

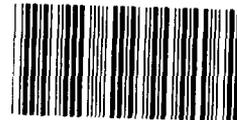
GAO

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

April 1986

DEBT COLLECTION

Air Force Efforts to Collect Debts From Former Service Members



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

April 30, 1986

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-203648

The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

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

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

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

- Out-of-service receivables increased significantly during the past 5 years. During the same period, collection rates initially fluctuated, but, since 1982, they have decreased. The largest single source of out-of-service receivables is from enlistment/reenlistment bonus payments made to service members who separate prior to fully earning their bonuses. (See appendix I.)
- The Air Force has taken several actions to improve collection of out-of-service receivables and to address problems cited in our 1981 report. (See appendix II.)

--The current out-of-service receivables system cannot fully support implementation of the Debt Collection Act. To alleviate the limitations and weaknesses of the current system, the Air Force is designing a new consolidated Departmental Accounts Receivable System. We noted, however, that the scheduled implementation date for a new out-of-service receivables system has slipped over 3 years. (See appendix III.)

The Debt Collection Act of 1982 allows, and in some instances requires, federal agencies to use certain debt collection tools. One of these tools allows federal agencies to offset debts owed against other government program payments. The Air Force, however, does not believe this provision is feasible or practical to implement although it has not thoroughly investigated this possibility. Another provision of the act allows agencies to offset amounts owed against salaries of debtors who are employed by the federal government. However, because of delays by the Department of Defense in issuing implementing regulations and a hearings manual, the Air Force has not begun to use this tool. The Air Force, however, had identified instances where this could have been done.

We, therefore, recommend that the Secretary of Defense direct the Secretary of the Air Force to

- examine the possibility of offsetting amounts owed by former service members against other government program payments and make such offsets where it is found practical to do so and
- ensure that delinquent amounts owed by former service members are offset against government salaries received.

We also recommend that the Secretary of Defense direct the Secretary of the Air Force to closely monitor efforts to develop and implement a new accounts receivable system to ensure that known problems are corrected and development efforts are completed without significant slippage to established milestones.

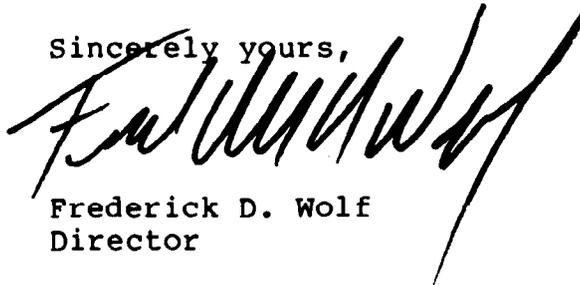
Most of the information you requested in this report was obtained from the Air Force's out-of-service receivables system and from our discussions with officials at the Air Force Accounting and Finance Center in Denver, Colorado. We also obtained information from debt collection officials at Headquarters, the Department of the Air Force, and the Department of Defense in Washington, D.C. We compared procedures used by the Air Force in its collection efforts with applicable Air Force regulations and the Federal Claims Collection Standards. We also reviewed pertinent Air Force Audit Agency reports on the accounting and collection of out-of-service receivables. We did not verify the accuracy of statistics provided to us by the Air Force or evaluate how well

specific collection techniques adopted by the Air Force were functioning in operation. Also, we did not examine the adequacy of the internal controls for the out-of-service receivables system. We conducted this review between January and April 1986.

This report is the second of three reports you requested on the military services' efforts to collect out-of-service receivables. The first report, entitled Debt Collection: Army Efforts to Collect Debts From Former Service Members (GAO/AFMD-86-21BR), was issued in December 1985. The third report, entitled Debt Collection: Navy Efforts to Collect Debts From Former Service Members (GAO/AFMD-86-51BR), will be issued in May 1986.

