



**ADMINISTRATIVE COMMUNICATIONS SYSTEM
U.S. DEPARTMENT OF EDUCATION**

DEPARTMENTAL DIRECTIVE

Handbook OCFO-02

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All Department of Education Employees

Approved by: _____
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**Handbook for
Accounts Receivable Requirements**

Revised by:

Financial Management Operations
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Supersedes Handbook 14 Handbook for Accounts Receivable Requirements dated 04/25/1994.

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I. Purpose

This Handbook describes practices to be followed by the U.S. Department of Education (ED) personnel to assure effective, efficient, and equitable management of receivables. Receivables for the purpose of this handbook include but are not limited to:

- A. Accounts Receivable;
- B. Interest Receivable; and
- C. Loans Receivable.

II. Policy

ED's policy for receivables management is to:

- A. Speed collections;
- B. Maximize interest earned or minimize interest cost to the U.S. Department of Treasury (Treasury);
- C. State receivables at realizable value;
- D. Accurately account for and track receivable balances;
- E. Efficiently and effectively determine receivable balances;
- F. Writeoff debts deemed no longer collectible in the best judgment of responsible officials; and
- G. Closeout debts after determination that any further collection efforts would not be warranted.

III. Authority

This handbook is based on public law, as well as Treasury, General Accounting Office, and Office of Management and Budget (OMB) regulations and guidance relative to the efficient, effective, and equitable management of receivables. Among the most significant laws and regulations affecting receivables management are:

- A. [5 United States Code \(U.S.C.\) Part I Chapter 3, Powers, Section 301, Departmental Regulations;](#)
- B. [I Treasury Financial Management \(TFM\) Part 2-2000, Nonexpenditure Transactions;](#)
- C. [I TFM Part 2-3100, Instructions for Disbursing Officers' Reports;](#)

- D. [I TFM Part 2-3300, Reports of Agencies for Which the Treasury Disburses;](#)
- E. [I TFM Part 2-3400, Accounting and Reporting on Cash and Investments Held Outside of the U.S. Treasury;](#)
- F. [I TFM Part 2-4600, Treasury Reporting Instructions for Credit Reform Legislation;](#)
- G. [I TFM Part 2-5100, Reconciling Fund Balance with Treasury Accounts;](#)
- H. [I TFM Part 4-7000, Cancellations, Deposits and Claims for Checks Drawn on the United States Treasury;](#)
- I. [I TFM Part 5-1000, Deposits \(Introduction\);](#)
- J. [I TFM Part 5-2000, Cash and Checks Received in Collections;](#)
- K. [I TFM Part 5-4000, Making Deposits;](#)
- L. [I TFM Part 5-4500, Deposits to Treasury Through the FEDWIRE Deposit System;](#)
- M. [I TFM Part 5-4600, Treasury Automated Lockbox Network;](#)
- N. [I TFM Part 5-5000, Uncollected and Lost Checks;](#)
- O. [I TFM Part 6-3000, Payment of Unclaimed Moneys and Refund of Moneys Erroneously Received and Covered;](#)
- P. [I TFM Part 6-5100, Recovering Unclaimed Federal Financial Assets;](#)
- Q. [I TFM Part 6-7000, Reporting Integrated Funding Transactions of Federal Assistance Programs;](#)
- R. [I TFM Part 6-8000, Cash Management;](#)
- S. [I TFM Part 6-9000, Securing Government Deposits in Federal Agency Accounts;](#)
- T. [V TFM Part 1-2000, Deposits for Credit to Treasury's General Account;](#)
- U. Treasury Department Circular (TDC) 1084, Regulations Governing Cash Management Practices Within the Federal government (December 20, 1976);
- V. Cash Management Made Easy, TFM Supplement (June 1991);
- W. Managing Government Credit. TFM Supplement (January 1989);
- X. The Government-wide Task Force Final Report on Write-Off. TFM Supplement,

(June 1990);

- Y. [5 Code of Federal Regulations \(CFR\) Chapter III Part 1315, Prompt Payment;](#)
- Z. [31 CFR Chapter II Part 205, Rules and Procedures for Efficient Federal-State Funds Transfers;](#)
- AA. [31 CFR Chapter II Part 206, Management of Federal Agency Receipts, Disbursements, and Operation of the Cash Management Improvements Fund;](#)
- BB. [31 CFR Chapter II Part 210, Federal Government Participation in the Automated Clearing House;](#)
- CC. 31 CFR Chapter IX Parts 900-904, Federal Claims Collection Standards;
- DD. [34 CFR Part 30, Debt Collection;](#)
- EE. [34 CFR Part 31, Salary Offset for Federal Employees who are Indebted to the United States Under Programs Administered by the Secretary of Education;](#)
- FF. [34 CFR Part 32, Education, Salary Offset to Recover Overpayments of Pay or Allowances from Department of Education Employees;](#)
- GG. 34 CFR Part 34, Administrative Garnishments;
- HH. [34 CFR Part 74, Administration of Grants and Agreements With Institutions of Higher Education, Hospitals and Other Non-Profit Organizations;](#)
- II. [34 CFR Part 80, Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments;](#)
- JJ. [OMB Circular A-11 Part 4, Instructions on Budget Execution \(June 2002\);](#)
- KK. [OMB Circular A-102 \(Rev.\), Grants and Cooperative Agreements With State and Local Governments \(Revised October 7, 1974, and Amended August 29, 1979\);](#)
- LL. [OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations \(Revised November 19, 1993, and Amended September 30, 1999\);](#)
- MM. [OMB Circular A-123, Management Accountability and Control \(Revised June 21, 1995\);](#)
- NN. [OMB Circular A-127, Financial Management Systems \(Revised July 23, 1993\);](#)
- OO. [OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables \(Revised November 2000\);](#)

