMS DIVISION

B-117604(2)

The Honorable
The Secretary of the Navy |

Dear Mr. Secretary:

We reported to you September 24, 1969, on our reviews of the administration of claims operations at the Office of Contract Financing, Washington, D.C., and at the Navy Finance Centers in Washington and Cleveland, Ohio.

Our followup review at the Finance Center in Cleveland was made to determine whether our suggestions and recommendations improved claims-collection activities. We did find improvement in both the procedures and operations. We shall appreciate your comments on the matters discussed.

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

Sincerely yours,

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

Director, Transportation and
Claims Division

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GENERAL ACCOUNTING OFFICE
REPORT TO
THE SECRETARY OF THE NAVY

DEBT AND PAYMENT CLAIMS
PROCEDURES AND OPERATIONS
SHOW IMPROVEMENT
Navy Finance Center B-117604(2)

D I G E S T

WHY THE REVIEW WAS MADE

GAO made a followup review of debt collection and claims settlement procedures and operations at the Navy Finance Center, Cleveland, Ohio.

GAO's purpose was to note changes made since its report to the Secretary of the Navy on September 24, 1969, and to evaluate the Center's compliance with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and the Joint Standards issued pursuant to the Federal Claims Collection Act of 1966.

FINDINGS AND CONCLUSIONS

Debt claims

Procedures are generally consistent with the GAO manual and with the Joint Standards. However, the Center did not have guidelines for soliciting compromises or for obtaining commercial credit reports, when appropriate. (See pp. 5 and 7.)

GAO found that:

- Title 4 of the GAO manual and the Joint Standards were not available for general use in the Accounts Receivable Branch. (See p. 5.)
- Written procedures provide for prematurely depositing money offered in compromise of a debt. (See p. 6.)

- Compromises were not solicited before terminating collection action. (See p. 8.)
- No cost or recovery information was available to use as a basis for terminating collection action. (See pp. 8 and 12.)
- Delays in issuing demand letters after discharge appeared unavoidable. (See pp. 8 and 9.)

Payment claims

Of the claims examined, GAO found:

- No evidence of entitlement in denied claims.
- No payment made on a claim which GAO considered doubtful.
- No claims settled which were not proper for the Center to handle.

CONCLUSIONS

Written procedures for payment claims required no changes. Generally the Center is effectively

- collecting its debts (see p. 11) and
- settling its payment claims (see p. 14.)

AGENCY COMMENTS

The Commanding Officer outlined the

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following corrective steps which have been or will be taken. (See p. 12.)

--In-house control has been implemented to review incoming checks before deposit.

--Compromises are being solicited in final demand letters.

--Procedures have been established for obtaining commercial credit reports.

--Cost data will be reviewed.

CHAPTER 1

INTRODUCTION

One of our functions is to review regulations, procedures, and operations for claims by the Government (debt claims) and claims against the Government (payment claims). The Federal Claims Collection Act of 1966 (31 U.S.C. 951-953) gave agencies additional authority in claims collection on debts of \$20,000 or less for which they have primary responsibility.

Our September 1969 report made suggestions and recommendations for compliance with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and with regulations issued jointly by the Comptroller General and the Attorney General to implement the act. These regulations (Joint Standards) provide for the administrative collection, compromise, or termination of agency collection action and referral of debt claims to us. (See 4 CFR 101-105.)

CHAPTER 2

REORGANIZATION

Early in fiscal year 1972, the Settlement Department, which coordinated claims operations among the other departments, was abolished, and those remaining assumed its duties. The Accounts Receivable Branch of the Military Pay Department became the new coordinator for debt collection. Claims are now processed by the following departments:

1. Central Accounts Department
Claims Division
Claims Branch and Claims Branch (Special)
2. Naval Reserve Department
Investigation and Claims Division
3. Retired Pay Department
Three Retired and Retainer Pay Divisions
Three Adjudication Branches
4. Fleet Department
Examination Section and Financial
Reports and Distribution Branch
5. Military Pay Department
Allotment Investigation Branch
and Accounts Receivable Branch

Involved in the reorganization were staffing positions, job responsibilities, and revision of operating procedures.

