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Administration Of Debt And
Payment Claims B-117604 (12)

United States Coast Guard

*UNITED STATES
GENERAL ACCOUNTING OFFICE*

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DEC. 20, 1971



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

CLAIMS DIVISION
IN REPLY PLEASE QUOTE

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B-117604(12)

Dear Admiral Bender:

This is our report on the administration of debt and payment claims at the United States Coast Guard Headquarters, Washington, D.C., and at the 8th District, New Orleans, Louisiana. We shall appreciate being advised of the actions taken or planned on the matters discussed herein.

Copies of this report are being sent to the Assistant Secretary for Administration, Department of Transportation, and to the Director, Office of Management and Budget.

Sincerely yours,

J. M. Campbell James
Director, Claims Division

Admiral Chester R. Bender
Commandant, United States Coast Guard 162

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D I G E S T

WHY THE REVIEW WAS MADE

Under its responsibilities required by the Federal Claims Collection Act of 1966 and by other laws, the General Accounting Office (GAO) reviewed regulations and operations involving claims by the United States (debt claims) and against the United States (payment claims) at the United States Coast Guard Headquarters in Washington, D.C., and at the 8th District in New Orleans, Louisiana.

GAO ascertained the extent of compliance with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies and with the Joint Standards issued under section 3 of the Federal Claims Collection Act of 1966 (31 U.S.C. 952).

FINDINGS AND CONCLUSIONS

Debt claims

Instructions relating to debt claims were consistent, for the most part, with the GAO manual and the Joint Standards. They should be modified, however, to reflect more clearly the intent of these guidelines. (See pp. 4, 5, 6, 7, and 25.) Collection operations could be improved by:

- Processing demand letters on a more timely basis. (See pp. 10 and 24.)
- Making demand letters more forceful. (See p. 11.)
- Attempting to increase the size of installment payments. (See p. 11.)
- Obtaining financial information about debtors. (See p. 12.)
- Exploring the feasibility of compromise. (See p. 13.)
- Utilizing available sources to locate debtors. (See p. 13.)
- Terminating claims only after all required collection actions had been taken. (See p. 13.)
- Adopting procedures to ensure that all penalty claims referred to the U.S. attorney for collection are recorded in amounts that the Government is entitled to collect. (See pp. 21 and 22.)

--Documenting claims files fully. (See p. 22.)

Payment claims

GAO was satisfied that decisions had been made at a responsible level as to whether a claim was doubtful and should be transmitted to GAO for settlement or whether a claim required an authoritative decision to serve as a precedent and should be submitted to the Comptroller General. (See p. 19.)

RECOMMENDATIONS OR SUGGESTIONS

To improve its claims operations, the Commandant, United States Coast Guard, should:

--Revise instructions to conform with the GAO manual and the Joint Standards.

2 --Confer with the Department of Justice about using the cost of collection in excess of the amount recovered as a basis for terminating collection action in admiralty claims involving \$400 or more. (See p. 17.)

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--Emphasize the importance of timely execution of all necessary collection actions.

More specific recommendations to the Commandant, United States Coast Guard, are discussed on pages 6, 7, 15, 16, and 25.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Comptroller, United States Coast Guard, has advised GAO that more effective procedures have been developed and implemented for collecting and terminating or suspending collection actions. (See p. 16.)

CHAPTER 1

INTRODUCTION

In the past few years, the Congress has accorded Government agencies increased authority in the settlement of claims, especially in connection with claims by the United States. The Federal Claims Collection Act of 1966 and the Joint Standards, issued by the Comptroller General and the Attorney General of the United States, imposed a statutory duty on the head of each agency to take collection action on all claims of the Government arising out of the activities of his agency.

Prior to the enactment of this legislation, most agencies had no authority to compromise general debts or to terminate collection actions on claims but were required to refer all administratively uncollectible claims to GAO for further action. Under the Budget and Accounting Act, 1921, which incorporated by reference the authority formerly contained in section 4 of the act of July 31, 1894, GAO is responsible for superintending the recovery of debts due the United States. The Joint Standards added the responsibility of reviewing agency regulations and the administration of claims operations in the executive departments and agencies.