- PP. [OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations \(Revised June 24, 1997\)](#);
- QQ. Cash Management Improvement Act (CMIA) of 1990, Public Law (PL) 101-453 (October 24, 1990);
- RR. CMIA Amendments of 1992, PL 102-589 (November 10, 1992);
- SS. [Chief Financial Officers Act of 1990, PL No. 101-576 \(January 23, 1990\)](#);
- TT. Improper Payments Information Act of 2002, PL 107-300 (November 26, 2002);
- UU. Debt Collection Act of 1982, PL 97-365 (October 25, 1982);
- VV. Debt Collection Improvement Act of 1996, PL No. 104-134 (April 26, 1996);
- WW. Deficit Reduction Act of 1984, PL No. 98-369 (July 18, 1984), Collection and Deposit Legislation;
- XX. Federal Claims Collection Act of 1966, PL No. 97-258 (July 19, 1966);
- YY. Higher Education Act of 1965, PL No. 89-329, as amended (November 8, 1965);
- ZZ. Prompt Payment Act, PL No. 97-177 (May 21, 1982), amended by PL 100-496 (October 17, 1988);
- AAA. Single Audit Act of 1984, PL 98-502 (October 19, 1984); and
- BBB. Title XXXVI – Federal Debt Collection, PL 101-347 (November 29, 1990).

IV. Applicability

This handbook applies to all principal offices within ED.

V. Definitions

- A. *Accounts Receivable* – Accounts receivable arise from claims to cash or other assets. A receivable shall be recognized when ED establishes a claim to cash or other assets against other entities.
- B. *Adjustment* – Represents change to the recorded balance of an existing amount receivable other than collection or write-off. An adjustment may result from a compromise or other revision of amounts based on changes in facts and circumstances.
- C. *Administrative Offset* – The act of withholding money payable by the government to, or held by the government for, a person or entity to satisfy a debt that the person or entity owes the government. (See offset regulations in 34 CFR Part 30,

Part 31, and Part 32.)

- D. *Administrative Wage Garnishment* – The authority/process to administratively garnish the wages of delinquent debtors in order to recover delinquent debt. The maximum administrative garnishment for one debt is 15% of disposable pay. The maximum amount that may be withheld from one debtor's wages is 25% of disposable pay, except for withholding for tax or family support orders.
- E. *Advances* – Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or other entities to cover a part or all of the entity's anticipated expenses or as advance payments for the cost of goods and services the entity acquires. An advance is not required to be repaid to ED unless and until it becomes a receivable.
- F. *Automated Clearing House* – A processing and delivery facility for distribution and settlement of electronic financial transactions. It clears debits and credits electronically, rather than through the physical movement of checks. Two collection applications are included, Pre-Authorized Debit and Customer-Initiated Entry.
- G. *Cash-Flow Process* – Each process of collecting or disbursing funds for agency programs or operations, as well as balances held outside Treasury.
- H. *CMIA of 1990* – Requires agencies to initiate systems and practices to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal government and the States. Includes requirement to enter into agreements with the States on transfers of funds.
- I. *Chief Financial Officer* – Refers to ED's Chief Financial Officer except when references are made to the Chief Financial Officers Act of 1990, in which case the term may refer to Chief Financial Officers in general. The Chief Financial Officer reports directly to the Secretary regarding financial matters, oversees all financial management activities relating to ED's programs and operations, and is responsible for financial management systems development, including systems of receivables management. The Chief Financial Officers Act of 1990 assigns other specific responsibilities to the Chief Financial Officer.
- J. *Close-out* – The act of reporting an inactive debt to the Internal Revenue Service as income to the debtor, as appropriate, and ceasing any further collection action.
- K. *Collection* – The transfer of funds from a source outside the Federal government to an agency or to a financial institution acting as an agent of the government.
- L. *Compromise* – Accepting less than the full amount of the debt owed by the debtor in satisfaction of the debt.
- M. *Credit Card Collection Network* – A government-wide network that allows Federal agencies to accept VISA and MasterCard in payment for goods and services. Credit cards can be used to accept payment for various sales, services,

and debts. They can also be used to accept travel reimbursements and salary overpayments from employees.

