

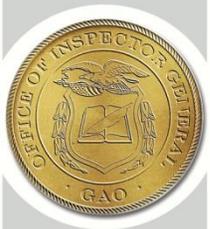
Office of Inspector General  
U.S. Government Accountability Office

# Employee Debt

Opportunities Exist to Improve Timely  
Collection

Accessible Version

March 2022  
OIG-22-1



# Office of Inspector General U.S. Government Accountability Office

March 1, 2022

## EMPLOYEE DEBT

### Opportunities Exist to Improve Timely Collection

#### Objective

This report addresses the extent to which GAO has established effective internal control to collect debts owed to the agency by current and former employees in a timely manner, and consistent with federal requirements and GAO policy.

#### What OIG Found

While GAO has established debt collection policies consistent with federal requirements, the agency's Human Capital Office (HCO) can improve timely collection of GAO employee debt.

- HCO missed opportunities to collect debts from separating employees through internal offset. For example, HCO did not collect all or a portion of 13 of 21 debts we reviewed from final salaries and lump sum payments made to separating or separated employees because it lacks detailed procedures for doing so even when it would result in more timely collection of debts.
- HCO approved repayment agreements without verifying financial ability to pay. Although required by GAO's debt collection policy, HCO has not verified employees' assertions that they are financially unable to repay debt in one lump sum. For example, HCO officials approved voluntary repayment agreements for 8 of the 23 debts in our sample without financial statements supporting their determinations. HCO accepted payment terms ranging from 12 months to up to 5 years, but officials were unable to provide analyses or justification on why the approved repayment plan terms were deemed acceptable.
- HCO did not always meet mandated timeframes for referring delinquent debts for collection. Of the 16 delinquent debts in our review, only 7 debts were referred to the Department of the Treasury within the mandated timeframes. Despite HCO's key role in carrying out GAO's debt collection process, HCO lacks written processes or procedures for effective oversight of the status of aging and delinquent debts.

#### What OIG Recommends

OIG recommends that GAO take three actions to improve timely collection of employee debts: (1) update its debt collection standard operating procedure to specify when and how to use internal offset to collect debts owed to the agency more timely from separating employees; (2) establish a process and document procedures to carry out GAO's debt collection policy with respect to voluntary repayment agreements, to include requests for and documentation to verify the employee's ability to pay; and (3) establish written procedures to ensure delinquent debts are promptly referred to Treasury for collection proceedings. GAO agrees with the recommendations.



O I G

Office of Inspector General

United States Government  
Accountability Office

## Letter

March 1, 2022

**To:** Gene L. Dodaro  
Comptroller General of the United States

**From:** Mary Arnold Mohiyuddin

Acting Inspector General

**Subject:** Transmittal of Office of Inspector General's (OIG) Audit Report

Attached for your information is our report, *Employee Debt: Opportunities Exist to Improve Timely Collection* (OIG-22-1). The audit objective was to assess the extent to which GAO has established effective internal control to collect debts owed by current and former employees in a timely manner, and consistent with federal requirements and GAO policy.

The report contains three recommendations to improve timely collection of employee debts. In its written comments, GAO agreed with our recommendations. Management comments are included in Appendix II of our report. Actions taken in response to our recommendations are expected to be reported to our office within 60 days.

We are sending copies of this report to the other members of GAO's Executive Committee, GAO's Congressional Oversight Committees, GAO's Audit Advisory Committee, and other GAO managers, as appropriate. This report is also available at <https://www.gao.gov/ig> and <https://www.oversight.gov/reports>.

If you have questions about this report, please contact me at (202) 512-5748 or [mohiyuddinm@gao.gov](mailto:mohiyuddinm@gao.gov).

Attachment

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Abbreviations

ABCO	Administrative Billings and Collections System
CHCO	Chief Human Capital Officer
DCIA	Debt Collection Improvement Act
HCO	Human Capital Office
NFC	National Finance Center
TOP	Treasury Offset Program

## Introduction

When federal agencies overpay their employees, the employees owe the debt to the United States government. Potential debts may arise from transactions such as salary overpayments, unpaid health insurance premiums, overdrawn leave balances, non-returned equipment, travel overpayments, or unearned transit benefits. As of February 1, 2021, debts owed by current and former employees to GAO totaled approximately \$143,000. GAO is responsible for collecting debts, including employee debts, in a timely manner, consistent with federal requirements and GAO policy.

Under federal debt collection standards, agencies are required to aggressively collect debts of money or property arising out of the activities of, or referred to, the agency.<sup>1</sup>

## Objective, Scope, and Methodology

This report addresses the extent to which GAO has established effective internal control to collect debts owed by current and former employees in a timely manner, and consistent with federal requirements and GAO policy.

