

# COLLECTION OF DEBT OWED FEDERAL GOVERNMENT

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON TAXATION AND  
DEBT MANAGEMENT GENERALLY  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-FIFTH CONGRESS  
SECOND SESSION

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# COLLECTION OF DEBT OWED FEDERAL GOVERNMENT

MONDAY, DECEMBER 18, 1978

U.S. SENATE,  
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT  
GENERALLY OF THE COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to notice, at 9:30 a.m. in room 1114, Dirksen Senate Office Building, Hon. Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senators Byrd and Packwood.

[The committee press release announcing this hearing follows:]

## PRESS RELEASE

### FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARINGS ON COLLECTION OF DEBT OWED FEDERAL GOVERNMENT

Senator Harry F. Byrd, Jr., Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance and Senator Bob Packwood, Ranking Minority Member of the Subcommittee, announced today that the Committee will hold hearings on December 18, 1978, on debt owed the Federal government and the extent to which debt collection practices of the Federal government have resulted in unpaid debts.

The hearings will begin at 9:30 A.M. in Room 1114 of the Dirksen Senate Office Building.

Senator Byrd noted that the General Accounting Office has published a study dealing with the collection of accounts receivable owed to the government and that the GAO is also now in the process of completing a study dealing with overall debt.

The GAO study reviewing all debts owed the government was jointly requested by Senator Packwood and Senator Russell B. Long, Chairman of the Committee on Finance. It compares debt collection practices used by several Federal agencies with those used by the private sector. It also makes findings and recommendations to improve Federal practices.

Senator Byrd said, "While the Federal deficit for fiscal year 1979 is estimated to be \$39 billion, billions of dollars are owed the government. The total includes past-due loans, overpayments and amounts owed for goods and services. We must insist that the government do all it can to collect the many debts which are owed to it."

Senator Packwood said, "These hearings will test my view that the taxpayers' dollars are not being managed professionally, and that the Federal government has much to learn from modern management practices used by the private sector."

Witnesses scheduled to appear at the hearings are Elmer Staats, the Comptroller General of the United States; and William C. Nestor, Director of the New Jersey Higher Education Assistance Authority.

Other witnesses who desire to testify at the hearings should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 by no later than the close of business on December 14, 1978.

*Legislative Reorganization Act.*—Senator Byrd stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before

the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify should comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentation.

*Written testimony.*—Senator Byrd stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by January 15, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

Senator BYRD. The committee will come to order.

The hearings today will examine the extent to which private individuals owe debt to the Federal Government and the Government's methods of collecting this debt. It will focus upon the magnitude of the problem created by unpaid debts and look at ways to collect these debts more efficiently.

The General Accounting Office has recently issued several studies inquiring into potential savings which could be afforded the Government if more stringent debt collection practices were implemented. These studies, plus other evidences of program mismanagement, indicate that billions of dollars could be saved if the Government would begin to manage its money better.

The GAO estimates that \$84 billion was owed by the public to the Federal Government at the end of fiscal year 1977. This is an increase of 21 percent above the amount owed a year earlier.

The attitude of many who owe the Government money today is that they are under no real obligation to repay it. Government debts are not given the same respect as a debt owed to a private creditor.

Often, for example, Government loans go into default and are never collected. These loans are, de facto, turned into grants.

This is simply bad management. Taxpayers must pay for such bad management through higher taxes, more Government spending, and ultimately greater inflation.

Part of the managerial problem is the sheer size of Government.

During the 10 years from fiscal year 1968 to fiscal year 1978, Federal outlays increased over 2½ times, from \$179 billion to over \$452 billion. This is an increase of over 250 percent.

Much of this mushrooming of expenditures results from the multiplication of programs. In a hearing before this subcommittee in 1977, witnesses for the Office of Management and Budget indicated that OMB would look at over 10,000 programs in trying to establish the Federal budget.

Most Federal programs are benefit oriented. They seek to give someone something. Because of this orientation, administrators are too pre-

occupied with spending money to devote much attention to collecting amounts owed to the Government.

However, in fairness to those who conscientiously pay their debts to the Government—and indeed to all taxpayers—the agencies and departments must make far more vigorous efforts to collect what is owed to all the people.

The GAO is to be complimented for its interest in this issue. Also, Senator Packwood deserves credit for his concern about comparisons of Government practices with those employed by private industry.

We are fortunate to have the Comptroller General of the United States Elmer Staats as a witness and also to have a representative from the State of New Jersey who has grappled with this problem on the State level.

Before calling on Mr. Staats, I will ask my colleague from Oregon, Senator Packwood, if he has any comments.

Senator Packwood. Thank you, Mr. Chairman.

The Treasury Department estimated that, as of September 30, 1976, we have \$2.2 billion in debts classified as uncollectible. A year later, September 30, 1977, that had risen to \$3 billion. Most of this debt is not uncollectible in the normal, private commercial sense. It is money that the Federal Government, for whatever reason, has simply chosen not to collect, be it through intention, bad management, or otherwise.

We simply write off this money.

Three billion dollars is 10 percent of the projected deficit next year or, to put it another way, we could cut that deficit to \$27 billion. We could reduce it by 10 percent, not by any additional taxation, but simply by collecting the debts that are owed to the Government, not writing them off. If the Federal Government would undertake nothing more than the same collection methods that private industry uses, we would substantially reduce the deficit next year.

Thank you.

Senator BYRD. Thank you, Senator Packwood.

Mr. Staats, you may proceed as you wish.

#### STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES

Mr. STAATS. Thank you very much, Mr. Chairman. We are pleased to be here and we appreciate very much the interest which you and Senator Packwood, in particular, have displayed in this matter that we have been struggling with for some time.

As you are no doubt aware, the inventory of debts owed the U.S. Government has become enormous and, as you indicated, it is growing. As of September 30, 1977, the public owed the Government about \$118 billion; of this total, about \$84 billion is owed to Federal agencies which are included in the Federal budget.

Then we feel we should add to it those debts that are in the so-called off-budget agencies.

Of this \$84 billion, I think it is important to emphasize that \$69 billion is in loans. Much of this \$84 billion will, of course, be paid routinely and is not necessarily overdue.

However, a large and growing part requires some type of collection action and of this, a substantial amount will be written off as uncollectible if collection methods are not improved.

The large amount owed the Government results from a host of Federal activities including tax assessments; sale of Government services, such as missile launchings for other governments; sale of Government goods, such as natural resources from Federal lands; overpayments to people like veterans and annuitants; and various loan programs such as student and housing loans.

Under the Federal Claims Collection Act of 1966, and the implementing joint standards, administrative agencies are primarily responsible for collection of claims arising out of their activities. The joint standards provide specific guidelines for collection action. These standards require agencies to take prompt and aggressive action to collect amounts due the Government.

Overall figures are not available on the number and value of claims written off by Federal agencies. However, we have some information which will provide insight into the magnitude of the Government's collection problems.

For example, according to information reported to the Treasury Department, the estimated allowance for bad debts was \$3 billion as of September 30, 1977, a 35-percent increase since 1976. This figure is probably understated.

Some agencies simply do not report anything.

Senator PACKWOOD. If I may ask a question there, I am told that indeed it is a conservative estimate. You have indicated it is a conservative estimate, and the Justice Department has indicated it, although off the record, that that figure may be as high as \$10 billion.

Have they indicated that to you?

Mr. STAATS. I have not heard a figure of that magnitude. Perhaps my colleague, sir, could respond.

Mr. USLANER. As you mentioned, Senator, in informal discussions with the Department, that was their estimate, but they did not want to be put on record on that.

Senator PACKWOOD. I understand that. I tried to get them to be put on the record. I know your \$3 billion is a very conservative estimate, but when the Justice Department itself will say that they do not want it on the record, but off-the-record, \$10 billion is more likely the figure, that is a staggering amount of money.

Mr. STAATS. I think one observation here is that we need better information and we are not getting it. We can all agree on that.

Senator BYRD. You need better information from the departments and agencies.

Mr. STAATS. That is correct.

In 1978, three agencies—the Small Business Administration, the Veterans Administration and the Farmers Home Administration—wrote off as bad debts \$274 million, a 60-percent increase compared to 1976.

Many debts result from overpayments by the Federal Government. For example, Social Security Administration reported \$1.5 billion in overpayments as of September 30, 1978. It estimated that it would not collect one-third of this amount. It should be noted that the agency

is authorized to and will grant relief for part of this amount. During 1978, it wrote off \$108 million as uncollectable.

The Veterans Administration reported overpayments of over \$400 million in September 30, 1978. In 1978, most of the \$93 million written off by this agency stemmed from overpayments.

The Office of Education has over \$4 billion in receivables. About \$1 billion of these loans are in default and the rate is increasing rapidly.

When amounts owed the Government are not paid, or payment is late, the Government is deprived of the current use of funds, its losses due to bad debts increase, and its administrative workload goes up. As receivables age, they become increasingly difficult to collect. In addition, people who are consistently delinquent will be prompted to pay on time only when they know the Government is enforcing collection.

When debts are not collected, people are given benefits to which they are not entitled; self-help programs are, in effect, converted into unauthorized grant programs and, as word spreads that repayments can be avoided, fewer people will pay voluntarily, resulting in agencies having to devote more and more time to collection.

Further, it is unfair to the taxpayer and to those who pay their debts to the Government to allow these debts to go uncollected. This is especially important when the individual owing the debt has the ability to pay.

We believe that there are two basic reasons why debt collection in Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection and, second, present collection methods are expensive, slow, and ineffective when compared with commercial practices.

We have two recent reports which relate to these problems. One is titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public," issued October 20, 1978. The other is titled "The Government Can Be More Productive In Collecting Its Debts By Following Commercial Practices," and will be issued in the next few weeks.

The first of these reports deals primarily with problems the Government has in accounting for receivables and failing to follow the established collection procedures. The second deals with how Government efforts to collect receivables compare with those followed by the private sector and proposes adopting certain private sector practices that appear to have potential for improving Government collections.

I will summarize the principal findings of each report.

We reviewed the Government accounts receivables as part of our continuing effort to evaluate agency accounting systems. We performed work at 12 departments and agencies which have large accumulations of accounts receivable from the public. We also drew from other related GAO reviews on debt collection to develop a broad picture of how Government agencies handle these assets and collect debts. A list of these reports is included as an attachment to my statement.

Our review showed that prompt collection action on the Government's account receivable from the public has been hindered by: A lack of prompt and aggressive collection in accordance with the joint standards; low or no interest charges being imposed on delinquent



accounts; and inaccuracies in accounting for and reporting accounts receivable, including inadequate allowances for bad debts.

I will discuss each of these problem areas.

Most agencies we reviewed did not take prompt and aggressive collection action on delinquent accounts receivable. Although the agencies prepared initial bills promptly, they did not collect many receivables within a reasonable period. All the agencies had formal debt collection procedures. Generally, these procedures were adequate to establish viable debt collection programs, but they were not always followed.

For example: Delinquent receivables were not promptly identified for followup action.

Followup letters were not regularly sent within 30 days and sometimes were not sent at all.

Appropriate delinquent debts were not promptly referred to GAO or the Department of Justice after agency collection efforts were exhausted.

Agencies did not analyze their collection activities to identify their cost of collection. Without this analysis, agencies did not have an adequate basis for making the required decisions on when to terminate collection efforts. As a result, the number of demand letters sent on claims of less than \$100 varied widely.

We made recommendations to the agencies covered in our review and they have initiated corrective action. Because other agencies not included in our review are experiencing similar problems, we sent a separate letter to all Federal activities and urged them to take a hard look at their collection efforts.

Because interest rates on delinquent accounts receivable due the Government are often significantly below the going rate of interest, debtors have little incentive to promptly pay their accounts. This, in turn, encourages late payments and, as a result, some individuals and corporations have delayed paying their debts due the Government for several years.

Government agencies have widely divergent practices for assessing interest charges when payments are not timely. Although a few agencies charge high rates of interest on delinquent accounts, other agencies charge little or no interest.

One reason these inconsistencies exist is because there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent accounts receivable. Although general statutory provisions authorizing agencies to charge interest do not exist, the courts have ruled that creditors, including the Federal Government, may charge interest on overdue accounts.

Agencies that charge substantial interest generally collected most accounts in a prompt manner. For example, one office of the Energy Research and Development Administration which sold uranium enrichment services had about \$100 million in receivables at the time of our review. This activity charged interest of 1 percent a month on accounts not paid within 30 days.

Our review showed that 95 percent of the activity's bills were collected within 30 days and we concluded that the imposition of interest was a positive factor in encouraging prompt payment.

Other Government agencies that had not established interest charges for late payments were encountering serious collection problems. For example, Geological Survey did not charge interest on late payments for oil and gas royalties and nearly 50 percent of the payments it received were late.

We believe that interest probably should not be applied to collection of overpayments made by the Government to recipients under Federal programs when the recipients were not at fault. However, we also believe that interest charges may be warranted if the money due is not repaid within a reasonable time.

To overcome this problem, we recommended that guidelines be issued providing that Government receivables bear interest at not less than an established minimum rate.

Guidelines now exist which require Federal agencies to include a stipulation in all contracts and agreements that interest will be charged for late payments. This is a step in the right direction but we believe the guidelines should be further revised to provide for interest charges on delinquent receivables not covered by contracts or agreements.

Another problem identified in our review was the way agencies record report accounts receivable. We identified understated balances of nearly \$800 million which resulted mainly because certain agencies did not report unrecovered overpayments as receivables. We also found overstatements in other agencies of about \$660 million because of accounting errors. As a result of these errors, controls over collection and writeoffs of receivables are weakened, asset balances are incorrect, and expected future losses are not fully disclosed. We attributed these problems to a need for increased management attention to accounting systems, a need for specific guidance for recording and reporting, and a need for increased internal audit coverage of financial operations.

As a result of our recommendations, agencies have taken corrective action to provide better accounting and reporting. For example, the Social Security Administration began including program overpayments as accounts receivable in its 1977 financial reports. As a result, its reported receivables went from \$83 million in 1976 to \$1.5 billion in 1978.

We recommended that Treasury revise its guidelines in order to strengthen financial reporting by all departments and agencies. Treasury is making appropriate revisions.

We undertook our second review at the request of Senators Long and Packwood. In this review, we studied debt collection practices used by the public and private sectors to determine each sector's efficiency and effectiveness. After analyzing the comparative data, we concluded that significant improvement can be achieved in the debt collection operations of the Federal Government by using selected private sector practices. Since we have not formally reported the results of this review, I will discuss our interim findings.

Unit cost comparisons reveal that Federal debt collection practices are expensive and slow. As a first step in comparing public/private sector debt collection practices, we reviewed comparable unit cost and related performance data. These comparisons indicated that the Federal debt collection process is expensive and slow.

One indicator of the contrast between Federal and commercial debt collection practices is the size of the debt that each sector considers

cost-effective to pursue to the point of obtaining a court judgment on debts as small as \$25. The Government generally does not seek judgments on debts of less than \$600.

While the private sector has maintained the \$25 figure over the past 8 years, in this same period the Government's minimum dollar level has risen from \$200 to \$600. Until the Government can improve its debt collection systems through the adoption of commercial practices, such as automation, it will not be able to significantly reduce the \$600 cut-off level in preparing for and litigating a court action.

As another indication, it cost one Federal agency with a large collection activity an average of \$8.72 to pursue collection of an account until the debt was collected, written off, or referred to GAO or Justice. One large retail firm, on the other hand, reportedly spent less than \$3.50 for the same functions.

Federal collection is also slower. Commercial firms told GAO they were generally able to pursue collection to the point of obtaining a court judgment within 5 months. In the Federal Government, it takes 1 year and frequently longer to reach that point in the process.

Because of the requirements placed on Federal collectors by the joint standards and by agency operating procedures, the Government cannot be expected to fully match the cost effectiveness record of private industry. But processing time and costs can be reduced by prompt and aggressive collection actions and by implementing certain successful private collection practices that make good sense and seem adaptable to Government.

Selected private sector practices that can be adopted by the Federal Government. In analyzing the reasons for the differences in performance, we identified several commercial practices that we believe would significantly improve Federal debt collection performance. These include: Reporting debts to credit bureaus; using the credit bureau debtor locator service to help find delinquent debtors; improving the content of demand letters; and making greater use of automation, including automation of demand letters.

It may also be appropriate to employ private debt collectors to collect debts that agencies have written off, but this will have to be evaluated further.

I would now like to briefly address each of these commercial practices.

**Report debts to credit bureaus.** Credit bureaus are widely used by the private sector, while the Federal Government relies primarily on persuasion, offset and legal action to collect debts. While effective in many cases, these methods are not fully adequate when debtors delay or try to avoid paying.

In contrast to the Federal Government, commercial firms place primary reliance in collecting unsecured debts on aggressive collection action backed by the consequence of adversely affecting the debtor's credit rating. In addition, the private sector limits the extent of credit available to individuals by reporting loans and installment payments when incurred to the credit bureau network.

This network is a consortium of credit bureaus that is systematically linked together. These commercially used inducements have potential for use in the Federal Government.

Private industry officials told us that the single most powerful motivation for an individual to pay a debt was the stigma of having that person's credit rating reflect that he or she has not paid debts promptly. The vast majority of Americans rely on credit and a good credit rating to buy the things they need.

The potential effectiveness of reporting debts to the credit bureau network is illustrated by the results reported by the New Jersey Office of Student Assistance. I understand that Mr. Nestor, director of the agency, will provide you with data which shows how successful they have been in preventing students from defaulting on their loans and in collecting defaulted loans utilizing this approach.

Based on this evidence, we believe that reporting indebtedness to the credit bureau network can help Federal agencies collect from debtors who are delaying or trying to avoid paying.

We further believe, based on our present understanding of the law and of the procedures for notification to debtors, that agencies may both comply with the Privacy Act of 1974 and, for legitimate purposes, share with credit bureaus data on loans made and delinquent debts.

We believe it is appropriate to report debts to credit bureaus, both to collect from debtors who are trying to avoid paying, as well as to make it more difficult for debtors to overextend themselves on credit.

It should also be noted that when individuals are prompt in making payments to the Government and this data is recorded at the credit bureaus, their credit rating can be enhanced, providing them with additional credit.

Use the credit bureau debtor locator service. Finding people who do not voluntarily pay the Government the amounts they owe is a problem for many agencies, particularly those dealing with students. A technique debtors use to avoid paying debts is to elude being found; they move and do not leave a forwarding address. Agencies have accumulated a large backlog of delinquent debts and have written off several hundred million dollars in debts because they could not locate debtors.

Agencies use a variety of ways to locate debtors, but they have not made full use of the nationwide debtor service provided by the credit bureau network. Because millions of Americans have credit records, the service, which is inexpensive, can be a good source that is readily available. It has proven useful for commercial firms, and at least one Federal law enforcement agency uses it to locate people. We believe that a test of the use of the debtor locator service is warranted.

Improve the content of demand letters. As mentioned previously, we identified a number of deficiencies in the way agencies prepare demand letters. Concerning the letters' contents, we found that Government demand letters were not as specific as those in the private sector in describing actions that would be taken. This results in a less forceful message to the debtor and thus lessens the likelihood of prompt repayment.

Based on our analysis of the content of agency demand letters, the following changes would enhance their effectiveness.

Debtors who do not agree to pay, or are delinquent in paying, should be advised that action will be taken if payment is not made by a given

date and that interest will be charged for each day the debt is delinquent; and debtors should be told that they must provide evidence to support assertions that they do not owe the debt, that the amount is wrong, that they have paid, or that they are not able to pay.