- N. *Current Value of Funds Rate* – The average investment rate for the Treasury Tax and Loan accounts expressed as an annual rate. Published by Treasury in the Federal Register each year by October 31, to be effective the following January 1. Current Value of Funds Rate reflects the government’s rate of return on funds temporarily invested. It is used for charging interest on delinquent debts owed to the government from the private sector and for determining the cost effectiveness of taking trade discounts. The rate is reviewed quarterly. If it changes by two percentage points or more, the revised rate is published in Treasury Financial Manual bulletins and in the Federal Register and is effective for succeeding calendar quarters.
- O. *Cutoff Time* – A time designated by a financial institution beyond which transactions presented or actions requested will be deferred to the next banking day’s business.
- P. *Day* – A calendar day, including weekends and holidays, unless otherwise noted.
- Q. *Debt* – An amount of money or property that an appropriate Federal official determines is owed to the government by a person or an entity other than a Federal agency.
- R. *Debt Collection* – Represents that portion of the credit cycle dealing with the recovery of amounts due after routine follow-up fails. This activity includes the assessment of the debtor’s ability to pay, the exploration of possible alternative arrangements to increase the debtor’s ability to repay and other efforts to secure payment.
- S. *Depository* – A bank or other financial institution designated to receive monies for credit to Treasury.
- T. *Deputy Chief Financial Officer* – ED’s Deputy Chief Financial Officer formulates, issues and implements policy and provides guidance and overall leadership for all financial management operations, including receivables management.
- U. *Disallowance* – A decision by a Federal agency that a recipient was not entitled, in whole or part, to funds awarded for a particular claim.
- V. *Electronic Funds Transfer* – Any transfer of funds, other than a transaction originated by check or similar paper instrument, that is initiated through an electronic terminal for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit an account. This term includes Treasury’s Payment System, the Fedwire Deposit System, the Automated Clearing House and transfers made at automated teller machines and Point-of-Sale terminals. Automated Clearing House transactions include Direct Deposit, Vendor Express, and preauthorized debits.

- W. *Excess Funds* – Funds maintained at the recipient level in excess of immediate (3 days) needs. Funds determined to be excess by the periodic comparison of obligations and expenditures must be promptly returned to the government. Funds shall be returned as soon as possible and no longer than one week from the date ED notifies the recipient.
- X. *Federal Agency* – For purposes of this Handbook, an executive agency of the United States government, except for the Tennessee Valley Authority. (The Tennessee Valley Authority is statutorily excluded from CMIA provisions.)
- Y. *Fedwire Deposit System* – An information link for processing wire transfer collections sent to the U.S. Treasury Financial Management Service. Used for individual collections when receipt of funds acknowledgement is needed immediately. ED’s Fedwire Deposit System transactions are processed through the Federal Reserve Bank in Richmond, Virginia.
- Z. *Financial Management Service* – Refers to Treasury’s Financial Management Service, an agency of Treasury, and the U.S. Government’s central financial manager, responsible for effecting sound cash and credit management practices within the government.
- AA. *Grant* – An award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the Federal government to an eligible grantee. The term does not include technical assistance which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum award, for which the grantee is not required to account.
- BB. *Immediate Needs* – Refers to the length of time recipients may hold transferred government funds in their accounts before disbursement. The timeframe indicated by use of the term “immediate needs” is usually considered to be not longer than three days, unless recipients can demonstrate a valid need to have funds on hand prior to expenditure for a longer period.
- CC. *Lockbox* – A post office box established at a financial institution by ED for receipt of payments. Use of the lockbox accelerates the deposit of payments mailed by debtors.
- DD. *Principal* – The sum of money owed as a debt, exclusive of interest, penalties, administrative costs, loan fees, and prepayment charges. (Interest charged by the government under a theory of damages or to prevent unjust enrichment is considered part of the principal.)
- EE. *Recognize* – To recognize gain, loss or other net change in financial position. Items that are recognized are reflected in the financial books and records as a net increase or decrease in the assets or liabilities.

- FF. *Record* – To record an accounting or other entry on the books and records. Recording an item allows for tracking and analyzing the item or transaction. Recorded items are not necessarily recognized (see *Recognize*).
- GG. *Repayment Agreement* – An agreement establishing the terms and conditions governing the recovery of a debt. It is entered into when credit is initially extended or when a debt is rescheduled (renegotiated). A repayment agreement must be in writing.
- HH. *Reschedule* – To establish new terms and conditions (i.e., modify the existing terms) to facilitate repayment of a debt.
- II. *Salary Offset* – The process of collecting a debt by deductions at one or more officially established pay intervals from the current pay of a Federal employee with or without the employee’s consent (34 CFR Parts 31 and 32 Salary Offset to Recover Overpayments of Pay or Allowances from Department Employees).
- JJ. *Secretary* – The Secretary of ED, unless specifically identified otherwise, such as Secretary of Treasury.
- KK. *State* – A State of the United States, the District of Columbia, a territory or possession of the United States, and an agency, instrumentality, or fiscal agent of a State. The five territories included are Northern Marianas, Guam, Puerto Rico, American Samoa, and the Virgin Islands.
- LL. *Student Aid Debt* – Debts owed by individuals who received Higher Education Act of 1965, as amended student loans or were overpaid a Higher Education Act of 1965, as amended grant.
- MM. *Write-Off* – Removal of an account from ED’s receivables after a Federal agency official determines that a debt has a high probability of remaining uncollectible, and all appropriate collection techniques have been exhausted.