CHAPTER 3

DEBT CLAIMS PROCEDURES AND OPERATIONS

New procedures issued in August 1971 provide for timely and aggressive collection action. They prescribe the number and frequency of followup actions to be taken at various debt levels if a debtor does not reply or is delinquent in payment. With few exceptions, the procedures are consistent with the GAO manual and the Joint Standards, but we do have suggestions for strengthening instructions and operations in some areas.

EXTERNAL COLLECTION GUIDELINES NOT GENERALLY AVAILABLE

Title 4 of the GAO manual and the Joint Standards were not available for general use in the Accounts Receivable Branch and not all correspondence clerks were aware of their contents. We suggested that these guidelines be circulated and discussed with personnel or used in training sessions. We emphasized that the manual and the Joint Standards are intended to serve the best interests of the Government and debtors. This information has now been made available to all staff members.

INTERNAL GUIDELINES NEEDED FOR SOLICITING COMPROMISES

Our September 1969 report stated that Center procedures did not provide for soliciting compromises in appropriate cases. This review showed no change. The basic objective of the Federal Claims Collection Act, in vesting agencies with authority to compromise debts and terminate collection action, is to cause agencies to take every action in the debt-collection process before terminating collection action on a debt or referring it to us. If an agency, in accordance with the Joint Standards, can take final action on a debt, whether by collection in full, compromise, or termination of collection action, this action should be taken to avoid additional expense to the United States.

We called this matter to the attention of Center officials, and they are now soliciting compromises in final demand letters before terminating collection action.

PREMATURE DEPOSIT OF MONEYS
OFFERED IN COMPROMISE

Our prior report noted that, under procedures then in effect, the Center would probably deposit a remittance tendered as a compromise offer and credit the amount to the debtor's account before determining whether the offer was acceptable.

On December 10, 1969, we informed the Secretary of the Navy that the practice of depositing checks conditionally endorsed or offered in compromise and crediting the amount in partial liquidation of the debt when the offer is not accepted by the administrative office may not in itself be legally prohibitive. Should a dispute arise, however, on whether there was accord and satisfaction, the dispute might have to be decided in court.

We also informed the Secretary that, because it is governmental policy to avoid unnecessary cost and the risk of litigation in the collection of claims by the United States for money or property, the practice should be discontinued. If a compromise offer is rejected, the check or money should be returned to the debtor so that an offer for a larger amount may be solicited or collection action may be pursued for the entire debt.

In a letter dated December 16, 1969, the Department of the Navy said that action had been taken to insure that checks received as compromise offers would not be deposited until it was determined that the offers were acceptable. Although the Center's written procedures show that checks or moneys will be deposited before evaluating a compromise offer, remittances are being reviewed prior to deposit.

In addition to withholding from deposit checks which contain such statements as "paid in full," "in full satisfaction," etc., if correspondence accompanies a check which is drawn for an amount less than the debt, the Center should examine the correspondence to determine whether the payment is tendered as a compromise or a partial payment.

COMMERCIAL CREDIT REPORTS

The new procedures did not provide guidelines for obtaining commercial credit reports on debtors, but they have now been established. Also credit reports are now required for all persons having debts over \$200 and for those having debts over \$50 but less than \$200 if a personal financial affidavit is not furnished.

Our prior report recommended that the Center request a personal affidavit from the debtor at the time demand is made on him, since financial information is necessary to determine the proper collection action to be taken. If financial information is obtained, there is no need for a commercial credit report, nor is there need for a commercial credit report for persons having debts under \$200, since generally these claims are not reported to us.

CLOSED DEBT-CLAIM FILES

The closed debt-claim files in the Accounts Receivable Division contain cases on which collection action has been terminated and claims which have been referred to us.

We examined 172 closed files which represent approximately 10 percent of the cases closed in the last quarter of calendar year 1971. Seven cases were referred to us and collection action was terminated on 165. These claims were for the following amounts:

<u>Number of claims</u>	<u>Value</u>
22	Under \$50
77	\$ 50 to \$ 99.99
58	\$100 to \$199.99
^a 8	\$200 or more

^aDebts with potential for referral to us if administratively uncollectable.

Of eight terminated claims over \$200, the action was proper in four. One debtor was on welfare, one debt was found to be legally without merit, one debtor was unemployed and had no assets, and the fourth debtor was bankrupt and a proof of claim had been filed.