Make greater use of automation. As I have already stated, it is more expensive to collect debts in the public sector than in the private sector. Private sector officials attribute their low costs to automation. We found that agencies use varying degrees of automation, but a significant potential remains for more automation.

Further, for some agencies, such as the Veterans Administration, automation is essential to efficiently handle the large volume of collections they must process. In the long run, we believe that many agencies could reduce their unit costs for debt collection by automation.

Another problem we have noted is that agencies are writing off a number of debts because it is not cost effective to further pursue collection. While we would expect this problem to be reduced by taking some of the actions I have mentioned, it nonetheless could remain a problem. One approach that has been suggested is to refer such debts to private collectors. This would be consistent with the commercial practice of referring debts to private collectors before considering them totally uncollectible.

Our interpretation of the Claims Collection Act of 1966 is that only Federal departments and agencies are authorized to attempt collection of debts owed to the Federal Government. We continue to believe that, in general, this is a sound policy. There may, however, be merit in using private debt collectors to collect debts which Federal agencies have administratively written off as not being economical for them to pursue.

Here one should keep in mind that the cutoff point for pursuing debts through legal action is \$600 in the public sector and \$25 in the private sector.

Employing private debt collectors would require a change in legislation because Federal agencies are now precluded from using them except when given legislative authority. The Office of Education was given such authority in 1976 and is proceeding to use private collectors on a test basis. GAO plans to monitor this test and examine the merits of proposing legislation to allow agencies to employ independent collectors for debts they administratively write off.

In order to test these commercial practices, we have proposed that the Secretary of Health, Education, and Welfare and the Administrator of Veterans' Affairs take action on defaulted student loans and educational assistance overpayments: by reporting loans to the credit bureau network when they are incurred information on installments being paid, and the failure of debtors to pay amounts owed when due; and by making arrangements to use the debtor locator service offered by credit bureaus and other firms and evaluate the cost benefit of this service.

To gain experience, we believe it would be best to begin such reporting to the credit bureau network incrementally, beginning with student loans and overpayments at the Veterans' Administration and the Office of Education. If these practices prove successful, GAO will initiate action to revise the Federal Claims Collection Standards to provide for using these collection procedures by other agencies.

Finally, we plan to encourage the heads of departments and agencies to improve the content of their demand letters and to assess the cost

savings and other benefits that can result if they automate their debt collection process.

Our report is now out for agency comments. In preparation for this testimony, we obtained oral comments from the Departments of Health, Education, and Welfare and Justice. These agencies have generally concurred in the findings, conclusions and recommendations contained in our draft report. The Office of Education has already begun making arrangements to implement some of the recommendations.

Agencies from which we have requested comments have not yet responded with their views concerning the ramifications of the Privacy Act on reporting debt information to credit bureaus. However, our understanding of the Privacy Act is that it does not preclude agencies from reporting this information if prior consent is obtained or if appropriate procedures are published to authorize the sharing of this data.

In closing, we have found debt collection in the Federal Government to be an expensive and slow process, and we in GAO have long been concerned about the adequacy of agency collection efforts. The attachment to my statement lists several reports issued in recent years which relate to debt collection matters. Because of the ever-growing amounts owed the Government and written off as uncollectible and the concern expressed by the Congress and the public, we will continue to give this area priority attention.

If I may, we will include in the record some eight studies which we have in process that bear on this matter.

By adhering to the joint standards and by adopting the private sector practices described in this testimony, we believe the Federal Government can better collect its debts and will have the potential to recover billions of dollars.

Finally, this approach can result in the public gaining a more positive view of the competence of the Government. This improved opinion will happen when it becomes clear to Americans that the Government is not derelict in its duty to administer the public business of the Nation in the most efficient and effective manner possible.

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions you and other members of the subcommittee may have.

[The attachments to Mr. Staats' statement follow:]

#### ATTACHMENT NO. 1

##### LIST OF RECENT GAO REPORTS ON DEBT COLLECTION

FOD-76-7, April 16, 1976.—Small Business Administration. Need for improvement in Small Business Administration's financial management.

B-1170604, October 11, 1973.—Department of the Army. Improvements that have been made but problems that still exist in Claims Army Finance Support Agency.

B-117064, April 4, 1975.—Social Security Administration. Lengthy delays in processing of over-payments under Part A of the medicare program may result in losses of millions of dollars.

CEA-77-112, July 18, 1977.—Department of Agriculture. The food stamp program overissued benefits not recovered and fraud not punished.

CD-77-1, August 11, 1977.—Department of Health, Education and Welfare Office of Education. Collection efforts not keeping pace with growing number of defaulted student loans.

FGMSD-77-33, September 8, 1977.—Department of Housing and Urban Development. Millions of dollar in delinquent mortgage insurance premiums should be collected by HUD.

HRD-78-45, February 16, 1978.—Veterans Administration. Further action needs to resolve Veterans Administration's educational assistance overpayment problem.

CED-78-14, December 12, 1977. Department of Housing and Urban Development/Department of Defense. The unnecessary practice of requiring DOD to pay mortgage insurance premium on Wherry and Copehart family housing properties owned by DOD and insured by HUD.

HRD-77-131, August 23, 1977.—Social Security Administration. Supplemental security income overpayments to Medicaid nursing home residents can be reduced.

B-11860, October 7, 1977.—Department of Agriculture. Letter report to the Secretary of Agriculture concerning improving FmHA's practice of charging either a standard fee or nothing for credit report for evaluating the credit history of loan applicants.

B-114589, March 19, 1976. Veterans Administration. Education assistance overpayments, a billion dollar problem—a look at the causes, solutions, and collection efforts.

HRD-78-112, May 11, 1978.—Veterans Administration. Improvements needed in VA's education loan program.

HRD-78-94, May 2, 1978.—Office of Education, HEW. Status of Office of Education's national direct student loan funds at selected post-secondary education institutions.

FGMSD-77-46, September 16, 1977.—Department of Defense. Weaknesses in billing and collection for foreign military sales.

CED-77-134, October 7, 1977.—Department of Agriculture. Need for the Farmers Home Administration to charge a fee for credit reports used to evaluate the credit history of housing loan applicants.

FGMSD-77-45, June 25, 1977.—Energy Research and Development Administration. Review of (ERDA's) accounting system for accounts receivable including related billing and collection practices.

FGMSD-77-42, July 11, 1977.—Forest Service. Review of accounting systems for accounts receivable including billing and collection practices including billing and collection practices and improvements need in the accounting, billing, and collection system.

FGMSD-77-29, July 27, 1977.—General Services Administration. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

FGMSD-77-30, August 17, 1977.—Department of Labor. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

FGMSD-77-31, August 30, 1977.—Department of the Treasury. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection systems.

FGMSD-77-32, September 6, 1977.—Social Security Administration. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

FGMSD-77-41, September 15, 1977.—Civil Service Commission. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

FGMSD-77-89, October 21, 1977.—National Aeronautics and Space Administration. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

FGMSD-77-66, February 3, 1978.—Department of the Interior. Review of accounting systems for accounts receivable including billing and collection practices and improvements needed in the accounting, billing, and collection system.

## ATTACHMENT No. 2

### GAO REVIEWS IN PROCESS

1. Evaluation of the feasibility of the Government collecting debts on which collection action is now being terminated by reducing future Federal tax refunds to these debtors.

2. Review of the system used to collect over a billion dollars annually in royalties for oil and gas extracted from Federal and Indian lands.

3. Analysis of the impact of the Tax Reform Act on Government collection efforts.

4. Evaluation of Social Security Administration efforts to collect overpayments to supplemental security income recipients.

5. Evaluation of Social Security Administration efforts to collect overpayments made under the retirement and survivors insurance program.

6. Test to determine the feasibility of referring delinquent Veterans Administration educational assistance accounts to credit bureaus.

7. Evaluation of the collectability of educational assistance accounts which are written off by the Veterans Administration as uncollectible.

8. Analysis of the procedures used by the Internal Revenue Service to collect tax debts.

Senator BYRD. Thank you very much, Mr. Staats. That is a very informative presentation. You made some very important points, it seems to me.

For purposes of clarification, as I understand it, your report today does not deal with debts owed by foreign governments to our Government? That is entirely separate.

Mr. STAATS. That is correct.

Senator BYRD. It deals only with—

Mr. STAATS. Excuse me. I stand corrected. The larger figure, the 118, does include debts owed by foreign governments to the United States.

Senator BYRD. The 118 figure does, but not the 84?

Mr. SIMONETTE. That does include—the \$84 billion does include amounts owed by foreign governments, for example, under the AID program, as well as past war debts. Those would be included in loans in the \$84 billion.

Senator BYRD. That is included?

Mr. SIMONETTE. Yes; it is. I don't have the figure handy, but it would probably be in the neighborhood of \$10 to \$15 billion of the outstanding loans.

Mr. STAATS. May we supply that for the record?

Senator BYRD. I wish you would, because the total foreign debt owed to the Government excludes World War I debt and it would be \$60 billion.

Mr. SIMONETTE. The amounts owed under the AID program are definitely included as well as amounts owed to the Department of the Treasury as past war debts, yes, sir.

Mr. STAATS. Would it be helpful, Mr. Chairman, if we gave you a detailed breakdown for the record of the makeup of the \$118 billion?

Senator BYRD. Yes; it would.

Mr. STAATS. I think that would be helpful.

Senator BYRD. I wish you would do that.

[The material to be furnished follows:]

*Amounts owed the U.S. Government at September 1977*

	<i>Billions</i>
Accounts and loans receivable owed to budgeted agencies.....	\$84
Accounts and loans receivable owed to off-budget agencies.....	34

The \$84 billion owed to budgeted agencies includes the following activities with amounts primarily due from foreign countries.

	<i>Billions</i>
International Security Assistance.....	\$2
Agency For International Development.....	14
Treasury Department lend lease and surplus property accounts.....	5

Total ..... 21



Senator BYRD. Could you pinpoint which departments or agencies have the most delinquent obligations?

Mr. STAATS. You are referring to those which are overdue?

Senator BYRD. Which are overdue, yes.

Mr. SIMONETTE. We cannot precisely pinpoint, Mr. Chairman, which departments and agencies have amounts overdue. This would require an individual examination in each and every agency.

We do know that there are amounts overdue through overpayments; amounts overdue through various loan programs. For example, we know, under the Office of Education's student loan programs, approximately \$1 billion is in default. Certainly that would be overdue.

Unfortunately, there is no overall figure available that we could obtain to show on a Government-wide basis what amounts would be overdue.

Mr. STAATS. This is one of the deficiencies in the reporting which we referred to. We do not now have any systematic way to collect information on overdue payments, or where loans are delinquent. We need to have better information than we have for the basis of policy.

Senator BYRD. According to your statement this morning, 25 percent of the loans made by the Office of Education, are now in default. \$1 billion out of \$4 billion in receivables.

Mr. STAATS. That is correct.

Senator BYRD. In another part of your statement you mention social security—on page 9—"Social Security Administration began including program overpayments as accounts receivable in 1977 financial reports. As a result, the reported receivables went from \$83 million to \$1.5 billion in 1978."

That is just an astonishing figure, it seems to me, for overpayments. When you deal with overpayments to Social Security recipients, it seems to me that you are getting into a category there where, in many cases, as a practical matter, you cannot really recoup that money, can you?

Mr. STAATS. It is very, very difficult. Many of these are in the nature of errors. Some of the errors are due to the Government's own poor management, so that it is very, very difficult to collect, particularly from people who are in that income category.

Senator BYRD. That is what impresses me. What this indicates to me is that there is apparently a great deal of slackness and inefficiency and inaccurate handlings of these Social Security accounts if the payments are on the magnitude of \$1.5 billion for social security recipients.

Would that be your interpretation?

Mr. STAATS. That is right.

Mr. USILANER. I may add, in that figure for social security, while a lot of those people are not able to pay, we have also identified that there are many people able to pay and just are not. These are people who have made filing errors, who do have jobs and the ability to pay, but just are not doing so.

Senator BYRD. So a reasonable portion, or the highest portion of that \$1.5 billion, is collectible?

Mr. USILANER. It is hard to say, but I don't want to give the impression that it is all uncollectible because the people cannot afford to pay.

Mr. SCANTLEBURY. If I might add, a large number of those came from the supplemental security income payments which the Social

Security Administration started making about 2 or 3 years ago. That was a new program they undertook. At the outset of it, they had a large number of errors.

Senator BYRD. When overpayments go from \$83 million in 1976 to \$1.5 billion in 1978, that is an astonishing increase. Probably a method of reporting that did not give full reporting?

Mr. STAATS. That would be a correct answer. Some in that, a large balance of that, would be just better reporting. Many of those overpayments occurred, certainly, prior to 1976.

Senator BYRD. Do you feel any legislation is needed to take care of some of the problems that you mentioned here?

Mr. STAATS. We are not positive at this moment as to what legislation would be required. We are rather inclined to think that some legislation would be required when we have a chance to monitor what the Office of Education is doing, and my own feeling as of today is that we will be recommending before too long that the Congress take some action to amend the 1966 legislation.

Senator BYRD. You state on page 14 that you believe that a test of the use of the debtor locator service is warranted. Would that require legislation, or can that be done by administrative action?

Mr. USILANER. That can be done by administrative action, sir.

Senator BYRD. It seems to me that that is a very worthwhile recommendation and one which I would think the agencies would want to follow-up on.

Mr. STAATS. I believe that the only legislation that would be specifically required would be to enable the Government to turn over the debt collection to a private debt collection agency.

That has been done, as you indicated, for the Office of Education under student loans. That is a program that we are going to be monitoring very closely and see whether or not, on the basis of that, we could recommend more general legislation for other agencies, or perhaps the entire Government.

Senator BYRD. The Office of Education was given that authority, you say, in 1976. Is it too early to tell how effective that has been?

Mr. USILANER. They are just putting out their RFP, request for proposal, now. It is too early.

Senator BYRD. They have not actually utilized it?

Mr. STAATS. That is correct. They are just now in the process of trying to get contracts entered into for that purpose.

Senator BYRD. Of course, these large defaults and untimely repayments of obligations owed the Government, that means that the Government must go to the money markets to a greater degree than they would otherwise because it is operating on deficit, so that they must borrow greater amounts.

Mr. STAATS. Anything we can do to reduce the amount of uncollectible debts and overpayments is going to help that much on the deficit.

Senator BYRD. What would you recommend? You say now that the Government generally does not seek judgments on debts of less than \$600. What figure would you be inclined to recommend?

Mr. STAATS. As of today, we are not able to give you a specific figure. We do think that if the agencies automated more and used a locator service and took other actions, that that figure could be reduced.

Senator BYRD. Do Government agencies routinely write off debts of less than \$600?

Mr. SIMONETTE. Yes, sir. The Government agencies have the authority to write off debts of less than \$600 and also the Government agencies are permitted to write off debts up to \$20,000 if certain conditions exist.

For example, if the agency is unable to locate the debtor, if there is clear indication that the debtor will simply not be able to repay, the agencies do have authority under the joint collection standards to take such action.

Mr. SCANTLEBURY. They do, first, Mr. Chairman, attempt to collect the debts of smaller than that amount.

Mr. STAATS. We do not want to give the impression that they make no effort to collect debts under \$600, but they do have authority to write those off. They do make some effort to try to collect those debts.

Senator BYRD. Thank you. My time has expired.

Senator Packwood?

Senator PACKWOOD. I have sensed in some of the agencies, particularly the Department of Health, Education and Welfare, a feeling that many of these debts should never have been debts anyway; they should have been grants to begin with, and that is one of the reasons that no serious effort is made to pursue them.

Have you run into that philosophy in HEW in particular, or other agencies in general?

Mr. SIMONETTE. We feel that the agencies can be more effective, they can be more aggressive, perhaps a little more hardnosed, but I cannot say that we have run into any feeling that these should be basically turned into grant programs.

Senator PACKWOOD. On page 6, item No. 4, you say agencies did not analyze their collection activities to identify the cost of collection. I recall a study that you did a number of years ago on the Government payment of medicare claims in the Division of Direct Reimbursement. The first thing you noted in your report, in trying to compare what it cost the Division of Direct Reimbursement to pay a medicare claim, they had private insurance pay it. The Division did not know what it cost to pay a claim. They never analyzed the cost.

Is that the same thing you are saying, that these agencies do not know what the cost is to collect a debt?

Mr. STAATS. I think that is a correct understanding.

Senator PACKWOOD. They do not know what it costs them to collect a debt. I think this is true.

What has caused, in the last 8 years, the decision not to pursue a debt below \$600 if they do not know the cost, to collect a debt?

Mr. USILANER. I guess this has gone up because of inflation. That is one of the reasons given.

Obviously, Senator as you pointed out, there has been no quantitative analysis done that this is the correct figure from a cost-benefit point of view.

Senator PACKWOOD. It is an intuitive hunch with them that about \$600 we can afford to collect, but below that forget it?

Mr. STAATS. The figure, I think, initially was \$200, established right after the 1966 legislation. It went to \$400 later on and up to \$600.

Senator PACKWOOD. It has gone up about three times when inflation has gone up about twice?

It has gone up when private collection agencies are holding to a figure of \$25 during that whole period of time, so this cannot simply be traced to the fact that they do not use private agency collection methods. It cannot solely be traced to inflation, because inflation has not been that great. Is the management worse than we had 10 or 12 years ago? It is a more generous attitude that we had toward debtors 10 or 12 years ago, or maybe a combination of both?

Mr. STAATS. The \$25 figure is a useful figure for us to have, because it enables us to relate that \$25 of the private sector's cost analysis. We do not believe that the Federal Government can ever get down to \$25, but we do think it could reduce that \$600 very substantially.

Senator PACKWOOD. I think they could get below the \$200 figure of 8 or 9 years ago without being mean or malicious or doing anything heartless, but by simply asking people who can afford to pay, to pay their debts to the Government.

When it comes to people who cannot afford to pay, we would be in the same situation as private collection agencies would be. People go bankrupt. They cannot pay; you cannot collect.

In regard to Health, Education, and Welfare, there is a great tendency to want to write off the debts. I use the term want to write off the debts. There seems to be no overwhelming desire to collect them. If pushed by the General Accounting Office, or pushed by Congress, they reluctantly attempt to collect the debts so that their record does not look so miserable.

I compliment you again. The reports I have had from the GAO under your tenure have been outstanding. I do not know how much money that GAO can point to as what they have saved over the past years by your studies. Maybe you know.

Do you have any idea of the figure?

Mr. STAATS. We attempt to maintain a running account where we can quantify savings that result from our recommendations and where the agencies take the action and where Congress specifically identifies a reduction in relation to a GAO recommendation.

I want to emphasize here a lot of savings that come about cannot be quantified or where the agency may have been the process. We do not take credit for those, but in 1977, our savings of the type I have just described were \$5.6 billion and this last year, \$2.5 billion.

So over that 2-year period, it would be something over \$8 billion.

Senator PACKWOOD. That is an incredible record; you are to be complimented.

I have no further questions.

Mr. STAATS. Many of those, by the way, are recurring year after year.

Senator PACKWOOD. We can count on those savings every year?

Mr. STAATS. Yes.

Senator BYRD. Thank you, Senator Packwood.

I am wondering whether there is really an interest on the part of the various departments and agencies in attempting to collect these obligations—Government debts? This is along the lines of Senator Packwood's question.

I do not know whether you want to indicate this or not. I do not want to pressure you as to whether there is an interest, and desire on the part of the various departments and agencies to push the collection of obligations owed the Government.

Mr. STAATS. I would like to have my colleagues here who have been working directly with the agencies to respond to that question. We have no hesitancy in responding to that.