VI. Responsibilities

- A. The **Chief Financial Officer** is responsible for the effective, efficient and equitable operation of ED’s entire financial management system/operations. The Chief Financial Officer establishes and issues ED financial/accounting policy and provides overall direction and leadership for ED’s financial management, including receivables management.
- B. The **Deputy Chief Financial Officer** formulates, publishes and implements ED financial/accounting policy and provides direction/leadership for all financial management operations, including receivables management.
- C. The **Director, Financial Management Operations (FMO)**, has operational responsibilities, including, but not limited to, General Ledger Accounting, reporting, reconciliation, and the deposit function.

- D. The **Director, Financial Improvement and Post Audit Operations (FIPAO)**, has operational responsibilities, including but not limited to, receivables management.
- E. **Principal Offices**
 - 1. Provides clear communication to debtors concerning any amounts owed to ED, for which that principal office is responsible.
 - 2. Notifies the Office of Federal Student Aid (FSA) or Office of the Chief Financial Officer (OCFO) FMO as appropriate, that a receivable exists. All necessary documentation shall be forwarded to the responsible office within two business days.
 - 3. The Chief Operating Officer of FSA is responsible for administering student aid funds and implementing effective receivables management regulations, policies and procedures in their respective grant and loan programs.

VII. Accounting for Receivables

A. Advances

- 1. Advances are not the subject of this handbook. This information is provided to contrast advances and receivables and to discuss criteria for reclassification of an advance as a receivable.
- 2. Advances are cash outlays made by ED to its employees, contractors, grantees, or other entities to cover a part or all of ED's anticipated expenses or as advance payments for the cost of goods and services the entity acquires. An advance is not required to be repaid to ED unless and until it becomes a receivable, as described below. Examples include travel advances disbursed to employees prior to their business trips and cash or other assets disbursed under a contract, grant, or cooperative agreement before the contractor or grantee renders services or goods.
- 3. Advances may be recorded as assets when funds are disbursed. Advances are reduced when goods and services are received, grant terms are met, or progress is made under a contract. For example, ED's grant payments are initially recorded as an asset (i.e., advance) and shall be subsequently reduced when grant terms are met (e.g., the funds are spent by the grantee).
- 4. Amounts of advances that are subject to refund shall be transferred to accounts receivable. Amounts may become subject to refund for a number of reasons, including, but not limited to:
 - a. Entity misuse of funds;

- b. Entity did not expend funds;
 - c. ED over-advanced amounts; and
 - d. Reduction in total grant amount.
5. It may become evident that the recipient will not receive additional funding in the near term (e.g., within ten business days), and therefore, a reclassification from an advance to a receivable may be justified.

B. Receivables

1. **Accounts Receivable** – Accounts receivable arise from claims to cash or other assets. The accounting standard for accounts receivable is set forth below.
 - a. *Recognition of receivables* – A receivable shall be recognized as soon as ED establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., audit findings resulting in refunds due to ED) or requirements to return funds or other assets, or goods or services provided. If the exact amount is unknown, a reasonable estimate shall be made.
 - b. *Separate reporting* – Receivables from Federal entities are intragovernmental receivables, and shall be reported separately from receivables from non-Federal entities.
 - c. *Entity versus non-entity receivables* – Receivables shall be distinguished between entity receivables and non-entity receivables. Entity receivables are amounts that ED claims for payment from other Federal or non-Federal entities and that ED is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection. Non-entity receivables are amounts that ED collects on behalf of the U.S. Government or other entities, and is not authorized to spend. Receivables not available to ED are non-entity assets and shall be reported separately from receivables available to ED.
 - d. *Recognition of losses due to uncollectible amounts* – Losses on receivables shall be recognized when it is more likely than not that the receivables will not be totally collected. The phrase “more likely than not” means more than a 50 percent chance of loss occurrence. An allowance for estimated uncollectible amounts shall be recognized to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts shall be re-estimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct.

Financial reporting dates include filing of quarterly reports to OMB and to Treasury.

- e. *Measurement of losses* – Losses due to the uncollectible amounts shall be measured through a systematic methodology. The systematic methodology shall be based on analysis of both individual accounts and a group of accounts as a whole.
- f. *Individual account analysis* – Accounts that represent significant amounts shall be individually analyzed to determine the loss allowance. Loss estimation for individual accounts shall be based on (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probably recovery of amounts from secondary sources, including liens, garnishments, cross servicing collections and other applicable collection tools.

The allowance for losses generally cannot be based solely on the results of individual account analysis. In many cases, information may not be available to make a reliable assessment of losses on an individual account basis or the nature of the receivables may not lend itself to individual account analysis. In these cases, potential losses shall be assessed on a group basis.

- g. *Group analysis* – Process by which receivables are separated into groups of homogeneous accounts with similar risk characteristics, to determine the loss allowance on a group basis.