There were credit reports for three of the remaining four cases. The financial information in one of these indicated that the case should have been referred to us. In the other two cases, there was not enough detrimental financial information to preclude referral of the cases to us. Although B-117604, May 27, 1968, provides that reasonably current credit information accompany referrals to us, it also states that inability to obtain credit data after reasonable effort does not preclude such referral. These cases should have been referred to us.

Collection action was terminated on 51 claims (with amounts ranging from \$100 to \$200) on the basis that the costs of further collection action would likely exceed the amounts recovered. But no cost or recovery information was available to use as a basis for terminating collection action. In only 1 of these cases was financial information available. In eight cases, financial information was not requested, and, in the others, efforts to obtain personal affidavits from the debtors were unsuccessful.

NO COMPROMISES SOLICITED

The new procedures provide for debt claims under \$200 to be terminated if no collections are made after issuing a series of demand letters. If the letters do not result in the liquidation of the debt, it is apparent that the debtor is unable or unwilling to pay. If the amount is under \$200, the minimum for referral to us, the Government is unable to enforce collection. In accordance with part 103 of the Joint Standards, compromises could have been solicited in the final demand letters of 132 of the closed cases.

DELAYS IN COLLECTION ACTION

In 143 of 172 closed debt cases, delays between the dates of discharge of the debtors from the service and the dates of the first demand letters averaged 5.5 months. We made a separate test of overpaid-at-discharge cases because they predominated our samples. Delays between the dates of discharge and the dates of the first demand letters in 104 overpaid-at-discharge cases in the closed debt file averaged 5 months.

We were informed that there was often an extensive delay before the final military pay records were forwarded to the Center by the disbursing officers. When received, the pay records must be computerized and are subjected to administrative audit, actions which sometimes result in delays of more than 2 months. In addition, cases involving pay records that require leave or service information from the Bureau of Naval Personnel are further delayed approximately 30 days.

The delay between receipt of the records and the start of collection action appears unavoidable. We see no reason, however, for the delay in forwarding the pay records to the Center, and we suggest that action be taken to expedite the referral of these records.

Many cases reviewed were under collection action during the period in which claims operations were transferred from the Settlement Department to the other departments. It is understandable that some delay may have occurred during this period.

OPEN CLAIMS

We examined 24 debt claims under active collection action, including 4 cases on which collection action had been temporarily suspended. These cases were being handled properly. Nineteen of these involved overpaid-at-discharge debts. The elapsed time from dates of discharge to the dates of the first demand letters ranged from 2 to 16 months and averaged 5 months.

Debts are jacketed and processed promptly by the Accounts Receivable Branch when they are received from the originating department. Backlogs have been a problem for debts over \$200 which appear uncollectable after routine collection action. These cases must be referred to the Fiscal and Accounting Assistant for determination of the proper course of action. It appears that the employee handling these cases had at times been unable to keep up with the large workload. A portion of this employee's responsibilities has recently been assigned to another staff member, and the backlog has been eliminated. In addition, the unit which normally processes and reports allotment overpayments had a backlog and did not refer out-of-service cases to the Accounts Receivable Branch for a lengthy period. This backlog was only temporary.

REQUEST FOR RETURN OF CASES

We informed Center officials that their practice of requesting the return of cases which had been referred to us should be discontinued, unless the debtor reenters the service. In the past the Center requested return of its file if it received a remittance. In accordance with 4 GAO 56.8, we should be notified immediately when collections are made or contemplated for debts previously referred to us. In such cases the debtors should be informed that future payments should be made directly to our Transportation and Claims Division.

STATUTE OF LIMITATIONS

With certain exceptions, 28 U.S.C. 2415 provides that every action to recover money erroneously paid to or on behalf of any civilian employee of any U.S. agency or to or on behalf of any member or dependent of any member of the

uniformed services of the United States, incident to the employment or services of the employee or member, be barred, unless the complaint is filed within 6 years after the right of action accrues.

The Center was complying with instructions contained in agencywide letters issued in March and July 1971 by the Claims Division (now Transportation and Claims Division). These letters called attention to the statute of limitations and urged agencies to screen their debt files to determine the date on which action would be barred on each debt amounting to \$400 or more. The Center is including the expiration date in its files and in all transmittal letters accompanying cases referred to us.