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

Sincerely yours,



Frederick D. Wolf
Director

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STATUS OF AIR FORCE OUT-OF-SERVICE

RECEIVABLES

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- BETWEEN FISCAL YEARS 1980 AND 1985:
 - OUT-OF-SERVICE RECEIVABLES INCREASED.
 - COLLECTION RATES, WHILE INITIALLY FLUCTUATING, HAVE DECREASED SINCE FISCAL YEAR 1982.
 - WRITE-OFF RATES GENERALLY DECREASED.
 - BONUS-RELATED RECEIVABLES REPRESENTED A LARGE PORTION OF ALL OUT-OF-SERVICE RECEIVABLES.
 - BONUS-RELATED RECEIVABLES HAVE INCREASED SUBSTANTIALLY SINCE 1981 AND ARE EXPECTED TO INCREASE IN THE FUTURE.

STATUS OF AIR FORCE OUT-OF-SERVICE RECEIVABLES

Air Force out-of-service receivables have significantly increased during the past 5 years. As illustrated by table I.1, these receivables were approximately \$8 million at the end of fiscal year 1980 and over \$23 million at the end of fiscal year 1985. Air Force debt collection officials attribute much of this growth to substantial increases in enlistment/reenlistment bonus payments and resulting indebtedness when service members separate prior to earning the entire amount of bonuses which they have already been paid.

Air Force officials also told us that since 1983 uncollected receivables have not been written off as quickly. For example, delinquent receivables of \$100 or more are referred to commercial collection agencies before they are considered for write off. Collection agencies have up to 6 months to collect these receivables. We believe this process impacts on the Air Force's write-off rates. As shown in table I.1, write-off rates generally decreased from fiscal year 1980 to fiscal year 1985. Also, Air Force officials believe this process contributes to the growth in out-of-service receivable balances.

Table I.1 also highlights overall collection rates. During this period, collection rates initially fluctuated, but, since fiscal year 1982, they have decreased.

The statistics in table I.1 were provided by the Air Force from reports or compiled by us from data provided by the Air Force. We did not assess the reliability of these statistics. Therefore, we cannot attest to their accuracy. (See page 23 for a discussion of the accounting system limitations and weaknesses we noted during this review.)

In addition, we noted that the statistics in table I.1 do not include all out-of-service receivables. For example, accounts in the adjudication process were not included. However, the statistics in table I.1 include some receivables which do not apply to former service members. For example, receivables owed by individuals who received emergency medical care in Air Force hospitals but who were not members of the Air Force were included.

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

	Fiscal year <u>1980</u>	Fiscal year <u>1981</u>	Fiscal year <u>1982</u>	Fiscal year <u>1983</u>	Fiscal year <u>1984</u>	Fiscal year <u>1985</u>
Beginning balance	\$7,810,723	\$7,999,545	\$ 9,648,516	\$11,197,214 ^a	\$14,218,664	\$20,091,901
New receivables	4,661,502	6,305,090	8,060,463	8,600,016	11,494,449	10,942,479
Adjustments/ reclassifications	216,448	<345,503>	<1,037,143>	<388,424>	<412,601>	<864,454>
Collections	<2,149,361>	<2,517,521>	<3,303,202>	<3,758,395>	<3,772,526>	<4,248,950>
Write-offs/waivers	<2,539,767>	<1,793,095>	<1,776,215>	<1,431,747>	<1,436,085>	<2,686,063>
Ending balance	\$7,999,545 *****	\$9,648,516 *****	\$11,592,419 *****	\$14,218,664 *****	\$20,091,901 *****	\$23,234,913 ^b *****
Collection rate ^c	17%	18%	20%	19%	15%	14%
Write-off rate ^d	20%	13%	11%	7%	6%	9%

^aDifferences exist between ending balance, fiscal year 1982, and beginning balance, fiscal year 1983, because the Air Force made a change in its source of accounts receivable balance statistics.

^bThis amount relates to 20,653 individuals with the average receivable being \$1,125.

^cCollection rates presented were calculated by dividing collections by beginning balance plus new receivables plus or minus adjustments.

^dWrite-off rates were calculated by dividing write-offs by beginning balance plus new receivables plus or minus adjustments.

Composition of Out-of-Service Receivables

We have categorized Air Force out-of-service receivables into seven major classifications: bonuses, unearned pay, leave, moving expenses, disciplinary actions, erroneous pay, and other. (See page 12.) As shown in table I.2, the two largest categories are recoupable portions of bonus payments made to individuals upon enlistment and reenlistment, and other receivables, which include unpaid civilian hospital bills.