The groups shall reflect the operating environment. For example, accounts receivable can be grouped by: (a) debtor category (business firms, State and local governments, and individuals), (b) reasons that gave rise to the receivables (audits, erroneous payments, trade accounts based on goods and services sold, and transfers of defaulted loans to accounts receivable), or (c) geographic regions (foreign countries, and domestic regions). Within a group, receivables are further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables.

Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation shall take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks.

- h. *Disclosure* – For financial reporting purposes, ED shall disclose the major categories of receivables by amount and type, the methodology used to estimate the allowance for uncollectible

amounts, and the total allowance.

2. **Interest receivable** – Interest receivable shall be recognized for the amount of interest income earned but not received for an accounting period. Interest receivable shall be recognized as it is earned on investments in interest-bearing securities. Interest also shall be recognized on outstanding accounts receivable and other U.S. Government claims against persons and entities in accordance with provisions in 31 U.S.C. 3717, Interest and Penalty Claims.

No interest shall be recognized on accounts receivable or investments that are determined to be uncollectible unless the interest is actually collected. Payments received from the debtor are required to be applied first to cost incurred for commissions paid to collection contractors (referred to as “contingency fees”), second to penalties, third to other administrative cost, fourth to interest, and last to principal, per the Federal Claims Collection Standards.

However, until the interest payment requirement is officially waived by the government entity or the related debt is written off, interest accrued on uncollectible accounts receivable shall be accrued. Allowances shall be provided on interest receivable similar to requirements for accounts receivable.

Interest receivable shall be accounted for and reported separately from interest receivable from the public.

3. **Loans Receivable** – Loans receivable are financial resources of ED representing claims for payment from non-Federal entities and individuals, based on a formal agreement under which the borrower promises to return cash (or other assets), with or without interest, in exchange for the right to use cash (or other assets) for a specified period of time.

Guidance on the technical accounting for loans receivable is covered in the Credit Reform Act and OMB Circular No. A-11. This handbook does not address the accounting issues surrounding loans receivable and related interest receivable.

C. Subsidiary Ledgers/Accounting System

1. ED personnel responsible for establishing the accounting structure of ED’s accounting system shall establish subsidiary ledgers.
2. Each subsidiary ledger shall correspond to the Accounting System general ledger accounts or subaccounts.
3. ED personnel that have the responsibility for tracking receivables on a monthly or quarterly basis shall perform reconciliations.

4. Detailed records shall be maintained in the subsidiary records while only summary level information will be included in the Accounting System.
5. No entries shall be made to the Accounting System without an appropriate entry to the subsidiary record, except for accruals that will be reversed out in the following period. Additionally, cash receipt journals or logs shall be maintained for all receipts posted to subsidiary records.

D. Receivable Resolution

The following list covers the different methods of resolving receivables available to ED:

1. **Payment in full** – ED receives Payments through check, Fedwire payment, and credit card payments.
2. **Offset** – Several types of offset are available to be used depending on the circumstances and type of debt owed to ED. Types of offset include:
 - a. Administrative Offset;
 - b. Federal Salary Offset; and
 - c. Federal Payment Offset (Treasury Offset Program).

When processing an offset, the amount owed to ED is deducted from the amount otherwise payable to the debtor. In the case of an offset of a tax refund or other Federal payment, ED would request that Treasury deduct these amounts owed to ED from the recipient's income tax refund or other Federal payable to the debtor.

3. **Administrative Wage Garnishment** – ED has the authority to issue garnishment orders to employers when employees are found to owe defaulted student loans and other debts. ED must afford debtors hearings upon request. Overpayment waivers may only be granted by the Office of General Counsel (OGC) under appropriate/limited circumstances.
4. **Repayment Agreements/Promissory Notes** – These agreements or notes are to be arranged only if the debtor is unable to pay in one lump sum. Payments should be structured so as to repay the debt within three years, if at all possible, and the agreement shall contain a specific interest rate to be assessed on the receivable. If payments are made in accordance with the agreement, penalties will no longer accrue. FSA may make arrangements for repayment of student aid debt appropriate to the situation.
5. **Compromise** – Receivables may be compromised which entails forgiving part of the debt owed to ED. The amount that is compromised will then be written off. The amount still owed to ED shall be collected through one of the above listed methods.

6. **Write-Off** – Receivables that are deemed by ED to be uncollectible shall be written off in a timely fashion ([see Section X. Write-Offs and Closing Out Debts](#) for further discussion and responsibilities within ED).

ED personnel responsible for monitoring and tracking receivables shall ensure the expeditious turnover of receivables that will increase the probability of collection and the dollar amount collected.

7. **Litigation** – Litigation is a step toward resolving receivables, but is not the final step. Depending on the litigation results, the receivables can be ultimately resolved through payment-in-full, offset, settlement agreement/promissory note, compromise or write-off ([see Section X. Write-Offs and Closing Out Debts](#)), execution in debtor assets, or garnishment of debtor income.
8. **Adjustment** – Receivable balances may be adjusted to reflect changes in estimates or other changes in facts or circumstances relative to the amount recorded.
9. **Transfer** – Receivable sent to Treasury for collection.