Mr. SCANTLEBURY. We think that the agencies have shown interest in collection, but one of the problems they have had in the past few years is that the number of accounts they have to collect have grown substantially and they have not really responded effectively to this growth.

There are a number of different programs like the student loan program that generated receivables that they did not previously have to collect.

Mr. STAATS. I would say this, Mr. Chairman. In general terms, the subject probably has not received the top level attention of the executive branch that it should have. Only as we have been able to call their attention to some of the needed changes such as the interest on overpayments and overdue loans have they promulgated rules on charging interest. We are inclined to think that some of these other recommendations that we are making here today could have been put into effect by the agencies had there been sufficient concern about the problem.

I think we would be willing to make that statement.

Mr. USILANER. There is more pressure on the giving end than on the getting back.

Senator BYRD. That is my impression—my strong view. As a matter of fact, I will give you an example.

Several years ago, this committee held a hearing on the debt owed the United States by foreign governments. An Assistant Secretary of State testified in that regard and, after the hearing, he was queried by the press and he told the press that he thought the hearings on this matter were very boring—that upset Secretary Kissinger. He thought I would be upset, since I was the chairman presiding, and I told him not to worry about that. I was not upset about that remark at all, because I think it is indicative of bureaucratic Washington and what most agencies and departments want to do is to dish out the tax funds.

I find that very little interest—indeed, I find that many, I will not say most, but many, find it boring to have to attempt to get back from the taxpayers money owed the Government.

Every speech I have made in Virginia for years, I cited this incident, this boring hearing, in the view of the State Department, because, in my judgment, there is a lack of concern or interest or desire to press for the collection of just claims owed the Government.

Mr. STAATS. Mr. Chairman, if I might interject here, this is one of three areas which we have recently called attention to as matters that could result in substantial savings to the Government. We have done a great deal of work in the area of fraud and error and abuse on programs, but we think there is tremendous potential for savings.

The third area has to do with cases where internal auditors in the agencies have questioned the accuracy of the legitimacy of a particular

contract payment or threat or loan and where those questions have not been resolved. Something like \$4.5 billion just in the agencies that we looked at, where the internal auditors have questioned the accuracy of the payment, the correctness of the payment, and those questions had not been resolved.

Senator BYRD. \$4.5 billion?

Mr. STAATS. Yes.

Senator BYRD. I would like to equate that to the amount of income taxes paid by all the people from the State of Virginia, the 12th largest State in the Union, with 5,100,000 population. The total income tax payment from all the people Virginia is \$3.5 billion.

So this figure you are speaking of is greater than all of the taxes paid by the residents of the 12th largest State in our Nation.

I think that is very significant.

In your statement you say:

Our review showed that prompt collection action on the government's accounts receivable from the public has been hindered by—a lack of prompt and aggressive collection action in accordance with the Joint Standards—low or no interest charges being imposed on delinquent accounts \* \* \*.<sup>1</sup>

This is customary, I assume, and is more the rule than the exception not to charge interest, or to charge a very low interest rate?

Mr. SIMONETTE. That is correct, Mr. Chairman. It varies widely, as we pointed out, but the problem we saw, which has been partially corrected, is that there was no Government-wide guidance to the agencies as to what interest should be charged under what conditions, and so on.

Treasury has partly corrected that in recent months by requiring interest charges where claims arise through contracts or other types of formal agreements. We would like to see that go further. We think it is a loophole that should be closed, that is, where there are claims that have not arisen through such agreements, such as overpayments, for example, that consideration be given to charging interest, if that amount is not paid within a reasonable period of time.

We think that this would help speed up, again, the repayment of the Government's debts.

Senator BYRD. I think it certainly would.

Indicative of that is your statement about the Energy Research and Development Administration which charges 1 percent a month on its accounts.

Mr. SIMONETTE. Yes, sir. We found that to be quite effective.

Senator BYRD. Could you list the elements that compose the debt figure? It is loans, I assume, accounts receivable, overpayments. Anything else?

Mr. SIMONETTE. Yes, sir.

The two big pieces are accounts receivable, which is about \$15 billion. That includes overpayments, at least the overpayments where the agencies are reporting them. One of the points we made was that those should be reported to Treasury as accounts receivable; some agencies were not doing this.

The second piece of that would be loans receivable, loans owed to various agencies which would be the \$69 billion.

<sup>1</sup> See p. 5.

Going back to the accounts receivable for just a moment, those also arise from other types of services, goods and services, that the Government provides. Certain NASA programs, the ERDA program that you mentioned, the sale of uranium enrichment services, various sales of goods and services provided by the various agencies.

Senator BYRD. Are you able to indicate which agencies have the greatest amount of overdue debt?

Mr. SIMONETTE. We cannot say precisely which agencies have the greatest amount of overdue debt because, again, there is no overall reporting of those amounts. All we can do at this time is point to indications where certain agencies do have overdue debt. For example, the Veterans Administration would certainly be one, with its large overpayments. The Office of Education, as I mentioned earlier, with its large amounts of numbers of loans in default.

Those would be two activities with delinquent debts.

Senator BYRD. Thank you, sir. I want to commend the General Accounting Office for its work. I think it is important that there be at least one agency of Government which has a keen and definite interest in seeing that the Government receives its just amount from overpayments and other forms of debt owed to Government. If the Government does not, every taxpayer in our Nation is adversely affected.

I want to commend you, Mr. Staats, and your organization.

Senator Packwood?

Senator PACKWOOD. No questions.

Senator BYRD. Thank you very much gentlemen.

Mr. STAATS. Thank you.

Senator BYRD. The next witness is Mr. William C. Nester, director of New Jersey Higher Education Assistance Authority. Mr. Nester, we are delighted to have you this morning. I understand that you have developed an innovative program in the State of New Jersey, and this committee is interested in getting the details of the program.

#### **STATEMENT OF WILLIAM C. NESTER, DIRECTOR, NEW JERSEY HIGHER EDUCATION ASSISTANCE AUTHORITY**

Mr. NESTER. Thank you, Mr. Chairman. I would like to introduce, before I begin, my colleague, Mr. John DeFeo, who manages all claims and collections for the New Jersey Higher Education Assistance Authority.

Mr. Chairman and members of the committee, I am pleased and consider it a privilege to appear before this distinguished committee to comment on debt collection management. In order to understand the setting from which our experience has been drawn, let me help you to visualize the program for which I have administrative responsibility.

The New Jersey Higher Education Assistance Authority has responsibility for the making and guaranteeing—assuring repayment to lender—of loans to students for the purpose of defraying the cost of post-secondary education. These loans, commonly known as Guaranteed Student Loans, have been made since 1960 with the authority amending its regulations to conform with the program set forth under the Federal Higher Education Act of 1965. I have been secretary of the authority and director of the loan program since 1966.

We are proud of our program in New Jersey which has guaranteed over 500,000 loans valued in excess of \$700 million, of which about \$500 million is currently outstanding. Under the program this past year, more than 60,000 students were granted loans amounting to \$122 million. These students attend post-secondary schools and colleges throughout the 50 States and some attend institutions located outside the United States.

At the time the loan is made, it is the number one fiscal priority of the borrower. In general, it can be said that historically Government agencies, credit grantors and institutions within the business community have considered loans for education a low priority item; and, therefore, the individual borrower tends to hold an educational loan at that same low level.

The borrower fails to recognize, and both the lender and the financial aid officer at the educational institution fail to adequately educate the borrower, that a pledge has been made to repay the loan out of potential future earnings. Many individuals refuse to consider repayment of the educational loan a fixed expense and, therefore, find themselves overcommitted at the time repayment is scheduled to begin. For fear of losing material things, other indebtedness is considered to be of higher priority—the car payment, the mortgage, stereo, TV or payment for other consumer goods.

Our job, then, is to educate the borrower and members of the business community that repayment of an educational loan, even though guaranteed by the Government, must be kept at a high priority level and not allowed to slip to priority Nos. 4, 5, 6 or even lower. In order to do this, educational loans must be made a part of a person's total credit history just the same as any consumer loan.

Not presently recognized by many in the business community or other knowledgeable individuals, including reporters, writers and educators who strongly support increased financial aid for students, is the fact that the education loan may well be the second largest indebtedness incurred during the lifetime of an individual. In most cases, the size of the education loan has surpassed that of the car loan and now is exceeded only by the home loan.

Failure to include educational loans as part of a person's credit history creates a distorted financial picture, allowing a credit grantor, unaware of previous indebtedness, to grant too much additional credit and thus allows the individual to become over-indebted. However, if the credit grantor has the benefit of knowing the present total indebtedness, any potential problem concerning repayment surfaces immediately. Thus, an individual can be spared the pitfalls of becoming delinquent or even defaulting on his loans.

It is not the borrower alone who is responsible for the indebtedness of an individual, but rather the lender and those in the business community who may find it prudent to extend credit to those persons already overwhelmed financially with education loans. Many cases in which loans have been defaulted reveal the sad fact that future credit grantors had not been aware of previous educational loan indebtedness and, therefore, extended credit in excess of the borrower's ability to repay.

A student loan may be financial aid at the time of disbursement; but as far as the student and lender are concerned, it becomes a realistic



business transaction at the time of scheduled repayment and it is subject to all the variables within the economy at that time. It is directly related to the borrower's ability to repay from discretionary income. Therefore, if the student loan indebtedness is not considered at the time of loan disbursement, it may well be too late at the time repayment of the loan is to be initiated.

What, then, is the key to keeping the business community and credit grantors informed about a person's credit history? The key is simply to report the education loan, or any loan, to a credit data reporting service at the time funds are disbursed. Thus, a credit history is begun, or added to, and is available to provide factual information in the granting of additional credit.

The intent is not to prevent persons from obtaining additional credit, but rather to assure that all current indebtedness will be considered before additional credit is extended. Once overindebtedness occurs, collection tools of any kind are virtually useless.

A colleague of this distinguished body, Senator Proxmire, recently said that going to credit bureaus would be "an inexpensive, effective and fair way to insure that when Uncle Sam lends money, it's a loan, not a gift. Until and unless the average citizen knows that an obligation to pay his Government is just as sacred as an obligation to pay his car dealer, we can expect the dollars owed the Federal Government to grow by leaps and bounds."

Based on our many years' experience with guaranteed student loans, we are in complete agreement with the Senator.

We have always been concerned with the timely repayment of student loans, but in December 1975 we began to give increased attention to monitoring the total indebtedness of an individual by using the services of a credit data agency. Our experience since then has been most gratifying; the dollar amount of claims paid to lenders to purchase defaulted student loans has decreased each year, while at the same time, there has been a very substantial increase in the number of students making a payment on their defaulted loan and there has been a significant increase in the total dollars collected on defaulted loans.

It should be pointed out that during this same time period, there was no increase in the number of staff persons working in claims and collection activities. What can't be measured, and I have a strong feeling that it is substantial, is the number of students who are making regular payments on their loans as the result of a report from the credit data agency. The very significant decrease in default claims paid to lenders appears to support my feeling.

Today, we are a very mobile society and some of us move frequently and rapidly, some within municipalities, within a given State, or even across State lines. A person's credit history tends to move with him or her, for sooner or later most people apply for credit at a local store, financial institution, or national credit card.

When references are checked, the applicant's credit history is updated and the lender is in a position to decide on the basis of facts whether to extend additional credit. Calls are received every day in our office from student loan holders and credit grantors attempting to make a proper evaluation as to whether additional credit should be granted.

Some accounts surface in which the borrower had not been heard from for several years, but because his credit history has been activated, his current whereabouts is now known. Attached to these comments are several recent examples that came to our attention.

In conclusion, I would like to urge consideration of two thoughts to improve debt collection management. First, that serious thought be given to establishing a nationwide credit data reporting service for Government guaranteed loans of all types. If such a service was established and every Government guaranteed loan reported at the time funds are disbursed, that history would help thousands of our citizens to avoid becoming overindebted and save millions of dollars for the taxpayers.

There is no question in my mind that this would provide a valuable service that would result in preventing embarrassment and eliminating heartaches in many families.

Second, I would urge that all the facilities of Government be made available when checking the history of those individuals who have defaulted on a Government-guaranteed loan. We have recently read about "Operation Match" which identified student loan defaulters employed within the Department of Health, Education, and Welfare, Civil Service, and the military. Could you not use those same facilities to check defaulted loans held by educational institutions and State guarantee agencies?

What about using the facilities of IRS and Social Security just to mention a couple more agencies? After all, gentlemen, paramount in all our endeavors is the operation of sound programs of assistance, but programs in which the taxpayers' equity is protected.

Thank you for the opportunity to appear before you. We hope that you will find these comments helpful in your future deliberations. And now, Mr. Chairman, if you have any questions, we would be pleased to respond to the best of our ability.

[The attachment to Mr. Nester's statement follows:]

#### ATTACHMENT

##### EXAMPLE A. NO PAYMENTS MONTHLY

Address at time of loan disbursement: New Jersey.  
 Address at time of credit inquiry; New Jersey, new residence.  
 Date of default. December 1977.  
 Amount of default: \$3,351.49.  
 Scheduled payments: \$65 per month.  
 Payments through August 31, 1978; \$65.  
 Date of credit inquiry: July 10, 1978.

##### *Summary:*

In July 1978 the subject applied for a mortgage, and this agency was contacted for purposes of updating the account.

##### *Conclusion:*

As a result of this inquiry, we received a \$65.00 payment in August 1978 and payment in full of \$3,481.61 (principal and interest) on November 2, 1978.

##### EXAMPLE B. IRREGULAR MONTHLY PAYMENTS

Address at time of loan disbursement: New Jersey.  
 Address at time of mortgage inquiry: New Jersey.  
 Date of default: June 1976.

Amount of default: \$1,856.80.  
 Payments through June 30, 1978: \$50.  
 Scheduled payments: \$50 per month.

**Summary:**

Credit inquiry received by this office on July 9, 1978 as subject was applying for a mortgage.

**Conclusion:**

Payment in full of \$2,101.00 (principal and interest) was received on October 27, 1978.

**EXAMPLE C. SKIP LOCATED, PAYMENT INITIATED**

Address at time of loan disbursement: New Jersey.  
 Address at time of default: New Jersey, different location.  
 Date of default: March 1977.  
 Amount of default: \$825.  
 Scheduled payments: \$40 per month.

**Summary:**

No payments received from the date of default through September 30, 1978. Credit inquiry received on October 10, 1978 when subject applied for a mortgage.

**Conclusion:**

As a result of this inquiry, repayment arrangements were initiated and the first payment was received from this individual on October 16, 1978.

**EXAMPLE D. SKIP LOCATED, PAYMENT INITIATED**

Address at time of loan disbursement: New Jersey.  
 Address at time of credit inquiry: California.  
 Date of default: April 1968.  
 Amount of default: \$754.04.  
 Scheduled payments: \$30 per month.

**Summary:**

Subject was presently on the move and refused to initiate repayment. On October 3, 1978 a credit inquiry was cleared through this office as the subject applied for additional credit through a large department store in California. Credit was denied because of default.

**Conclusion:**

Payment in full of \$864.98 was received on November 30, 1978.

**EXAMPLE E. PERSONAL LOAN, FURNITURE DENIED**

Address at time of loan disbursement: New Jersey.  
 Address at time of credit inquiry: New Jersey.  
 Date of default: August 1978.  
 Amount of default: \$1,806.72.  
 Scheduled payments: \$45 per month.

**Summary:**

No payments received through October 30, 1978. Credit inquiry received in October 1978 when subject applied for furniture loan which was denied.

**Conclusion:**

As a result of this, on November 8, 1978 subject called the New Jersey Higher Education Assistance Authority and agreed to initiate payments at \$45 per month. First payment in the amount of \$45.00 was received on November 22, 1978.

**EXAMPLE F. SKIP LOCATED, FHA MORTGAGE**

Address at time of loan disbursement: New Jersey.  
 Address at time of credit inquiry: New Jersey.  
 Date of default: June 1978.  
 Scheduled payments: \$60.  
 Amount of default: \$3,200.

**Summary:**

On November 29, 1978 subject called indicating that he was applying for a FHA mortgage and made his first payment of \$80.00. On December 4, 1978 subject paid \$240.00. On December 6, 1978 mortgage inquiry received and presently under consideration.

**Conclusion:**

Borrower would not initiate payment until applying for mortgage. Payments made as a direct result of the mortgage company's inquiry.

Senator BYRD. Thank you, Mr. Nester. That was a very interesting presentation. I think that it will be very helpful.

Is it your view that the experience in New Jersey in improving its debt-collection processes could reasonably and logically apply to the Federal Government?

Mr. NESTER. Absolutely.

There has been a tendency on the part of Government until recently, I believe, as I mentioned in my remarks, to treat these loans lightly. In fact, I heard one gentleman, whom I shall not identify, say, "What if we only get back 90 percent of the money that is loaned? That is 90 percent that we have recovered; we have only given away 10 percent."

That statement, to me, represents an attitude that has been prevalent far too long. Especially from my view, where I am dealing with young people; a loan is a loan. It is a concept. You borrow and you are expected to repay that obligation.

If you allow the individual to feel that if the time comes and I can't repay it, the Government will forgive me, then you are developing an attitude not only about student loans, you are developing an attitude about the whole concept of lending. If I can get away with an education loan, why can't I get away with a VA loan, an FHA loan, or any other kind of Government loan, such as SBA, to mention one?

Senator BYRD. We need you in Washington. It seems to me that what you say is not only important from the point of view of Government, but even more importantly, from the point of view of the young people who are receiving these loans.

If they start off in life feeling that they can borrow whatever amount they need and want to borrow, and not worry about repaying it, it is going to be disadvantageous to them throughout all of their lives.

Mr. NESTER. You will be pleased to know, sir, that we have had a policy—in fact, it has been a State policy—not to write off any loan owed to the State of New Jersey, and we have not, as long as we have been in business, written off a loan. They all remain open.

It has been amazing to me the number of individuals who may be lost for 3 or 4 years—by that, I mean you do not have contact with them—who suddenly show up, and especially has this been true since we have been using the credit data reporting service, because sooner or later, they are going to ask for credit.

I have been very much surprised recently by the number of requests we have had from FHA and the VA. Their call was prompted by the fact that the individual is now applying for one of those designated loans and had an education loan on record, and we, of course, the student having defaulted, are the creditor of record, and they call us to learn what the status is.

In some instances, that student who had defaulted on his loan was paying us on a regular basis, and this was fine, this was what the credit grantor wanted to hear. In a few other situations where we had not heard from the student, the student failed to respond to inquiries written or telephoned, we simply were able to convey that to the credit grantor.

We make no attempt to tell them whether or not a loan should be made. That is the decision of the other agency. All we do is deal with facts.

Senator BYRD. That is a good, sound view. The Federal Office of Education has over \$4 billion in receivables, and of that \$4 billion, \$1 billion of these loans is in default and the rate is increasing. Also, 25 percent of the Office of Education receivables are in default.

How does that percentage compare with yours?

Mr. NESTER. I made reference to the fact that we have guaranteed over \$700 million worth of loans. We have had to repurchase, for any reason whatsoever, which we call default, about 6 percent. That 6 percent has been consistent throughout the years.

At this point I would like to caution you on use of the term "default." As soon as someone says what is your default rate, or my default rate, you should ask the question, how do you arrive at that rate.

I have heard the Office of Education give default rates that vary considerably, and I must say that I, too, question what they are using for the numerator and for the denominator.

Generally, total matured paper will be the denominator.

What I am getting at is this, and bear in mind I am speaking about the guaranteed student loan program. We purchase a default, because the student either voluntarily or is forced to breach a contract with the lender for repayment.