CHAPTER 2

REVIEW OF INSTRUCTIONS RELATING TO DEBT CLAIMS

The Joint Standards provide that regulations prescribed by heads of agencies pursuant to section 3 of the Federal Claims Collection Act of 1966 be reviewed by GAO as part of its audits of agencies' collection activities. In discharging this responsibility, we examined, among others, the following regulations.

1. Code of Federal Regulations (33 CFR 25.301-325).
2. Chapter 1D07, Comptroller Manual (CG 264).
3. Headquarters Instructions (HQINST 7340.2).

The instructions promulgated by the Coast Guard in connection with the collection of claims in favor of the Government are generally adequate. In view of the responsibilities which the Federal Claims Collection Act of 1966 and the implementing Joint Standards place on administrative agencies, however, we believe that some revisions are necessary.

Section 25.323 of Title 33, Code of Federal Regulations, refers to 28 U.S.C. 2415 and 2416 and pertains to the statute of limitations running against contract and tort claims. It makes no reference to the establishment of a statute of limitations for recovery of money erroneously paid to or on behalf of any civilian employee of any agency of the United States 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 the services of such employee or member. (See par. 1D07005-C.2.c. of the Comptroller Manual and 28 U.S.C. 2415(d).)

Paragraph 1D07006-B.5. of the Comptroller Manual outlines conditions under which debts may be liquidated by regular installment payments. Section 102.8 of the Joint Standards provides for regular installment payments; it provides also that the size and frequency of such installment payments bear a reasonable relation to the size of the debt and the debtor's ability to pay.

The second demand letter (see Comptroller Manual's illustration 1D07006-2 for sample) advises a debtor that, if he is unable to repay a debt in full, he may make regular installment payments of not less than \$10 a month. The letter affords a debtor the option of making \$10 installment payments regardless of the size of the debt or of his financial circumstances. A better procedure would be to request the debtor to execute a financial statement so that a proper evaluation could be made of the acceptability of the debtor's proposed repayment plan and of the extent to which further collection action should be pursued.

HQINST 7340.2 was issued to implement the Federal Claims Collection Act of 1966 and to use in conjunction with the Comptroller Manual, chapter 1D07. These instructions could be improved by including an appropriate reference to title 4 of the GAO manual.

We also reviewed the instructions used by the Accounting Division and the Pay and Allowances Division for processing claims under the Federal Claims Collection Act of 1966. These instructions also could be improved by making reference to title 4 of the GAO manual and by including the following information in the paragraphs covering compromises.

The instructions state that an indebtedness arising from an exception taken by GAO may not be compromised by the Coast Guard. This is factually correct, but the requirement that any compromise offer made on a claim involving a GAO exception be forwarded to the Claims Division, GAO, for consideration and reply also should be included. (See sec. 103.1 of the Joint Standards.)

The instructions state also that an indebtedness may be compromised when, on the basis of evidence available, there is an indication that full collection cannot be made because of an inability to pay. Information should also be included that a claim may be compromised (1) when there is a real doubt concerning the Government's ability to prove its case in court for the full amount claimed, either because of the legal issues involved or because of a bona fide dispute as to the facts, or (2) if the cost of collecting the claim does not justify the enforced collection of the full amount. (See secs. 103.3 and 103.4 of the Joint Standards.)

In connection with discouraging compromises payable in installments, it should be added that, whenever a compromise offer is accepted on an installment basis as being in the interest of the Government, every effort should be made to obtain (1) an agreement for the reinstatement of the full amount of the prior indebtedness, less sums paid thereon, including provisions for acceleration of the balance due in the event of the debtor's default (sec. 103.2 of the Joint Standards), and (2) security for payment of the indebtedness as contemplated by section 102.8 of the Joint Standards.

RECOMMENDATIONS

We recommend that:

1. A reference to the applicable statute of limitations on actions for the recovery of money erroneously paid to or on behalf of any civilian employee of an agency of the United States 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 the services of such employee or member, be included in 33 CFR 25.323.
2. A statement to the effect that the size and frequency of an installment payment should bear a reasonable relation to the size of the debt and the debtor's ability to pay be included in paragraph 1D07006-B.5. of the Comptroller Manual. The paragraph should include also a requirement that financial information be obtained.

The second demand letter should inform the debtor that, if he is unable to pay the amount due in a lump sum, he should submit financial information so that his plan for payment by installments may be evaluated properly.

