United States General Accounting Office

GAO

Report to Congressional Requesters

June 2001

DEBT COLLECTION

Defense Finance and Accounting Service Needs to Improve Collection Efforts

GAO

Accountability * Integrity * Reliability

GAO-01-686

Contents

Letter 1

Results In Brief 2
Background 4
Validity of Debts Not Established 5
Demand Letters Not Promptly Sent 6
Insufficient Communication With Debtors 7
Collection and Referral Activities Not Fully Utilized 8
Conclusions 10
Recommendations 10
Agency Comments 10

Appendix I **Scope and Methodology** 13

Appendix II **Comments From the Department of Defense** 14

Tables

Table 1: Disposition of 10 Selected Cases 3

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 29, 2001

The Honorable Dan Burton
Chairman
Committee on Government Reform
House of Representatives

The Honorable John F. Tierney
House of Representatives

We have reported that improper payments are a long-standing governmentwide issue and that the Department of Defense (DOD), in particular, has been overpaying its contractors by hundreds of millions of dollars each year. We reported that for fiscal years 1994 through 1999, DOD contractors returned nearly $1.2 billion that the Defense Finance and Accounting Service (DFAS) mistakenly paid them as a result of errors, such as paying the same invoice twice or misreading invoice amounts.[1] After overpayments are identified, the contractors promptly return these overpayments in many cases. In other cases, however, the contractors do not promptly respond to government demands that the overpayments be returned. Much of our work at DFAS has focused on actions needed to identify the causes of overpayments and reduce their number and amount.[2]

As you requested, this report focuses on collection activities relating to identified overpayments to DOD contractors. The Debt Management Office was created at the DFAS Columbus Center to manage debts[3] owed by contractors that are unresponsive to the government's demands that overpayments be returned. After a contractor has not responded to two demand letters from the Accounts Receivable Branch at DFAS Columbus, the debt is turned over to the Debt Management Office for further collection efforts. The Debt Management Office's responsibilities include issuing a third and final demand letter and taking other more aggressive

[1] *Financial Management: Billions in Improper Payments Continue to Require Attention* (GAO-01-44, October 27, 2000).

[2] Our most recent report is *Contract Management: Excess Payments and Underpayments Continue to Be a Problem at DOD* (GAO-01-309, February 22, 2001).

[3] Throughout this report we refer to "debt" from the perspective of the contractor, who is indebted to the federal government for contract overpayments.

debt collection actions. As of September 30, 2000, the Debt Management Office's reported inventory of debts that were to be collected or resolved consisted of 2,907 debts with a total original amount due of almost $750 million.

The objective of our review was to assess the adequacy of DFAS Columbus' debt collection activities and to identify actions needed to address any identified weaknesses. We reviewed the Office's collection processes and procedures. We also selected 10 cases with an original total balance due of $545,620 so that we could further investigate debt validity, collection activities, and potential contractor fraud. Further, we reviewed reports on the Office by the DOD Inspector General and the DFAS Columbus Office of Internal Review. Appendix I provides additional details on our scope and methodology.

Our work was performed from February 2000 through January 2001 in accordance with generally accepted government auditing standards. We did not independently verify the completeness or accuracy of data provided by DFAS on the number and amount of contractor debts as of September 30, 2000. The investigative portion of our work was done by our Office of Special Investigations and was completed in accordance with investigative standards established by the President's Council on Integrity and Efficiency.

On June 6, 2001, we received written comments on a draft of this report from the Director of Commercial Pay Services at DFAS Columbus. These comments are reprinted in appendix II.

Results In Brief

The Debt Management Office at DFAS Columbus is not effectively and proactively pursuing collections of debts assigned to it. Specifically, the Office is not

- taking appropriate actions to establish the validity of the debts that it receives for collection,
- promptly issuing letters demanding payment,
- taking proactive actions to establish communications with contractors and resolve issues related to the debts, and
- effectively utilizing the U.S. Treasury's centralized debt collection programs to maximize collections and the Defense Criminal Investigative Service to pursue potential fraud.

Ineffective and insufficient efforts by the Office are the results of both deficiencies in and lack of adherence to policies and procedures.

Our detailed investigation of 10 cases, summarized in table 1, shows that more direct communication and interaction with contractors will result in more effective collection efforts.

