



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20348

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FEB 1 1979

The Honorable W. Michael Blumenthal
The Secretary of the Treasury

Dear Mr. Secretary:

As we both know, the amount of Government spending is always a popular and often controversial subject. Now, the other side of the ledger is commanding more and more attention--the amount of money owed the Government. The most recent financial data available from Treasury shows the Government was owed about \$118 billion -- an amount which has grown steadily and will continue to increase. Much of this amount will, of course, be paid routinely as it becomes due. However, an increasingly large amount requires some type of collection action. Of even more concern to both of us is the fact that substantial amounts of receivables will be written off as uncollectible unless agency management devotes greater attention to this problem area.

We have been continually concerned about the [adequacy of agencies' collection efforts] and have issued many reports on needed improvements. One of our recent reports, titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public" (FGMSD-78-61, Oct. 20, 1978), deals with accounts receivable from the public. We also have several other efforts currently underway. ←

The Congress is also becoming increasingly concerned about the Government's debt collection problems. On December 18, 1978, I testified on this subject before the Subcommittee on Taxation and Debt Management Generally of the Senate Finance Committee. It is very likely that the Congress will hold additional hearings on debt management early this year.

We believe that basic information on delinquent amounts owed the Government is essential to both the legislative and executive branches for effective management. We recognize that your Department is cognizant of the need for improved governmental accounting and reporting and requires agencies to establish and report balances of allowances for losses or bad debt reserves. In August 1977, the Interagency Advisory Committee on Consolidated Financial Statements established a task group on allowances for losses on accounts and loans receivable. We are participating in and actively supporting the efforts of this task force to review problems in establishing adequate allowances and to recommend possible improvements. We will continue to lend our support and participation.

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In our work in this area, we have found that overall financial reporting of receivables is inaccurate and incomplete and is not receiving adequate attention from agency management. For instance, agencies are not required to report how much the Federal Government writes off as bad debts. We do know, however, that the amount is alarmingly high. In preparing for the December 18 hearings, we were able to obtain information showing that nine agencies wrote off \$428 million in fiscal 1978. I might add, however, that we had to individually contact each agency to determine this.

We noted in our accounts receivable study that many agencies did not prepare aging schedules of amounts owed. Such a schedule is a basic tool used in commercial practice to identify delinquent accounts. In fact, one of the questions asked by the Subcommittee Chairman during the December 18 hearings was how much of the \$118 billion was past due. Unfortunately we had to reply that such information was simply not available.

Both the GAO Policy and Procedures Manual for Guidance of Federal Agencies and the Treasury Fiscal Requirements Manual require agencies to establish allowances for uncollectible accounts. Most agencies either made no allowance for uncollectible receivables or the amount established was inadequate as reported on their statements of financial condition filed annually with the Treasury Department. (At September 30, 1977, the reported allowances totaled \$3 billion.) For example, the Office of Education with over \$600 million in defaulted direct student loans provided no allowance for anticipated uncollectible accounts in its September 30, 1977, statement of financial condition.

In view of these problems, we believe the Department of the Treasury needs to take the lead in seeing that all agencies report adequate information on debts owed the Government so that the Congress, the President, agency management, and the public will be accurately informed on financial management matters.

Specifically, we suggest that you require each agency to periodically report:

- The portion of its accounts and loans receivable that are past due and an aging schedule of delinquent accounts.
- The amount it wrote off or otherwise terminated collection action on during specified periods.

In addition, we urge you reemphasize to the agencies that they are required to make and report reasonable estimates of allowances for uncollectible amounts.

As a general rule, we believe amounts should be considered as past due if payment has not been made within 30 days from date of invoice or notice of payment due, unless terms of the contract or other agreement require a shorter payment period.

Regarding the frequency and method of reporting, we recognize that each agency is now required to submit statements of financial condition to the Treasury at each fiscal year end. The additional information we are suggesting could be reported as part of these statements. However, we believe you should consider requiring the agencies to report this additional information on a more frequent basis, such as quarterly. This would enable the users of this information to make comparative analyses more readily, to spot trends, and to initiate timely corrective action.

In conjunction with these expanded reporting requirements, we believe the Treasury Department, in cooperation with the Office of Management and Budget, should take an active monitoring, analysis and followup role to help ensure that executive agencies are doing as much as they can to collect amounts owed. Once the agencies begin to report the additional information on a regular basis, the Treasury Department could, for example

- determine which agencies have large past due amounts and writeoffs;
- identify trends, such as steady or rapid buildups of past due amounts and writeoffs, and large increases in claims arising from overpayments;
- consider the adequacy of allowances for uncollectibles in relation to total amounts owed and amounts past due;
- consider whether a comprehensive review of an agency's collection activities appears necessary either by internal auditors or by an external organization such as the Treasury Department or the Office of Management and Budget.

The type of financial reporting and analyses described in this letter are normal practices in the private sector. In this connection we have a report in process titled, "The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices." We believe the suggestions included in this report will help to greatly improve the Government's debt collection performance.

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We recognize that primary responsibility for the recording, reporting, and collection of receivables rests with the departments and agencies. We also recognize that our suggestions to you will require additional efforts on the part of both the Treasury Department and other executive agencies. However, we are convinced that better financial reporting and collection of the billions of receivables will be achieved only if there is a central focus on the existing problems.

We have discussed these matters with your Deputy Commissioner for Government Financial Operations. If you desire further information we would be happy to meet with you or your staff.

We are sending copies of this letter to the Director, Office of Management and Budget. We are also sending a copy to the Chairman, Subcommittee on Taxation and Debt Management Generally, Senate Finance Committee. Copies are also being sent to the Chairmen, Senate Committees on Governmental Affairs, Appropriations, and Finance and House Committees on Government Operations, Appropriations, and Ways and Means.

Sincerely,

~~SECRETARY OF THE TREASURY~~

Comptroller General
of the United States