Table I.2: Composition of Air Force Out-of-Service Receivables as of February 28, 1986

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Bonuses	\$ 9,096,436	38.2
Unearned pay	2,742,895	11.5
Leave	2,003,931	8.4
Moving expenses	1,069,902	4.5
Disciplinary actions	907,123	3.8
Erroneous pay	573,095	2.4
Other	<u>7,435,053</u>	<u>31.2</u>
Total	<u>\$23,828,435</u>	<u>100.0</u>

Bonus-Related Receivables

As shown in table I.3, new receivables resulting from unearned bonuses increased substantially between fiscal years 1981 and 1985. Further, as shown in table I.4, bonus-related receivables as a percent of new out-of-service receivables also increased substantially. The Air Force was unable to provide statistics on new bonus-related receivables for fiscal year 1980.

Table I.3: New Out-of-Service Receivables From Bonuses, Fiscal Years 1981 to 1985

<u>Fiscal year</u>	<u>Amount</u>	<u>Percent of increase from prior year</u>	<u>Number of cases</u>	<u>Percent of increase from prior year</u>
1981	\$ 349,551		166	
1982	754,347	116	212	28
1983	2,085,120	176	750	254
1984	3,562,454	71	1,740	132
1985	4,090,283	15	2,232	28

Table I.4: Bonus-Related Receivables as a Percent of New Out-of-Service Receivables, Fiscal Years 1981 to 1985

<u>Fiscal year</u>	<u>New out-of-service receivables</u>	<u>Bonus-related receivables</u>	<u>Percent</u>
1981	\$ 6,305,090	\$ 349,551	5.54
1982	8,060,463	754,347	9.36
1983	8,600,016	2,085,120	24.25
1984	11,494,449	3,562,454	30.99
1985	10,942,479	4,090,283	37.38

According to Air Force officials, the increase in bonus-related receivables results primarily from the increase in reenlistment bonus payments. Obligated funds for reenlistment bonus payments increased from \$2.8 million in fiscal year 1977 to \$102.4 million in fiscal year 1985. Bonus-related receivables usually occur after members receive their bonuses because they separate prior to earning the entire amount of the bonus.

Air Force officials indicated that this type of receivable will most likely increase in the future because, beginning in October 1986, the portion of the bonus paid to a member at the time of reenlistment will increase from 50 percent to 75 percent. These officials believe this increase in the portion of bonus paid upon reenlistment may, therefore, result in an increase in the amount of unearned bonuses for service members who separate early.

Description of Out-of-Service ReceivablesBonuses

The largest component of out-of-service receivables results from bonus payments to individuals. The Air Force pays bonuses to individuals who sign up in critical military specialities, such as a hazardous or skilled area. The Air Force pays a portion of the bonus upon enlistment or reenlistment, with the remainder paid over the term of enlistment. When the service member separates from the service before the term of enlistment expires, a prorated portion of the advance bonus payment is recoupable by the Air Force. If the service member cannot satisfy this amount at the time of separation, the Air Force establishes a receivable for the unpaid amount.

Unearned pay

In some cases, receivables occur when a member receives a partial payment which is not deducted from the member's final paycheck. In other cases, receivables result from authorized advances in pay made to members who have since separated but still have outstanding amounts.

Leave

Receivables arise from members taking leave in excess of the amount earned before a member separates. Receivables also occur when used leave is not considered in the member's final paycheck.

Moving expenses

Receivables occur when members incur moving expenses in excess of their allowance.

Disciplinary
actions

Receivables arise from disciplinary action taken by the Air Force against a service member, such as fines or pay stoppages due to absences without official leave.

Erroneous pay

Receivables result from errors in computing pay.

Other

Receivables arise from members who owe the Air Force for government property lost or damaged and for bad checks. This category also includes receivables owed by individuals who received emergency medical care in Air Force hospitals but were not members of the Air Force.