Table 1: Disposition of 10 Selected Cases

Contractor	Amount of original debt	Was debt valid?	Debt collected after GAO involvement?	Amount collected[a]	Debt referred for further investigation?
A	$16,155	Yes	Yes	$16,645	No
B	$21,218	No	N/A	—-	N/A
C	$14,841	Yes	Yes	$15,391	No
D	$17,339	No	N/A	—-	N/A
E	$14,302	Yes	Yes	$14,711	No
F	$47,539	Yes	No	—-	Uncollectable
G	$30,788	Yes	Yes	$32,259	No
H	$18,160	Yes	Yes	$24,891	No
I	$153,396	Yes	No	—-	Yes
J	$211,882	Yes	No	—-	Yes

[a]Because administrative and interest charges are added to delinquent debts owed by contractors, the amount collected exceeds the amount of original debt.

We facilitated the recovery of $103,897 related to five debts, identified two invalid debts recorded at $38,557 and one uncollectable debt of $47,539, and referred two cases involving $365,278 to the Defense Criminal Investigative Service for investigations of potential illegal contractor actions.

Improvements in collection activities at the Debt Management Office could result in (1) collections of millions of additional dollars owed to the government, (2) faster collections of amounts, (3) decreased administrative burdens and costs on both the government and involved contractors, and (4) improved detection of potential fraud by contractors. We are making recommendations for the actions needed to improve collection activities.

DOD, in written comments, concurred with the six recommendations in this report. If the initiatives discussed in the written comments are effectively implemented, debt collection at DFAS Columbus should improve.

Background

In 1991, DOD consolidated debt management within DFAS. At DFAS Columbus, two offices are involved in collecting contractor debts owed to the government. The Accounts Receivable Branch manages all newly identified debts. In managing new debts the Accounts Receivable Branch is to use DOD's policies and procedures that detail the requirements for an initial demand letter to the contractor, followed by efforts to offset the debt against amounts DOD owes the contractor, followed by a second demand letter. The procedures specify that any debt of $600 or greater that has not been resolved after two demand letters is to be transferred to the Debt Management Office. The Office manages debts in excess of $600 owed to DOD by unresponsive contractors and debts by contractors that agreed to repay the amounts owed in installments.

After the transfer from Accounts Receivable, the Debt Management Office is to review the file to ensure that the debt is valid and adequately supported, and that the file does not contain an installment request, deferment request, or bankruptcy notification. If the debt is erroneous or without clear legal merit, the Office can terminate collection action. After determining that the debt is valid and should be collected, the Office is to issue a third and final demand letter to give the contractor a final opportunity to settle the debt. The Debt Management Office is to refer debts to the Defense Criminal Investigative Service if illegal activities by the contractor could be involved. Also, the Office is to undertake other collection actions, such as transferring debts to collection agencies, adding a contractor's name and amount owed to the List of Contractors Indebted to the United States,[4] or referring debts to the U.S. Treasury's centralized debt collection programs.

The U.S. Treasury's centralized debt collection programs, the Treasury Offset Program (TOP) and Cross-Servicing Program, were developed to assist agencies in collecting delinquent nontax debt owed to the federal government. TOP is a governmentwide debt matching and payment offset program that uses certain of the Treasury Financial Management Service's payment data to collect delinquent nontax debts. It uses a centralized delinquent debtor database to match specific delinquent debts against certain payments to be made by the government. The Cross-Servicing

[4]DFAS maintains the List of Contractors Indebted to the United States. It is to be published at least quarterly, distributed to multiple federal agencies, and used in offsetting money due to contractors against their listed debts.

Program, like TOP, was developed in response to the Debt Collection Improvement Act of 1996. Under this program, agencies are to identify and refer eligible delinquent nontax debt to Treasury's Financial Management Service for collection. The program includes the use of demand letters, credit bureaus, private collection agencies, as well as referrals to TOP.

After appropriate analyses and collection action, DFAS Columbus can terminate a debt of $100,000 or less if the Debt Management Office is unable to collect any substantial amount, unable to locate the debtor, or determines that cost will exceed recovery. Debts of over $100,000 must be submitted to the Department of Justice, which will determine whether the collection activity should be terminated.