This may be because of problems of health or improper management of his finances. It may be due to an untimely death or permanent disability. He may have declared bankruptcy. He may have simply said, come and get me, the State owes this to me.

All loans we have repurchased for any reason whatsoever, amounts to about 6 percent. However, if you look at that 6 percent and analyze the status of these loans, and look only at death, disability, bankruptcy, and litigation, those cases that are being litigated at the present time or have been or for which we have requested litigation, we are talking, then, about what I would call a potential loss rate of about 1 percent.

Senator PACKWOOD. One percent of the six percent?

Mr. NESTER. Of the loans repurchased.

That is making an assumption on my part that the remainder who have defaulted on their loans will pay their loan in full. Many of them are.

Over 2,000 of them have already paid that defaulted loan in full.

What if that loss rate was to double or even to triple? I think that there are many, many financial institutions in this country who would love to be able to look at a default rate as low as that, especially when you consider to whom the loan was made.

Think of it. A 17- or 18-year old who signs for that loan by himself, no cosignor, he alone is responsible for repayment, he does not know

what he wants to do in life. He has no income, no assets, is not sure of where he is going at the time the loan is made, and yet this is the kind of a record that has been established. I think the program itself is a remarkable program. I think our young people are showing us that they they are willing to recognize their responsibility and will repay their obligation if someone points it out to them, but there are a great many, sir, that you have to help along the way.

There is that period of 5 or 6 years after graduation where some have to get settled. They want to take that free year or two in Europe or try their skill at painting or some other endeavor which is not very productive, but if you stick with them and, as I say, educate them, they will return to the fold and will, indeed, make regular payments on their loans.

Senator BYRD. That is a remarkable record. You and your associates are certainly to be highly commended.

It is my thinking that most of our young people want to do the right thing. Most of the young people who borrow or find it necessary to borrow or who must borrow to complete their education, want to do the right thing. But, I think that if they find that Government is lax and Government does not care much whether they repay their commitments or not, then they will take a lax attitude toward it.

But, fundamentally, I think they do want to pay their obligation. I assume you have found that to be the case, or otherwise you would not have gotten, as good a record as you have.

Mr. NESTER. Yes.

If I may make an observation, there was a nationwide conference here in Washington on fraud and abuse which I had the privilege to attend. Secretary Califano referred to the fact that what is needed most is attention to management. I think he was getting at the very same thing we are discussing here today.

He referred to the fact that he believes that attention to the tightening up of procedures and proper management akin to the commercial endeavors, although he did not come right out and say that, would lead to a savings of \$6 billion within HEW; and of that \$6 billion, he made the statement that perhaps only \$1 billion was attributed to fraud.

What we are saying is five-sixths, or \$5 billion, is simply due to abuse of the program or errors which a human individual made. Lack of attention to proper management and procedures is another way of saying it.

Senator BYRD. Senator Packwood?

Senator PACKWOOD. I do not know what your salary is, Mr. Nester, but I am going to recommend to Mr. Califano that he double it and bring you here to Health, Education, and Welfare.

In December, 1975, you just listed these current loans, to the credit bureau and you have had these remarkable results?

Mr. NESTER. This was in addition to our other procedures. Perhaps you would like to hear John DeFeo describe what some of those procedures are.

Senator PACKWOOD. I would appreciate it.

Mr. NESTER. Bear in mind our philosophy that if you expect us in Government to compete with private enterprise, then we have to use some of the tools that private enterprise does.

Mr. DEFEO. Senator Packwood, basically, we attempt to use the same tools that are available to the private sector. Namely, we extended the hours of operation within our own office so that we now operate from 8:30 a.m. to 8 p.m. because naturally it is more productive to contact individuals after 5. That is one thing.

In keeping with the chairman's thoughts, except for a disgruntled few, we found that most individuals want to honor their commitment absolutely. However, what has happened is that we have allowed our borrowers to become so heavily indebted that, in fact, we have allowed them to tarnish their own character by not permitting them to be able to honor their commitment because of this overindebtedness not being considered up front.

We attempt to counsel the students and borrowers at the time they are getting the loan. These are the tools, generally, other than collection letters. An attempt is made to educate, an attempt to get through to the credit granting community, because the guarantee agency or the Federal Government, per se, are not credit grantors.

Senator PACKWOOD. Has your record changed markedly after the December 1975 transition?

Mr. DEFEO. When we looked at this, all we found missing was having it reported to a credit data service.

Senator PACKWOOD. Of the 6 percent you referred to, only 1 percent of 6 percent were in default. Do you have any figures similar to what the Comptroller General said of what it would cost you to collect today and what amount of debt is not worth collecting?

Mr. NESTER. Yes; we do. Here I would like to refer to a study currently underway by the Touche Ross Co. under contract to the Office of Education, which is currently examining all guarantee agencies in a number of different categories.

Part of that study has been completed. Since we were one of the first agencies in that study to be looked at, I am very, very pleased to say that in almost every category they used, and whether determining cost of processing for preclaim efforts before a loan goes into default status or collections, our agency ranked at, or very close to, the top. In the matter of collections I believe that the unit cost was something like 15 cents expended for every dollar collected.

Senator BYRD. 21 cents for each dollar collected?

Mr. NESTER. That is correct.

Senator PACKWOOD. Do you have a minimum figure that you do not try to collect as a debt?

Mr. NESTER. Absolutely not. A debt is a debt. We believe that the purpose of this loan was to assist an individual to acquire an education and repayment of it will assist another individual but the lack of repayment will hinder someone from getting an education. In answer to a question you raised previously—what else do you do?—we started early in the game, about 1968, when John joined the staff, to bill our students each month. As soon as we pay a claim to a lender, we immediately bill that student for the principal and interest on that loan beginning the first of the next month.

It becomes a regular procedure and we get that bill out to the student as close to the 4th or 5th day of the month as it is possible. Every month he gets the student loan bill the same as he would a telephone bill, a department store bill, and so on.

There is a reason for the student having breached this contract and in most cases it is a lack of understanding on the part of the individual. He has not had the experience—if I may use the term—in the cold, cruel world yet and we want to get him on a regular paying basis. With some individuals, you may start with small amounts and by going back to him at regular intervals, increase the amount of those payments until it comes up to a more acceptable level.

The idea is to get him regularly to make a payment, every month, and I think that has helped educate a lot of young people. As a matter of fact, an interesting thing has occurred a couple of times. When we have been late with the bills, we get telephone calls from students who have defaulted who ask, where is my bill? I want to make my payment.

Another indication, Senator Byrd, of their willingness, the fact they want to make that repayment. They do not want to be an outcast.

**Senator PACKWOOD.** That is a remarkable record. I appreciate the information very much. I have no other questions.

**Senator BYRD.** Have you encountered any civil rights problems in an aggressive debt collecting procedure?

**Mr. DEFEO.** No; we have not, Senator Byrd.

**Senator BYRD.** I personally would not see why it would present a problem, but that question has been raised with me when I mentioned the need for an aggressive collection system. That is the reason that I thought I would get the results of your experience on the matter. But you have not encountered any problems in this regard?

**Mr. DEFEO.** We ask our lenders to handle these loans no differently than any of the other loans within their portfolio. Therefore, if that is the manner in which other loans are handled, we expect these to be handled that way. We have not had a problem.

**Mr. NESTER.** I might say, Senator, that we have had a few questions raised about welfare recipients. We do have welfare recipients repaying a portion on their student loans every month. There are some that say you should not use welfare for that purpose.

**Senator BYRD.** Just one final question. Perhaps you would take one of these examples—you have four examples—and give us a brief resume of it?

**Mr. DEFEO.** Well, I think example A is as timely as any. The address at the time, as we point out, was New Jersey, but I think significantly the interest here is that we were unable to obtain repayment from this individual on a regular basis from December 1977 through the time that we were contacted by a mortgage company. As soon as it became urgent for this individual to be able to obtain more credit, we then got payment in full for the entire amount, which at this point was sizable—\$4,089.

I think there was an urgency here. This is as good an example as any.

**Senator BYRD.** Thank you, gentlemen, very much. It has been very enlightening and very helpful to the committee. I join Senator Packwood in commending you and your associates.

I would also ask unanimous consent at this time to insert in the record an article from the Washington Post by Mike Causey and another article by James Coates of the Chicago Tribune, dealing with this subject and the GAO report entitled "The Government needs to do a better job of collecting amounts owed by the public."



[The material to be furnished follows:]

[From the Washington Post, November 1978]

**OFFICIALS "TOO BUSY" TO COLLECT**

(By Mike Causey)

Billions of dollars owed the government by grantees and contractors are going uncollected because key federal officials are either indifferent, or claim to be too busy to recover the overpayments for the taxpayers.

The money owed the government ranges from grants given small, minority-run businesses to provide special community service for the poor to multimillions dollars in education funds that have been misapplied by State and local governments.

A spot check by the General Accounting Office of six major U.S. departments has turned up a backlog of \$4.2 billion in unresolved auditing findings. That represents overpayments from the government to groups and individuals for work either not performed or improperly done.

The GAO study, which congressional sources say represents "just the tip of the iceberg" in government overpayments, also showed instances where grantees spent money for personal items, or costly or useless office furniture instead of applying grants to help persons needing special services or low-cost housing.

In many instances, GAO says that both the grantees and the government have agreed on the amount of the overpayments. But too often—involving at least \$4.2 billion worth of known unresolved audits—the money is not collected by government officials.

GAO's study, certain to spark a controversy, showed some officials admitted they did not try to collect the overpayments because they "felt sorry" for firms who had received them. Other top government managers, many of them political appointees, said they were too busy processing other outgoing money grants to collect overpayments.

GAO, the congressional watchdog agency, said auditors in federal agencies have been doing a good job of tracking funds and seeing if the billions Uncle Sam hands out on a regular basis is being properly spent or applied. The problem, GAO says, is that federal officials often refuse to act when handed evidence of overpayments or financial misuse.

Agencies and departments cited in the GAO study for Congress included Defense, HEW, Commerce, Labor and Housing and Urban Development and the Environmental Protection Agency. GAO gave the departments time to comment on its findings, but none of them had done so by the time the GAO completed its report that went to Congress last week.

The congressional watchdog agency said that \$4.2 billion in unresolved audits had been identified in its spot check. GAO said this represents a minimum loss of "hundreds of millions of dollars" to the government.

Source who have studied the report, and know the problem, say that as much as 80 cents on the dollar—a figure in this instance that would amount to nearly \$4 billion—could and should be collected just in the agencies studied.

Congressional sources said that agency officials often don't collect overpayments because they do not know how to recover money, or because they are more concerned for political reasons with "shovelling it out" than getting it back.

Examples from the GAO report show:

An official of HEW's Social and Rehabilitation Service failed to collect an auditor-identified overpayment of \$155,000 to the California Department of Health. GAO said the official said he and his staff "did not have time" to get the money back.

An auditor-identified overpayment of \$4.4 million to a grantee was not recovered by HEW because the GAO said, HEW feared "potential legal problems."

HEW also bypassed an auditor's recommendation that they collect \$4 million in alleged overpayments to the Louisiana Department of Education. In that case, GAO said, HEW officials "did not provide an adequate explanation" for failing to go after the money.

GAO said that Commerce, EPA, Labor and HEW often forgave overpayments to minority contractors based on a contractor's "good faith" when he accepted and spent the money.

A commerce Department official said he failed to collect a \$45,000 overpayment to one contractor and \$40,000 to another because of his "heavy work load." The individual was not identified by GAO.

A Defense Logistics Agency contracting officer cited "higher priority work" as the reason for ignoring a \$398,000 overpayment to a contractor.

Labor Department officials said \$3 million owed them by a contractor had been ignored because they did not have time to collect it. GAO cited similar reasons for non-action in an overpayment of \$2.1 million to a grantee by HEW.

A HUD official took no action to recover \$185,000 owed it by an overpaid grantee running a New Mexico housing project. He said he felt sorry for the company and was more "concerned about the project's ability to pay its mortgage . . ."

## THEFT, BAD MANAGEMENT COST TAXPAYERS BILLIONS

(By James Coates)

WASHINGTON.—Three separate government reports have disclosed that the federal treasury has been depleted by as much as \$44 billion through theft and sloppy management.

The three reports by the General Accounting Office (GAO) have prompted two Senate committees to open investigations into ways to halt the drain.

Losses outlined in the three key reports could exceed the entire federal deficit of about \$40 billion in the current fiscal year.

President Carter listed the deficit as a major cause of inflation last week in announcing his wage-price program. He vowed to lower the deficit to \$30 billion next year.

Sen. Lawton Chiles, D-Fla., who ordered one of the two investigations, said, "There is no doubt about it, fraud, waste and inefficiency increase the deficit and that increases inflation."

Chiles said his Subcommittee on Federal Spending will use the GAO findings as a "blueprint" for a major committee probe of how tax funds are drained through larceny and carelessness.

Chiles said Carter has assigned an "interagency task force" of federal officials to work with the subcommittee in its investigation.

Here are the losses documented in the three GAO reports completed in the last month:

—Between \$2.5 billion and \$25 billion annually through theft by U.S. government workers, cheating by welfare recipients, overcharging by federal contractors and other irregularities. Sen. Chiles discounted the lower figure and placed the minimum at \$9 billion. Justice Department officials explained that it is impossible to make a closer estimate of fraud losses because federal agencies have paid little attention to thefts in the past.

\$15 billion, according to Treasury Department figures, through the bureaucracy's failure to collect back taxes, overpayments on student loans and Social Security, defaults on GI bill mortgages and other debts owed the government. The bad debts have increased by \$2 billion since 1975 and by \$4.1 billion since 1973, GAO said.

\$4.3 billion annually through unauthorized use of funds for federal projects by private contractors and grant recipients.

The Chicago Tribune has learned that a newly-established investigative unit of the Senate Appropriations Committee also plans investigations of the losses disclosed by the GAO.

The decision to initiate the two Senate probes was prompted by voter dissatisfaction with federal spending—sources frequently cited Proposition 13's victory in California—and concern about inflation.

The most glaring example of fraud, according to GAO, occurred in the General Services Administration, which is the government's chief landlord and supplier. GSA has admitted that at least \$166 million has been stolen by employees through a variety of abuses such as approving fraudulent contracts in exchange for kickbacks.

GAO found widespread abuses in a random study of the Departments of Agriculture, Labor, Housing and Urban Development, the Federal Highway Administration, the Small Business Administration and the Veterans' Administration.

"Opportunities for defrauding the government are virtually limitless owing to the number and variety of federal programs," the GAO report said.

GAO added that "Justice Department officials have pointed out that in every instance where they have looked for fraud in federal programs they have found it.

"For example, they (Justice officials) said that in a test of unemployment benefits paid in a three month period produced 8,000 instances of employed individuals who may be fraudulently receiving benefits totaling \$2.3 million."

GAO cited a recent Chicago case where some \$30 million was illegally paid to federal, state and city workers who placed themselves on welfare rolls.

GAO also said that a Chicago jury in a Veterans' Administration fraud case recently drafted a letter to the judge complaining about theft by government workers and "the obvious ineffectiveness . . . to help prevent fraud crime." crime.

Government fraud ranged from stealing on the job to officials' overlooking the theft of more than \$500 million by food stamp recipients who were not qualified to receive them.

One case of theft discussed in the GAO report was that of William Sibert, a former Transportation Department clerk who embezzled \$850,000 in only two months. Earlier this year, the government auctioned off Sibert's property to recover the funds. His property included 10 cars, a houseboat, jewelry, and a night club—all purchased with funds Congress had authorized to help build an Atlanta subway system.

GAO found that nearly every federal agency failed to collect unpaid bills owed by individuals or businesses. Currently, the government has \$15 billion in outstanding debts, GAO said in a report issued last week.

Much of this money never will be collected, and even what is eventually repaid will have cost the government millions in lost interest and collection expenses, GAO said.

Sen. Chiles said such cases have made the pursuit of federal waste, theft and carelessness "a big political issue."

"The public knew all this was happening before the GAO reports came out," Chiles added.

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#### COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

##### THE GOVERNMENT NEEDS TO DO A BETTER JOB OF COLLECTING AMOUNTS OWED BY THE PUBLIC

Prompt collection action on amounts the public and others owe the Government, amounting to about \$15 billion, has been hindered by:

- Inaccuracies in accounting for and reporting of accounts receivable,
- Lack of prompt and aggressive collection action,
- Low or no interest charges being imposed on delinquent accounts, and
- Inadequate provisions or no provisions for uncollectible accounts in most agencies.

Because the issues in the report are Government wide, GAO is sending it to all departments and agencies and is making recommendations to the Secretary of the Treasury and the Director, Office of Management and Budget. Adoption of GAO's recommendations should contribute to improved accounting for, and billing and collection of the Federal Government accounts receivable.

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COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, D.C.

B-159687

*To the President of the Senate and the Speaker of the House of Representatives:*

This report summarizes the results of our Government-wide review of how Federal agencies handle accounts receivable. It shows that improvements are need in recording, billing, and collecting accounts receivable. It also points out that procedures for charging interest on delinquent accounts are not uniform and that overall financial management should be improved.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53) and the Accounting and Auditing Act of 1950 (31 U.S.C. 87).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the heads of other departments and agencies.

ELMER B. STAATS,  
Comptroller General of the United States.

**Digest**

The public's debt to the Federal Government is growing. Amounts increased from \$10.4 billion in 1973 to \$14.6 billion in 1977. The Government has not been aggressive in collecting amounts due. Moreover, many Government agencies, unlike commercial concerns, have not charged interest when debtors failed to pay on time.

Government accounts receivable—amounts due from others—generally are identified as assets from the time transactions giving rise to a claim, such as sale of goods or services, are completed until payment is received or a claim is determined to be uncollectible. These receivables are included in Federal agencies' financial statements submitted annually to the Treasury for consolidation. Payments usually are required within 30 days from the billing date. Interest charges may be levied if accounts receivable are not paid when due.

**RECORDING AND REPORTING OF ACCOUNTS RECEIVABLES NEED IMPROVEMENTS**

GAO identified errors of \$1.5 billion in accounts receivable at 12 agencies. (See p. 5) Specific problems included:

At least \$742 million of unrecovered beneficiary overpayments not included in financial statements as accounts receivable.

About \$48 million not included in financial statements because of billing and other delays.

About \$380 million shown as due within the following year when the amounts actually were not due until more than a year later.

An overstatement of about \$12 million in accounts receivable on financial statements because of clerical and miscellaneous reporting errors.

About \$270 million shown as due on financial statements which had already been collected by the Government.

Most agencies either made no provision for uncollectible receivables or the amount established was inadequate. (See p. 14) Errors in recording and reporting accounts receivable primarily were attributable to a need for increased management attention to accounting system problems, more specific guidance for recording and reporting amounts, and increased internal audit coverage of financial operations.

**MORE AGGRESSIVE COLLECTION EFFORTS NEEDED**

Most Government agencies did not take prompt and aggressive collection action on delinquent accounts receivable nor adhere sufficiently to prescribed collection procedures. Although they prepared initial bills promptly, they did not collect many receivables within a reasonable period because they did not always follow established debt collection procedures. (See p. 18.)

Problems included:

Delinquent accounts not promptly identified for followup action.

Inadequate followup collection efforts.

Administrative costs of collection actions not known may have resulted in collection action being suspended prematurely on some accounts and excessive costs being incurred in attempts to collect others.

Documentation not available in claims files, and delinquent receivables not being referred to GAO or the Department of Justice for further action, as required.

Agencies whose operations give rise to the indebtedness to the Government are primarily responsible for collection. All agencies' collection programs generally must be in conformity with the Federal Claims Collection Act of 1966. The act requires each agency to establish collection procedures and to prescribe criteria for collecting, compromising, suspending, or terminating collection action and for referring claims to GAO and the Department of Justice. If the collection efforts, which may include legal action, are unsuccessful, the account is written off.