3. HQINST 7340.2 make reference to title 4 of the GAO manual. One of the purposes of this title is to prescribe the principles relating to administrative efforts to collect claims asserted by the Government and to prescribe the procedures controlling the reporting of such claims to GAO.

4. The instructions used by the Accounting Division and the Pay and Allowances Division:

- Require that a compromise offer made on a claim involving a GAO notice of exception be forwarded to the Claims Division, GAO.
- Specify that a claim may be compromised (a) when there is a real doubt concerning the Government's ability to prove its case in court for the full amount claimed, either because of the legal issues involved or because of a bona fide dispute as to the facts, or (b) if the cost of collecting the claim does not justify the enforced collection of the full amount.
- Provide that an agreement be obtained, if possible, for the reinstatement of the full amount of the prior indebtedness, less sums paid thereon, and for the acceleration of the balance due upon default in the payment of any installment.
- Make reference to title 4 of the GAO manual.

CHAPTER 3

REVIEW OF DEBT CLAIMS OPERATIONS--WASHINGTON, D.C.

To evaluate the effectiveness of collection operations, we reviewed written procedures, interviewed officials and operating personnel, and examined into cases under active collection and those on which collection actions had been suspended or terminated.

COAST GUARD HEADQUARTERS

We reviewed collection activities in the following divisions under the Office of the Comptroller.

1. Accounting Division.
2. Settlements and Records Branch of the Pay and Allowances Division. (This formerly was called the Claims and Examinations Branch of the Payments and Claims Division.)

We reviewed also collection activities in the Claims and Litigation Division of the Office of Chief Counsel.

Accounting Division

Administrative procedures and controls in connection with the establishment and collection of debts were found to be generally effective. The financial transactions which we selected to review also were processed satisfactorily. We pointed out to the Accounting Division, however, that, when collections were received in that Division on debts which had been processed by the Pay and Allowances Division, the latter Division should be notified of such collections within a reasonable time.

Pay and Allowances Division

The Settlements and Records Branch of the Pay and Allowances Division is charged with collecting overpayments made to military personnel of the Coast Guard when the indebtedness cannot be satisfied prior to separation or discharge. A review of military payroll activities which

occurred during the period July 1, 1968, through June 30, 1969, was made by the Internal Audit Division. The report which the Division issued on June 23, 1970, disclosed, among other things, the following weaknesses.

1. Active duty personnel listings were not reviewed to determine whether overpaid personnel had reenlisted in the Coast Guard so that offsets could be made.
2. Follow-up actions were not taken on a timely basis.
3. Follow-up collection letters were not forceful.
4. Follow-up letters were not always consistent with the circumstances. The third follow-up letter was a duplicate of the second follow-up letter in most instances.
5. Collection actions taken were not always persistent. Usually, when debtors failed to respond to three collection follow-up letters, no further attempt to collect was made.

The report also disclosed that the Pay and Allowances Division was not furnished with operating procedures for settling claims in accordance with the Federal Claims Collection Act. As a result no action was taken to settle about 120 claims which were 2 to 4 years old and which totaled approximately \$38,000.

Although the Chief, Pay and Allowances Division, advised the Internal Audit Division that corrective action would be taken, it was recommended that a follow-up be made within a reasonable time to determine whether specific actions taken had achieved the desired objectives.

FINDINGS AND CONCLUSIONS

Our review of the collection practices followed by the Settlements and Records Branch included claims both in an active collection status and in an inactive collection status. In addition, we noted a number of cases which had been written off by the Division Chief as uncollectible. Our review showed that the weaknesses reported by the

Internal Audit Division continued to exist and that there were additional areas in which improvements should be made.

Claims under active collection

Section 102 of the Joint Standards provides that the agency take aggressive and timely collection action by sending three written demands at 30-day intervals, unless a response to the first or second letter indicates that further demands would be futile. Our review of 75 claims, totaling \$17,500 (out of approximately 100 claims under active collection), showed that the following areas needed improvements.

Delays in issuance of initial demand letters

For 32 of the 75 claims, we were able to ascertain the dates that debts were reported to the Settlements and Records Branch for collection actions. For 16 of the 32 claims (50 percent), more than 3 months had elapsed before initial demand letters were issued.