To address our objective, we reviewed applicable laws; federal regulations; guidance; and GAO's debt collection order that establishes policies for the agency to use in collecting employee debts owed to the agency, focusing on internal offset, installment payments, and the Department of Treasury's cross-servicing and centralized administrative offset programs. We interviewed and obtained documentation from GAO officials within the Human Capital Office (HCO) Performance Compensation and Management Center, for debt collection program management to better understand agency debt collection policy and procedures for employee debt case management and monitoring. We also interviewed and obtained documentation related to employee debt from GAO officials within the Accounting and Financial Reporting Branch of the Financial Management and Business Office.

For our review, we chose 23 employee debts that had outstanding balances as of February 1, 2021, and various combinations of other characteristics:<sup>2</sup>

- employee status (e.g., current and separated)
- debt type (e.g., salary overpayment, corrected time and attendance report, recruitment bonus repayment, student loan repayment, leave advance repayment,

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<sup>1</sup>31 C.F.R. §900-904.

<sup>2</sup>While the results of our work cannot be generalized to all employee debts owed to GAO, as of February 1, 2021, they provide insight into the effectiveness of internal control to collect employee debts in a timely manner.

missed health insurance premium, negative leave balance, unearned transit benefit)

- debt status (e.g., not delinquent, delinquent, written-off as currently not collectible).<sup>3</sup>

For each debt in our sample, we obtained and analyzed debt notification letters issued to determine the nature, amount, and basis of the debt, as well as the date by which payments must be made to avoid collection proceedings. We also reviewed receivable and accounting collection records to determine the debt amount, corresponding debt establishment and billing dates, payment activity, and current debt status.

We determined that the data we obtained were sufficiently reliable for the purposes of our review. For a full description of our scope and methodology, please see appendix I.

We conducted this performance audit from January 2021 through January 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## Background

Federal law authorizes the head of an agency to attempt collection of all claims of the United States for money or property arising out of the activities of or related to that agency. The Debt Collection Improvement Act of 1996 (DCIA) required that federal debt collection activities be consolidated to minimize debt collection costs, and provided federal agencies with a variety of delinquent debt collection tools. Ordinarily, debts must be collected in one lump sum where possible. Federal regulations provide that if the employee retires or resigns or if their employment ends before collection of the debt is completed, collection should occur from subsequent payments of any nature, such as final salary and lump-sum leave payments, due the employee from the paying agency as of the date of separation to the extent necessary to liquidate the debt. Agencies should provide for offset from later payments of any kind due the former employee if the debt cannot be liquidated by offset from any final payment due the former employee as of the date of separation.

Following an employee's separation, debt collection due process requirements necessitate 60 days notification prior to referring delinquent employee debt to

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<sup>3</sup>A debt is "delinquent" if it is past due, is legally enforceable, and has not been paid by the date specified in the agency's initial written demand for payment or applicable agreement. Write-off of a debt is an accounting action that results in reporting the debt/receivable as having no value on the agency's financial and management reports. Generally, write-off is mandatory for debts delinquent more than two years. Currently not collectible is a classification after write-off when the agency has determined that debt collection efforts should continue. This classification does not affect agencies' statutory and regulatory responsibilities to pursue debt collection.

consumer credit bureaus or the Department of the Treasury’s (Treasury) Bureau of Fiscal Service for centralized debt collection. According to federal debt collection standards, a debt is “delinquent” if it is past due, is legally enforceable, and has not been paid by the date specified in the agency's initial written demand for payment or applicable agreement.

Provisions Governing GAO Debt Collection Activities

Several statutory and regulatory provisions related to federal employee debt collection are applicable to GAO, as noted in Table 1.

**Table 1: Key Statutory and Regulatory Provisions Governing Employee Debt Collection Applicable to GAO**

Debt Collection Tool	Authority
<i>Provisions for current and separated employees</i>	
Demand letters	31 C.F.R. §901.2(a)  Requires an agency to provide the debtor with a written demand letter informing the debtor of the consequences of failing to cooperate with the agency to resolve the debt.
Internal (administrative) offset	31 U.S.C. §3716  Allows an agency to withhold funds payable by the United States (including funds payable by the agency). This is known as administrative offset. Offset against an employee’s final salary and lump sum payments are examples.
Delinquency reporting	31 U.S.C. §3711(e)  Requires an agency to report delinquent debts to credit bureaus.
Cross-servicing	31 U.S.C §3711(g)(1)  Requires an agency to notify and transfer eligible debts that are more than 180 days delinquent to Treasury for debt collection services, a process commonly called “cross-servicing.”
Centralized administrative offset	31 U.S.C. § 3716(c)(6)  Requires an agency to refer any debt that is over 120 days delinquent to the Treasury Offset Program (TOP) for centralized administrative offset. TOP is a government wide debt matching

Debt Collection Tool	Authority
	and payment offset program that uses a centralized delinquent debtor database to match specific delinquent debts against certain payments to be made by the government.
<i>Provisions for current employees only</i>	
Salary offset	5 U.S.C. §5514(a)(1)  Allows an agency to offset (deduct) from an employee's current salary account to satisfy debt that is owed.

