

GAO

Briefing Report to the  
Honorable William Proxmire,  
U.S. Senate

May 1986

# DEBT COLLECTION

## Navy Efforts to Collect Debts From Former Service Members



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

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

May 19, 1986

B-203648

The Honorable William Proxmire  
United States Senate

Dear Senator Proxmire:

In a January 2, 1986, letter, you asked us to obtain information on the Navy's efforts to collect out-of-service receivables (that is, debt owed to the Navy by former service members). You asked for certain statistics relating to the amount of these receivables, collections, and write-offs for fiscal years 1980 to 1985, as well as the amount of these receivables related to the enlistment/reenlistment bonus program and whether this type of receivable is expected to increase. In addition, you asked for information on activities by the Navy to

- collect out-of-service receivables;
- implement the Debt Collection Act of 1982;
- improve its system of accounting for and controlling out-of-service receivables; and
- address the problems cited in our 1981 report Millions Written Off in Former Service Members' Debts--Future Losses Can Be Cut (AFMD-81-64, July 28, 1981).

We discussed these issues with your staff in a briefing on March 13, 1986. In general, we found that:

- Out-of-service receivables increased significantly during the past 5 years, and the collection rates were relatively low. Out-of-service receivables result largely from enlistment/reenlistment bonus payments made to service members who separate prior to fully earning their bonuses. (See appendix I.)
- The Navy has taken several actions to improve collection of out-of-service receivables and to address problems cited in our 1981 report. (See appendix II.)

--The current out-of-service receivables system cannot fully support implementation of the Debt Collection Act and is not designed to account for all receivables. To alleviate some of the limitations and weaknesses of the current system, the Navy is procuring a new accounts receivable system. (See appendix III.)

The Debt Collection Act of 1982 allows, and in some instances requires, federal agencies to use certain debt collection tools. One of these tools allows agencies to offset amounts owed against salaries of debtors who are employed by the federal government. However, because of delays by the Department of Defense in issuing implementing regulations and a hearings manual, the Navy has not begun to use this tool. While the Navy is entitled to a reasonable period of time in which to promulgate regulations to implement the salary offset provision of the Debt Collection Act, we believe that as long as the debtor is given the substantive equivalent of the procedural rights conferred by the act, the Navy can and should offset salaries prior to the finalization of its regulations and the issuance of the Department of Defense hearings manual. We, therefore, recommend that the Secretary of Defense direct the Secretary of the Navy to ensure delinquent amounts owed by former service members are offset against government salaries due.

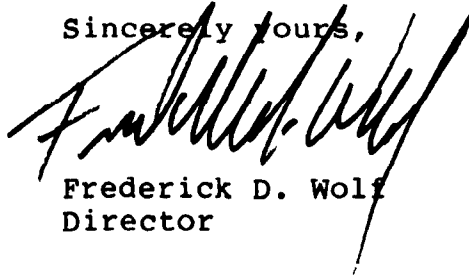
Information obtained in developing this report indicated that additional problems may exist in the Navy's process for determining, accounting for, and collecting receivables from former service members. Therefore, we plan to further review these issues. As agreed to with your staff, the results of that evaluation will be provided to you in a separate report at a later date.

Most of the information you requested in this report was obtained from the Navy's out-of-service receivables system and from our discussions with officials at the Navy Finance Center in Cleveland, Ohio. We also obtained information from debt collection officials at Headquarters, Department of Navy, and the Department of Defense in Washington, D.C. We compared procedures used by the Navy in its collection efforts with applicable Navy regulations and the Federal Claims Collection Standards. We also reviewed pertinent Naval Audit Service reports on the accounting and collection of out-of-service receivables. We did not verify the accuracy of statistics provided to us by the Navy or evaluate how well specific collection techniques adopted by the Navy were functioning in operation. Also, we did not examine the adequacy of the internal controls for the out-of-service receivables system. We conducted this review between January and April 1986.

This report is the third in a series of reports you requested on the military services' efforts to collect out-of-service receivables. The first report, entitled Debt Collection: Army Efforts to Collect Debts From Former Service Members (GAO/AFMD-86-21BR), was issued in December 1985. The second report, entitled Debt Collection: Air Force Efforts to Collect Debts From Former Service Members (GAO/AFMD-86-48BR), was issued in April 1986.