Validity of Debts Not Established

According to DOD and Debt Management Office policies and procedures, when it receives a debt, the Debt Management Office is to analyze the debt file to ensure that the debt is valid and that collection efforts should proceed. The Accounts Receivable Branch should have established the debt file before the first demand letter. The file is to contain documentation supporting the debt, such as copies of contract vouchers related to the debt, amounts and dates of collections received, and all demand letters and other correspondence with the debtor. For duplicate payments, the file should include copies of the negotiated checks. The procedures also specify that any documentation that supports the debt should be included with the demand letter.

We found that the debt files did not contain required documentation. Copies of checks issued or disbursements records were not in the files and were not included with demand letters. Without required documentation, the Office could spend time and effort on pursuing debts that are not valid and have difficulty in collecting debt if documents are not available to convince contractors of the debts' validity.

In our detailed review and follow-up of 10 cases, we found invalid debts as well as valid debts that were not being collected because needed documents were not used to substantiate the debt. We identified two debts, recorded at $38,557, that were not valid. In one case, a debt of $17,339 was being pursued as a duplicate payment because two invoices for similar services and amounts were paid a few days apart. However, after we noted that the invoices had different shipment numbers, both invoices were determined to be valid and the debt was canceled. In the other case, the contractor had previously reimbursed the government, but the reimbursement had not been correctly recorded against the debt. For a

third debt case of $47,539, the U.S. Attorney's office declined to pursue collection because the contractor was no longer in business and the debt resulted from questioned costs during a contract audit rather than actual overpayments.

For five of the remaining seven cases, the contractors reimbursed the government for more than $103,897 after we obtained and provided documentation to the contractors that established the validity of the debts. For example, the files for an overpayment of $30,788 to a contractor did not contain copies of negotiated checks and payment vouchers. After we obtained and provided supporting documents to the contractor's representative, the representative was able to trace through contract records and substantiate that the overpayment did occur. The contractor paid $32,259, which was the original debt plus accrued interest and administrative fees.

The problem of inadequate documentation in debt files is not new. A DOD Inspector General report in 1995 noted that some files did not have adequate documentation. [5] More recently, in 2000, the DFAS Columbus Office of Internal Review noted significant documentation deficiencies in the Debt Management Office's debt files.[6]

Demand Letters Not Promptly Sent

The Debt Management Office, after validating the debt, is to send a third and final demand letter to the debtor. DOD policies and procedures state that the second demand letter is to be sent when the due date specified in the first demand letter (30 days) passes. A time frame for sending the third demand letter is not specified; however, the policies specify that collection of debts owed by contractors be accomplished expeditiously. The Debt Collection Improvement Act of 1996 requires agencies to refer for debt collection all eligible nontax debts over 180 days delinquent to the Secretary of the Treasury or a Treasury-designated debt collection center.

The Debt Management Office is not promptly sending the third demand letter. In the previously cited DFAS Columbus Office of Internal Review report, a sample of 15 cases showed that third demand letters were not

[5] *Debt Collection and Deposit Controls in the Department of Defense* (96-038, December 11, 1995), DOD, Office of the Inspector General.

[6] *Follow-up Review of the Debt Management Office* (00-B-670-PA-009), DFAS Columbus Office of Internal Review.

processed promptly after the debts were entered into the Debt Management Office information system. Of the 15 debts reviewed, no letters were issued within 30 days; six letters were issued in less than 100 days; six were issued from 100 to 200 days; and three were issued at 691, 835, and 1,147 days.

The previously mentioned DOD Inspector General's report also identified serious problems with the timeliness of the third demand letter. For the 115 debts in its sample for which third demand letters should have been sent, the Inspector General determined that 51 letters were sent late[7] and 20 letters were not sent.

Insufficient Communication With Debtors

Federal regulations provide that each federal agency take timely and aggressive actions to collect all claims. DOD policies and procedures state that it is essential that the amounts contractors owe to DOD be ascertained promptly and that collection be accomplished expeditiously. Based on the cases we examined and discussions with DFAS officials, we found that the debt collection process DFAS uses is passive—that is, it essentially relies on sending demand letters. It does not involve establishing a dialogue with contractor officials and DOD contract officers to identify and resolve issues related to the debts. Neither DOD policies and procedures nor Debt Management Office procedures discuss proactively pursuing debt collection by establishing communication with appropriate officials.