COLLECTION EFFORTS

Generally the Center is effectively and economically collecting its debts. Statistics furnished by the Accounts Receivable Branch indicate that monthly collections for out-of-service debts are about \$87,172 and for in-service debts are approximately \$59,499, a total of \$146,671. Since costs are estimated to be \$14,837 per month, the Branch collects almost \$10 for every \$1 of costs.

From August 1, 1971, to March 1, 1972, the Center took the following actions on out-of-service debts.

	<u>Number</u>	<u>Amount</u>
Case inventory:		
As of 8-1-71	11,807	\$3,655,651
New cases through		
3-1-72	<u>11,390</u>	<u>2,612,318</u>
Total	23,197	\$6,267,969
Disposition of cases:		
Terminations	5,378	\$ 461,771
Referred to us	723	586,294
Compromised	3	839
Claims waived	2	512
Miscellaneous payments		
received	26	2,000
Adjustments, corrections,		
etc.	661	76,721
Debts paid in full	<u>3,767</u>	<u>a607,367</u>
Total	<u>10,560</u>	<u>1,735,504</u>
Inventory as of 3-1-72	<u>12,637</u>	<u>\$4,532,465</u>

^aAlso includes payments received on active debt claims which did not remove the cases from the inventory.

CONCLUSIONS AND SUGGESTIONS

Although the Center is effectively collecting its debts, we made the following suggestions to Center officials during our review.

1. In accordance with the Joint Standards, written procedures should include guidelines for soliciting compromises and compromise efforts should be increased, when appropriate.
2. The Center should develop information concerning collection costs, so that there would be a basis for terminating collection action on the premise that costs of further collection action would exceed the amount recovered. Title 4, section 55.3, of the GAO manual provides for establishing and observing realistic points of diminishing returns.
3. The Center should formulate procedures for obtaining commercial credit reports, when appropriate. However, a commercial credit report is not necessary for claims under \$200. Claims over \$200 should be referred to us if all required collection actions have been taken in accordance with the Joint Standards but efforts to obtain credit information have been unsuccessful.
4. Title 4 of the GAO manual and the Joint Standards should be made available to personnel.

In the Commanding Officer's letter of May 30, 1972, he confirmed the Center's position on our findings and outlined the corrective steps which have been or will be taken. They included:

1. In-house control has been implemented to review incoming checks before deposit.
2. Compromises are now being solicited in final demand letters.
3. Procedures have been established for obtaining commercial credit reports.

4. Cost data will be reviewed to determine debt-recovery rates when the accounts-receivable operations are mechanized.

RECOMMENDATION TO THE SECRETARY OF THE NAVY

The Departments of the Army and the Air Force have initiated new and effective procedures for known overpaid-at-discharge cases. These procedures provide that, at the time of separation, before making final payment, the member be informed of his indebtedness. If collection of the debt from final pay is unsuccessful, the member's signature should be obtained on a copy of the letter or form used to notify him of the debt.

The member should be given the original letter or form, and the copy bearing his signature should be forwarded to the Navy Finance Center, Cleveland, with his pay record. The member's signature, although not necessarily constituting acknowledgment of the validity of the debt, will constitute evidence of his having been notified of the debt.

Even though this procedure was not discussed with Center officials at the time of our review, we strongly recommend its adoption.

CHAPTER 4

PAYMENT CLAIMS PROCEDURES AND OPERATIONS

We reviewed written procedures, discussed their application, and examined payment-claims operations in the three departments that adjudicate payment claims. In addition, we discussed agency requirements in title 4 of the GAO manual.

REVIEW OF OPERATIONS

Clerks examine, develop, and adjudicate payment claims. Their duties entail:

1. Obtaining documents to develop claims.
2. Determining the validity of claims.
3. Computing amounts due.
4. Typing and signing payment vouchers and denial letters.

We called attention to the Center's administrative reports which accompany claims referred to us. These reports have not always contained the information required by 4 GAO 8.2, information necessary for further processing of a claim. The Center has now developed a standardized form for reporting essential data to us.

REVIEW OF CLAIMS

We reviewed 259 payment claims processed by the three adjudicating departments. We found no evidence of entitlement in denied claims, nor was payment made on any claim which we considered doubtful. We also found no claim which required referral to us.

CONCLUSIONS

The Center is effectively settling its payment claims. No changes are necessary in the written procedures for payment claims.