As agreed with your office, we did not obtain written agency comments on our findings. We did, however, discuss the contents of this report with Navy Finance Center officials and have included their comments where appropriate. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after we issue it to your office. At that time, we will send copies to the Secretary of Defense, the Secretary of the Navy, and other interested parties. Copies will also be made available to others on request. If you have any questions about the contents of this report, please call John F. Simonette, Associate Director, on (202) 275-9490.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf", written over the typed name and title.

Frederick D. Wolf  
Director

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STATUS OF NAVY OUT-OF-SERVICE  
RECEIVABLES

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• BETWEEN FISCAL YEARS 1980 AND 1985:

• OUT-OF-SERVICE RECEIVABLES INCREASED.

• COLLECTION RATES WERE RELATIVELY LOW.

• WRITE-OFF RATES, WHILE INITIALLY FLUCTUATING, HAVE BEEN RELATIVELY LOW SINCE FISCAL YEAR 1984.

• BONUS-RELATED RECEIVABLES REPRESENTED A LARGE PORTION OF NEW OUT-OF-SERVICE RECEIVABLES.

• BONUS-RELATED RECEIVABLES HAVE INCREASED SUBSTANTIALLY SINCE 1981 AND ARE EXPECTED TO INCREASE IN THE FUTURE.

STATUS OF NAVY OUT-OF-SERVICE RECEIVABLES

Navy out-of-service receivables have significantly increased during the past 5 years. As illustrated by table I.1, these receivables were \$16.6 million at the end of fiscal year 1980 and over \$50 million at the end of fiscal year 1985. Further, in fiscal years 1984 and 1985, the number of individual cases increased significantly. Navy officials attributed the growth in out-of-service ending balances to significant increases in new receivables and recent decreases in write-offs.

A Navy Finance Center official told us that increases in new receivables resulted largely from enlistment/reenlistment bonus payments made to service members who separate prior to earning the entire amount of bonuses. (See table I.4 on page 11.) Another Navy Finance Center official told us that since fiscal year 1984, uncollected receivables have not been written off as quickly. For example, the collection process has been extended to include referring delinquent receivables to credit bureaus and waiting to see whether this initiative results in any collections. This official indicated that this process impacts on the Navy's write-off rates. As shown in table I.1, write-off rates initially fluctuated, but, since fiscal year 1984, they have been relatively low.

Table I.1 also highlights overall collection rates. During this period, collection rates were relatively low--generally under 5 percent.

The statistics in table I.1 were provided by the Navy. We did not assess the reliability of these statistics. Therefore, we cannot attest to their accuracy. (See page 20 for a discussion of the accounting system limitations and weaknesses we noted during this review.)

In addition, we noted that the statistics in table I.1 do not include all out-of-service receivables. For example, receivables under \$125 were not included. (See page 21.) However, the statistics in table I.1 include some receivables which do not apply to former service members. For example, receivables owed by former Navy civilian personnel were included.

Table 1.1: Navy Out-of-Service Receivables,  
Fiscal Years 1980 to 1985

	Fiscal Year <u>1980</u>	Fiscal Year <u>1981</u>	Fiscal Year <u>1982</u>	Fiscal Year <u>1983</u>	Fiscal Year <u>1984</u>	Fiscal Year <u>1985</u>
Beginning balance	\$15,562,673	\$16,636,878	\$17,361,473	\$20,340,802	\$24,474,975	\$35,616,306
New receivables	4,350,709	3,885,876	8,481,325	11,837,117	15,135,407	19,761,249
Collections	(947,883)	(947,455)	(1,134,082)	(2,023,017)	(1,904,386)	(2,204,672)
Write-offs	<u>(2,328,621)</u>	<u>(2,213,826)</u>	<u>(4,367,914)</u>	<u>(5,679,927)</u>	<u>(2,089,690)</u>	<u>(3,065,058)</u>
Ending balance	\$16,636,878 =====	\$17,361,473 =====	\$20,340,802 =====	\$24,474,975 =====	\$35,616,306 =====	\$50,107,825 =====
Individual cases at the end of each fiscal year	27,201	26,604	26,617	24,872	34,793	46,857
Collection rate <sup>a</sup>	4.8%	4.6%	4.4%	6.3%	4.8%	4.0%
Write-off rate <sup>b</sup>	11.7%	10.8%	16.9%	17.7%	5.3%	5.5%

<sup>a</sup>The collection rates were calculated by dividing the amount of collections by the beginning balance plus new receivables for each year.

<sup>b</sup>The write-off rates were calculated by dividing the amount of write-offs by the beginning balance plus new receivables for each year.