Based on the cases that we investigated, we believe that improved communication between DFAS personnel, contractor officials, and DOD contract officers is essential to resolving debts promptly and efficiently. As previously mentioned, we facilitated debt repayment in several cases by explaining to contractor officials how the debts were incurred and the relation of the debts to outstanding invoices and payments. On one case that resulted from duplicate payments on an invoice, $16,645 was collected after we contacted the administrative contracting officer, DFAS Columbus collection personnel, and contractor officials. We provided proof of the duplicate payment to the contractor and explained how the debt was incurred. Because the contractor believed that the debt should be offset against two other invoices, we examined the status of those invoices and

[7]The letters were considered late when, in accordance with the Office's policy, they were issued more than 14 days after the debt was entered into the Office's information system.

explained to the contractor why an offset was not possible. Prior to our involvement, the contractor had been sent three demand letters over a period of 4 months, but no other contact had been made with the contractor about the debt.

Collection and Referral Activities Not Fully Utilized

The Debt Collection Improvement Act of 1996 seeks to maximize collections of nontax delinquent debts owed to the government by ensuring quick actions and employing all appropriate collection tools, such as private sector professional collection agencies. When debts become delinquent, DFAS Columbus attempts to collect the debts through administrative offsets against other DOD payments to be made to contractors. Also, by adding a contractor's name to the List of Contractors Indebted to the United States, DFAS in essence notifies other federal agencies of a contractor's indebtedness so that the agencies can withhold payments and send the amount owed to DOD. If warranted because of potential illegal contractor activities, the debt can be referred to the Department of Justice or to the Defense Criminal Investigative Service.

We identified two limitations to the administrative offset process being used at DFAS Columbus. First, only payments authorized for disbursement from one DOD payment system were being considered for offset, although a contractor could be receiving payments through other DOD systems. Second, offsets were being taken against only one contractor identification code, even though a contractor can have multiple identification codes to identify specific facilities/locations. After we brought these limitations to the attention of DFAS Columbus officials, they said that changes were made in January 2001 to permit offsets against (1) other payment systems and (2) all payments to a contractor, even if different identification codes are involved. These changes, if effectively implemented, should improve the effectiveness of debt collection by DFAS Columbus.

We also found that the Debt Management Office was not effectively and fully utilizing the U.S. Treasury's Cross-Servicing Program and TOP. The Cross-Servicing Program, which includes the use of demand letters, credit bureaus, referral to TOP, and private collection agencies to collect delinquent debts, was not being utilized. According to the previously cited DFAS Columbus Internal Review report, an official said that the Office was exempt from the cross-servicing requirement of the Debt Collection Improvement Act of 1996 because it was using TOP. According to the law and regulations, the referral of debt to TOP uses one of the Treasury's debt collection tools, but it does not satisfy cross-servicing requirements.

However, referral of a debt to Treasury for cross-servicing satisfies the TOP requirement since the Cross-Servicing Program includes the use of TOP. DFAS headquarters officials agreed that the Office was not exempt from the requirements of the Treasury Cross-Servicing Program.

While the Office was referring debts to TOP, the Office of Internal Review's report noted that referrals were not timely. Timely referrals are important because the likelihood of collecting delinquent debt diminishes as the debt ages. For 15 sample cases cited in that report, the number of days from the final demand letter to referral to the offset program ranged from 63 days to 760 days, with seven of the referrals taking place after 250 days. The report also documented other problems with the Debt Management Office's use of other referral and collection activities. For example, with regard to referral of debts to the List of Contractors Indebted to the United States, the report noted that in a sample of 15 debts, 6 debts were not referred, and 4 of the 9 referred debts were not referred in a timely manner.