Source: OIG analysis of debt collection provisions in laws and regulations. | OIG-22-1.

GAO implements these provisions through GAO Order 0254.1, *Debt Collection*. The order establishes policies to use in collecting employee debts owed to GAO.

### Roles and Responsibilities in GAO Debt Collection

According to GAO's debt collection order, authority to conduct debt collection activities is delegated to the Chief Human Capital Officer (CHCO) or designee. The CHCO has designated HCO as responsible for initiating and carrying out the debt collection process on GAO's behalf. The National Finance Center (NFC) also has a role in performing certain payroll processing and debt management and delinquent debt services through a service-level agreement with GAO.<sup>4</sup> Table 2 details HCO and NFC's general roles and responsibilities for collecting debts from current and separated GAO employees.

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<sup>4</sup>United States Department of Agriculture National Finance Center *Fiscal Year 2021 Service Level Agreement Payroll/Personnel System*.

**Table 2: Roles and Responsibilities of HCO and NFC for Collecting Debts from GAO Employees**

Agency/Center	Roles and Responsibilities
HCO	<ul style="list-style-type: none"><li>• Initiates and carries out the debt collection process on behalf of GAO, following confirmation of the existence and validity of a debt, the basis for indebtedness, and the amount of the debt</li><li>• Reports to consumer reporting agencies certain data pertaining to delinquent debts, where appropriate</li><li>• Uses administrative offset procedures, including salary offset, to collect debts</li><li>• Takes any action necessary to promptly and effectively collect debts owed to the United States</li></ul>
NFC	<ul style="list-style-type: none"><li>• Establishes, monitors, and collects receivables related to GAO employee debt</li><li>• Creates notices related to current and former employees related to GAO debt, including: sending a demand letter, sending requests for lump-sum payment, setting a payment due date, explaining potential consequences for not repaying the debt</li><li>• Monitors and collects delinquent employee debts</li><li>• Uses debt collection tools required by Treasury for delinquent debt collection</li></ul>

Source: OIG analysis of GAO debt collection policies and National Finance Center Service Level Agreement | OIG-22-1.

### Overview of GAO Debt Collection Process for Indebted Employees

A GAO employee’s indebtedness triggers the agency’s debt collection process through HCO. An employee debt is generally established when HCO determines that there is a debt and identifies its nature and basis. Once the debt incurred by a GAO employee is identified, HCO is responsible for initiating the debt collection process with an email notification to the employee of the incurred debt providing information including possible repayment options, such as internal and salary offset; and if the debt is not repaid, initiating the written demand process through NFC for collection of the debt. NFC issues a demand letter to the indebted employee to provide information on the nature, amount, and basis of the debt; date by which payment should be made to avoid late charges; and the agency’s intent to enforce collection (if unpaid). GAO attempts to obtain voluntary repayment of the debt from the employee, through NFC.

If the debt cannot be collected through voluntary repayment, NFC provides credit bureaus certain data pertaining to a delinquent employee debt where appropriate. In addition, NFC refers debts more than 120 days delinquent to Treasury for centralized administrative offset and cross-servicing. Treasury’s collection methods include but are not limited to salary offset, centralized administrative offset, tax refund offset, referral to debt collection contractors, disclosure to a credit reporting agency and referral to the Department of Justice.

### *Opportunities Exist to Improve Timely Collection of Employee Debts*

GAO established employee debt collection policies consistent with federal requirements. However, in the employee debt cases we reviewed, we found HCO missed opportunities to collect all or a portion of debts owed to the agency by separating employees through internal offset. In addition, HCO approved repayment agreements without verifying indebted employees' ability to pay their debts in a lump sum. Further, mandated timeframes for HCO's referral of delinquent debt to Treasury were not always met.

### *HCO Missed Offset Opportunities to Collect Debts Owed by Separating Employees*

Under federal debt collection regulations and GAO's debt collection order, HCO may collect a debt through internal offset against monies due to separating or separated employees from their final salary and lump-sum leave payments.

In our detailed review of collections records, we found HCO made limited use of internal offset to collect debts owed to GAO by separating employees in the debt cases we reviewed. Employees who separated from GAO accounted for 21 of the 23 debts owed in our sample. Of those 21 debts,

- 13 debts were not offset from final salaries and lump sum payments made to separating or separated employees.
- 7 debts were owed by employees who received little to no final pay at time of separation.
- 1 debt was partially offset from the final salary payment at the employee's request.<sup>5</sup>

### *HCO could have collected all or a portion of 13 debts through offset*

Our review of earnings and leave statements and payroll history data showed that HCO missed opportunities to collect all or a portion of debts from separating employees through internal offset.<sup>6</sup> In 9 of these 13 cases, we found that the separating employees received final payments from GAO, and failed to pay their debt obligations once issued demand letters. HCO officials presented various reasons for not utilizing internal offset for separating employees; for some instances, officials

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<sup>5</sup>In this case, a separating employee who was transferring to another federal agency in January 2021 owed 2 debts totaling over \$11,000—one debt was not in our sample, and the other was over \$8,000 for advanced leave. The employee requested that HCO withhold the final paycheck, and HCO applied it to satisfy the debt not included in our review. The remaining amount (\$1,700) was applied to the advanced leave debt that was included in our review. HCO billed the employee for the remaining portion of the debt (\$6,300).