Composition of New Out-of-Service Receivables

We have categorized new Navy out-of-service receivables into six major classifications: bonuses, pay and travel, disciplinary actions, allotment, leave, and retired/reserve pay and miscellaneous. (See page 12.) As shown in table I.2, the two largest categories are bonuses and pay and travel.

Table I.2: Composition of New Navy Out-of-Service Receivables for Fiscal Year 1985<sup>a</sup>

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Bonuses	\$ 8,242,556	43.1
Pay and Travel	5,579,754	29.2
Disciplinary Actions	1,561,334	8.2
Allotment	1,483,214	7.8
Leave	1,431,745	7.5
Retired/Reserve Pay and Miscellaneous <sup>b</sup>	<u>811,248</u>	<u>4.2</u>
Total	<u>\$19,109,851</u>	<u>100.0</u>

<sup>a</sup>The statistics in this table do not equal the amounts shown in tables I.1 and I.4 because they exclude some receivables in adjudication.

<sup>b</sup>Total includes miscellaneous debts totaling \$302,066 incurred by former Navy civilian personnel.

Bonus-Related Receivables

As shown in table I.3, new receivables resulting from unearned bonuses increased substantially between fiscal years 1980 and 1985. Further, as shown in table I.4, bonus-related receivables, as a percent of new out-of-service receivables, also increased substantially.

Table I.3: New Out-of-Service Receivables From Bonuses, Fiscal Years 1980 to 1985

<u>Fiscal year</u>	<u>Amount</u>	<u>Percent of increase from prior year</u>	<u>Number of cases</u>	<u>Percent of increase from prior year</u>
1980	\$ 657,388		284	
1981	504,983	(23)	240	(15)
1982	1,816,874	260	464	93
1983	3,252,467	79	655	41
1984	6,186,918	90	1,438	120
1985	8,260,227	34	2,182	52

Table I.4: Bonus-Related Receivables as a Percent  
of New Out-of-Service Receivables,  
Fiscal Years 1980 to 1985

<u>Fiscal year</u>	<u>New out-of service receivables</u>	<u>Bonus-related receivables</u>	<u>Percent</u>
1980	\$ 4,350,709	\$ 657,388	15.1
1981	3,885,876	504,983	13.0
1982	8,481,325	1,816,874	21.4
1983	11,837,117	3,252,467	27.5
1984	15,135,407	6,186,918	40.9
1985	19,761,249	8,260,227	41.8

The average dollar amount of Navy bonus-related receivables increased from \$2,315 in fiscal year 1980 to \$3,785 in fiscal year 1985. Navy debt collection officials indicated that this type of receivable will increase in the future because, beginning in October 1986, the portion of the bonus paid to a member at the time of reenlistment will increase from 50 to 75 percent. These officials believe this increase in the portion of bonus paid upon reenlistment may, therefore, result in an increase in the amount of unearned bonuses for service members who separate early.

Description of Out-of-Service ReceivablesBonuses

The largest component of out-of-service receivables results from bonus payments to individuals. The Navy pays bonuses to individuals who sign up in occupational specialities that are experiencing chronic shortages or are hard to fill. The Navy pays half of the bonus at the time of enlistment with the remainder paid over the term of enlistment. When the service member separates from the service before the term of enlistment expires, a prorated portion of the advance bonus payment is recoupable by the Navy. If the service member cannot satisfy this amount at the time of separation, the Navy establishes an accounts receivable for the unpaid amount.

Pay and Travel

Overpayments result from incorrect computation of pay, housing allowances, and various other entitlements. This category also includes receivables resulting from pay and travel advances made to a service member or from the movement of household goods. Receivables occur when amounts paid or advanced exceed authorized amounts and are not liquidated at the time of separation.

Disciplinary Actions

Receivables arise from disciplinary action taken by the Navy against a service member, such as fines or forfeitures of entitlements including pay.

Allotment

Receivables result when the Navy fails to promptly discontinue allotments such as payments to savings institutions upon notification by or discharge of a service member.

Leave

Receivables arise when members take leave in excess of the amount earned at the time of separation. Receivables also occur when leave that has been used is not considered in the member's final paycheck.

Retired/  
Reserve Pay  
and  
Miscellaneous

Receivables result from members who elect to receive disability retirement benefits from the Veterans Administration instead of retirement pay from the Navy, and the Navy has not promptly discontinued or properly adjusted its payments to the individual. This category also includes receivables owed by reserve members who were improperly paid and amounts owed by former Navy civilian personnel.