Overall statistics on the number and value of claims written off by the Government were not available. During fiscal year 1976, five Federal agencies wrote off claims of about \$200 million. This volume of write offs and an increase in outstanding receivable balances are indicative of the need for better collection efforts by Federal agencies.

#### UNIFORMITY NEEDED IN CHARGING INTEREST

Some agencies did not impose interest charges on delinquent receivables; other agencies had recently established interest penalties but charges imposed were often inconsistent. (See p. 28.) Some agencies had problems identifying delinquent accounts. These agencies usually had established due dates for accounts receivable but when accounts were not identified as delinquent, interest charges for late payments were not imposed.

#### ACCOUNTING SYSTEMS NEED IMPROVEMENT

Although this report discusses accounts receivable, its findings indicate that Federal managers need to strengthen financial management generally. Managers of Government departments and agencies need to make special efforts to

assure that the financial statements submitted to the Department of the Treasury for consolidation are complete and accurate,

obtain the Comptroller General's approval of their accounting systems, and assure that an adequate but balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Department of Treasury.

#### RECOMMENDATIONS

The Secretary of the Treasury should revise the Treasury Fiscal Requirements Manual instructions for preparation of financial statements to require:

Accounts receivable not due within a year or less to be classified as non-current assets.

Unrecovered beneficiary overpayments to be reported as accounts receivable and identified as such.

Consideration to be given to past collection experience in computing an allowance for uncollectible accounts.

The Secretary also should emphasize to Government agencies the need to review their financial statements for completeness and accuracy before submitting them for consolidation.

The Director, Office of Management and Budget, in concert with the Department of the Treasury, should issue guidelines providing that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The guidelines should provide that the:

Secretary of the Treasury compute periodically the minimum interest rate to be used.

Rates be in line with the cost of borrowing by the Treasury from the public.

Charges be imposed on debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist.

The Director, Office of Management and Budget, should emphasize to the heads of departments and agencies the need to

obtain the Comptroller General's approval of their accounting systems and

assure that an adequate but balanced portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury.

#### AGENCY COMMENTS

Both the Office of Management and Budget and the Treasury agreed with the recommendations and commented on recent Treasury actions to require Government agencies to charge interest on many delinquent accounts receivable. (See p. 34.) The Office of Management and Budget also raised some related issues. (See p. 17.) GAO is sending copies of this report to all departments and agencies for their information, use, and guidance in the management of their collection activities pending completion of recommended actions.

#### CHAPTER 1. INTRODUCTION

The Treasury Fiscal Requirements Manual defines "accounts receivable—public" as amounts due the Government for goods or services and other receivables arising from current operations. These receivables include all amounts chargeable to customers for goods delivered or work performed during a given period,

whether or not billed. Accounts receivable from other Federal Government agencies and loans receivable are not included in receivables from the public.

The outstanding balance of accounts receivable from the public on September 30, 1977, was \$14.6 billion. This amount had increased \$1.9 billion since June 30, 1975, and \$4.1 billion since June 30, 1973. We obtained these balances from data agencies reported to the Department of the Treasury in their statements of financial condition. The accounts receivable reported by Federal agencies are shown in appendix I. Receivables from the public result from tax assessments; sales of Government services, such as missile launchings for other governments; sales of Government goods, such as natural resources from Federal lands and water and electric power from irrigation and flood control projects; and overpayments made by the Government, such as educational assistance to veterans and social security payments.

#### RESPONSIBILITIES FOR ACCOUNTING RECEIVABLES

The head of each Federal agency is responsible for establishing and maintaining adequate systems of accounting and internal control over accounts receivable. These systems should conform with the principles and standards and related requirements prescribed by the Comptroller General under authority granted by section 112(a) of the Budget and Accounting Procedures Act of 1950. Section 111(a) of this act states:

"\* \* \* The accounting of the Government provide[s] full disclosure of results of financial operations, adequate financial information needed in the management of operations and formulation and execution of the Budget, and effective controls over income, expenditures, funds, property and other assets."

Section 111 also requires the Secretary of the Treasury to prepare reports on the financial operations of the U.S. Government as a whole. These reports are consolidations of data provided by various Government departments and agencies. One such report, the Statement of Financial Condition (Standard Form 220), shows in condensed form all assets, liabilities, and equities of the Government. Thus, all accounts receivable should be included in this report.

#### RESPONSIBILITIES FOR COLLECTING RECEIVABLES

Under the Federal Claims Collection Act of 1966 and the implementing Joint Standards promulgated by the Attorney General and the Comptroller General (4 CFR 101-105), administrative agencies are primarily responsible for collecting claims arising out of their activities. A basic tenet of good business practice for any enterprise, including Federal agencies, is to promptly bill for and collect amounts due. To be effective, agency debt collection programs must be comprehensive, aggressive, and uniformly applied.

The Joint Standards provide specific guidelines for collection action on accounts receivable. Heads of Federal agencies or their designees are required to take prompt and aggressive action to collect accounts receivable due the Government. Appropriate written demands are to be made upon debtors, informing them of the consequences of failure to pay. Three written demands at 30-day intervals should normally be made. Also, personal interviews should be held whenever feasible. All collection actions should be documented and the documentation should be retained in the claims file.

An agency can terminate collection action and close the file on a claim under \$20,000 under the following circumstances:

Collection is not currently possible because the debtor is unable to pay and debtor's present and potential income and inheritance prospects make it clear that the Government cannot expect to collect any significant amount.

The debtor cannot be located and the statute of limitations has expired. The cost of further collection action is expected to exceed the amount collected.

The claim is not valid or cannot be supported by available evidence.

Generally, when aggressive collection efforts are unsuccessful and a receivable is less than \$600, agencies may terminate collection action without resorting to legal action because enforced collection of amounts below \$600 is not considered economically feasible. Legal action ordinarily requires evidence that the debtor potentially has the ability to pay the amount due.

If any agency collection action is unsuccessful and cannot be suspended or terminated but the claim has the potential for legal action, the complete file

should be referred to GAO or, if the agency is authorized, to the Department of Justice for further collection action. The referral action should be completed as early as possible consistent with aggressive collection action.

The highest levels of the Government recognize the importance of timely and effective billing and collection procedures. On November 14, 1977, the President announced that his reorganization staff, in conjunction with the Treasury Department, was beginning a comprehensive review of cash management policies, practices, and organization throughout the Federal Government. The staff study of cash management will evaluate the incentives it provides for making Federal managers more aware of the implications of their decisions.

#### AUTHORITY TO CHARGE INTEREST

The courts have established standards which are generally used in awarding interest as damage for delinquent payments. Under these standards, Federal agencies may charge debtors interest on overdue accounts as long as the rate fairly compensates the Government, notice of the debt has been given, and the amount of the debt is firm.

Although specific statutes authorize some agencies to levy interest on delinquent accounts, there is no general statutory provision authorizing agencies to charge interest. However, on several occasions the Supreme Court has affirmed the right of creditors, including the Federal Government, to collect interest in the absence of statutory provisions.

#### OTHER REVIEW EFFORTS

In addition to this overall report, we have published individual reports to the following agencies discussing the need for them to improve their policies and procedures used to establish, control, account for, and collect accounts receivable.

<i>Agency</i>	<i>Report number and date issued</i>
Energy Research and Development Administration.	FGMSD-77-25, June 22, 1977.
Forest Service.....	FGMSD-77-42, July 11, 1977.
General Service Administration.....	FGMSD-77-29, July 27, 1977.
Department of Labor.....	FGMSD-77-30, Aug. 17, 1977.
Department of the Treasury.....	FGMSD-77-31, Aug. 30, 1977.
Department of Health, Education, and Welfare.....	FGMSD-77-32, Sept. 6, 1977.
Civil Service Commission.....	FGMSD-77-41, Sept. 15, 1977.
National Aeronautics and Space Administration.....	FGMSD-77-89, Oct. 21, 1977.
Department of the Interior.....	FGMSD-77-66, Feb. 3, 1978.

Short synopses of these reports and the agencies' actions taken on our recommendations are included in appendix III.

We are also performing a review to determine whether or not the Government should adopt certain private-sector practices to increase the productivity of debt collection operations. We plan to issue a separate report to the Congress on this review.

#### CHAPTER 2. ACCOUNTS RECEIVABLE NOT ACCURATELY RECORDED AND REPORTED

Federal agencies should record and report accounts receivable more promptly and accurately to establish and maintain effective financial control. In reviews at 12 departments and agencies, we identified errors of \$1.5 billion in recording and reporting accounts receivable. Most of these errors resulted from confusion as to how overpayments to the public should be recorded and reported. However, some errors arose because most agencies either had no provisions for uncollectible receivables or the amounts established were inadequate. As a result of these problems, controls over collection and write-offs of receivables were ineffective, asset balances were incorrect, and expected future losses due to uncollectible receivables were not fully disclosed.

Errors in recording and reporting accounts receivable were primarily attributable to a need for increased management attention to accounting systems problems, specific guidance for recording and reporting, and increased internal audit coverage of financial operations.

At September 30, 1976, Federal agencies reported total outstanding balances to the Department of the Treasury of

\$12.6 billion in accounts receivable due from the public and  
\$134 million in allowances for uncollectible accounts receivable.

Overall, the outstanding balance of accounts receivable from the public as reported to the Department of the Treasury has increased from \$10.4 billion on June 30, 1973, to \$14.6 billion on September 30, 1977.

#### REQUIREMENTS FOR RECORDING AND REPORTING ACCOUNTS RECEIVABLE

The Budget and Accounting Procedures Act of 1950 requires the Treasury Department to prepare reports on the financial operations of the U.S. Government as a whole. However, the Treasury Department does not serve as the central accounting department for all agencies. Instead, it receives and consolidates reports from Federal departments and agencies. The reports show, in condensed form, the assets, liabilities, and equities of the U.S. Government. Each agency submits its statements of financial condition to the Treasury as of fiscal year end.

Guidance for preparation of these statements is contained in the Treasury Fiscal Requirements Manual, which defines accounts receivable as

"\* \* \* all accounts receivable and notes receivable (not included in loans receivable) which arise as a result of sales of goods and services of the agency as well as accrued interest and unamortized premium and discount on securities."

These receivables are then further divided into receivables from other Federal agencies and receivables from the public. Receivables from the public should include all amounts arising from the sale of goods and services and other receivables arising from current operations involving the public, such as overpayments. This account should cover all amounts chargeable to customers for goods delivered or work performed during the period, whether or not billed. Loans receivable are not included.

Section 112(b) of the Budget and Accounting Procedures Act of 1950 provides for approval of agency accounting systems by the Comptroller General. The Comptroller General has issued specific accounting principles and standards which require that agency accounting systems provide a complete and systematic record of the amounts due. Specific accounting principles and standards for agency accounting systems are provided in title 2 of the "GAO Policy and Procedures Manual for Guidance of Federal Agencies." These principles and standards require that:

Accounts receivable be recorded accurately and promptly on completion of the acts which entitle an agency to collect amounts owed to it (billing for performance of service, sales of materials, etc.).

Amounts to be accounted for as receivables consist of amounts actually due under contractual or other arrangements governing the transactions which result in the receivables.

Separate accounts for major categories of receivables be maintained to facilitate clear and full disclosure of an agency's resources in its financial reports.

Accounting records for receivables be maintained so that all transactions affecting the receivables for each reporting period, and only such transactions, are included.

#### ACCOUNTS RECEIVABLE NOT ACCURATE

Our review at 12 agencies disclosed that accounts receivable due from the public were not being accurately recorded and reported. About \$1.5 billion in recording and reporting errors have resulted from vague reporting guidelines, inadequate emphasis on full disclosure of operating results, and insufficient internal audit efforts to identify recurring accounting problems. Specific problems found at one or more of the agencies reviewed were:

Overpayments of at least \$742.2 million to program recipients were not reported.

Amounts due of \$47.8 million were not included in financial statements because of billing and other delays.

About \$379.7 million was shown as due within the following year when the amounts were actually not due until more than a year later.

About \$270.2 million was reported as due although the Government had already made the collection.

Clerical and miscellaneous reporting errors resulted in the overstatement of accounts receivable by \$12.3 million.



*Accounts receivable resulting from overpayments not reported*

Receivables resulting from overpayments to program recipients were not recorded in accounting records and reported to the Treasury Department. The Social Security Administration's Statement of Financial Condition did not include at least \$742.2 million in accounts receivable resulting from overpayments of benefits to retirees, health insurance intermediaries, and other beneficiaries. The statement also excluded additional receivables for which estimates were not available during our review. Other agencies such as the Veterans Administration and the Department of Agriculture also have substantial amounts of unreported accounts receivable resulting from overpayments of educational assistance and food stamp benefits.

Prompt and accurate accounting for receivables is an important form of control because it provides management with a systematic record of total overpayments, amounts recouped, adjustment actions taken, and the overall effectiveness of recovery actions.

As of September 30, 1976, the Social Security Administration reported \$90.9 million in accounts receivable to the Treasury Department. These receivables included \$7.9 million due from other Government agencies for reimbursable work and \$83 million due from States for supplemental security income payments. These reported amounts did not include cumulative overpayments compiled by the management information systems of the Social Security Administration's four operating bureaus. The following schedule summarizes the amounts unreported by the Social Security Administration, much of which was a result of overpayments in prior years.

<i>Bureau</i>	<i>Unreported overpayments (millions)</i>
Supplemental security income-----	\$441.7
Health insurance-----	141.7
Retirement and survivors insurance-----	84.8
Disability insurance-----	74.0
<b>Total -----</b>	<b>742.2</b>

This schedule represents only part of the unreported overpayments for the Bureau of Retirement and Survivors Insurance and the Bureau of Disability Insurance. During our review, these bureaus were developing a computerized system to control, account for, and report overpayments. The first phase has been implemented and the system could compile data on overpayments to individuals no longer entitled to benefit payments. These overpayments, amounting to \$84.8 million for retirement and survivors insurance and \$74 million for disability insurance, are included in the above schedule.

When the second phase is completed, the computerized system should compile data on overpayments to individuals currently receiving benefit payments. Once identified, these overpayments should be collected by deductions from future payments should be collected by deductions from future payments to recipients. Social Security Administration personnel believe these receivables constitute a large portion of all overpayments. Although the second phase of this system was not yet completed, estimated program overpayments were included in financial reports to the Treasury for the fiscal year ended September 30, 1977.

Our prior reviews at the Veterans Administration and the Department of Agriculture disclosed that program overpayments resulted in outstanding receivables. However, these receivables were not included on the fiscal year 1977 financial statements.

As of June 30, 1977, the Veterans Administration had not collected \$462 million in educational assistance program overpayments. These overpayments were not reported because the assets were not recorded on financial reports until the money was collected. On an accrual basis, the receivables, along with an allowance for uncollectible amounts, would be reported when the overpayment was discovered.

The Government was losing over half a billion dollars annually because of overissued food stamp benefits. Accounts receivable were not established for these overissues because adequate efforts were not being made to identify them. Until accounts receivable are identified, adequate efforts cannot be taken to recover amounts paid to individuals who were not entitled to them.

*Accounts receivable understated because of misclassifications and reporting errors*

Accounts receivable reported to the Treasury by 5 of the 12 agencies included in our review were understated by \$47.8 million because of various accounting and reporting errors. These incorrect balances were primarily a result of

receivables from the public being improperly classified as accounts receivable from Federal agencies and

receivables not being recorded because billings had not been processed or the amount billed was subject to a later adjustment.

One basic requirement in establishing and maintaining effective financial controls is that all accounts, including receivables, be properly segregated and accurately recorded. Accurate accounting for receivables is necessary to control Government assets and to present fairly the Government's financial position.

Amounts shown for accounts receivable due from the public were incorrectly classified as being due from other Federal agencies in both the Civil Service Commission's and the National Aeronautics and Space Administration's 1976 financial reports. Reported accounts receivable from the public of the Civil Service Commission as of September 30, 1976, were understated by \$7.3 million because a refund due from an insurance carrier was included with accounts due from Government agencies. The refund due was correctly classified in the accounting records but was misclassified in the report. The Commission's accounting staff discovered the error after the financial report had been filed with the Treasury. If the expected refund had been correctly classified, the accounts receivable from the public would have been \$13.2 million instead of the \$5.9 million reported.

As of September 30, 1976, the National Aeronautics and Space Administration understated accounts receivable from the public because \$13.3 million was improperly classified and reported as due from Federal agencies. Also, this agency had about \$14.7 million of accounts receivable which were neither recorded nor reported because of problems in mechanizing the accounting system. These problems have since been corrected.

The accounts receivable of the Department of the Interior were understated because it did not report receivables for work on the Trans-Alaska pipeline. Although \$1.3 million had been billed for costs related to construction of the pipeline as of September 30, 1976, the Interior did not report these receivables to the Treasury. Also, costs of \$3.2 million incurred from July 1, 1976, through September 30, 1976, had not been billed or included in accounts receivable.

As of September 30, 1976, the Department of Labor reported accounts receivable from the public of \$3.7 million, which was primarily benefit payments due from employers and overpayments due from recipients. Labor's reported accounts receivable from the public of \$3.7 million were understated by \$1.7 million as a result of omissions, errors, and misclassifications. The net understatement consisted of overstatements of \$2.2 million and understatements of \$3.9 million. Labor has taken action to increase supervisory review over the preparation of financial statements to help insure their accuracy.

*Accounts receivable overstated due to accounting and reporting errors*

Accounts receivable reported to the Treasury by several agencies as of September 30, 1976, were overstated because of accounting and reporting errors. Our review disclosed instances in which

deferred receivables were improperly classified as current assets,  
accounting records were not correct,  
unearned income was improperly classified as accounts receivable,  
receivables from other Government agencies were included with accounts  
receivable from the public, and  
receivables were already collected.

To fairly present the financial position of any entity, financial statements must accurately classify assets, including receivables, as current and noncurrent. Receivables which are normally converted into cash within a year are generally classified as current, while those which require more than a year are classified as noncurrent. Accounts receivable must be actual amounts due under contract or other arrangements.

Examples of overstatements in reported accounts receivable because of accounting errors follow.

As of September 30, 1976, the Treasury's Bureau of Government Financial Operations reported accounts receivable from the public of \$920 million. These accounts receivable were overstated by \$370.4 million because deferred interest receivable was improperly classified as a current asset under accrued interest receivable. This overstatement resulted from the way the Bureau accounted for interest to be paid by the United Kingdom. Under a March 1957 agreement the interest is to be paid beginning in the year 2001. The deferred interest of \$370.4 million at September 30, 1976, was improperly included in the total current receivables and reported as a current asset. As a result of our review, the Treasury reclassified this item on the September 30, 1977, financial statement.

The General Services Administration's current assets were overstated by \$9.3 million because long-term installments receivable were improperly classified as current receivables on the report to the Treasury. The overstatement resulted from the way the General Services Administration accounted for money provided to the District of Columbia for hospital construction. The construction money was to be repaid in 33 annual installments. Although only \$546,764 was due within the year, total unpaid installments of \$9.9 million at September 30, 1976, were included in the total current receivables and reported as a current asset. The General Services Administration took action, based on our review, to insure proper classification of receivables.

The Bureau of Land Management's accounts receivable were overstated by \$1.6 million because of the method used to account and bill for fire suppression and prevention services. The billings for these services were prepared before the Bureau incurred the costs, and the accounts receivable were recorded when the billings were processed. However, the Treasury's definition of accounts receivable excludes billings for costs yet to be incurred.