<sup>6</sup>GAO Order 2300.3, *Exit Clearance Procedures for Personnel Separating from GAO*, requires collection of a debt through internal offset against monies due to separating or separated employees from their final salary and lump-sum leave payments.

stated employee debts were not identified by HCO until after final paychecks were released. Some examples of missed offset opportunities are below:

- **No internal offset; delinquent debt subsequently collected through Treasury.** HCO was notified in late May 2020 that an employee was separating from GAO in June 2020. The employee owed \$324 for unearned transit benefits. HCO did not collect the debt owed from the employee's final paycheck of approximately \$3,500. The employee failed to pay the debt. The delinquent debt was reported to credit bureaus and collected 8 months later in March 2021 after it was referred to the Treasury.
- **No internal offset; the delinquent debt has not been collected.** A separating employee who was transferring to another federal agency in February 2020 owed \$6,800 for a student loan repayment debt. In December 2019, HCO notified the employee of the debt. HCO did not offset the employee's final salary payment of almost \$2,000, which would have satisfied a portion of the debt. The indebted employee made one payment of \$100 and did not make any payments after that. The delinquent balance with penalties and interest totaled over \$7,100 at October, 2021.
- **No internal offset; a portion of the debt was later written off, but eventually collected.** Another employee resigned from GAO owing \$14,700 for a student loan repayment debt. HCO did not offset the employee's final salary payment and lump-sum annual leave payment of \$10,400, which would have satisfied almost all of the debt. HCO issued a demand letter to the indebted employee in September 2015. The indebted employee stopped making payments in February 2020, leaving a remaining balance due of about \$2,300. The debt was subsequently reported to credit bureaus and Treasury. In April 2020, GAO wrote off the balance due (about \$2,300) as currently not collectible.<sup>7</sup> Treasury ultimately collected the remaining balance in June 2021.

### *HCO lacks detailed internal offset procedures*

Officials responsible for GAO's debt collection process stated that because such practice could create financial hardship for separating employees, HCO generally does not initiate internal offset. However, HCO presented no evidence demonstrating that lump-sum payments or internal offset would result in undue financial hardship for the employees in our sample. Accepting payments in installments as an alternative to collecting the debt by lump-sum or offset should be a case-by-case determination, supported by documentation of the financial condition of the indebted employee, consistent with federal debt collection standards and GAO debt collection policy.

HCO's standard operating procedure (SOP) for indebtedness includes the practice of internal offset when requested by a separating employee. The SOP also refers to

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<sup>7</sup>Write-off of a debt is an accounting action that results in reporting the debt/receivable as having no value on the agency's financial and management reports. Generally, write-off is mandatory for debts delinquent more than two years. Currently not collectible is a classification after write-off when the agency has determined that debt collection efforts should continue. This classification does not affect agencies' statutory and regulatory responsibilities to pursue debt collection.

GAO's separation clearance policy, which requires collection of a debt through internal offset against monies due to separating or separated employees from their final salary and lump-sum leave payments.

Beyond use of internal offset at an employee's request, HCO's SOP does not establish detailed procedures for doing so even when it would result in more timely collection of all or a portion of debt. For example, the SOP does not establish clearly written and communicated procedures for collecting debts using internal offset; methods and controls for delaying a separating employee's final paycheck to ensure all funds receive proper clearance and that debt obligations are identified and resolved; processing procedures and controls for collecting debts from either the final paycheck or lump-sum annual leave payment.

Without detailed procedures, HCO is missing opportunities to collect debts owed to the agency by separating or separated employees in a timely manner.

*HCO Approved Repayment Agreements Without Verifying Financial Ability to Pay*

Federal debt collection standards provide that if a debtor is financially unable to pay a debt in one lump sum, agencies may accept payment in regular installments.

According to the standards, agencies should obtain financial statements from debtors who say that they are unable to pay in one lump sum and independently verify such assertions whenever possible.<sup>8</sup> The size and frequency of installment payments should bear a reasonable relation to the size of the debt and the debtor's ability to pay.<sup>9</sup>

GAO's debt collection policy is consistent with the federal standards. Specifically, the policy indicates that GAO *will* obtain the indebted employee's financial statements and *will* independently verify such representations before entering into an installment agreement.