NAVY ACTIONS TO COLLECT OUT-OF-SERVICE RECEIVABLES  
AND TO ADDRESS OUR 1981 REPORT

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- PRIOR TO SEPARATION, FIELD DISBURSING OFFICES OFFSET AMOUNTS OWED AGAINST THE MEMBER'S FINAL PAY.
- AFTER SEPARATION, DEPENDING ON THE DOLLAR AMOUNT OWED, THE NAVY FINANCE CENTER:
  - Issues Demand Letters,
  - Assesses Interest,
  - Obtains and Discloses Internal Revenue Service-Provided Addresses,
  - Refers Delinquent Debtors to Credit Bureaus,
  - Refers Delinquent Receivables to Collection Agencies,
  - Obtains Credit Reports, and
  - Refers Cases to the Department of Justice.

NAVY EFFORTS TO COLLECT OUT-OF-SERVICE RECEIVABLES  
AND TO ADDRESS OUR 1981 REPORT

Many out-of-service receivables are not identified until the time of separation, and usually occur when service members separate early. When members separate early, any unearned entitlements previously received, such as bonuses or leave, must be recouped. The Navy is responsible for the collection of improper payments received by former service members.

In July 1981, we reported that the military services, including the Navy, wrote-off millions of dollars as bad debts.<sup>1</sup> We reported that the Department of Defense can substantially reduce the amount of bad debt losses incurred by (1) making sure that service members' debts are offset against amounts due to them at the time they separate from the service, (2) more quickly initiating collection of those debts remaining after separation, and (3) using effective, businesslike collection techniques. We recommended several ways to reduce overpayments and improve the efficiency and effectiveness of Defense's collection of amounts owed by former service members. For example, the military services could designate an official at each military personnel separation point to ensure that all documentation and entries affecting amounts owed and separation pay are included in the separating members' pay records.

While we were unable to determine whether current Navy efforts to collect out-of-service receivables are a direct result of our 1981 report, we noted that some of these efforts address the problems cited in our 1981 report. Efforts to collect these receivables before and after separation are discussed below and on the following pages.

Collection Efforts Before Separation

Prior to discharge, Navy field disbursing offices complete a specially designed worksheet noting the final pay of separating members. A Navy official told us that the final pay computation includes offsets of amounts owed the Navy. If the disbursing office determines that a member still owes the Navy money, the member is notified and asked to liquidate the amount.

Navy officials told us that at the time of separation, service members generally state they are unable to pay amounts owed. This explanation is noted on the worksheets by field disbursing offices, and the worksheets are forwarded to the Navy Finance Center in Cleveland, Ohio.

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<sup>1</sup>Millions Written Off in Former Service Members' Debts--Future Losses Can Be Cut (AFMD-81-64, July 28, 1981).



Collection Efforts After Separation

The Navy Finance Center has primary responsibility for determining the accuracy of amounts owed by former service members and for collecting these amounts. Generally, the Navy Finance Center does not attempt to collect receivables under \$125 because internal Navy studies indicate that it is not economically feasible for the center to do so. (See page 18 for a discussion of our views concerning the threshold of \$125 for which Navy is not attempting collections.)

As shown in table II.1, depending on the dollar amount owed, the Navy Finance Center may apply a series of collection efforts. Several of these efforts--referring receivables of \$125 or more to credit bureaus and collection agencies and assessing interest on delinquent receivables of \$125 or more--involve more businesslike collection techniques as we recommended in our 1981 report.

Table II.1: Navy Finance Center Efforts to Collect Out-of-Service Receivables<sup>a</sup>

	Letters <sup>b</sup>	Assessment of interest <sup>c</sup>	Address verifications and disclosure <sup>d</sup>	Referrals to credit bureaus <sup>c</sup>	Referrals to collection agencies <sup>e</sup>	Request for credit reports <sup>f</sup>	Referrals to the Department of Justice <sup>g</sup>
Under \$125							
\$125 - \$599	X	X	X	X	X	X	
\$600 +	X	X	X	X	X	X	X

<sup>a</sup>"X" indicates actions that are to be taken.

<sup>b</sup>Five collection letters are to be sent at 30-day intervals: the first identifies the amount owed and the reason for indebtedness; the next four are follow-up letters.

<sup>c</sup>Delinquent receivables are assessed interest and referred to commercial credit bureaus

<sup>d</sup>If the validity of the debtor's address is questionable, address verifications may be obtained from the Internal Revenue Service. Addresses received are forwarded to collection agencies.

