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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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CIVIL DIVISION

Dear Mr. Rhodes:

We have examined into selected aspects of the Veterans Administration's (VA) career residency program. Based on our examination, we believe that improvements are needed in VA's procedures relating to the collection of debts due the VA from former career residents who elect to pay liquidated damages in lieu of performing services they were required to provide under contractual agreements entered into with VA. Our work was performed at the VA Central Office (VACO) and at the VA Center, Los Angeles, California.

Our review at the Center showed that 53 career residents, or about 52 percent, of a total of 101 physicians and dentists appointed to the career residency program since July 1961, had breached their contracts regarding the performance of obligated service. Liquidated damages amounted to about \$400,000. The terms of the standard contract entered into between each career resident and VA provide that amounts career residents owe VA as restitution for failure to perform obligated service are to be completely liquidated within 2 years from the date of breach of the contract.

For 20 of the 53 residents, restitution was not made within the prescribed 2-year repayment period. For 10 of the 20 breached contracts, it took from 1 to 41 months beyond the prescribed 2-year period to liquidate the debts. For the other 10 breached contracts, the debts had not been completely liquidated at the time of our review even though from 6 to 44 months had elapsed beyond the repayment period.

Standards for collection of debts owed the United States are prescribed in Title 4, Chapter II, Code of Federal Regulations. The standards provide that Federal agencies shall take aggressive action, on a timely basis with effective follow-up to collect all claims of the United States arising out of the agencies' activities. In addition, the standards provide that (1) whenever possible, claims should be collected in full in one lump sum and (2) if installment payments are accepted, the payments should be sufficient in size and frequency to liquidate the Government's claim in not more than 3 years.

VA Manual MP-4, Part I, Chapter 5, and VA Regulations 910-921 implement the provisions of the foregoing collection standards. However, neither the manual nor the regulations make specific reference to collection of debts arising from breach of career residents' contracts. Furthermore, officials

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at the Center informed us that they considered VACO policy to be unclear on the collection action that should be taken after the 2-year repayment period had expired. They also expressed the belief that there was a need for specific guidelines for use by all VA hospitals in these instances.

Our examination disclosed that in 1965 the Center requested VACO's advice as to whether it should continue collection of liquidated damage payments from former career residents after the 2-year repayment period expired. In response, a VACO official stated that normally there would be no compensating benefit to the Government by modifying the contract to permit a former resident to pay the debt in more than a 6-month period beyond the required 2-year repayment period. He stated also that unless the facts strongly indicate other action as fully protective of the Government's interest, the case should be reported for collection action to the General Accounting Office (GAO).

The 2-year repayment period for four of the 20 residents who did not make restitution within the prescribed time period expired in July 1966. In accordance with the VACO guidelines mentioned above, the Center declared the debts uncollectible for the four former residents and forwarded the cases to GAO. However, since July 1966, the Center apparently has not followed VACO's guidelines. At the time of our review, the Center was continuing to accept periodic payments from seven of the 20 former residents although from 6 to 32 months had elapsed since the expiration of the 2-year collection period.

In response to a request made by the Center during our review for VACO's advice as to whether it should continue collection action in six of the seven cases, the Department of Medicine and Surgery (DMS) Board on Collection and Compromises advised that because liquidation of indebtedness has been prolonged greatly beyond the period provided in the career residency agreements, revised payment plans should be made. In implementing this advice the Center sent registered letters to the individuals concerned. These letters included promissory notes which provide for payment of the debts in 12 monthly installments with interest at 6 percent. Center officials informed us that if the promissory notes are not signed and returned by the former career residents, the matter would be turned over to GAO for collection.

To determine whether the conditions we found at the Center existed elsewhere, we contacted the Chiefs of the Fiscal Division at the Long Beach and Sepulveda, California, VA Hospitals. They informed us that they had cases on hand in which former career residents had breached their contracts and periodic payments were being made well beyond the 2-year repayment period.

They stated also that such cases are turned over to GAO only when the former career resident refuses to make payments. Furthermore, they stated that they had no guidelines from VACO concerning procedures that should be followed after the 2-year repayment period has expired.

The need for more effective collection action of debts arising from the breach of career resident's contracts was also pointed out in our report, dated February 13, 1969, on the settlement of accounts of accountable officers at the VA Hospital, New York, New York. At September 30, 1968, receivables were outstanding from seven former career residents who had breached their contracts by failing to perform their obligated service. For six of the seven outstanding receivables, at repayment rates then in effect, four would have been repaid from 12 to 158 months beyond the final date specified in the repayment agreement and two receivables would have been repaid in a timely manner. One receivable had no repayment activity for 17 months.

Subsequently, in reply to our report the Hospital Director informed us that the hospital had intensified its collection action policy regarding amounts due from former career residents and that two of the seven receivables had been completely liquidated. Also, he informed us that one receivable was being repaid in a timely manner and that the remaining four receivables had been referred to the DMES Board on Collections and Compromises.

In our opinion, there is a need for VACO to (1) issue instructions to VA hospitals explaining that its instructions concerning claims collection also apply to debts arising from career residency agreements and (2) establish follow-up procedures to ensure that hospitals comply with applicable instructions. In this regard, you may wish to consider establishing procedures requiring that hospitals periodically report to VACO on the status of receivables from former career residents.

Also, we believe that the inclusion of a clause in future career resident contracts providing for payment of interest, if the debt is not completely liquidated within the 2-year repayment period, might act as an incentive to elicit prompter repayment.

Therefore, we recommend that (1) instructions be issued to all VA hospitals with career residency programs explaining that instructions concerning claims collection also pertain to debts arising from career residency agreements, (2) follow-up procedures be established to provide assurance that hospitals comply with applicable instructions, and (3) consideration be given to including in future career residency contracts a clause providing for the payment of interest should the debt not be completely liquidated within the 2-year repayment period.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the review.

We would appreciate your comments as to the final action taken on these matters.

Sincerely yours,

Max Hirschhorn

Max Hirschhorn
Associate Director

Mr. Fred B. Rhodes
Deputy Administrator
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