Follow-up actions not taken on a timely basis

During April 1971 we found that 61 of the 75 claims required follow-up actions. For 29 of the 61 claims (47.5 percent), more than 6 months had elapsed from the dates that follow-up letters should have been issued. For 25 of the 61 claims (41 percent), there were delays of 3 to 6 months, and, for seven of the 61 claims (11.5 percent), letters should have been issued 1 to 3 months previously.

Some follow-up actions were taken on 23 of the 75 claims, but such actions were not taken on a timely basis and involved delays of 1 month to more than 6 months.

The official responsible for claims collection activities informed us that the delays had been caused by a shortage of personnel. In view of the findings reported by the Internal Audit Division to the Pay and Allowances Division approximately 1 year prior to our review, we believe that adequate controls possibly could have ensured more timely action in the processing of claims.

Collection letters not strengthened

The Internal Audit Division reported that the initial demand letter was weak in that it failed to inform the debtor that payment was required by the Federal Claims Collection Act. The first follow-up letter, generally accompanied with a copy of the initial demand letter, did inform the debtor that collection was required by law, but it did not inform him of the consequences of failure to make arrangements to pay. The second follow-up letter (third demand) was identical to the first follow-up letter, and it generally enclosed a copy of the initial follow-up letter. The amount of the debt was not shown in the follow-up letters. Although the Internal Audit Division recommended that demand letters be strengthened, we found no evidence that changes had been made.

Attempts not made to increase size of installment payments

We found instances in which debts were being liquidated over a period of years by intermittent monthly payments in minimal amounts but in which no attempts had been made to suggest to debtors that they increase the frequency and amounts of their payments. For example, on September 9, 1964, the Branch agreed to a debtor's proposal to liquidate his debt of \$793 by installment payments of \$10 a month. Intermittent payments in that amount reduced the balance of the debt to \$243 as of February 23, 1971. Thus the debtor had repaid only \$550 after a period of 6-1/2 years.

In another case an initial demand for repayment of \$770 was made against a debtor on September 24, 1965. Intermittent payments of \$10 a month reduced the debt to \$585 as of November 13, 1968. After a lapse of time, the debtor resumed making payments of \$10 a month. As of February 17, 1971, the balance was \$505. After a period of 5-1/2 years from the date of the original demand, only \$265 had been collected.

Section 102.8 of the Joint Standards provides that, if the debtor is financially unable to pay the indebtedness in one lump sum, payment may be accepted in regular installments. The size and frequency of such installment payments

should bear a reasonable relation to the size of the debt and to the debtor's ability to pay. The debt should be liquidated in not more than 3 years if possible.

Although the debts cited by us arose prior to promulgation of the Joint Standards, good business practices dictate that, at reasonable intervals, a debtor should be encouraged to increase the size of his payments if nominal amounts are being paid. If a debtor fails to pay as agreed, he should be advised promptly of the consequences of failure to pay.

Claims on which collection actions
were suspended

We previously referred to the Internal Audit Division's finding that the Settlements and Records Branch had taken no actions on approximately 120 claims because the Branch had not been furnished with operating procedures. We found that the number of claims in this category had been reduced to approximately 70.

Examination of 32 of these 70 claims, totaling \$18,600, showed that collection action generally had ceased either because debtors had failed to respond to three demand letters or because letters had been returned by the Post Office Department as undeliverable. For 24 of the 32 claims, the last collection actions were taken prior to 1970.

Financial information not obtained

To evaluate properly whether to accept installment payments and the size thereof or to determine whether to compromise, suspend or terminate collection action, or to refer the debt to GAO, financial information should be obtained from either a debtor or a credit report. We found that it was not the Division's practice to request a debtor to furnish a financial statement. In addition, no arrangements had been made to obtain credit reports on debts involving amounts which might have been considered for referral to GAO. (See 4 GAO 56.5(6) and sec. 105.3 of the Joint Standards which require reasonably current credit data.)

Feasibility of compromises not explored

Section 102.9 of the Joint Standards provides that agencies attempt to effect compromises, preferably during personal interviews, on claims of \$20,000 or less, exclusive of interest. Section 103 sets forth the criteria for compromising claims and refers specifically to those cases in which the debtors' financial ability will not permit payments of the claims in full or in which litigation risks or the costs of litigation dictate such action.

We found that no attempts had been made to explore the feasibility and desirability of soliciting offers in compromise.