At the Social Security Administration, accounts receivable from the public were overstated because receivables from other Government agencies were included in the account. As of September 30, 1976, the reported accounts receivable of \$90.9 million included \$7.9 million due from other Government agencies.

The National Aeronautics and Space Administration overstated its receivables by \$200.6 million and the General Services Administration overstated its receivables by \$69.6 million because they reported as accounts receivable amounts which had already been collected. The National Aeronautics and Space Administration's overstatement of \$200.6 million in accounts receivable occurred because, although collections were timely, internal billings were not prepared and processed promptly. The inaccurate balance of accounts receivable reported to the Treasury Department by the General Services Administration was due to accounting and reporting errors. Both agencies initiated action to improve the accuracy of accounting records.

The Bureau of the Mint paid in advance for the purchase of copper from the General Services Administration. As the General Services Administration made shipments, the advance account should have been decreased. The advance payment was properly recorded when it was received. However, beginning in 1975, the charges for delivery of the copper to the Mint were erroneously accumulated in another account. This amount was incorrectly reported as an account receivable of \$69.6 million instead of being applied as a reduction to the advance account. General Services Administration accounting personnel did not make the necessary entries to reduce the advance account as deliveries were made to the Mint. Also, no one was reviewing the entries and adjustments made by the billing clerks to insure their accuracy.

#### SOME AGENCIES' ACCOUNTS RECEIVABLE WERE REASONABLY CORRECT

The balances of recorded accounts receivable at September 30, 1976, reported to the Treasury by the Energy Research and Development Administration and the Department of Agriculture's Forest Service were correct. Our examination of the balances reported to the Treasury by the Department of the Interior's Bureau of Reclamation showed only minor errors.

The Energy Research and Development Administration reported accounts receivable of \$317.8 million, of which \$118.5 million was controlled by its Oak Ridge field office. Our review at Oak Ridge showed that these receivables were promptly and accurately recorded.

As of September 30, 1976, the Forest Service reported accounts receivable from the public of \$119.7 million of which \$51.8 million was reported by national forest offices administered by Region 6 of the Forest Service. We limited our

review to the Region 6 headquarters office, four national forests, and five ranger districts. The four forests reviewed accounted for \$85.5 million of the \$241.6 million collected by Region 6 in the year ending June 30, 1976. Our review showed that Region 6 was prompt and accurate in recording and reporting accounts receivable.

We reviewed the accounts receivable reported by the Upper Colorado River Basin Fund of the Bureau of Reclamation. This activity reported \$6.7 million of the \$19.4 million reported to the Treasury by the Bureau at September 30, 1976. This balance was overstated by \$31,324 because of clerical errors. Bureau of Reclamation officials initiated action to eliminate these types of errors in the future.

#### ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS WERE INADEQUATE

Several agencies needed to develop adequate estimates for loss allowances on accounts receivable. As of September 30, 1976, Government agencies had \$12.6 billion in reported accounts receivable but had established allowances for uncollectible accounts of only \$133.8 million or about one-tenth of 1 percent of the total. Most agencies did not have any provision for losses.

Our "Policy and Procedures Manual for Guidance of Federal Agencies" states: "Regular estimates shall be made from time to time of the portion of amounts receivable that may not be collectible. Such estimates shall be accounted for and disclosed separately."

Relatively few Government agencies had established allowances for uncollectible accounts, as shown in appendix II. Only 3 of the 12 agencies included in our review established such allowances. It should be noted, however, that allowances were unnecessary at some agencies because of contractual arrangements, such as prepayment requirements, use of payment bonds, etc., under which their goods and services were sold.

Some examples were allowances should have been established follow.

We reviewed 46 Bureau of Land Management billings totaling \$1.9 million which were delinquent as of June 30, 1976. The collectibility of \$706,612 of this amount was questionable for the following reasons:

<i>Reasons</i>	<i>Amount</i>
Debtor refused to pay.....	\$546, 831
Question as to who owed money.....	75, 306
Under legal review to determine if debtor must pay.....	44, 359
Accounts transferred to GAO for collection.....	30, 614
Involved in litigation.....	7, 831
Waiver requested.....	1, 671
<b>Total .....</b>	<b>706, 612</b>

In addition to these delinquent receivables, portions of the current accounts receivable could also eventually become uncollectible.

Interest receivable in the amount of \$1.1 million was included in the Geological Survey accounts receivable balance as of September 30, 1976. The interest was assessed on loans made to encourage private exploration for certain minerals. However, repayment of the loan and interest is not required unless the loan results in the discovery of minerals and subsequent production. Geological Survey officials estimated that 95 percent of the amounts recorded as due will not be collectible because most exploration efforts do not result in mineral production.

Our review at Region VI of the U.S. Customs Service showed that \$624,548 in fines and penalties was billed and established as accounts receivable during fiscal year 1976. Of these receivables, all but \$6,425 was subsequently written off. However, no allowance for uncollectible accounts had been established.

#### REASONS FOR ACCOUNTING AND REPORTING ERRORS

Accounts receivable in Federal agencies are not accurately recorded and reported because of limited management emphasis, including a lack of internal audit coverage, inadequate guidance by the Department of the Treasury, inadequate coordination between operational and accounting personnel, and inadequate supervision of accounting personnel.

Although agency heads are required to establish and maintain appropriate internal audit programs to provide effective control over assets, including receivables, internal audit coverage has not always been adequate. At some of the agencies included in our review, accounts receivable had not received recent audit coverage. We attributed this to limited audit resources and management decisions to emphasize external audits of Federal assistance programs. For example, the Department of Labor's internal auditors were spending only 20 percent of their audit efforts on internal reviews. As a result, the collection and writeoff of receivables had not been reviewed in recent years. (See GAO report FGMSD-76-50), Nov. 29, 1976.)

At another agency, the Veterans Administration, internal audit was not providing adequate coverage of accounts receivable. For example, although the internal audit coverage provided numerous instances of individual overpayments, it did not show the significant overall problem of overpayments in the educational assistance program—overpayments of over \$1 billion that necessitated collection. (See GAO report MWD-76-109, Mar. 19, 1976.)

Another factor which contributed to the problems in recording and reporting accounts receivable was that the Treasury's instructions on preparing the financial statement were inadequate. These instructions did not specify that only assets which are normally transformed into cash within a year should be classified as current accounts receivable.

The Treasury Department instruction also did not specifically require unrecovered overpayments to beneficiaries to be included as accounts receivable. Even though overpayments resulting from these programs have increased dramatically over the last several years, Treasury's instructions have not been revised to specifically require reporting of uncollected overpayments. These overpayments should be identified under accounts receivable as refunds of overpayments.

Another factor which has contributed to reporting errors is the reluctance of agencies to establish allowances for uncollectible accounts. In addition to the normal problems encountered in estimating a reasonable allowance, this reluctance was partially attributable to a belief that such an allowance indicated to the debtor that the Government did not expect to collect the amount due.

#### CONCLUSIONS

At 12 departments and agencies we identified problems in accounting for amounts receivable from the public. These problems indicate a need for more management emphasis on full disclosure of operating results, more specific guidance on recording and reporting accounts receivable, and increased internal audit coverage of financial operations.

Accurate recording and reporting of accounts receivable and allowance for uncollectible accounts are essential if the Government's financial position is to be fairly presented. Also, accounting for receivables is an important form of control over agency resources in that it results in a systematic record of amounts due that must be accounted for.

#### RECOMMENDATIONS

We made specific recommendations for improving the recording and reporting of accounts receivable to those agencies included in our review. Because agency accounting systems differ, we are providing copies of this report to each agency head for use in determining the adequacy of their system of accounting for and reporting accounts receivable. In making this determination, the following areas should be evaluated:

The emphasis placed on accurate accounting and reporting.

The extent of internal audit coverage.

The coordination between operational and accounting personnel.

The supervision provided accounting personnel.

We recommend that the Secretary of the Treasury, to improve the recording and reporting of accounts receivable, revise the Treasury Fiscal Requirements Manual to specifically require that:

Accounts receivable not due within a year or less be classified as noncurrent assets.

Unrecovered beneficiary overpayments be reported under accounts receivable and identified as such.

Consideration be given to past collection experience in computing allowances for uncollectible accounts.

#### AGENCY COMMENTS AND OUR EVALUATION

In a July 1978 letter, the Department of the Treasury stated that appropriate revisions would be made to the Treasury Fiscal Requirements Manual.

In an August 1978 letter, the Office of Management and Budget stated that receivable resulting from goods and services should be separated from receivables resulting from overpayments. This separation was considered necessary because different accounting treatment applies to these transactions.

We recognize the need for this separation of receivable and believe that this need should be considered in revising the Treasury Fiscal Requirements Manual.

#### CHAPTER 3. FEDERAL AGENCIES CAN IMPROVE BILLING AND COLLECTION ACTIVITIES

Most of the agencies we reviewed did not take prompt and aggressive collection action on delinquent accounts receivable and did not fully adhere to prescribed collection procedures. Although the agencies prepared initial bills promptly, many receivables were not collected within a reasonable period. All of the agencies reviewed had written debt collection procedures. These procedures, with certain exceptions which are discussed later in this chapter, were adequate in establishing viable debt collection programs. However, the agencies did not always follow the procedures.

#### CRITERIA FOR DEBT COLLECTION PROGRAMS

The Federal Claims Collection Act of 1966 (31 U.S.C. 951-953) imposes primary responsibility for collecting debts due the Government on agencies whose operations give rise to the debts. The heads of agencies or their designees are required to take aggressive collection action to collect amounts due. This law, as implemented through the Joint Standards (see p. 2), requires each agency to establish collection procedures and to prescribe criteria for collecting, compromising, suspending, or terminating collection action and for referring claims to GAO and the Department of Justice.

The Joint Standards require that collection efforts be aggressive and comprehensive and lead to the earliest practicable conclusion of administrative efforts to collect from the debtor. Agencies should pursue cost-effective collection procedures, consistent with good business practice, leading to collection, referral for legal action, or termination.

Appropriate collection steps and procedures can vary depending on the size and type of debt and other circumstances. Ordinarily, an agency's collection program should:

1. Maintain physical and accounting control of claims and document collection actions. An account is generally considered delinquent when it is not paid, cancelled, offset, or otherwise legally disposed of within 30 days from the issuance of the related bill.
2. Screen and categorize claims to insure that collection efforts are appropriate.
3. Take appropriate action to locate missing debtors.
4. Keep a constant watch over outstanding bills by periodically aging accounts receivable in order to prevent, as far as possible, the creation of new delinquencies and the worsening of old ones.
5. Take aggressive collection action against all liable parties with consideration being given to:
  - a. Interviews with debtors;
  - b. Contacts with the employer if the debtor is federally employed;
  - c. collection by offset, where feasible; and
  - d. temporary suspension of collection action, where the debtor cannot be located or the prospects of collection are likely to improve in the foreseeable future.
6. Determine, at the earliest opportunity, the debtor's ability to pay.
7. Explore compromise as a means of settling the debt. A claim may be compromised when the debtor's financial ability will not permit payment in full, or the litigative risks and costs of litigation dictate such action.
8. Terminate collection action when it becomes clear that the Government cannot collect or enforce collection of any substantial amount or that the cost of further collection acting is likely to exceed the amount recoverable. Cost of collection may be a substantial factor in the settlement of small claims. The cost of

collecting claims normally will not carry great weight in the settlement of large claims.

9. Refer the claim to GAO or the Department of Justice for enforced collection. The Joint Standards require this referral to be made as early as possible, consistent with aggressive agency collection action and well within the time limit for bringing a timely suit against the debtor.

#### COLLECTION PRACTICES SHOULD BE IMPROVED

Billing and collection practices for accounts receivable, at most of the agencies we reviewed, were not fully effective and operating in accordance with the Joint Standards. Although receivables were generally billed in a timely manner, we found that:

Delinquent accounts were not promptly identified for followup action because aging schedules or other means of identifying delinquent accounts were not prepared.

Followup collection actions frequently were not made promptly.

Agencies did not promptly complete required collection actions.

Claim files were not adequately documented.

Administrative costs of collection actions were not known. As a result, agency procedures for classifying delinquent accounts as uncollectible may have resulted in premature termination of collection action on some delinquent accounts and uneconomical collection action on other accounts.

#### RECEIVABLES WERE BILLED PROMPTLY

Most Federal agencies were promptly preparing bills for amounts due. Goods and services were often sold under contractual arrangements that required advance payments, payment when the services were performed, or payment bonds. Only one agency included in our review was slow in preparing billings.

When Federal agencies perform work on a reimbursable basis, contracts often require advance payment or payment as the work is performed. This is illustrated by the system prescribed by Department of Defense Instruction 2140.3 to collect for foreign military sales which amount to billions of dollars. The Joint Financial Management Office bills foreign countries quarterly with payment due within 30 days. However, these billings are based on forecasts of future deliveries and are designed to permit maintenance of a 90-day cash reserve for each military sales case.

The National Aeronautics and Space Administration uses a somewhat similar billing system. Public organizations that purchase missile launch services are required to place sufficient funds on deposit to pay for reimbursable work as the Government incurs related costs. These deposits are then used to reimburse the appropriated funds as costs are incurred.

Other Federal agencies had established procedures for rendering timely billings. For instance:

The Energy Research and Development Administration billed for enriched uranium sales on the same day the product was shipped.

The Forest Service billed timber purchasers within 15 days after the end of the cutting month.

The Social Security Administration had established a system which provided for an initial notice of overpayment and a collection letter to be sent to the beneficiary when an overpayment was identified.

#### *Delinquent accounts were not always identified*

Although initial billings were promptly processed, several agencies did not have adequate systems for identifying delinquent accounts. This problem was primarily attributable to failure to prepare aging schedules.

An aging schedule usually lists each account according to the period of time it has been outstanding. The schedules are a basic tool for identifying delinquent accounts and are thus a valuable management tool for assuring prompt and adequate collection action.

Some examples of problems which occurred when aging schedules were not properly used follow.

The General Services Administration did not require receivables to be placed on the monthly aging schedule until they were at least 60 days old. During our review there were 163 delinquent bills totaling \$1.7 million. Our review of collections of 77 of these delinquent bills totaling \$684,000 showed

that the average time until initiation of the first collection letter was 55 days. This was 25 days over the General Services Administration requirement. The system was revised so that followup action is taken 30 days after the invoice date.

Department of the Interior's Bureau of Land Management requires demand letters to be sent if accounts are not collected in 30 days. We received 41 delinquent accounts totaling \$775,000 as of June 30, 1976. On 40 of these bills, the Bureau had not sent demand letters in accordance with its requirement. Although there was some justification for not sending the demand letters on 15 billings, no explanation was offered on why the other demand letters were not sent. We found that preparation of demand letters was dependent upon detailed reviews of the accounts receivable register. However, these reviews were not performed regularly. Corrective action was taken by the Bureau.

Our review covered one of six Social Security Administration program service centers. The center was responsible for collecting many of the overpayments made under the retirement and survivors insurance and disability insurance programs. After an individual was sent the initial notice of the overpayment and payment was requested, the center was responsible for finalizing the collection action. However, the center was not acting promptly. We examined 117 randomly selected overpayment cases and found that 49 case files, or 42 percent, contained no indication that followup action had been taken after the initial notice of overpayment and request for payment. These 49 cases had been dormant for more than 1 year. The Social Security Administration planned corrective actions.

#### *Intervals between collection letters were excessive*

Although all agency collection policies required demand letters to be sent on delinquent accounts, the intervals between the letters were frequently excessive. The Joint Standards require collection letters to be sent at 30-day intervals. However, we found the following procedures to be in effect:

Geological Survey's administrative operations required demand letters to be sent at 30-, 90-, and 180-day intervals.

Geological Survey's royalty accounting system did not specify time frames and, as a result, demand letters were sent infrequently.

Energy Research and Development Administration required collection letters to be sent 60, 90, 120, and 150 days after the original invoice.

The interval between collection efforts should not exceed 30 days and there should be no undue time lag in responding to any communication received from the debtor. Aggressive followup action would, in our opinion, increase payments and shorten the overall collection cycle.

#### *Delays in finalizing collection action*

Although the agencies had procedures which provided for referring certain uncollectible claims to GAO and the Department of Justice for further collection action, these procedures were not always followed. Also, due to recent judicial decisions, procedures relating to offsetting debts have become more complicated by requiring that evidence of due process protection be included in the files.

Under the Joint Standards, delinquent receivables can be referred for possible legal action only after attempts have been made to collect, and certain processing actions have been completed. However, some agencies did not assure that cases entering the system were processed systematically to this point. For the most part, those cases on which collection efforts were not successful were retained in inventories rather than being finalized. As the number retained grew, it became more impractical for collectors to pursue collection action on all cases. As a result, collections were not quickly finalized.

The Joint Standards require that adequate records be maintained as collection actions are taken. Unless all required data, including information on the debtor's ability to pay is obtained, the case cannot be processed for possible legal action.

Also, as a result of recent court decisions acknowledging that certain due process procedures are necessary before the Government deprives someone of property, the procedures relating to the offset technique of collecting debts from individuals has become somewhat more complicated. For instance, a court ruling enjoined the Civil Service Commission from making offsets against annuitant accounts unless the annuitants were given proper due process protection. The Commission revised its procedures to collect by offset only after agencies certified to the Commission that due process requirements had been met.



*Costs of collection efforts unknown*

The Federal Claims Collection Act of 1966 authorizes agencies attempting to collect debts of less than \$20,000 owed the Government to terminate or suspend collection action when the cost of further collection action will exceed the amount recoverable. The agencies reviewed had not recently analyzed their collection activities to determine their collection costs. Without this analysis, agencies could not adequately determine when to terminate collection action. We also found that the number of demand letters sent on claims of less than \$100 varied widely among agencies. For example:

Geological Survey required one demand letter on accounts of less than \$10, two demand letters on accounts of \$10.00 to \$99.99 and three demand letters on accounts over \$100.

The Bureau of Land Management required one letter on accounts of less than \$10, two letters if the amount was \$10.00 to \$24.99 and three letters if the delinquent account was \$25 or more.

Social Security Administration did not request refunds if the amount involved was less than \$15 and sent one demand letter on accounts between \$15 and \$200.

Several agencies followed the general policy of terminating collection efforts if the cost of further collection action was likely to exceed the amounts recovered.

Although these collection policies were inconsistent, the agencies could not determine when collection action should be terminated because data on the cost of collection efforts was not available. We believe each agency should evaluate its collection programs and periodically update the criteria for determining when collection action should be terminated.

**COLLECTION DELAYS REDUCE CASH FLOW AND INCREASE BAD DEBTS**

Extensive delays in completing collection actions deprive the Government of the use of funds, contribute to increased losses due to bad debts, and increase administrative workload.

Delinquent accounts are not normally a problem in Government agencies that sell goods or services because contractual stipulations require purchasers to make advance payments or submit payment bonds. On the other hand, agencies with accounts resulting from Government overpayments, claims for damages, fines and penalties, and lease contractual arrangements can be expected to experience greater payment delinquencies. We found this to be true in the agencies in our review.

The growth of accounts receivable in the Government is shown in appendix I. This increase is caused partly by the lack, in some agencies, of an aggressive collection program. Because of the large amount of accounts receivable—\$14.6 billion at September 30, 1977—the Treasury's borrowing requirements could be reduced if accounts receivable were more promptly collected.

More prompt collection of accounts receivable would also reduce the amount of bad debts being experienced. Good business practice calls for timely billing and collections. As Government receivables age, they become increasingly difficult to collect. In addition, people who are consistently delinquent will be prompted to pay on time only when they know the Government is enforcing collection.