VIII. Billings and Collections

A. Timeliness

Principal offices responsible for the preparation of invoices to individuals or organizations outside the U.S. Government shall observe the practices listed below.

1. Ensure that an invoice or other notice is prepared and mailed within five business days after the day that goods have been shipped or released, services have been rendered, or payment is otherwise due. Principal offices may prepare and mail an invoice later than the five-day timeframe if they can demonstrate it is cost effective to do so.
2. Include a payment due date on the invoice or notice that is not more than 30 days from the date of the invoice, unless otherwise provided by law.
3. If the value of the goods or services cannot be specifically determined, a bill equal to *at least* 75 percent of the estimated value will be prepared and mailed within five business days. Identify the estimated invoice as being a partial invoice and note that a final invoice will be completed when the value is determined.
4. Prepare and mail a final invoice or notice within 30 days of the submission of an estimated partial invoice.
5. Collections by Electronic Funds Transfer must be arranged by Financial

Management Service – If determined to be a viable and cost-effective method of collection, and another specific collection method is not required, a statement will be included on the invoice offering this option and providing the necessary information for Electronic Fund Transfer payment by the remitter.

B. Contract Payment Terms

1. New ED contracts for goods or services provided by ED to organizations outside the U.S. Government must include the payment terms and provisions listed below.
 - a. Date payment is due.
 - b. Statement that payment must be received no later than the due date.
 - c. Notification that, unless prohibited by statute or regulation, the full amount of an obligation that involves multiple payments (such as loan repayments or compromised installment payments) will become due and payable in the event of delinquency or default.
 - d. Notification that additional charges, identified as interest, administrative charges, and penalties, will be assessed on payments received after the due date. Quote rates for such charges, when available.
 - e. Specification of the payment mechanism to be used and the related payment terms outlined below.

Existing ED contracts, with entities outside the U.S. Government, that do not comply with these requirements shall be modified to include these terms and provisions.

2. All invoices or other requests for payments shall include a remittance advice or other appropriate instructions. Information to be included for student aid loans and billings may be found in federal regulations/Office of Postsecondary Education (OPE) publications. The remittance advices or instructions shall ensure that the following information accompanies each payment:
 - a. Appropriation;
 - b. Document Number;
 - c. Fiscal Year;
 - d. Object Class;

- e. Entity Identification Number;
- f. Type/Description of Payment;
- g. Amount;
- h. Social Security Number (if an individual); and
- i. Contact Person and Phone Number.

Principal offices shall include mailing labels or instructions to ensure that payments are mailed to the proper location. Additionally, the invoice shall state that the failure to provide the necessary information requested will result in a delay in posting the payment to the debtor's account. Penalty, interest, and administrative charges will continue to be accrued until the information is received.

C. Payment Terms Not Covered by Contract

In the absence of a formal contract, a debtor of the U.S. Government will be advised in writing of the basis for the indebtedness, the amount due, and the same information listed in Section VIII.B.1.a. through e., above.

D. Charges for Late Payments

When payment is not received by the due date, principal offices shall pursue collection of debts using all appropriate available methods. Application of late charges does not relieve the debtor of the obligation to pay when due, nor does it relieve principal offices of their responsibilities to collect debts.

1. Interest, administrative charges, and penalties on past due amounts will be assessed, unless otherwise prohibited, and shall continue to accrue until final payment is received. ED assesses a one-time late charge of \$200.00 on delinquent receivables, except for accounts receivable from State and local governments, Indian governments, ED employees and from individuals who are indebted for student loans or grant overpayments, regardless of the amount of the delinquency or how it originated.
2. Unless otherwise agreed to by ED or required by law, interest charges shall be computed using the Current Value of Funds Rate. Once assessed, the interest rate shall remain fixed for the term of indebtedness, unless otherwise prescribed. Charges shall be applied to each 30-day period and shall not be prorated for payments received during the month. (The preceding information does not apply to student aid receivables. Interest rates for these receivables are specified in the terms of individual notes.)
3. Administrative charges shall be designed to cover the additional costs incurred in processing and handling a debt because it is delinquent. (The preceding information does not apply to student aid receivables.)

4. Penalty charges shall be assessed on all accounts that have not been paid within 90 days of the bill aging date, and for which there has been no collection activity within the past 30 or 45 days as appropriate. The penalty will be computed monthly from the original due date of the billing. (The preceding information does not apply to student aid receivables.)
5. Payments received from the debtor shall be applied first to costs of commissions paid to collection contractors (referred to as “contingency fees”), second to penalties, third to other administrative costs, fourth to interest, and last to principal.
6. Collections resulting from additional charges shall be deposited into one of the following accounts, unless statutory authority states to do otherwise:
 - a. Interest into (ED’s agency code) 1435 “General Fund Proprietary Interest, Not Otherwise Classified”;
 - b. Penalties into (ED’s agency code) 1099 “Fines, Penalties, and Forfeitures, Not Otherwise Classified”; and
 - c. Administrative Charges into (ED’s agency code) X3220 “Miscellaneous Receipts”.
7. Waiver of Late Charges – If principal offices determine that the administrative cost of collecting late charges exceeds the amount of the charges, ED may waive such charges. The waiver will be made a part of the official collection documentation. Waivers shall be processed in accordance with the general principles in [Section X.B.1.](#)

E. Administrative Offset

Administrative offset shall be used in situations where debtors are presently receiving funds subject to offset from ED. The amount of each offset will be determined by present financial status. Administrative offsets of all debts are strongly encouraged. The existence of a receivable due to ED shall constitute adequate rationale to justify changing the funding status of a grant recipient from advance method to reimbursement method provided that no other policy guidance overrides this change.