Our investigation of the 10 cases and discussions with DFAS Columbus officials indicate that the Debt Management Office is not making appropriate referrals to the Defense Criminal Investigative Service and the Department of Justice. We referred two cases, which involved debts totaling $365,278, to the Defense Criminal Investigative Service and the U.S. Attorney's office because of possible fraud. In one case, the Debt Management Office, rather than pursue the debt, had requested and received write-off authority for a debt of $211,882 from the Department of Justice. The debt, as calculated by DFAS, was due to a combination of an overpayment, progress payments made but not recovered, and fees incurred on the contract. Because we identified indications of fraud when reviewing the file and discussing the case with DFAS and contracting personnel, we referred the case for further investigation. The file contained a letter from the administrative contracting officer notifying DFAS Columbus that the contractor had been evicted from the address of record, but could be operating another business from a nearby location. The contracting officer prepared the letter in response to DFAS Columbus' request for information after the first demand letter, sent to the contractor's address of record, was returned. A second demand letter was sent to the nearby location, but was returned as unclaimed. After we referred the case for further investigation, the U.S. Attorney's office stated that discussions with contracting personnel and a preliminary review of documents provided sufficient evidence to justify further pursuit of the debt.

Conclusions

Significantly reducing the number of contractor overpayments remains an important goal for DFAS. However, in the interim, management commitment and targeted efforts are critical to ensuring that DFAS Columbus collects or resolves delinquent debts by contractors that are unresponsive to the government's demands. The inventory of such debts as of September 30, 2000, was almost $750 million. As illustrated by our work, increased commitment and effort can increase collections. Additionally, improved policies and procedures and strengthened internal controls are needed. These actions would help increase the speed and amount of collections from contractors, decrease administrative burdens and costs, and improve detection of potential fraud by contractors.

Recommendations

In order to promote more effective and proactive debt collection, we recommend that the Director of DFAS, establish

- internal controls to ensure that the Debt Management Office validates debts,
- internal controls to ensure that debt files include all necessary supporting documentation,
- specific time frames for issuing the third demand letter and procedures to track issuance of these letters against the established time frames,
- requirements that Debt Management Office personnel engage in direct communications and interactions with contractor officials and others to actively identify and resolve issues related to debts,
- specific requirements and time frames for referring appropriate debts to the Treasury's centralized debt collection programs, and
- procedures for utilizing the Defense Criminal Investigative Service and the Department of Justice when debts could involve criminal activities.

Agency Comments

In written comments on a draft of this report, DOD concurred with each of the recommendations and commented on the actions that have been or are to be taken. DOD commented that an update of the Debt Management Office's operating procedures, to be completed by July 6, 2001, will include

- a checklist of all backup documentation required to be maintained in each debt file,
- new time frames for issuing demand letters,
- time frames and guidelines for initiating direct communications with contractors indebted to DOD,

- procedures and guidelines for identifying possible criminal activity and timely referral of such debts to the Defense Criminal Investigative Service or the Department of Justice.

DOD also noted that follow-up reviews would be made to determine that

- debts are validated as required,
- checklists for required documentation are utilized,
- demand letters are issued within required time frames, and
- referrals to the Treasury's centralized debt collections programs are timely.

Further, DOD commented that a Contractor Debt System, which was installed on May 4, 2001, includes enhanced tools for managing debt cases and permits the Debt Management Office to pursue debts in a more effective and timely manner.

DOD's comments are responsive to our recommendations and, if effectively implemented, should improve debt collection efforts by DFAS.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we will not distribute this report until 30 days from its date. At that time, we will send copies of this report to the DOD Under Secretary of Defense (Comptroller), the Director of the Defense Finance and Accounting Service, and interested congressional committees. Copies of this report will also be made available to others upon request.

Please contact Gregory D. Kutz at (202) 512-9505 or Robert H. Hast at (202) 512-7[illegible]5 if you have any questions. Major contributors to this report were John [illegible]yan, Douglas Ferry, Ken Hill, and David Childress.

Gregory D. Kutz, Director
Financial Management and Assurance

Robert H. Hast, Managing Director
Office of Special Investigations

Appendix I: Scope and Methodology

Our work focused on debts and collection activities at the Debt Management Office, DFAS Columbus. To identify the legal requirements, policies, and procedures established for debt collection, we reviewed pertinent public laws, related federal regulations, the DOD Financial Management Regulation, and Debt Management Office procedures. To identify activities undertaken by the Debt Management Office, we reviewed debt files, demand letters, and related correspondence; reviewed previous DOD Inspector General and other reports on the Debt Management Office; and discussed debt collection activities with officials at DFAS, the Department of the Treasury's Financial Management Service, the Department of Justice's Civil Division, and the Defense Criminal Investigative Service. When warranted, we discussed contracting issues and questions related to the debts with DOD procurement officials.