However, HCO does not have a process or procedures in place to review indebted employees' proposed installment agreements. Further, HCO's failure to collect financial information when entering into installment agreements with indebted employees is inconsistent with other debt collection processes in GAO's order, such as the reconsideration process for established repayment agreements based on materially changed circumstances, which requires the submission of financial information in more detail, to include income from all sources; assets; liabilities; monthly expenses for food, housing, clothing, and transportation; and, medical expenses.

We found HCO officials approved voluntary repayment agreements:

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<sup>8</sup>31 C.F.R. §901.8(a).

<sup>9</sup>31 C.F.R. §901.8(b).

- for 8 of the 23 debts owed by current and separated employees in our sample
- with payment terms ranging from 12 months to up to 5 years
- with the installment repayment schedules and terms proposed by the indebted employees without modification

In following up on HCO's approval decisions, we found that, as a general practice, HCO approving officials did not independently evaluate an employee's ability to repay their debts in a lump sum, as required, and were unable to provide analyses or justification on why the approved plan terms were acceptable.

For example, in March 2020, HCO was notified that an employee was transferring from GAO to another federal agency. HCO issued a demand letter to the employee in June 2020 for a student loan repayment debt (totaling \$4,200) after the employee left GAO. In August 2020, an HCO official approved a voluntary repayment agreement in which the indebted employee was approved to pay \$115 per month for about 36 months without determining the indebted employee's financial condition or ability to pay the debt all at once. In effect, the agreement extended collection of the debt by several years. In the absence of employee financial documentation, HCO approving officials could not reasonably determine that the indebted employee was financially unable to pay the debt all at once. Further, there was no basis for determining whether the size and frequency of installment payments were reasonably related to the size of the debt and the employee's ability to pay.

In another example, in an October 2020 demand letter to a current employee, HCO explained that the employee was overpaid a total of \$1,300 due to a corrected time and attendance report. HCO informed the employee of its intention to deduct approximately \$580 from the employee's biweekly pay. The estimated deduction amount was based on the employee's salary for the prior pay period. These deductions would continue every pay period until the debt, accumulated interest, and other costs were paid in full. Based on the amount and frequency of salary offset, the debt would be paid in full in 3 pay periods (less than 2 months). The employee instead proposed a repayment amount of \$50 each pay period due to a financial hardship. HCO approved the salary offset of \$50 each pay period for about 1 year based on the employee's assertion without verifying the employee's ability to pay, extending collection to 26 pay periods.

In the absence of financial statements supporting HCO approving officials' determinations to accept repayment agreements for a specific amount and timeframe, HCO cannot reasonably ensure that the requirements for installment payments under the federal debt collection standards and GAO policy are met, or that employee debts are collected within the shortest practical time.

## HCO Did Not Always Meet Mandated Timeframes for Referring Delinquent Debts to Treasury for Collection

The DCIA establishes a centralized offset process known as the Treasury Offset Program (TOP), which authorizes Treasury to manage a governmentwide, performance-based private collection agency contract for referral of delinquent debts for collection, including a requirement to refer debts delinquent over 180 days to TOP for cross-servicing. Amendments to the DCIA under the Digital Accountability and Transparency Act of 2014, require agencies to notify Treasury of any debts delinquent more than 120 days for centralized administrative offset.<sup>10</sup> GAO's debt collection policy is consistent with these requirements but HCO has not established procedures for ongoing monitoring of debts to ensure that referrals were made timely.

While delinquent debts were generally referred to Treasury, referrals were not always timely. Our review of debt claims records for 16 delinquent debts noted:

- 5 debts were not referred to Treasury at all. These delinquent debts ranged in age of delinquency from 175 days to 324 days at the time of our review.
- 4 debts were not referred to Treasury until after the mandated timeframe. The age of delinquency at referral ranged from 166 days to over 1,800 days.
- 7 debts were referred to Treasury, within the mandated timeframe.

Collection activities for the 9 debts not referred to Treasury within the mandated timeframe stalled without adequate HCO monitoring. For example, in January 2021, an employee transferred to another federal agency owing a \$6,300 debt for advanced leave not repaid before separation. HCO established and issued a demand for payment for the debt in February 2021, and the indebted employee did not make any payments after June 2021. Our review of claims records found the debt had not been referred to Treasury as of October 2021, with a balance of over \$5,900.

In another example, an employee transferred to a different federal agency owing a debt totaling \$6,800 at the time of separation. In January 2021, the indebted employee made one payment of \$100 and did not make any payments after that. Our review of claims records found the debt had not been referred to Treasury as of October 2021, with a balance of over \$7,100 including penalties and interest.

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<sup>10</sup>31 U.S.C. § 3716(c)(6). Referral of debt to Treasury for cross-servicing satisfies the Treasury Offset Program (TOP) requirement since the Cross-Servicing Program includes the use of TOP. For accounting and reporting purposes, the debt remains on the books and records of the agency which transferred the debt. A debt is legally enforceable if there has been a final agency determination that the debt, in the amount stated, is due and there are no legal bars to collection action. 31 C.F.R. §285.12(c)-(g).