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

- PRIOR TO SEPARATION, THE BASE-LEVEL ACCOUNTING AND FINANCE OFFICE MAY STOP OR WITHHOLD A PORTION OF THE MEMBER'S PAY.

- AFTER SEPARATION, DEPENDING ON THE DOLLAR AMOUNT OWED, THE AIR FORCE ACCOUNTING AND FINANCE CENTER:
 - Issues Demand Letters,
 - Assesses Interest,
 - Discloses Internal Revenue Service-Provided Addresses,
 - Refers Accounts to Collection Agencies,
 - Obtains Credit Reports, and
 - Refers Cases to the Department of Justice.

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

Many out-of-service receivables are not identified until the time of separation and usually occur when service members separate early. When members separate early, any unearned entitlements previously received, such as bonuses or leave, must be recouped. The Air Force must also identify and collect any other amounts owed by former service members.

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

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

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

Collection Efforts Before Separation

The Air Force Accounting and Finance Center in Denver, Colorado, is usually notified of a member's discharge 4 months prior to separation. During this 4-month period, the Air Force Accounting and Finance Center reviews and computes the separating member's debts to determine whether payment can be recovered prior to separation. Ten days prior to separation, the appropriate field accounting and finance office is notified by the Air Force Accounting and Finance Center of the indebtedness and final pay due.

However, in some instances, the Air Force Accounting and Finance Center receives little advance notice of a member's separation. When this occurs, the base-level accounting and finance office must manually calculate the final pay amount. Members who separate 30 days or less from the date of official notification are required to personally hand carry a "Short-Notice Separation Out-Processing Checklist" to base agencies, such as the commissary, base exchange, and hospital. This checklist is intended to assist base-level accounting and finance offices in identifying potential indebtedness to the Air Force. Base agencies annotate the checklist with any amounts owed by the member and are required to provide documentation supporting the amount of this debt to the base-level accounting and finance office within one workday.

The base-level accounting and finance office can stop the pay of a member if debts are anticipated. If the amount owed is in doubt because a short notice separation checklist was not completed, the base-level accounting and finance office can withhold up to 45 percent of the member's final pay.

Collection Efforts After Separation

The Air Force Accounting and Finance Center has primary responsibility for collecting amounts owed by members who have separated. Generally, the Air Force Accounting and Finance Center does not attempt to collect receivables under \$25 because internal Air Force studies indicate that it is not economically feasible for the center to do so. However, an Air Force Accounting and Finance Center official told us that receivables of \$10 or more are collected if the individual is an Air Force retiree. (See page 21.)

As shown on table II.1, depending on the dollar amount owed, the Air Force Accounting and Finance Center may apply a series of collection efforts. Several of these efforts--referring delinquent receivables of \$100 or more to collection agencies and assessing interest on delinquent pay-related receivables of \$1,000 or more--involve more businesslike collection techniques as we recommended in our 1981 report. (See page 21 for a discussion of the Air Force Accounting and Finance Center's efforts to assess interest on delinquent receivables.) We were advised by Air Force Accounting and Finance Center officials that receivables not collected within the 6-year statute of limitations are to be written off.

Table II.1: Air Force Accounting and Finance Center Efforts to Collect Out-of-Service Receivables^a

	Letters ^b	Assessment of interest ^c	Address verifications and disclosure ^d	Referrals to collection agencies ^e	Request for credit report ^f	Referrals to the Department of Justice ^g
Under \$25						
\$25 - \$99	X		X			
\$100 - \$599	X		X	X		
\$600 - \$999	X		X	X	X	X
\$1,000 +	X	X	X	X	X	X

^a "X" indicates actions that are to be taken.

^b Three collection letters are to be sent at 30-day intervals: The first identifies the amount and reason for indebtedness; the second two are follow-up letters.

^c Interest is assessed on delinquent pay-related receivables of \$1,000 or more.

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

^e Receivables may be referred to commercial collection agencies when no response is received from collection letters. Collection agencies have up to 6 months to collect.

^f When receivables are returned uncollected by collection agencies, the Air Force Accounting and Finance Center requests reports on debtors from commercial credit bureaus. These reports are used to determine a debtor's ability to pay.