<sup>e</sup>Receivables may be referred to commercial collection agencies when debtors fail to respond to the collection letters or stop making payments. Collection agencies have up to 6 months to collect.

<sup>f</sup>Prior to referring uncollected receivables to the Department of Justice for litigation the Navy Finance Center requests reports on debtors from commercial credit bureaus. These reports are used to determine a debtor's ability to pay.

<sup>g</sup>If the debtor is able to pay and has a valid address on file, the case is to be referred to the Department of Justice for litigation.

EFFORTS TO IMPLEMENT  
THE DEBT COLLECTION ACT OF 1982  
AND TO IMPROVE THE  
OUT-OF-SERVICE RECEIVABLES SYSTEM

• STATUS OF NAVY EFFORTS TO IMPLEMENT THE DEBT COLLECTION ACT OF 1982 ON DELINQUENT RECEIVABLES OF \$125 OR MORE.

<u>PROVISION</u>	<u>ACTION</u>
Reporting to Consumer Credit Bureaus	Delinquent receivables are referred to credit bureaus.
Disclosing Internal Revenue Service-Provided Addresses	Addresses are disclosed to collection agencies.
Using Private Collection Firms	Collection agencies are used.
Assessing Interest, Penalties, and Administrative Costs on Delinquent Receivables	Interest is assessed on delinquent receivables. Penalties and administrative charges are not assessed.
Offsetting Payments Due to Federal Program Participants to Satisfy Delinquent Receivables	Amounts owed are not offset against other government program payments.
Withholding Part of Federal Employees' Salaries to Satisfy Delinquent Receivables	Amounts owed are not offset against salaries.
Obtaining Taxpayer Identification Numbers From Applicants on Some Federal Loans	Not applicable.
Screening Loan Applicants Against Internal Revenue Service Tax Accounts	Not applicable.

• THE NAVY OUT-OF-SERVICE RECEIVABLES SYSTEM HAS LIMITATIONS AND WEAKNESSES.

STATUS OF NAVY'S EFFORTS TO  
IMPLEMENT THE DEBT COLLECTION ACT OF 1982

The Debt Collection Act of 1982 requires agencies to obtain taxpayer identification numbers from loan applicants and to assess interest, penalties, and administrative costs on delinquent receivables. The act also permits the use of several other debt collection tools. (See page 17.)

The Navy Finance Center has implemented some provisions of the Debt Collection Act of 1982 for delinquent receivables of \$125 or more. These include referring delinquent receivables to credit bureaus, disclosing Internal Revenue Service-provided addresses to collection agents, using commercial collection agencies, and assessing interest on delinquent receivables. It has not, however, implemented other provisions such as offsetting amounts owed against the salaries of government employees or other government program payments. The Navy's efforts to implement applicable provisions of the Debt Collection Act on delinquent receivables of \$125 or more are discussed below.

Federal agencies are required to attempt to collect all amounts owed the government (31 U.S.C. §3711). However, collection action is not required where the costs of collection would exceed the amounts to be recovered. As we discussed earlier, the Navy Finance Center has concluded that it is not cost-effective to attempt collection of receivables under \$125. Consequently, Navy has not implemented the provisions of the Debt Collection Act for receivables under \$125. We believe that the threshold of \$125 appears to be a high amount for Navy not to attempt collections. While Navy indicates that its position is based on internal studies, we plan to consider this matter further in our follow-on review.

Using Credit Reporting Agencies

The Debt Collection Act (section 3) allows federal agencies to provide information on delinquent debtors to commercial credit bureaus. This tool is intended to encourage debtors to make their delinquent accounts current, to discourage current debtors from becoming delinquent, and to provide information to federal credit granting agencies to identify applicants who are already delinquent on federal loans. According to Navy debt collection officials, this provision of the act was implemented in 1984 for delinquent receivables of \$125 or more.

Disclosing Internal Revenue  
Service-Provided Addresses

The Debt Collection Act (section 8) and the Federal Claims Collection Standards (4 CFR 102.18) allow federal agencies to

disclose Internal Revenue Service-provided addresses to their officers, employees, and agents for collection purposes.

According to Navy debt collection officials, the Navy is obtaining addresses from the Internal Revenue Service for delinquent receivables of \$125 or more. Addresses received are forwarded to collection agencies, along with other receivable information.