In selecting 10 specific cases[1] for further review of debt validity, collection activities, and potential contractor fraud, we selected debts that were primarily caused by duplicate payments and in which the contractors had not responded to payment demands. At the time of our selection, the debts had been processed by the Accounts Receivable Branch and had been transferred or were being transferred to the Debt Management Office. Also, we selected debts that involved fairly current collection actions as opposed to some debts managed by the Office on which collection actions were not current. Finally, we selected debts of at least $10,000 so that the Department of Justice's threshold for prosecution of criminal conduct would be met if such referrals were necessary. However, we did not select the debts of the top 100 DOD contractors and their subsidiaries because these debts could often be offset against other DOD payments to the contractors.

In reviewing these 10 cases, we (1) examined the case files and the collection activities, (2) determined if the debts were valid, (3) contacted contractors, DOD procurement officials, and others to facilitate collection of valid debts, and (4) referred cases for further review if we identified potential fraudulent activities by contractors.

[1]We selected these debts for case study purposes, not as a basis for projecting results. Accordingly, we did not use statistical sampling selection methods.

Appendix II: Comments From the Department of Defense

DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER
P.O. BOX 182317
COLUMBUS, OHIO 43218-2317

IN REPLY REFER TO DFAS-BKF/CC

JUN 0 6 2001

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE

SUBJECT: Management Response to GAO Draft Audit Report, "Debt Collection: Defense Finance and Accounting Service Needs To Improve Collection Efforts," dated May 4, 2001 (GAO Code 192013/OSD Case 3086)

In response to your memorandum dated May 4, 2001, subject as above, comments are provided for Recommendations A.1 through A.6 (see attachment).

If you have any questions, please contact Mr. Christopher Bell, DFAS-BKFPC/CC, at DSN 869-4879 or 614 693-4879.

JoAnn Boutelle
Director, Commercial Pay Services

Attachment
As stated

DFAS Columbus Comments Regarding
GAO Draft Report: Debt Collection, Defense Finance and Accounting Service Needs to Improve Collection Efforts

Recommendation A:

We recommend that the Director, Defense Finance and Accounting Service:

Recommendation A.1: Establish internal controls to ensure that the Debt Management Office validates debts.

Management Comments: Concur. The Accounts Receivable office is required to validate debt before transfer to the Debt Management Office (DMO). Once transferred, the DMO has procedures in place requiring validation of the debt prior to beginning collection efforts. The Debt Management office uses the current procedure as an internal control, plus is developing a new internal control checklist to ensure that all documentation necessary to validate the debt is included in the debt file.

The existing DMO SOP will be updated to include the requirement to use the checklist to properly validate debts. The validation requirement has also been added to the Internal Management Control Matrix for Debt Management, and is considered a vital management control. Testing of this function is required to be performed and reported quarterly by the DMO assessible unit manager.

Estimated Completion Date: The update to the existing DMO procedure will be completed by July 6, 2001.

Recommendation A.2: Establish internal controls to ensure that the debt files include all necessary supporting documentation.

Management Comments: Concur. The existing Debt Management SOP will be updated to include a list of all backup documentation required to be maintained in each debt file. The DMO has also been instructed to establish a checklist to track the receipt and filing of all documents pertinent to the debt case. The document control checklist will be maintained with each debt case, and will be initialed by the DMO supervisor at periodic intervals throughout the collection process. The checklist will also be included as a vital control for the DMO, and will be reviewed quarterly as part of the Management Control Review process.

Estimated Completion Date: The checklist will be established and implemented in the DMO no later than June 15, 2001. The requirement to maintain the document control checklist will be added to the management control review process by June 15, 2001. The existing DMO procedure will be updated by July 6, 2001.

Recommendation A.3: Establish specific timeframes for issuing the third demand letter and institute procedures to track the issuance of the letters against the established timeframes.

Management Comments: Concur. To expedite the demand letter process, the transferring accounts receivable office now issues one demand letter vice two demand letters prior to the transfer to the DMO. The final demand letter is issued by the DMO within 30 days of receipt from the Accounts Receivable Office. The Debt Management office will update the existing SOP to include these new timeframes, and will ensure all DMO employees are trained in the new procedure.