Available sources not utilized in locating debtors

For 12 of the 32 claims, collection efforts ceased because letters to debtors were returned by the Post Office Department marked "unclaimed" or "moved, left no address." The Joint Standards provide that reasonable and appropriate steps be taken to locate missing debtors, and section 104.2 of the Joint Standards lists a number of sources which may be of assistance in locating debtors. These sources are included in the instructions being used by the Accounting Division and by the Pay and Allowances Division. We noted that in practice these sources were not utilized.

Debts written off as uncollectible

On January 18, 1971, the Chief, Pay and Allowances Division, addressed a memorandum to the Chief, Accounting Division, in which he listed the names, service serial numbers, and amounts due the Government on 107 claims. Of the 107 claims, 87 involved debts between \$100 and \$200. It was stated in the memorandum that a determination had been made that the debts were uncollectible and that no further collection actions would be taken. In our discussions with officials, we learned that

- debtors had not been requested to execute financial statements,
- exploration of compromises had not been considered,

--credit reports had not been obtained when appropriate, and

--locator actions had not been taken in those instances in which demand letters had been returned by the Post Office Department.

For a number of claims involving debts between \$100 and \$200, the last collection actions appear to have been taken quite some time before issuance of 4 GAO 56.3a, dated October 19, 1970, which raised the minimum amount of a debt proper for referral to GAO from \$100 to \$200. Thus determinations should have been made at an earlier date as to whether the debts were proper for referral to GAO.

In addition, the determinations for terminating collection actions were made although the bases for such actions were not set out in detail. Section 102.11 of the Joint Standards provides that all administrative collection actions be documented and that the bases for compromising or terminating or suspending collection actions be set out in detail. Such documentation should be retained in the appropriate claims files.

We were assured that in the future the files would be documented fully.

ACTION TO IMPROVE COLLECTION PROCEDURES
IN PAY AND ALLOWANCES DIVISION

During the course of our review, we informally advised officials of the Settlements and Records Branch and of the Pay and Allowances Division of the nature of our findings and of ways to improve their collection procedures. We assisted in promulgating a checklist of collection procedures and furnished copies of representative letters to debtors, which hopefully will prove to be more effective in the collection effort. In addition, we provided copies of GAO letters and/or forms requesting the assistance of postmasters, motor vehicle departments, the Internal Revenue Service, etc., in locating debtors whose whereabouts were unknown.

On March 22, 1971, in a letter addressed to the heads of departments, independent establishments, and others concerned, attention was directed to the act of July 18, 1966 (28 U.S.C. 2415), which imposes limitations on the time within which the Government must institute suit for recovery on various categories of claims of the United States. We stressed that it was necessary for each Government agency to screen its debt files to determine the date on which legal action would be barred on each debt of \$400 or more and to take all actions required under the Joint Standards on a timely basis.

We furnished a copy of the March 22 letter to appropriate officials and called their attention to the fact that legal action would be barred in the near future on several of their debts. We were assured that the claims would be handled on a timely basis.

RECOMMENDATIONS

Although some improvement has been noted in the collection operations of the Pay and Allowances Division since our review, we recommend that the Commandant, United States Coast Guard, take appropriate steps to ensure that:

1. Subordinates are made clearly aware of the necessity for the timely completion of each action enumerated on the checklist of procedures.

2. Periodic spot checks are made to ascertain whether timely and aggressive collection actions are being taken.
3. Debtors are requested, at appropriate intervals, to increase the amounts of their payments in those cases in which nominal amounts are being received.
4. The feasibility of soliciting compromises is actively explored in accordance with the Joint Standards.
5. Proper officials are furnished with a list of the so-called old cases and are periodically advised of their status.
6. All claims of \$200 or more which cannot be collected, compromised, or on which collection actions cannot be suspended or terminated are referred to GAO on a timely basis.

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By letter dated August 3, 1971, Rear Admiral Edward D. Scheiderer, Comptroller, United States Coast Guard, advised us that more effective procedures for collecting and terminating or suspending collection actions had been developed and implemented as a result of our assistance and cooperation during the review.

CLAIMS AND LITIGATION DIVISION,
OFFICE OF CHIEF COUNSEL

On January 1, 1969, the Chief Counsel and the Legal Staff were removed from the Office of the Commandant and the Office of the Chief of Staff, respectively, to form the Office of Chief Counsel.