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

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

• STATUS OF AIR FORCE EFFORTS TO IMPLEMENT THE DEBT
COLLECTION ACT OF 1982.

<u>PROVISION</u>	<u>ACTION</u>
Disclosing Internal Revenue Service-Provided Addresses	Addresses are disclosed to collection agencies.
Using Private Collection Firms	Collection agencies are used.
Assessing Interest, Penalties, and Administrative Costs on All Delinquent Receivables	Interest is assessed only on delinquent pay-related receivables of \$1,000 or more. Penalties and administrative charges are not assessed.
Reporting to Commercial Credit Bureaus	Delinquent receivables are not referred.
Offsetting Payments Due to Federal Program Participants to Satisfy Delinquent Receivables	Amounts owed are not offset against other government program payments.
Withholding Part of Federal Employees' Salaries to Satisfy Delinquent Receivables	Amounts owed are not offset against salaries.
Obtaining Taxpayer Identification Numbers From Applicants on Some Federal Loans	Not applicable.
Screening Loan Applicants Against Internal Revenue Service Tax Accounts	Not applicable.

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

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

The Debt Collection Act of 1982 requires agencies to obtain taxpayer identification numbers from loan applicants and to assess interest, penalties, and administrative costs on delinquent receivables. The act also permits the use of several other debt collection tools. (See page 19.)

The Air Force Accounting and Finance Center has implemented some provisions of the Debt Collection Act of 1982. These include disclosing Internal Revenue Service-provided addresses to collection agents and using commercial collection agencies. The center has only partially implemented the provision of assessing interest on delinquent receivables by doing so on delinquent pay-related receivables of \$1,000 or more. It has not, however, implemented provisions such as referring delinquent accounts to credit bureaus and offsetting amounts owed against the salaries of government employees. The Air Force's efforts to implement applicable provisions of the Debt Collection Act are discussed below.

Disclosure of Internal Revenue Service
Provided-Addresses

The Debt Collection Act (section 8) and the Federal Claims Collection Standards (4 CFR 102.18) allow federal agencies to disclose Internal Revenue Service-provided addresses to their officers, employees, and agents for collection purposes.

According to Air Force debt collection officials, the Air Force is obtaining addresses from the Internal Revenue Service. Addresses received are forwarded to collection agencies, along with other receivable information.

Using Private Collection Firms

The Debt Collection Act (section 13) allows federal agencies to contract for collection services. The use of collection contractors allows federal agencies more resources for improving their collection capability and to take advantage of private sector expertise.

Since April 1983, the Air Force Accounting and Finance Center has been referring delinquent out-of-service receivables of \$100 or more to two commercial collection agencies. As of February 28, 1986, these agencies collected \$416,744, or 3 percent of the \$13,825,191 the Air Force referred for collection. Air Force debt collection officials told us the low collection rate can be attributed to the nature of the cases referred to the collection agencies. Specifically, the Air Force has already exhausted its collection efforts on these cases. Therefore, the cases that remain for referrals to the

collection agencies involve individuals who have not responded to Air Force efforts to collect the debt.

Assessment of Interest, Penalties, and Administrative Costs

The Debt Collection Act (section 11) requires federal agencies to assess penalties, administrative costs, and interest on all delinquent receivables. However, since January 1985, the Air Force has been assessing interest only on pay-related delinquent out-of-service receivables of \$1,000 or more. As of September 30, 1985, the Air Force had assessed \$95,242 in interest and had collected \$13,615. However, due to limitations in its current accounts receivable system, the Air Force is unable to assess interest on all delinquent receivables or to assess penalties and administrative costs on delinquent amounts owed.

Use of Credit Reporting Agencies

The Debt Collection Act (section 3) allows federal agencies to provide information on delinquent debtors to commercial credit bureaus. This tool is intended to encourage debtors to make their delinquent accounts current, to discourage current debtors from becoming delinquent, and to provide information to federal credit granting agencies to identify applicants who are already delinquent on federal loans.

According to Air Force debt collection officials, this provision of the act has not been implemented because the current accounts receivable system is not designed to provide credit bureaus with information on delinquent debtors.