Additionally, the new Contractor Debt System (CDS) for contractor debts was recently installed on May 4, 2001. The CDS replaces the Defense Debt Management System, and includes enhanced management tools, such as aging of debts by category, notification of needed actions on debt cases on a daily basis, management visibility of each debt case by case worker, and management reports to identify delinquent actions. The new system will allow the DMO to suspense and track new and existing contractor debts in an efficient manner. The Quality Review Branch will perform a follow-up review of the DMO approximately 120 days after the installation of CDS to verify its effectiveness with regard to tracking the issuance of letters within the required timeframes.

Estimated Completion Date: The existing DMO procedure will be updated by July 6, 2001. The follow-up review of the DMO will commence no later than August 31, 2001.

Recommendation A.4: Establish requirements that DMO personnel engage in direct communication and interactions with contractor officials and others to actively identify and resolve issues related to these debts.

Management Comments: Concur. The existing DMO SOP will be updated to include timeframes and guidelines for initiating direct communication with contractors indebted to the U.S. Verbal communication between the DMO and contractor will be take place for each debt 2 weeks following the issuance of the final demand letter (approximately 45 days prior to the transfer of the debt to the Treasury Offset Program). Verification of the verbal communication will be added to the checklist discussed in recommendation A.2, and a conversation record documenting the communication will be filed in each debt folder.

The implementation of the CDS will eliminate much of the manual work involved in performing offsets and will allow the DMO to pursue the debts in a more aggressive and timely manner. In addition, the CDS will permit the DMO to access other pay systems (VPIS, SAMMS, IATS, AVEDS, CAPS, DISMS, STARS and MOCAS) for offset capabilities. The new system will help allow DMO personnel to have more time to engage in direct communication and interactions with contractor officials and others to resolve issues on their debt cases if need be.

Estimated Completion Date: The checklist will be established and implemented by June 15, 2001. Updates to the existing SOP will be completed by July 6, 2001.

Recommendation A.5: Establish specific requirements and timeframes for referring appropriate debts to the Treasury's centralized debt collection programs.

Management Comments: Concur. The existing DMO SOP requires that debts be transferred to other centralized debt collection programs 180 days after becoming delinquent. The debt may become delinquent at any time during the collection process; therefore, the 180-day timeframe does not always refer to 180 days after the debt is received by the DMO. For example, if a debt is transferred to the DMO and an installment payment plan is initiated, the debt is considered active and in the process of being collected. However, if the contractor makes timely payments for one year and then ceases to make installment payments, the DMO is required to transfer the debt within 180 days after the installment payments cease.

The implementation of the CDS (on May 4, 2001) allows for the more timely transfer of debts by tracking and identifying debts meeting the criteria for transfer to the Treasury Cross-Servicing Program (as well as other offset programs), Defense Criminal Investigative Service (DCIS), and the Department of Justice (DOJ). Instructions for referring contractor debts to the Treasury are covered in the DMO SOPs and in the DoD Financial Management Regulation, Volume 10, Chapter 18, Contractor Debt Collection.

The timely transfer of delinquent debts is identified as a vital management control within the DMO, and will be reviewed and reported to management quarterly as part of the management control program. The manager will review a statistical sample of transferred debts to determine if they were transferred within the established timeframe. The Quality Review Branch will perform a follow-up review of the DMO approximately 120 days after the installation of CDS to verify its effectiveness with regard to the timely referral of delinquent debts to the Treasury's centralized debt collection programs.

Estimated Completion Date: The follow-up review of the DMO will commence no later than August 31, 2001

Recommendation A.6: Establish procedures for utilizing the Defense Criminal Investigative Service and the Department of Justice when debts could involve criminal activities.

Management Comments: Concur. The possibility of criminal activity is identified during the initial review for validity by the DMO, and throughout the debt collection process as new information is received. The DMO SOP does not specifically address the transfer of debts to the DCIS or DOJ when the possibility of criminal activity exists. The update to the existing SOP will include procedures and guidelines for 1) determination of possible criminal activity, and 2) the timely referral of these debts to the DCIS or DOJ.

Estimated Completion Date: Updates to the existing SOP will be completed by July 6, 2001.

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