F. Repayment Agreements

Repayment Agreements are to be arranged only if the debtor is unable to pay in one lump sum. Payments should be structured so as to repay the debt within three years, and the arrangement shall contain a specific interest rate to be assessed on the receivable. If payments are made in accordance with the agreement, penalties will no longer accrue. FSA may make arrangements for repayment of student aid debt appropriate to the situation.

G. Selection of Collection Mechanisms

Mechanisms and procedures for crediting all funds collected to the account of Treasury will be selected from options currently available. Principal offices will make final determinations jointly with the Deputy Chief Financial Officer and Treasury. Consultation with and approval by Treasury and ED is required before making major changes in collection systems or procedures, entering into new contractual agreements or renewing current contracts that affect the receivables management process. Factors to be considered when selecting collection mechanisms are minimization of total cost, including direct costs, cost of purchased services, and interest cost on money involved in the collection system.

H. Available Mechanisms

Groups from whom collections are made and available mechanisms are shown below.

1. **Contractors and corporations:**
 - a. Lockbox;
 - b. Automated Clearing House/Pre-Authorized Debit and Automated Clearinghouse/Customer-Initiated Entry;
 - c. Federal Deposit System; and
 - d. Treasury Offset Program.
2. **The general public:**
 - a. Lockbox;
 - b. Automated Clearing House/Pre-Authorized Debit and Automated Clearinghouse/Customer-Initiated Entry;
 - c. Federal Deposit System;
 - d. Credit Card Collection Network; and
 - e. Tax Refund Offset.
3. **Employees and Former Employees:**
 - a. Credit Card Collection;
 - b. Federal Salary Offset;
 - c. Pension Offset;

- d. Administrative Wage Garnishment; and
 - e. Lockbox.
4. **Grantees and Participating Institutions:**
- a. Administrative Offset;
 - b. Grants Administration and Payment System (GAPS) Drawdown Adjustments;
 - c. Electronic Refunds;
 - d. Lockbox; and
 - e. Federal Deposit System.

I. Miscellaneous Collections Processing

The OGC Ethics Division is responsible for collecting a \$200 late filing fee, payable to Treasury, for public financial disclosure reports that are not filed within 30 days of the due date, or extension due date, pursuant to section 104(d) of the Ethics in Government Act (5 C.F.R. 2634.704). Upon receipt of the late filing fee, OGC shall forward it to OCFO for recording/reporting as a miscellaneous receipt to Treasury. If the late fee is not paid in a timely manner OGC shall contact/notify the appropriate processing office for current/separated employees to initiate collection proceedings.

Any miscellaneous checks received by the principal offices shall be forwarded the same day received, to the location designated to process the deposit. If local, checks shall be hand-carried; otherwise the checks shall be mailed via certified or overnight courier/federal express mail the same day received. (These checks are usually for unsolicited amounts.) The principal office shall attach a memo to each check forwarded and include all of the information listed under [Section VIII.B.2](#). Principal offices shall keep a log of all checks received, the date and time received and disposed and the method of disposition.

J. Regional Office Collections

1. **General** – Offices should instruct recipients to mail remittance checks after receiving a written request from ED, providing instructions whether to mail checks to a lockbox or directly to OCFO FMO. The Recipient's Handbook provides information on situations where return of funds may be required. Regional offices shall also instruct payees to include the necessary accounting information as listed under [Section VIII.B.2](#), which will be needed to process the collections.
2. **Exceptions** – In cases where the regional offices continue to receive

checks, regional offices shall deposit checks received on the same day in the designated Treasury General Account.

IX. Bankruptcy Information

A. Background

Responsible officials must determine prior to issuing a demand for payment or taking any collection action that debtors are not presently in, nor have they been previously discharged, in bankruptcy proceedings for the amounts owed. The bankruptcy law stays collection action for debtors in bankruptcy proceedings and prohibits collection of debts discharged in bankruptcy.

The goals and responsibilities in this section are designed to enhance identification of bankrupt entities or persons to improve efficiency and effectiveness of receivables management.

B. Goal

The bankruptcy information exchange system allows ED to protect its rights and to observe the legal protection that must be afforded to each debtor. The Department Bankruptcy Information System assists ED managers in achieving maximum recovery of funds and prevents new discretionary funding where appropriate, in the event an organization funded by ED declares bankruptcy.

All ED offices will report to the Bankruptcy Coordinator any information on entities that (1) are in bankruptcy proceedings, (2) may shortly enter into bankruptcy proceedings or (3) are insolvent. OCFO Debt Management Group (DMG) will compile a central report that will share this information with all offices.