During our review we examined semiannual reports submitted by the Chief Counsel to the General Counsel, Department of Transportation, concerning the disposition of claims under the Federal Claims Collection Act. The report for the period ended June 30, 1970, showed that collection actions had been terminated on four claims because the statute of limitations had run. The debts, in amounts ranging from \$569.27 to \$8,667.40, resulted from damage to

Coast Guard property or to aids to navigation. The claims arose October 16, 1964; March 15, 1966; April 11, 1966; and April 11, 1967.

Under the act of July 18, 1966 (28 U.S.C. 2415), an action for money damages brought by the United States or an officer or agency thereof which is founded upon a tort shall be barred unless the complaint is filed within 3 years after the right of action first accrues. Any right of action subject to that act which accrued prior to the date of enactment, however, is deemed to have accrued on the date of enactment. Thus the first three claims were barred on July 18, 1969, and the last one on April 11, 1970. Determinations should have been made as to whether to report the four debts directly to the Department of Justice for suit not less than 6 months prior to the expiration of the period within which suit could have been filed. As stated on page 15, it is incumbent on each Government department and agency to screen its debt files to determine the date on which action will be barred on each debt.

We were advised by an official in the Claims and Litigation Division that the failure to take precautions to prevent a right of action from being barred under the statute of limitations was due to the large volume of work which was handled by only one attorney until some time in 1969. Since then, additional personnel have been added and procedures have been devised to ensure the taking of prompt action.

The semiannual reports also showed that collection actions on a number of admiralty claims of \$400 or more had been terminated because the costs of collection would have exceeded the amounts recovered. An official in the Claims and Litigation Division advised us that it was the feeling in his office that the \$400 figure used in referring claims to the Department of Justice was just a floor and that the Coast Guard had the right not to refer a claim to the Department of Justice if it believed that the cost of collection would exceed the amount recovered.

We discussed with an official in the Admiralty and Shipping Section, Civil Division, Department of Justice, the matter of terminating collection actions on admiralty claims. He stated that generally the cost of collecting

was not a factor as the actions were in rem against vessels which could be seized. He stated also that the Department of Justice could collect penalties of \$500 to \$2,500 for damages to aids to navigation. He stated further that his Department was interested in collecting these debts because of the perils to shipping and because of a desire to avoid liability suits against the Government. In view of the divergence of opinions between the Coast Guard and the Department of Justice, we suggest that the Coast Guard take this matter up directly with the Department of Justice and advise us as to how it is resolved.

CHAPTER 4

REVIEW OF PAYMENT CLAIMS INSTRUCTIONS AND OPERATIONS

WASHINGTON, D.C.

Chapter 01, section D, of volume 2 of the Comptroller's Manual, which provides general procedures relating to claims against the Coast Guard, appears to be generally adequate and in conformity with the GAO manual.

Our review showed that decisions had been made at a responsible level as to whether (1) a claim was doubtful and should be transmitted to GAO for settlement or (2) a claim required an authoritative decision to serve as a precedent and should be submitted to the Comptroller General.

CHAPTER 5

REVIEW OF DEBT AND PAYMENT CLAIMS OPERATIONS

8TH DISTRICT

In March 1971 we completed a review of claims by and against the Coast Guard during fiscal years 1969 and 1970. We found that the administration of payment claims was generally satisfactory. We did, however, question the settlement of a claim for witness fees. We believe that the claim should have been forwarded to GAO in accordance with title 4, section 5.2 of the GAO manual, which defines a doubtful claim.

The results of our review of debt claims indicate a need for improved procedures to ensure that the values of claims referred to the U.S. attorney for collection are properly recorded in the accounts and that the bases for terminating collection actions are adequately documented in the case files. We noted that, although the administration of debt claims was for the most part satisfactory, the timeliness of collection actions as prescribed by the Joint Standards generally was not satisfactory.

TYPE AND VOLUME OF CLAIMS

The principal types of claims asserted by the 8th District are those for damage to or destruction of aids to navigation and those for penalties for violation of navigation and vessel inspection laws and regulations. During fiscal years 1969 and 1970, the accounting records showed the following claims activities.