Despite its key role in carrying out the debt collection process on GAO's behalf, HCO lacks written processes or procedures for ongoing monitoring of the status of aging and delinquent debts, which can identify lagging debts and reasonably ensure prompt referrals to Treasury for enforced collection. HCO receives automated NFC Administrative Billings and Collections System reports on outstanding and delinquent employee debts, including detailed information such as

- debt aging date (i.e., initial date the debt was established)
- debt status (e.g., not delinquent, delinquent, submitted or scheduled to be submitted to Treasury),
- outstanding debt balance and age of delinquency (e.g., delinquent 121-150 days, 181-365 days, 1-2 years).<sup>11</sup>

While information from these reports may be useful for ongoing monitoring of delinquent debts, HCO had not established procedures for doing so.

Written procedures for monitoring delinquent debts could better position HCO to ensure that staff understand how to manage delinquent debts and provide greater assurance that these debts are referred to Treasury for enforced collection within statutory timeframes.

## Conclusions

HCO has opportunities to improve GAO's employee debt collection process. Effective internal control is essential to ensure debts are collected in a timely manner. Establishing procedures for when and how to effect internal offset consistent with federal debt collection standards and GAO policy could help HCO to collect debts owed to the agency by separating or separated employees in a timely manner. Because approving officials are responsible for determining whether indebted employees are financially unable to pay their debts in one lump sum, HCO needs to ensure that it establishes a process or procedures to use in making such determinations. Although delinquent debts are generally referred to Treasury, HCO has not yet established clearly written processes or procedures to ensure timely referrals.

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<sup>11</sup>The Administrative Billing and Collections System is an accounts receivable system. It provides an automated method for billing and collecting debt from indebted employees (current, separated, or retired). The system records all collections through an automated system until the debts are resolved.

## Recommendations for Executive Action

We recommend that the Comptroller General direct the Chief Human Capital Officer, to:

1. Update HCO's debt collection standard operating procedure to specify when and how to use internal offset to collect debts owed to the agency more timely from separating employees.
2. Establish a process and document procedures to carry out GAO's debt collection policy with respect to voluntary repayment agreements, to include requests for and documentation to verify the employee's ability to pay.
3. Establish written procedures to ensure delinquent debts are promptly referred to Treasury for collection proceedings.

## Agency Comments

The Acting Inspector General provided GAO with a draft of this report for review and comment. In its written comments, reprinted in appendix II, GAO agreed with our recommendations and indicated that it had actions underway or planned to address them.

## Appendix I: Objective, Scope, and Methodology

This report addresses the extent to which GAO has established effective internal control to collect debts owed to the agency by current and former employees in a timely manner, and consistent with federal requirements and GAO policy.

To address our objective, we reviewed applicable sections of the Code of Federal Regulations, and the U.S. Code, and guidance, including the Department of the Treasury (Treasury) *Bureau of the Fiscal Service's Managing Federal Receivables*.<sup>12</sup> We reviewed and analyzed GAO's debt collection order and HCO's debt collection standard operating procedures that establish policies and procedures for the agency to use in collecting employee debts owed to the agency, focusing on salary and internal offset, installment payment, and Treasury cross-servicing and centralized administrative offset programs.<sup>13</sup> We interviewed and obtained documentation from GAO officials within the HCO Performance Compensation and Management Center for debt collection program management to better understand agency debt collection policy and procedures for employee debt case management and monitoring. We also interviewed and obtained documentation from GAO officials within the Accounting and Financial Reporting Branch of GAO's Financial Management and Business Office related to employee debt. We assessed this information against GAO's debt collection order and HCO's debt collection procedures, which assign responsibilities for initiating and carrying out the agency's debt collection process, and *Standards for Internal Control in the Federal Government*, which require management to assign, document, and communicate responsibilities, policies and procedures to achieve objectives.<sup>14</sup>

HCO officials provided us with a *Listing of Outstanding Receivables* and *Detailed Listing of Delinquent Receivables* reports, as of February 1, 2021. We used the listings to select our sample of employee debts.

For our review, we chose 23 employee debts that had outstanding balances as of February 1, 2021, and various combinations of other characteristics:<sup>15</sup>

- employee status (e.g., current and separated)
- debt type (e.g., salary overpayment, corrected time and attendance report, recruitment bonus repayment, student loan repayment, leave advance repayment,

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<sup>12</sup>The scope of our report focused on several main statutory provisions (31 U.S.C. §3716; 31 U.S.C §3711(g)(1); 31 U.S.C. § 3716(c)(6); 5 U.S.C. §5514(a)(1)) that pertain to internal salary and administrative offset of GAO employee debt owed to GAO, and referral of delinquent debt to Treasury for cross-servicing and centralized administrative offset.