#### Using Private Collection Firms

The Debt Collection Act (section 13) allows federal agencies to contract for collection services. The use of collection contractors allows federal agencies more resources for improving their collection capability and to take advantage of private sector expertise. Since January 1986, the Navy has been referring delinquent out-of-service receivables of \$125 or more to collection agencies. However, Navy Finance Center officials told us that receivables with a current balance of \$100 or more are also referred to collection agencies. These receivables were over \$125 when collection action started, but partial repayments had been made.

#### Assessing Interest, Penalties, and Administrative Costs

The Debt Collection Act (section 11) requires federal agencies to assess penalties, administrative costs, and interest on delinquent receivables. Navy Finance Center officials told us that the Navy has been assessing interest on delinquent receivables of \$125 or more since 1983. However, they also told us that their current accounts receivable system is unable to assess penalties and administrative costs on delinquent receivables.

#### Offsetting Amounts Owed Against Other Government Payments

The Debt Collection Act (section 10) allows federal agencies to perform administrative offsets. This provision allows federal agencies to withhold money due to debtors under one program to satisfy delinquencies owed to the government under the same or another program.

According to Navy Finance Center officials, out-of-service receivables owed by individuals who retired from the Navy or joined the reserves are offset against their pay. The Navy considers this an administrative offset instead of a salary offset.

The Navy does not, however, offset out-of-service receivables against other government program payments. An official in the Navy Comptroller Office pointed out that except

for offsets against Internal Revenue Service income tax refunds, it is very difficult for agencies to learn of payments made under other government programs for which administrative offsets can be applied. (The Deficit Reduction Act of 1984 allows the Internal Revenue Service to reduce an individual's income tax refund as a means of collecting delinquent amounts owed the government.) A Navy debt collection official told us that Navy envisions offsetting out-of-service receivables against Internal Revenue Service income tax refunds in fiscal year 1987. Further, a Department of Defense debt collection project officer told us that Defense is supportive of this collection initiative.

### Offsetting Salaries

The Debt Collection Act (section 5) allows federal agencies to make involuntary deductions, also known as salary offsets, from the salaries of federal employees to collect delinquent amounts owed.

According to Navy officials, this provision has not been implemented due to delays in issuing implementing regulations. Specifically, the Navy was waiting for the Department of Defense to issue instructions concerning salary offsets before it revised its regulations. Also, it was waiting for Defense to issue a hearings manual.

The Department of Defense issued instructions concerning salary offsets in March 1985. However, at the time of our review, the Navy had not revised its regulations concerning salary offsets. Also, the Navy was still waiting for Defense to issue the hearings manual before starting to offset out-of-service receivables against government salaries.

While the Navy is entitled to a reasonable period of time in which to promulgate regulations to implement the salary offset provision of the Debt Collection Act, we believe that as long as the debtor is given the substantive equivalent of the procedural rights conferred by the act, the Navy can and should offset salaries prior to the finalization of its regulations and the issuance of the Department of Defense hearings manual.

### NAVY OUT-OF-SERVICE RECEIVABLES SYSTEM HAS LIMITATIONS AND WEAKNESSES

According to a Navy systems justification, the Navy Finance Center does not have an adequate receivables system to control, account for, and report information on out-of-service receivables. The current system is antiquated and time-consuming to operate. It cannot implement debt collection initiatives such as computing and assessing penalties and administrative costs on delinquent debts.

In addition, the system does not account for all receivables. Navy debt collection officials told us that their out-of-service receivables system is not designed to account for receivables under \$125. Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to record amounts due from others at the time the events occur that entitle an agency to collect funds. By not accounting for these receivables, the Navy is understating the amount of its receivables and is unable to determine the total amount of receivables under \$125 for which collection action has not been initiated.

To improve its accounting and control of out-of-service receivables, the Navy plans to procure a new accounts receivables system. The Navy expects the new system to

- compute and assess penalties and administrative costs on delinquent receivables,
- provide timely reports to management, and
- provide greater control over the flow of accounts receivable transactions.

According to a Naval Regional Contracting Center official, the Navy expects to issue a Request for Proposal on the new system in June 1986 and award a contract in January 1987. Navy also estimates that the new system will cost approximately \$250,000.

As we discussed earlier, we plan to conduct a follow-on review of the Navy's efforts to account for and collect all out-of-service receivables. Therefore, we are not making specific recommendations at this time concerning areas where the accounting system may need to be improved.

#### RECOMMENDATION

We recommend that the Secretary of Defense direct the Secretary of the Navy to ensure that delinquent amounts owed by former service members are offset against government salaries due.





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