Activity during fiscal years 1969 and 1970	Type of claim		Total
	Damage to aids to navigation	Marine and boating safety penalties	
Number of claims recorded	141	1,323 ^a	1,464
Value of claims recorded	\$312,351	\$77,935	\$390,286
Amount collected	186,035	47,983	234,018
Amount compromised or mitigated	11,091	14,145	25,236
Amount referred to the U.S. attorney	10,361	22,430 ^b	32,791
Amount referred to headquarters	23,062	-	23,062
Amount terminated	10,758	5,770 ^b	16,528
Amount outstanding as of June 30, 1970	145,135	6,542 ^b	151,677

^aExcludes penalty claims which were dismissed with letters of warning or which were remitted in full. The latter were not recorded in the accounts.

^bSome penalty claims referred to the U.S. attorney were not recorded at all, whereas others were recorded at mitigated values substantially less than the Coast Guard was entitled to collect. As a result these figures are understated by undetermined amounts.

NEED FOR IMPROVED PROCEDURES IN ACCOUNTING FOR
PENALTY CLAIMS REFERRED TO THE U.S. ATTORNEY

We selected for review 39 penalty claims, totaling \$9,930, which the District Legal Officer referred to the U.S. attorney for collection. We found that 13 of these, totaling \$3,700, had not been recorded in the accounts. Although the others, totaling \$2,745, were recorded as receivables, most were valued at the initially mitigated amounts, whereas the U.S. attorney was requested to collect the statutory amounts which totaled \$6,230. As a result of these omissions and undervaluations, these receivables, as recorded by the district, were understated by \$7,185.

We were informed that penalties were not recorded as receivables at the time notices of violations were issued because they generally were dismissed with letters of warning, remitted in full, or mitigated to amounts substantially less than the statutory penalties. The receivable is recorded instead on the basis of a second letter to the violator which demands payment and advises him of the assessed penalty. It also notifies him that, if the assessed penalty is not paid promptly, the violation will be referred to the U.S. attorney for appropriate action.

The operating divisions apparently referred the 13 claims to the U.S. attorney through the District Legal Officer without issuing the type of follow-up letter which is used as the basis for recording the receivable. The Merchant Marine Safety Manual (par. 1-5-135c) provides that, when penalty claims are referred to the U.S. attorney for collection, the violator is to be informed that the full penalty has been invoked. We found, however, no evidence that this had been done and that the manual did not provide for routing copies of such letters to the accounting section as a basis for recording the receivables.

Although copies of letters referring penalty claims to the U.S. attorney for collection of the statutory amounts were routed to the accounting section, those receivables which were recorded in the mitigated amounts were not adjusted to reflect the increased amounts of the claims. For 23 of these claims which were closed by the U.S. attorney during fiscal years 1969 and 1970, we noted that the amounts collected totaled \$1,817 for claims which were recorded at only \$965.

District accounting officials agreed that the full value of all claims should be recorded but stated that current procedures did not provide for recording claims in statutory amounts unless those amounts were specifically asserted against the violators. They stated also that any changes in prescribed procedures would have to be approved or authorized by headquarters.

INADEQUATE DOCUMENTATION OF BASES
FOR TERMINATING COLLECTION ACTIONS

We reviewed 21 claims, totaling \$14,481, on which district officials terminated collection actions during fiscal years 1969 and 1970. The Chief of the Merchant Marine Safety Division cited an inability to locate violators as the basis for terminating collection actions on 13 penalty claims in amounts ranging from \$200 to \$540. In the same period the Chief of the Recreational Boating Safety Branch of the Operations Division and the District Legal Officer cited the same reason for terminating collection actions on claims for \$500 and \$767, respectively. The documentation in the case files indicated that the extent of effort made to locate these debtors varied considerably.

In two cases involving penalties asserted by the Merchant Marine Safety Division and in the one case closed by the District Legal Officer, field personnel visited several addresses in efforts to deliver demands for payment personally. In four instances attempts were made to contact violators through inquiries to vessel owners or employers. In one instance apparently the only effort made was to have field personnel check the telephone directory in another city for an address provided by a towing company.

In the seven other cases, including the one closed by the Recreational Boating Safety Branch, the documentation did not show that any effort had been made to locate the debtors after demands mailed to them had been returned as undeliverable.