<sup>13</sup>GAO Order 0254.1, *Debt Collection* (2017), and HCO Standard Operating Procedure (SOP) 520: *GAO Indebtedness and Overpayments* (December 2019).

<sup>14</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 10, 2014).

<sup>15</sup>We originally selected 25 debts, but removed two from the scope of our review based on discussions with a National Finance Center (NFC) official. One sampled debt represented a payment received for a debt that was written off. The other sampled debt was a duplicate.

missed health insurance premium, negative leave balance, unearned transit benefit)

- debt status (e.g., not delinquent, delinquent, written-off as currently not collectible).<sup>16</sup>

While the results of our work cannot be generalized to all employee debts owed to GAO, as of February 1, 2021, they provide insight into the effectiveness of internal control to collect employee debts in a timely manner.

To determine whether information in the listings were reliable, we reviewed reconciliation documentation provided by GAO's Financial Management Office of debt balances in GAO's financial management, Legislative Branch Financial Management System-Momentum to employee bills (accounts receivables) maintained in the National Finance Center's (NFC) Administrative Billings and Collections System (ABCO).<sup>17</sup> In addition, we performed testing of specific data elements in the listings that we used to perform our work. We determined that the data we obtained were sufficiently reliable for the purpose of our review.

For each debt in our sample, we obtained and analyzed debt notification letters issued to determine the nature, amount, and basis of the debt, and date by which payments needed to be made to avoid enforced collection; and ABCO receivable and accounting with collection records to determine the debt amount, and corresponding debt establishment and billing dates, payment activity, and current debt status.

For debts in our sample owed by employees who separated from GAO, we obtained personnel separation actions to determine the reason for separation, and effective date of the separation. We also obtained final earnings and leave statements to determine whether salary payments and/or lump-sum payments for unused annual leave were due to each separated employee, and if so, the amount GAO paid the employee. We then obtained and reviewed payroll history file data and debt collection records to determine whether internal offsets were taken.

For the indebted employees with approved voluntary repayment agreements, we analyzed those repayment agreements to determine the payment terms and bases for approval.

For delinquent and written-off (currently not collectible) debts included in our sample, we obtained and analyzed ABCO claims, and Treasury offset and cross-servicing

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<sup>16</sup>A debt is "delinquent" if it is past due, is legally enforceable, and has not been paid by the date specified in the agency's initial written demand for payment or applicable agreement. Write-off of a debt is an accounting action that results in reporting the debt/receivable as having no value on the agency's financial and management reports. Generally, write-off is mandatory for debts delinquent more than two years. Currently not collectible is a classification after write-off when the agency has determined that debt collection efforts should continue. This classification does not affect agencies' statutory and regulatory responsibilities to pursue debt collection.

<sup>17</sup>The Administrative Billing and Collections System is an accounts receivable system. It provides an automated method for billing and collecting debt from indebted federal employees (current, separated, or-retired). The system records all collections through an automated system until the debts are resolved.

information to determine the debt delinquency date, and whether and when delinquent debts were reported to credit bureaus and referred to Treasury for enforced collection.

To further address the objective, we assessed the extent to which debt collection tools under GAO's debt collection policy were used at different points in the debt collection cycle.

We conducted this performance audit from January 2021 through January 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Appendix II: Comments from the U.S. Government Accountability Office



## Memorandum

**Date:** February 23, 2022

**To:** Acting Inspector General – Mary Arnold Mohiyuddin

**From:** Chief Human Capital Officer – Renee Caputo Digitally signed by Renee S. Caputo  
Date: 2022.02.23 16:04:50  
+03'30'

**Subject:** Response to Draft Report on Employee Debt: Opportunities Exist to Improve Timely Collection (OIG-22-1)

Thank you for the opportunity to review and comment on your draft report, *Employee Debt: Opportunities Exist to Improve Timely Collection* (OIG-22-1).

As the report notes, GAO has established employee debt collection policies consistent with federal requirements. In addition, while the volume of debt collection activity and dollars involved are relatively small, particularly when compared to the overall programs, GAO recognizes its responsibility to take quick action to enforce recovery of debts and to use all appropriate collection tools consistent with federal requirements and GAO policy. As such, GAO has established, documented, and implemented debt collection standard operating procedures (SOP) that describe the process for establishing and tracking indebtedness for current and separated employees. However, we recognize that there are opportunities to enhance our procedures and to further refine roles and responsibilities in the debt collection process.

With respect to the draft report's finding that the Human Capital Office (HCO) missed opportunities to collect debts from separating employees through internal offset, we are committed to using available debt collection tools as appropriate to collect debts from separating employees in a more timely fashion. We have already taken steps to address the draft report's finding and have begun putting holds on final paychecks and lump sum payments, as appropriate.<sup>1</sup> In addition, we are increasing our efforts to identify and collect debts from employees during the exit clearance process prior to separation, which has recently enabled HCO to successfully collect funds from three former employees prior to their separation.