The extent of losses from bad debts is illustrated by the following schedule of amounts written off by selected agencies during fiscal year 1976.

<i>Agency</i>	<i>Amount written off as uncollectible (000 omitted)</i>
Small Business Administration-----	\$94, 053
Department of Agriculture:	
Food Stamp Program-----	373
Farmers Home Administration-----	18, 150
Veterans Administration-----	1 67, 980
Department of Housing and Urban Development: Federal Housing Authority -----	12, 000

<sup>1</sup> Does not include the transition quarter (July-September 1976).

In addition to the amounts which were written off, other agencies have accumulated growing inventories of uncollected receivables. More of these receivables can be expected to become uncollectible as they get older.

In addition to increasing the chances that accounts receivable will not be collected, delayed or inadequate enforcement of collection procedures can increase administrative workloads. This condition existed in the Forest Service. The "Forest Service Manual" and timber sales contracts provided that, if the contractor did not pay for timber sales within 15 days after billing, the forest office could, after notifying the purchaser's representative, suspend any or all of the purchaser's operations. If payments are consistently late, the manual encourages immediate suspension. Of the four national forest offices we reviewed, only one, Willamette, followed the established procedures and suspended logging operations. Doing so was apparently effective because the percentage of delinquent accounts at this forest office was much lower than the percentage at the other three.

#### CONCLUSION

The cost of ineffective collection efforts in terms of lost money and program integrity is too high for the Federal Government to treat it lightly. However, agencies are not carrying out their responsibility to identify and collect delinquent accounts.

Agency management should stress the need to: (1) prepare aging schedules, (2) prepare definitive and aggressive collection letters which explain why the moneys are due the Government, (3) reduce the intervals between collection letters to not more than 30 days, (4) determine the costs of collection efforts so that a good basis exists for terminating collection efforts, and (5) strengthen the agency system of referrals of delinquent receivables to GAO or the Department of Justice. In other words, aggressive, consistent efforts are needed to assure the collection of the billions of dollars due the Government.

#### RECOMMENDATION

We made specific recommendations for improving debt collection procedures to those agencies included in our review. Because of the disparity between agency collection systems, all agencies should analyze their debt collection system and, if necessary, take corrective actions. In addition to this report, we are sending a letter to the heads of all departments and agencies stressing the need for increased managerial emphasis on compliance with the requirements of the Joint Standards. In a separate review, we are also considering whether further collection procedures should be instituted by Federal agencies.

#### AGENCY COMMENTS AND OUR EVALUATION

Treasury commented that GAO should consider revising the authority given agencies to terminate collection action on small claims when enforced collection is not considered to be economically feasible.

The Federal Claims Collection Act gives agencies authority to terminate claims up to \$20,000 without referral to GAO or the Department of Justice under certain conditions. (See p. 3.) In September 1978, GAO issued revised guidelines to agencies on referring claims for enforced collection. These guidelines state that the decision on referral of a debt should be governed by the potential for recovery through legal action.

#### CHAPTER 4. NEED FOR UNIFORMITY IN CHARGING INTEREST ON DELINQUENT ACCOUNTS

Government agencies have different practices for assessing interest charges on untimely payments. Although a few agencies charge high rates of interest on delinquent accounts, other agencies charge little or no interest.

These inconsistencies exist because there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent amounts receivable. The March 31, 1978, revision to the Treasury Fiscal Requirements Manual requires agencies to establish charges for late payments in all contracts or other formal payment agreements. However, the manual does not require charges for late payments which are not provided for by contract, agreement, or other formal payment arrangement. Also, some agencies have not implemented the manual requirements.

Because interest rates on delinquent accounts receivable due the Government are often well below the rates of interest that businesses or individuals can earn on investments or must pay to borrow funds, debtors have little incentive

to pay their accounts promptly. This encourages late payments and, as a result, some individuals and corporations have delayed paying their debts to the Government for several years.

#### INTEREST CHARGES NOT CONSISTENTLY IMPOSED

Government agencies are not consistent in charging interest on delinquent accounts. Some agencies assess interest based on rates established when the Government's cost of borrowing money was low. Other agencies, which have recently revised their rates, considered various factors in establishing interest charges, and some agencies do not charge any interest on delinquent accounts.

During fiscal years 1938 through 1966, the annual interest rate on public debts averaged about 2.6 percent. In the last 12 years, interest rates have increased considerably, and Treasury's cost of borrowing at September 30, 1977, was 6.424 percent. Although the Government's cost of borrowing funds has increased, many agencies have not increased interest charges for delinquent accounts.

The Government's cost of borrowing money is one of the most important factors to be considered in establishing interest rates on delinquent accounts; however, agencies also considered other factors. These factors and the methods used to determine interest rates varied among departments and agencies. As a result, different interest rates were being charged for comparable delinquent receivables and, on some, no interest was charged. The wide difference between interest charges on delinquent accounts is illustrated by appendix III.

#### AUTHORITY TO CHARGE INTEREST

Federal agencies may generally charge interest on overdue accounts as long as the rate fairly compensates the Government. Interest is assessed only after notice of the debt is given and the amount of the debt is firm. Although many agencies have specific statutes authorizing interest charges, there is no general statutory provision authorizing agencies to charge interest on delinquent accounts or specifying when accounts are delinquent.

Federal agencies usually establish due dates to result in prompt payment, but interest charges for late payments cannot be imposed unless an account is identified as being delinquent. Under standard commercial practice, accounts are considered delinquent when they are not paid within 30 days from the date the invoice. Because the courts have held that interest begins to accrue only after notice of the debt is given, interest may only be collected on delinquent accounts.

Definitive criteria exist to support the charging of interest. The Supreme Court, in one decision, said:

"If a debt ought to be paid at a particular time, and is not, owing to the default of the debtor, the creditor is entitled to interest from that time by way of compensation for the delay in payment. \* \* \* If there is on statute on the subject, interest will be allowed by way of damages for unreasonable withholding payment of an overdue account."

The question of the proper rate of interest to charge on overdue accounts needs to be resolved. Fairness is an important consideration in fixing the rate of interest. An acceptable rate for agencies to charge on overdue accounts is the average prime rate banks charge to large businesses. This is essentially the rate presently required for overpayments and underpayments of Federal income taxes.

The Department of the Treasury's March 31, 1978, revision to its Fiscal Requirements Manual established an interest rate of three-fourths of one percent of the overdue payment for each 30-day period or portion thereof that payment is delayed. Such charges for late payment are now required to be specified in all contracts, agreements, or other formal payment arrangements. The manual states that charges for late payments are not to be made when they are not provided for by contract, agreement, or other formal payment arrangement.

#### COLLECTION DELAYED WHEN LITTLE OR NO INTEREST IS CHARGED ON DELINQUENT ACCOUNTS

Many debtors have little incentive to promptly pay amounts due the Government when agencies charge little or no interest on delinquent accounts. As a result, some individuals and corporations have delayed paying their debts due the Government for extended periods.

Most Government agencies prepared bills promptly, but amounts due were not always collected promptly. As of September 30, 1977, the Government reported accounts receivable of \$14.6 billion from the public. However, we could not determine the total amount of delinquent receivables because aging schedules had not always been prepared and different criteria had been used to classify accounts as delinquent.

Agencies that levied substantial interest charges generally collected most accounts in a timely manner. For example, one office of the Energy Research and Development Administration had about \$100 million in receivables during our review. This office charged 1 percent interest a month on accounts not paid within 30 days. Our review showed that 95 percent of the office's bills were paid within 30 days. We concluded that the imposition of interest was a positive factor in encouraging timely payment.

The General Services Administration which makes substantial sales to the public was another agency which imposed interest on delinquent accounts. It imposed interest on delinquent payments for sales of strategic stockpile materials (metals, minerals, etc.) and did not have a significant problem with delinquent accounts. We attributed its timely collection of most accounts to the imposition of interest charges.

Other Government agencies which had not established interest charges for late payments were encountering more significant collection problems. For example, the Geological Survey did not impose any interest charges for late payments of oil and gas royalties and we found that nearly 50 percent of their payments were received late.

In contrast, the Bureau of Indian Affairs imposes interest charges of 1.5 percent a month on certain late payments for oil and gas royalties. As shown in our March 1976 report to the Senate Committee on Interior and Insular Affairs,<sup>1</sup> an examination of 4,823 royalty payments for a 3-month period for oil and gas royalties on the Osage Reservation showed only 13 late payments. Again, we concluded that charging interest provided an incentive for timely payments.

The Bureau of Reclamation uses contracts which permit interest charges. Interest rates charged under its contracts vary from ½ percent to 2 percent a month. We found that two of the Bureau's regional offices were not retaining records of when customer remittances were received. The two offices also were not assessing interest because they could not determine whether payments received were timely or delinquent. After we brought the problem to the attention of the regional officials, procedures for keeping records were revised and methods of assessing proper interest charges were implemented at one of the offices. Implementation was promised at the other office. The new recordkeeping procedures identified additional delinquent accounts.

We believe the Government's charging of low or no interest on delinquent accounts has encouraged debtors to pay late because they cannot borrow money as cheaply. Because the Government depends on being paid promptly to finance its operations and to keep its cash requirements to a minimum, these delayed payments harm the Government's cash flow. When the Government is not paid promptly, it must obtain money from internal sources or through borrowings. Either way represents an added cost. Interest charges on debts to the Government would effect quicker collection of accounts receivable, improve the Government's cash flow, and reduce the amount of administrative time and effort required to collect accounts receivable.

#### REASONS FOR NOT CHARGING INTEREST

There is no law or Government-wide policy requiring departments and agencies to impose standard or consistent interest charges on delinquent accounts receivable. Some Government agencies with large amounts of outstanding receivables have not established interest charges because of the nature of their receivables. For example, some agencies do not collect interest on delinquent accounts because they expect to collect in advance or when the Government incurs the cost. Thus, the assumption is that the agencies will not have delinquent debtors. The National Aeronautics and Space Administration uses such a billing system, acquiring and launching missiles on a reimbursable basis for foreign

<sup>1</sup> "Indian Natural Resources—Part II: Coal, Oil, and Gas. Better Management Can Improve Development and Increase Indian Income and Employment," RED-76-84, Mar. 31, 1976.

governments and international organizations. Organizations are required to pay for reimbursable work as costs are incurred.

Because billings by agencies using concurrent or advanced billing systems is based on estimates, it is more difficult to determine when accounts are delinquent. If payments are not received in a timely manner and costs are not incurred as expected, the agencies may still have sufficient funds on hand to meet their expenses under the contract involved. Also, excess funds may be available under one contract which can be diverted to cover a shortfall under another contract. However, situations have occurred in which sufficient funds were not on hand to meet the agency's needs.

Emphasis on interest charges has also been limited because interest collected generally does not increase an agency's budget. Agencies are to deposit interest collections with the Treasury as miscellaneous receipts unless there is specific authority to credit such collections to appropriations or funds.

Some agencies did not charge interest because of precedent, uncertainty as to when payment was due, or because the receivables resulted from overpayments which could be partially attributed to agency error. In the past, when interest rates were below current levels and the dollar volume of receivables of some activities was relatively small, administrative determinations were made not to impose interest charges. The precedents established have been continued. In other instances, activities have not established specific dates after which accounts are considered delinquent. Finally, activities with overpayments which can be at least partially attributed to agency error—such as the Social Security Administration's programs, the Veterans Administration's Educational Assistance Program, and the Department of Agriculture's Food Stamp Program—consider receivables to be due when the overpayment is identified. Thus, these activities find it unrealistic to charge interest when the account is not paid when due.

The Geological Survey did not charge interest on delinquent payments of royalties by oil and gas companies because accounting records did not reliably show the amounts due. However, these royalties exceed \$1 billion annually.

#### CONCLUSIONS

The Government should generally charge interest on delinquent accounts to encourage the public to pay its bills; however, this is not the case. Uniform interest charges are not imposed on delinquent accounts.

It seems reasonable that interest should not be applied to collection of overpayments made by the Government to recipients under Federal programs when the recipients are not at fault. However, interest charges may be warranted if the money due is not repaid within a reasonable time.

The fairness of the rate charged depends on the nature of the transaction giving rise to the debt and the particular statutory role of the collection activity. In general, the debtor should have to pay at least the same interest charge for using Government funds without approval that a large business has to pay for similar borrowings from private institutions. We believe that, at a minimum, the rate should approximate the cost of borrowing by the Treasury.

#### RECOMMENDATIONS

We recommend that the Director, Office of Management and Budget, in concert with the Department of the Treasury, issue guidelines stipulating that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The guidelines should provide the following:

The Secretary of the Treasury periodically compute the minimum interest rate to be used.

Rates be in line with the cost of borrowing by the Treasury from the public.

Interest charges be imposed on debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist.

#### AGENCY COMMENTS AND OUR EVALUATION

Both the Office of Management and Budget and the Treasury commented on the March 31, 1978, change to the Treasury Fiscal Requirements Manual which

now requires agencies to include a stipulation in all contracts, agreements, or other formal payment arrangements that interest will be charged for late payments. We believe this requirement will materially improve cash management in the Government. However, we believe the Treasury Fiscal Requirements Manual should be further revised to provide for interest charges on delinquent payments not covered by contract, agreement, or other formal payment arrangements.

#### CHAPTER 5. A GOOD ACCOUNTING SYSTEM—A KEY TO GOOD MANAGEMENT

Although this report discusses problems and opportunities for improving the recording, control, and collection of accounts receivable in Federal agencies, our findings indicate that Federal managers need to strengthen financial management generally. In other reports sent to the Congress and heads of departments and agencies, we have pointed out deficiencies in accounting and reporting related to appropriations, cash, loans receivable, property and equipment, inventories, obligations, liabilities, revenues, and expenses—in other words, in virtually all balance sheet and income and expense accounts. Similarly, internal audit staffs have identified accounting system and financial reporting problems which need improvement.

Accountants need to do a better job of showing management—including new managers as they come along—that good accounting systems mean good information and good information means better and sounder decisions. Accountants need to do more to convince management that good accounting

goes beyond mere fund control,

means accounting on the accrual basis in accordance with the Comptroller General's prescribed principles and standards,

is worthwhile because it provides the basis for sound financial decisions, and will result in obtaining the Comptroller General's approval of the system as required by law.

We believe department and agency managers need to make special efforts to (1) assure that financial statements submitted to the Department of the Treasury for consolidation are complete and accurate, (2) obtain the Comptroller General's approval of their accounting systems, and (3) assure that an adequate but balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Department of the Treasury.

#### CONSOLIDATED FINANCIAL STATEMENTS FOR THE GOVERNMENT

The Budget and Accounting Procedures Act of 1950 requires the Department of the Treasury to prepare reports on the financial operations of the Federal Government. Treasury consolidates the departments' and agencies' reports rather than serving as the Government's central accounting department. The reports show, in condensed form, the Government's financial condition at the fiscal year end.

Recently there has been a renewed interest in consolidated financial statements for the Federal Government because of a recognized need for better financial management. However, conceptual problems and data deficiencies must be resolved before consolidated financial reports can be prepared which conform to generally accepted accounting principles. The major conceptual problems include the methods to be used to establish asset values and to make sure that the amounts shown for pensions are a fair presentation of accrued liabilities. The data deficiencies which must be overcome before accurate preparation of financial statements is possible will require increased management emphasis, not only on accounts receivable, but also on all aspects of financial reporting.

An advisory committee of accountants, economists, and business people primarily from outside the Government completed a study to identify the conceptual problems of preparing accurate financial statements. An interagency committee, chaired by the Comptroller General, is now studying some of these conceptual problems.

Much remains to be done to resolve data deficiencies. As chapter 2 indicates, data deficiencies exist because of limited management emphasis, inadequate coordination between operating and accounting personnel, and inadequate supervision of accounting personnel. Agency heads need to assure that accounting systems are operating effectively.

**STATUS OF GAO APPROVAL OF FEDERAL AGENCY ACCOUNTING SYSTEMS**

The Budget and Accounting Procedures Act of 1950 requires the Comptroller General to prescribe accounting principles and standards which executive agencies are to follow in their accounting systems. The Comptroller General, in 1952, issued tentative principles and standards and proceeded to grant formal approval of accounting systems that conformed to them.

However, all accounting systems have not been approved and most major accounting problems involve unapproved systems. As of September 30, 1977, of 330 identified accounting systems subject to approval, only 198 complete systems designs had been approved.

As summarized in the February 1978 issue of the "Journal of Accountancy," the Comptroller General attributes the delays in approval to

frequent changes in agency top management,  
the failure of accountants to convince agency management that better accounting is worthwhile, and  
the lack of strong support by the Office of Management and Budget to make accounting systems more effective and thus approvable.

Effective accounting systems are needed in all Government agencies not only to properly account for changes in assets, liabilities, revenues, and costs but also to provide the administrative control over funds necessary to prevent violations of the Anti-Deficiency Act.

**INTERNAL AUDIT OF ACCOUNTING AND FINANCIAL REPORTING**

The principal reasons that financial accounting and reporting problems go undetected for extended periods are that management does not react adequately to audit results and audit coverage is insufficient. We believe an adequate and balanced portion of available internal audit resources should be dedicated to financial reporting because it is essential to the Government's efforts to achieve a meaningful consolidated balance sheet.

Limited management emphasis on the preparation of accurate financial statements was reflected by limited internal audit coverage of this area. For example, as stated in our report to the Congress on the "Army's Efforts To Restore Integrity to Its Financial Management Systems" (FGMSD-78-28, Apr. 27, 1978), the two principal reasons why the Army's financial management problems became so widespread and went undetected for so long were (1) inadequate reaction on the part of management to audit results and (2) insufficient audit coverage.

In a report issued to the heads of all audit agencies regarding the extent and frequency of internal audits of financial reports (FGMSD-78-43, June 18, 1976), we stated that most agencies we surveyed

audited only a few of the financial reports submitted to the Treasury ;  
reviewed accounting systems that produce the reports occasionally, not regularly ; and  
emphasized audits of program results and economy and efficiency rather than audits of financial reports.

We concluded that increased emphasis was need on audits of agency financial reports required by the Treasury and reviews of accounting systems that produce the reports to provide more effective control over, and accountability for, all funds, property, and other assets for which agencies are responsible.

**CONCLUSIONS**

Federal managers need to emphasize the development and implementation of good accounting systems. This need takes on added importance in light of the Federal Government's efforts to develop and publish Government-wide consolidated statements.

Good accounting systems go beyond fund control. They produce timely financial information to assist managers in making better and sounder decisions. In this connection, Federal managers need to exert special efforts to (1) make sure that financial statements submitted to the Department of the Treasury for consolidation are complete and accurate, (2) obtain the Comptroller General's approval of their accounting systems, and (3) assure that an adequate and balanced por-

tion of internal audit resources are dedicated to reviewing financial statements submitted to the Treasury.

#### RECOMMENDATIONS TO THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director, Office of Management and Budget, emphasize to the heads of departments and agencies the need to

obtain the Comptroller General's approval of their accounting systems and assure that an adequate and balanced portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury.

#### RECOMMENDATION TO THE SECRETARY OF THE TREASURY

We recommend that the Secretary of the Treasury emphasize to Government agencies the need to review their financial statements for completeness and accuracy before submitting them to the Treasury for consolidation.

#### AGENCY COMMENTS

The Office of Management and Budget agreed with the recommendations and advised us of actions it has taken or will take to achieve the objectives of our recommendations. The actions it indicated are helpful and useful.

The Department of the Treasury stated that its planned revision of the Treasury Fiscal Requirement Manual should give added impetus to improved reporting.