Under procedures established by the Chief of the Merchant Marine Safety Division in July 1969, field offices are to maintain records of the names of violators whom the district has been unable to locate. These records are to be screened when individuals apply to Coast Guard

installations to renew registration certificates. Field personnel are to request payment and at least to obtain current addresses from any debtors contacted in this manner. We were advised that, although these procedures had located very few debtors, they had not been in use long enough to determine their effectiveness. Many such certificates are renewable at intervals of 2, 3, or 5 years.

In July 1969 the Merchant Marine Safety Division discontinued the practice of requesting field personnel to attempt to deliver demands for payment personally on the basis of a shortage of personnel available for such work. The Chief of the Recreational Boating Safety Branch, however, stated that he would continue the practice since the violators in such claims generally were not required to obtain registration certificates.

Although section 104.2 of the Joint Standards does not prescribe the extent of effort to be made in locating missing debtors, it does suggest the use of telephone directories, city directories, postmasters, drivers' license records, automobile title and license records, State and local governmental agencies, district directors of the Internal Revenue Service, other Federal agencies, employers, relatives, friends, and credit agency skip-locate reports. Also, section 102.11 of the Joint Standards provides that all administrative collection actions be documented and that the bases for terminating collection actions be set out in detail.

The Chiefs of the Merchant Marine Safety Division and the Recreational Boating Safety Branch stated that in some instances efforts to locate violators might not have been documented. They stated also that the Coast Guard frequently lacked adequate evidence to sustain court actions for collections of penalty claims and that this should have been cited as the basis for terminating collection actions on some of these claims. These officials informed us that reasonable efforts would be made to locate violators when circumstances warranted such efforts and that the files would be documented as to the collection actions taken and the bases for terminating collection actions.

COLLECTION ACTIONS NOT TIMELY

We reviewed the case files of 180 claims to evaluate the timeliness of collection actions. These included 104 claims for damages to aids to navigation and 76 penalty claims; the average values of claims reviewed were \$2,573 and \$339, respectively.

Coast Guard regulations and instructions recommend 15 days' lapse between the initial demand and follow-up action. We analyzed the claims to identify the time spent in processing the pertinent documents from the field through the district office. We found that it took the field offices an average 3-2/3 months to process the reports of violations and to send them to the district office. The Merchant Marine Safety Division took an average 1-1/2 months to assert the penalties after receiving the documents from the field.

We were advised that much of the initial delay in processing the reports of violation was due to the need to conduct field investigations of marine casualty cases. All notices of violations and certain penalty claims correspondence are routed through the District Legal Office for review to ensure that the proper citations are used. Delays in processing claims actions in the District Legal Office were attributed to other work of higher priority, principally court martial actions. Officials of the various units responsible for claims collection activities informed us that they attempted to have all claims processed on a timely basis. They stated, however, that the claims work load fluctuated and that they did not have sufficient personnel to maintain all claims collection activities on a current basis during periods of peak work loads.

We found that the monthly volume of claims recorded did fluctuate considerably, but we did not attempt to identify and analyze the causes of delays in issuing follow-up demands for payment or referrals to the U.S. attorney. We believe, however, that, by emphasizing the need for more timely action to personnel responsible for pursuing the collection of claims, this situation might be improved.

RECOMMENDATIONS

We recommend that the Commandant, United States Coast Guard:

1. Take appropriate action to revise procedures for recording claims in statutory amounts, especially those penalty claims which are referred to the U.S. attorney for collection. The GAO manual (subsec. 12.4 of title II) prescribes that accounts receivable be delineated in this manner.
2. Call the attention of district personnel to the need for more timely action in pursuing the collection of claims and require the districts to identify periodically and report on the timeliness of collection actions.

CHAPTER 6

SCOPE OF REVIEW

We recently completed our review of the debt and payment claims operations at the United States Coast Guard Headquarters in Washington, D.C., and at its 8th District in New Orleans. The review was made not only to evaluate the settlement of claims but also to determine whether collection policies and practices were consistent with:

1. The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, referred to as the GAO manual.
2. Regulations issued jointly by the Comptroller General and the Attorney General of the United States (4 CFR 101-105) under section 3 of the Federal Claims Collection Act of 1966 (31 U.S.C. 952). These regulations are referred to as the Joint Standards.

We reviewed pertinent regulations as well as collection and payment policies and practices. We examined records, reports, and correspondence relating to claims by and against the Coast Guard. In addition, we interviewed officials and operating personnel.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.