Regarding instances where HCO approved voluntary repayment agreements without verifying the debtor's ability to pay, we recognize inconsistencies between our policy and procedures and are committed to refining our processes. In order to do so, GAO

<sup>1</sup> As noted in the report, GAO Order 2300.3, "Exit Clearance Procedures for Personnel Separating from GAO" (Dec. 15, 2005) provides for offset of a separating employee's final paycheck and lump sum annual leave payment, if any, to satisfy a debt that a separating employee owes to GAO. Such offset is effectuated, when possible, by non-centralized offset, also known as internal offset, under the procedures contained in chapter 2 of GAO Order 0254.1, "Debt Collection" (Jan. 5, 2022).

will internally identify the appropriate office and staff with the skillset to review financial documentation and make the appropriate determinations.

Finally, with regard to HCO not meeting mandated timeframes for referring delinquent debts to the Department of the Treasury for collection, HCO has a service level agreement with the National Finance Center (NFC) and NFC is responsible for referring delinquent debts to the Treasury Offset Program (TOP) for cross servicing. Since the draft report was prepared, HCO met with NFC officials to clarify the terms of the service level agreement and NFC's execution of services, specifically its referral of delinquent debts to TOP. Consequently, NFC recognized inconsistencies in its process and recently implemented an automated claims process that refers delinquent debts to the TOP. Additionally, HCO has taken steps to leverage the reporting functions offered through NFC to ensure that NFC's collection procedures are ongoing and consistent with federal standards.

Overall, we generally agree with the OIG's recommendations. We will strengthen our SOPs in collaboration with Financial Management and Business Operations Office (FMBO) and Office of General Counsel (OGC) to ensure the agency's procedures address the OIG's recommendations, as discussed below.

**Recommendation #1.** Update HCO's debt collection standard operating procedure to specify when and how to use internal offsets to collect debts owed to the agency more timely from separating employees.

HCO will assemble a team of FMBO and HCO subject matter experts to develop internal procedures on using internal offsets when employees separate, consistent with GAO's policy and federal requirements. This collaboration will help refine the roles and responsibilities in the debt collection process. Since the draft report was prepared, HCO met with NFC's officials to better understand the process for using internal offsets in general. The data collected will assist with adjusting our procedures. We plan to complete this corrective action by December 2022.

**Recommendation #2.** Establish a process and document procedures to carry out GAO's debt collection policy with respect to voluntary repayment agreements, to include requests for and documentation to verify the employee's ability to pay.

GAO will internally identify the appropriate GAO office and staff with the skillset to review financial documentation and make the appropriate determinations with respect to voluntary repayment agreements. We plan to work with FMBO and OGC subject matter experts to develop procedures and refine roles and responsibilities to carry out GAO's debt collection policy with respect to voluntary repayment agreements. We plan to complete this corrective action by December 2022.

**Recommendation #3.** Establish written procedures to ensure delinquent debts are promptly referred to Treasury for collection proceedings.

As discussed above, NFC bears the responsibility for referring delinquent debts to the TOP in accordance with our service level agreement. Moreover, NFC recently implemented an automated claims process that automatically refers and tracks delinquent debts to the TOP on GAO's behalf. Therefore, GAO will institute the appropriate oversight procedures to ensure that NFC's collection processes are ongoing and consistent with federal requirements. We plan to complete this corrective action by December 2022.

cc: William Anderson, Controller  
Ana Caro, Deputy Chief Human Capital Officer  
Sandra Burrell, OIG, Engagement Manager  
Laura Chase, Director, Performance and Compensation Management Center  
Peter Rudman, Director, Office of Financial Management  
Jennifer Ashley, CAO Audit Liaison

Text of Appendix II: Comments from the U.S. Government Accountability Office

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From: Chief Human Capital Officer – Renee Caputo

Digitally signed by Renee S. Caputo

Date: 2022.02.23 16:04:50

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Ana Caro, Deputy Chief Human Capital Officer  
Sandra Burrell, OIG, Engagement Manager

Laura Chase, Director, Performance and Compensation Management Center  
Peter Rudman, Director, Office of Financial Management

Jennifer Ashley, CAO Audit Liaison

## Appendix III: OIG Contact and Staff Acknowledgments

### OIG Contact

Mary Arnold Mohiyuddin, (202) 512-5748 or [mohiyuddinm@gao.gov](mailto:mohiyuddinm@gao.gov)

### Staff Acknowledgments

Sandra Burrell (Assistant Director) and Adriana Pukalski (Legal Counsel) made major contributions to this report. Other key contributors included Melanie H.P. Fallow, Thomas Johnson, and Cynthia Taylor.

## Appendix IV: Report Distribution

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