#### CHAPTER 6.—SCOPE OF REVIEW

Our review was designed to determine the adequacy of policies and procedures used to establish, control, account for, bill, and collect accounts receivable. Our specific objectives were to

evaluate aspects of departments' and agencies' accounting systems related to accounts receivable to determine if they resulted in accurate reporting and financial statements, determine and evaluate adequacy of billing and collection efforts, and determine and evaluate the policies and practices regarding the imposition of interest for delayed payment of bills due the Government.

We reviewed legislation, regulations, policies, procedures, and practices pertaining to accounts receivable which are due to the Federal Government from the public. We performed our review at the following headquarters and field locations:

Department of Agriculture: Forest Service.

Department of Defense: Defense Agencies; Foreign Military Sales.

Department of Health, Education, and Welfare: Social Security Administration.

Department of the Interior: Bureau of Reclamation; Bureau of Land Management; U.S. Geological Survey.

Department of Labor.

Department of the Treasury: Bureau of Government Financial Operations; U.S. Customs Service.

Civil Service Commission.

Energy Research and Development Administration.

General Services Administration.

National Aeronautics and Space Administration.

We concentrated our review on the agencies' reported receivables. We did not assess the reliability of the computer systems used to determine the fairness of recorded accounts receivable. Although we did not determine the impact of computer system errors on the amounts of recorded accounts receivable, we did examine the accounting systems, including detailed testing of the billing and collection systems to determine if procedures and practices were adequate to maximize collection and could be relied on to produce accurate accounting data. Through this examination, we identified and included substantial amounts of accounts receivable which were not reported on the agencies' financial statements.



## APPENDIX I

EXECUTIVE OFFICE OF THE PRESIDENT,  
OFFICE OF MANAGEMENT AND BUDGET,  
Washington, D.C., August 17, 1978.

HON. ELMER B. STAATS,  
*Comptroller General of the United States, General Accounting Office,  
Washington, D.C.*

DEAR MR. STAATS: This is in reply to the draft report, "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public."

The report recommends that the Director, Office of Management and Budget, in concert with the Department of the Treasury, issue guidelines providing that Government receivables bear interest at not less than an established minimum rate, unless otherwise specified or precluded by statute. Charges for late payments have recently been provided for by the Treasury Department in Section 8020.20 of the Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies. This section provides in part that "Except where prohibited or expressly provided for by law, agencies will ensure that charges for late payments are stipulated in all contracts, agreements, or other formal payment arrangements at the rate of  $\frac{3}{4}$  of 1% (.0075) of the overdue payment, for each 30-day period or portion thereof that the payment is delayed, and that such charges are collected for payments received after the due date." It would appear, therefore, that the issuance of further guidelines by OMB would not be necessary.

The report also recommends that the Director, Office of Management and Budget, emphasize to the heads of departments and agencies the need to:

- obtain the Comptroller General's approval of their accounting systems,
- assure that an adequate but balanced portion of internal audit resources are devoted to reviewing financial statements submitted to Treasury.

With regard to approval of accounting systems, the Office of Management and Budget, through the Joint Financial Management Improvement Program, has placed major emphasis on the approval of systems. In our annual bulletin, which calls for a progress report from each agency on its financial management improvement program, we ask specifically for the status of accounting systems development and approval. If approval by the Comptroller General has not been obtained, we ask for target dates for submission of systems for approval. If previously established target dates have not been met, we ask for an explanation. Based upon this information, we have followed up with individual agencies on numerous occasions in an effort to speed up progress.

With regard to internal audit of financial statements submitted to Treasury, it must be realized that internal audit resources in most agencies are limited. As a result, priorities must be established for audit coverage of areas where greatest return is anticipated. The priority rating of the audit of financial statements is something that each agency has to consider in the development of audit programs. We recognize the desirability of the review of such statements and will bring the matter to the attention of agency audit directors, in an effort to assure that audit of financial statements is given balanced consideration in the development of audit priorities.

We have one final observation on the draft report. Amounts owed the Government for the sale of goods and services, as well as the amounts owed because of overpayments previously made, are treated in the report as "accounts receivable." We believe that the amounts due because of overpayments should be treated as "refunds receivable," since a different accounting treatment applies to such transactions. Refunds are treated as deductions from previously recorded obligations, costs, and outlays (OMB Circular A-11, section 21.2(h)(3)). The report should also make clear that interest collections should be credited to miscellaneous receipts unless there is specific authority to credit such collections to appropriations or funds.

We appreciate the opportunity to review the draft report.

Sincerely,

W. BOWMAN CUTLER,  
*Executive Associate Director for Budget.*

**APPENDIX II**  
**DEPARTMENT OF THE TREASURY,**  
**FISCAL SERVICE,**  
**BUREAU OF GOVERNMENT FINANCIAL OPERATIONS,**  
*Washington, D.C., July 19, 1978.*

Mr. D. L. SCANTLEBURY,  
 Director, Division of Financial and General Management Studies,  
 U. S. General Accounting Office,  
 Washington, D.C.

DEAR MR. SCANTLEBURY: This is in response to your request for comments on the recommendations and other proposed actions in the draft report titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public (90117)." Overall, the report highlights the need for agencies and their Federal managers to emphasize the development and implementation of good accounting systems and the need for increased audit coverage of accounting systems and the financial reports the systems produce.

The report indicates that there is a definite need in many agencies to establish adequate systems for identifying and collecting delinquent accounts. We generally agree with your recommendations to improve recording, collecting, and reporting accounts receivable, and we will make appropriate revisions to the Treasury Fiscal Requirements Manual. The revisions should provide additional impetus for agencies to improve the recording and reporting of accounts receivable not presently specified in GAO's Accounting Principles and Standards.

The report states that "when aggressive collection efforts are unsuccessful and the receivable is less than \$600, agencies should terminate collection action because enforced collection is not considered economically feasible." We agree that in many cases concerned personnel continue collection efforts on small losses past the point of economic feasibility. As you know, Government agencies have the authority at present to administratively resolve losses up to \$500. If GAO would increase the amount that may be administratively resolved to \$1,000 this would reduce costs since it is less expensive to administratively resolve a case than to submit it to GAO for relief.

In Chapter 4, the report states there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent accounts receivable. GAO recommends that OMB, with assistance from Treasury, issue guidelines providing that Government receivables bear interest. Treasury Department Circular No. 1084 was issued December 29, 1976, and required all agencies to develop agency cash management regulations within six months of the release of Treasury's fiscal requirements. Transmittal Letter No. 241, dated March 31, 1978, released I TFRM 6-8000, the Treasury's fiscal requirements for cash management within the Government. Chapter 8000 establishes the guidelines for interest rates for delinquent accounts receivable. The rate established is three-fourths of one percent of the overdue payment for each thirty-day period or portion thereof that the payment is delayed.

We appreciate the opportunity to comment on the draft report.

Sincerely,

D. A. PAGLIAI,  
 Commissioner.

**APPENDIX III**  
**ACCOUNTS RECEIVABLE DUE FROM THE PUBLIC REPORTED TO TREASURY<sup>1</sup>**

[In millions]

Department or agency	June 30, 1973	June 30, 1974	June 30, 1975	Sept. 30, 1976	Sept. 30, 1977
Agriculture.....	\$942.4	\$574.4	\$489.6	\$840.8	\$1,010.4
Commerce.....	15.1	26.8	18.6	29.6	10.1
Defense.....	866.4	1,586.8	1,374.2	544.9	866.2
Energy and predecessor agencies.....	43.4	68.8	83.3	178.3	166.6
Health, Education, and Welfare.....	45.4	194.2	334.5	251.2	975.5
Housing and Urban Development.....	442.0	425.8	521.2	520.3	662.9
Interior.....	83.9	151.8	314.2	290.1	349.8
Justice.....	6.2	3.6	4.6	5.7	15.2
Labor.....	281.1	479.2	50.3	5.9	2.4

See footnote at end of table.

## APPENDIX III—Continued

Department or agency	June 30, 1973	June 30, 1974	June 30, 1975	Sept 30, 1976	Sept. 30, 1977
State.....	7.3	51.9	32.2	12.3	3.8
Transportation.....	24.3	27.7	34.4	168.2	49.1
Treasury.....	6,617.9	6,807.9	8,376.9	8,497.4	9,022.6
Agency for International Development.....	106.4	110.4	149.9	117.8	99.8
Civil Service Commission.....	208.7	193.1	112.4	5.9	8.5
Federal Deposit Insurance Corporation.....	39.6	89.9	201.4	243.8	223.7
Federal Home Loan Bank Board.....	40.0	14.3	41.2	25.7	89.0
General Services Administration.....	171.7	508.5	72.0	108.0	62.8
National Aeronautics and Space Administration.....	37.0	132.6	157.1	191.1	202.9
National Foundation on the Arts and Humanities.....	2.4	-----	8.4	41.8	20.4
Office of Emergency Preparedness.....	227.7	-----	7.3	54.3	15.8
Overseas Private Investment Corporation.....	4.0	3.7	4.3	76.3	7.5
Railroad Retirement Board.....	56.2	65.1	78.5	109.1	135.8
Small Business Administration.....	70.7	93.1	133.3	174.2	217.5
Tennessee Valley Authority.....	43.3	45.5	51.7	64.8	58.9
Veterans Administration.....	57.2	15.6	53.9	26.4	278.7
Other (includes Export-Import Bank, at Sept. 30, 1977).....	-----	-----	-----	-----	-----
Totals (excludes off-budget agencies).....	10,440.3	11,675.1	12,705.4	12,583.9	14,555.9

<sup>1</sup> This financial data was taken from Treasury Bulletins dated February 1974, February 1975, February 1976, March 1977 and March 1978. For the most part, these bulletins were a product of the agencies' accounting systems. While agency systems, by law, must conform to the principles, standards, and related requirements prescribed by the Comptroller General, only 60 percent of these systems had been evaluated and approved by the Comptroller General as of Sept. 30, 1977. The data, for the most part, is unaudited.

## APPENDIX IV

ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE DUE FROM THE PUBLIC REPORTED TO TREASURY <sup>1</sup>

[In millions]

Department or agency	Sept. 30, 1976	Sept. 30, 1977
Agriculture.....	\$44.0	\$54.6
Commerce.....	1.0	-----
Defense.....	8.0	9.0
Energy and predecessor agencies.....	3	1.0
Health, Education, and Welfare.....	33.8	218.9
Housing and Urban Development.....	17.9	189.2
Interior.....	-----	-----
Justice.....	-----	-----
Labor.....	-----	-----
State.....	-----	6.6
Transportation.....	.4	6.6
Treasury.....	-----	54.4
Agency for International Development.....	-----	-----
Civil Service Commission.....	18.8	-----
Federal Deposit Insurance Corporation.....	-----	-----
Federal Home Loan Bank Board.....	-----	-----
General Services Administration.....	-----	-----
National Aeronautics and Space Administration.....	-----	-----
National Foundation on the Arts and Humanities.....	-----	-----
Office of Emergency Preparedness.....	-----	-----
Overseas Private Investment Corporation.....	-----	-----
Railroad Retirement Board.....	2.0	-----
Small Business Administration.....	-----	-----
Tennessee Valley Authority.....	.5	.3
Veterans' Administration.....	6.6	5.3
Other.....	.5	5.2
Total (excludes off-budget agencies).....	133.8	544.5

<sup>1</sup> This financial data was taken from Treasury Bulletins dated March 1977 and March 1978. For the most part, these bulletins were a product of the agencies' accounting systems. While agency systems, by law, must conform to the principles, standards, and related requirements prescribed by the Comptroller General, and only 60 percent of these systems had been evaluated and approved by the Comptroller General as of Sept. 30, 1977. The data, for the most part, is unaudited.

**APPENDIX V. SUMMARY OF OUR REPORTS CONCERNING THE RECORDING, BILLING, AND COLLECTION OF AMOUNTS OWED BY THE PUBLIC**

Report to the Administrator, Energy Research and Development Administration June 25, 1977, FGMSD-77-25.

The report, which made no recommendations, concluded that the Energy Research and Development Administration's system of accounting for accounts receivable, including related billing and collecting procedures, was operating effectively in accordance with the accounting system approved by the Comptroller General in March 1975.

Report to the Chief, Forest Service, Department of Agriculture. July 11, 1977, FGMSD-77-42.

Our review showed that the accounting, billing, and collection practices for accounts receivable at Region 6 of the Forest Service were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in June 1970. Specifically, we found that receivables were promptly and accurately recorded, and billing and collection procedures were effective. However, procedures designed to encourage timely payment by contractors were not followed by all forest offices in Region 6.

The Forest Service headquarters took action on our recommendations to obtain more timely collection of all accounts receivable.

Report to the Administrator of General Services. July 27, 1977, FGMSD-77-29.

Our review showed that the General Services Administration's billing and collection system for accounts receivable from the public was, for the most part, operated effectively and in accordance with the accounting system approved by the Comptroller General in June 1965. However, the accounting for and reporting of receivables needs improvement. Specifically we found that :

One fund was overstated by \$69.6 million, and two others were understated by \$4.1 million. These errors resulted in a \$65.5 million overstatement of accounts receivable as reported to the Treasury and a corresponding overstatement of liabilities in the same amount.

About \$9.3 million of long-term installments receivable was improperly classified as current assets.

Delinquent accounts were not promptly identified for followup action.

Officials at the General Services Administration agreed with our findings and said that procedures and controls would be revised to improve the recording and reporting of accounts receivable.

Report to the Assistant Secretary for Administration and Management, Department of Labor. August 17, 1977, FGMSD-77-31.

Our review showed that the accounts receivable recorded in the accounting system approved by the Comptroller General in October 1972 were not accurate. Consequently, the balance of accounts receivable from the public reported to the Department of the Treasury was not accurate. Officials of the Office of Accounting agreed with our findings and initiated corrective action to provide more accurate accounting and reporting.

Reporting to the Commissioner, Bureau of Government Financial Operations. Department of the Treasury. August 30, 1977, FGMSD-77-30.

Our review showed that the billing and collection system for accounts receivable from the public was, for the most part, operating effectively in accordance with the accounting system approved by the Comptroller General in March 1969. However, the accounting for and reporting of these receivables needed improvement. Specifically, we found that about \$370 million of deferred interest receivables was improperly classified as a current asset in Treasury accounting records and reports.

Accounts receivable which were not due within a period of 1 year were reclassified as noncurrent assets.

Report to the Secretary, Department of Health, Education, and Welfare on the Social Security Administration's Accounts Receivable. September 6, 1977, FGMSD-77-32.

Our review showed that the Social Security Administration's procedures and practices for recording and controlling accounts receivable did not comply fully with the principles, standards, and related requirements prescribed by the Comptroller General. Specifically, we found that

more than \$742 million in overpayments were not reported as receivables and

many followup collection actions were not promptly made.

The Social Security Administration is developing a computerized system which is being designed to provide current and reliable data on overpayments. When fully implemented, this system should compile data on all social security overpayments. Accounts receivable for program overpayments were included in the latest financial reports.

Report to the Chairman, Civil Service Commission, September 15, 1977, FGMSD-77-41.

Our review showed that the accounting and reporting practices for accounts receivable were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in May 1970. However, we found that the balance of accounts receivable from the public as reported to the Department of the Treasury was inaccurate. Also, the Civil Service Commission's procedures did not provide for charging interest on Government claims which were collected through reduction of an employee's annuity.

The Commission stated that interest would be collected when included in claims forwarded to it by other Government agencies. However, the Commission's position was that an authorizing statute was preferable to existing case law as the basis for charging interest on debts. Such a statute, according to the Commission, would eliminate any uncertainty about authority to charge interest and provide specific guidance on the charging of interest. Also, a court case affecting due process requirements was pending. Until the court case was settled, the Commission would not charge interest unless it was part of the basic claim by the creditor agency.

Report to the Administrator, National Aeronautics and Space Administration, October 21, 1977, FGMSD-77-89.

The National Aeronautics and Space Administration was promptly collecting amounts due from other Federal agencies and the public under an accounting system approved by the Comptroller General in June 1969. However, internal accounting procedures did not assure that accounts receivable were accurately recorded and reported. Specifically, the \$267.2 million balance of accounts receivable reported to the Department of the Treasury on September 30, 1976, was incorrect because:

The National Aeronautics and Space Administration had already collected \$200.6 million of the recorded accounts receivable.

About \$13.3 million of accounts receivable from the public was improperly classified as accounts receivable from Federal agencies.

About \$14.7 million of accounts receivable was neither recorded nor reported.

Officials at the National Aeronautics and Space Administration headquarters agreed with our findings and stated that procedures were being revised to improve the accuracy of reported accounts receivable.

Report to the Secretary of the Interior on Management of Accounts Receivable at the Bureau of Reclamation, Bureau of Land Management, and U.S. Geological Survey, February 3, 1978, FGMSD-77-68.

This report described the need for (1) more accurate recording and reporting of accounts receivable and (2) better followup of delinquent accounts. Specifically, at one or more of the agencies reviewed,

recorded receivables were not accurate,  
allowances were not established for uncollectible accounts receivable, and delinquent accounts were not promptly identified for followup actions.

#### APPENDIX VI

##### SUMMARY OF INTEREST CHARGES AT SELECTED DEPARTMENTS AND AGENCIES

Department or agency	Description of receivables	Interest rate charged on delinquent receivables
Department of Agriculture: Forest Service.	Sale of timber cut and removed from public lands.	6-percent interest is charged on delinquent accounts beginning 30 days after the due date.
Department of Defense: Foreign Military Sales.	Sale of military supplies and equipment to other countries.	Procedures provide for collection in advance, and no interest charges are assessed on delinquent accounts.
Department of Health, Education, and Welfare: Social Security Administration.	Overpayments to organizations responsible for paying providers for health services. Overpayments to recipients of social security.	No interest is assessed on delinquent accounts. No interest is charged on delinquent accounts.

## APPENDIX VI—Continued

Department or agency	Description of receivables	Interest rate charged on delinquent receivables
Department of the Interior:		
Bureau of Land Management.	Charges for grazing rights, fire suppression, right-of-way charges, and trespassing.	Do.
Bureau of Reclamation.....	Sale of electric power generated by Government projects.	Liquidated damages of 2 percent are charged if bill is not paid when due plus interest charge of 1 percent of unpaid amount each month.
	Sale of water from Government projects.	1 3/4 percent per month is charged on accounts over 30 days delinquent.
Geological Survey.....	Royalty on oil and gas removed from public lands.	No interest is charged on delinquent accounts.
Department of Labor.....	Disability and miscellaneous overpayments.	Do.
Department of the Treasury:		
Customs Bureau.....	Supplemental duties and imported items, fines and penalties, and reimbursable Government services.	Do.
Bureau of Government Financial Operations.	Accrued interest on loans to foreign countries.	Interest rates range from 0 to 4 percent on the loans only.
Civil Service Commission.....	Amounts are due from former Federal employees for unearned leave, overpayments, and miscellaneous other reasons.	No interest is charged on delinquent accounts.
Energy Research and Development Administration.	Sale of enriched uranium to domestic and foreign concerns for power generation.	Interest is charged at 1 percent per month on any balances not paid within 30 days of the invoice.
General Services Administration..	Sale of strategic and critical materials sold from national stockpile.	Interest is charged at the commercial prime rate when payment is not received within 30 days of the invoice date.
National Aeronautics and Space Administration.	Acquisition and launching of missiles on a reimbursable basis.	Payment is required as costs are incurred. No interest charges are imposed.

Senator BYRD. There being no further business, the committee will stand adjourned.

[Thereupon, at 11:05 a.m., the subcommittee recessed, to reconvene at the call of the Chair.]