Offsetting Amounts Owed Against Other Government Payments

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

The Air Force has taken some action to offset out-of-service receivables owed by individuals who retired from the military, joined the reserves, or reentered the military service against payments due them. For example, receivables of \$10 or more owed by Air Force retirees are offset against their retirement pay. However, most of the out-of-service receivables are not owed by individuals in these categories.

Air Force Accounting and Finance Center officials told us that while they have not thoroughly investigated the possibility of offsetting amounts owed by former service members against

other government program payments, this collection initiative does not appear to be feasible or practical. Specifically, they believe that the program objectives of other federal agencies will be hindered if administrative offsets are taken. However, we believe this determination should be made by the agency officials responsible for administering these other government programs.

In the future, the Air Force Accounting and Finance Center envisions offsetting out-of-service receivables against Internal Revenue Service income tax refunds. This administrative offset, which is provided for under the Deficit Reduction Act of 1984, allows the Internal Revenue Service to reduce a debtor's income tax refund as a means of collecting delinquent amounts owed the government. A Department of Defense debt collection project officer also told us that Defense is supportive of this collection initiative.

Salary Offsets

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

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

In March 1985, the Department of Defense issued instructions concerning salary offsets. The Air Force revised and issued new regulations on October 31, 1985. However, at the time of our review, the Air Force was still waiting for Defense to issue the hearings manual before starting to offset out-of-service receivables against government salaries.

The Air Force noted the potential for recouping out-of-service receivables by salary offsets in November 1984. At that time, the Air Force matched 28,504 receivable records against Defense Manpower Data Center files and found that 200 receivables amounting to \$206,838 were owed by civilians in the Department of Defense. Some of these accounts involve individuals who were already making payments on the amounts they owed the Air Force. However, the Air Force found receivables of \$153,781 which it could have offset but did not because regulations and other offset mechanisms were not in place. While the Air Force is entitled to a reasonable period of time in which to promulgate regulations to implement the salary offset provision of the Debt Collection Act, we believe that as long as the debtor is given the substantive equivalent of the procedural rights conferred by the act, the Air Force could have offset salaries prior to finalizing its regulations and the issuance of the Department of Defense hearings manual.

AIR FORCE OUT-OF-SERVICE RECEIVABLES
SYSTEM HAS LIMITATIONS AND WEAKNESSES

We found that the Air Force Accounting and Finance Center does not have an adequate accounts receivable system to control, account for, and report information on out-of-service receivables. According to an internal Air Force program management directive, the current system to account for out-of-service receivables is antiquated, time-consuming to operate, and has reached a saturation point.

According to this program directive, the system cannot respond to further demands to fully support implementation of debt collection initiatives. For example, while the current system can assess interest on pay-related receivables of \$1,000 or more, it cannot assess interest on other delinquent receivables and cannot compute penalty and administrative costs on delinquent amounts owed. Further, it is not designed to provide credit bureaus with information on delinquent debtors.

To improve its accounting for and controlling of out-of-service receivables, the Air Force plans to replace its current out-of-service receivables system as part of its overall efforts to design a consolidated Departmental Accounts Receivable System. The Air Force expects the new system to

- compute and assess interest, penalties, and administrative costs on delinquent amounts owed;
- provide and update information to commercial credit bureaus on delinquent debtors;
- provide timely reports to management; and
- provide greater control over the flow of accounts receivable transactions.

We noted that the scheduled implementation date for a new out-of-service receivables system has slipped over 3 years, from February 1984 to November 1987. The new consolidated Departmental Accounts Receivable System is expected to cost the Air Force approximately \$1.9 million by the time it is completed.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the Secretary of the Air Force to

- examine the possibility of offsetting amounts owed by former service members against other government program payments and to begin making such offsets where it is found practical to do so and

--ensure that delinquent amounts owed by former service members are offset against government salaries received.

We also recommend that the Secretary of Defense direct the Secretary of the Air Force to closely monitor efforts to develop and implement a new accounts receivable system to ensure that known problems are corrected and development efforts are completed without significant slippage to established milestones.

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