C. Responsibilities

1. Financial Management
 - a. The Bankruptcy Coordinator, a designated official in OCFO DMG will be responsible for maintenance of the official list of bankrupt organizations.
 - b. Upon receipt of bankruptcy notification, the Bankruptcy Coordinator will produce an updated listing of bankrupt organizations and distribute the list within three business days to
 - i. Executive Officers or designated staff member;
 - ii. Director or designated staff member, OPE;
 - iii. Director or designated staff member, FSA;

- iv. Director or designated staff member, OCFO Contracts and Acquisitions Management (CAM);
 - v. General Counsel or designated staff member, OGC;
 - vi. Inspector General or designated staff member, Office of Inspector General;
 - vii. Any other ED Office which requests to be on the distribution list; and
 - viii. All other Federal and State government agencies as specified by the Deputy Chief Financial Officer.
- c. Normally, FSA, and CAM first learn that a debtor has filed for relief in bankruptcy when they receive a document captioned, "Notice of First Meeting of Creditors." Other sources of obtaining recent bankruptcy information include the billing process, program review, audit, etc.
 - d. The Bankruptcy Coordinator will review internal records and request debt data, including draft audit reports, investigation reports, and other pertinent information from other ED organizations. This information will be forwarded to OGC. OGC shall prepare a formal claim on behalf of ED.
 - e. An authorized OCFO official will place an immediate "manual review" in the payment system upon notification that an organization has filed for bankruptcy or intends to file for bankruptcy.
2. Executive Officer, Program Unit and Regional Office.
 - a. The contract manager and/or program manager must immediately notify the Bankruptcy Coordinator at the first indication that a recipient of an ED grant, contract, loan, or cooperative agreement has filed for bankruptcy or intends to file for bankruptcy.
 - b. The contract manager and/or program manager must immediately forward to the Bankruptcy Coordinator all data on outstanding debts that may be relevant to an ED bankruptcy claim.
3. OGC
 - a. The General Counsel will review the claim file prepared by the Bankruptcy Coordinator and if appropriate file a bankruptcy claim.
 - b. The General Counsel will update the Bankruptcy Coordinator on

any action taken on behalf of ED, e.g., date of filing, and type of bankruptcy.

- c. The General Counsel will review the status of claims with appropriate jurisdictions on a semi annual basis and provide the Bankruptcy Coordinator with appropriate information.

X. Write-Offs and Closing Out Debts

A. Responsibilities

1. The **Chief Financial Officer** shall assure all uncollectible debts are written off and closed out in accordance with the standards set forth in governing legislation and federal regulations.
2. The **Deputy Chief Financial Officer** shall:
 - a. Ensure that all appropriate debt collection techniques are used and proper documentation is maintained in collecting debts owed to ED.
 - b. Oversee the collection, write-off and close-out of receivables, fellowship debts, and debts resulting from all forms of administrative receivables.
 - c. Make certain that all ED debts are written off and closed out, as appropriate, once they become uncollectible.
 - d. Establish guidelines for collection activities. Guidelines shall define the point when a receivable no longer warrants additional collection efforts based on dollar amount or other criteria.
3. The **Director, FIPAO**, shall:
 - a. Manage ED's collection, write-off and close-out of audit and program review receivables, fellowship debts, debts resulting from overpayments including salary errors to individuals and over advances to institutions, and all other forms of administrative receivables.
 - b. Ensure that all appropriate debt collection techniques are used and proper documentation is maintained in collecting these debts.
 - c. Write these debts off and close them out, as appropriate, when they become uncollectible (within the limits of delegated authority).
 - d. Recommend write-off and close-out on debts that exceed delegated authority.

- e. Write off claims affected by bankruptcy, when appropriate.
4. The Office of **FSA**, as the office/official responsible for write-offs and close-outs of student aid debt, shall:
 - a. Manage the ED's student financial aid receivables, including:
 - i. Student loan debts;
 - ii. Receivables resulting from Pell Grants;
 - iii. Supplemental Educational Opportunity Grant overpayments; and
 - iv. Other student aid-related debts.
 - b. Ensure that all appropriate debt collection techniques are used and proper documentation is maintained in collecting these debts.
 - c. Write these debts off and close them out, as appropriate, when they become uncollectible (within the limits of delegated authority as noted in Section X.B.2.).
 - d. Recommend write-off and close-out on debts that exceed delegated authority.
 - e. Write off debt when discharged in bankruptcy, cancelled on account.
 - f. Write off death and disability cases, or otherwise discharged under the Higher Education Act of 1965, as amended authority regardless of amount.
 5. The **Deputy Assistant Secretary for Higher Education Programs**, OPE, shall have responsibilities similar to those listed in paragraphs 4.b. through f. for institutional receivables under the College Housing and Academic Facilities Loan programs.
 6. Debt servicing staff and supervisors in OCFO, FSA, and OPE have day-to-day responsibility for implementing regulations. They shall:
 - a. Use all available debt collection techniques, as appropriate, to collect ED's debts and maintain proper documentation;
 - b. Carefully monitor all defaulted debts assigned to them; and
 - c. Make decisions or recommendations, depending on dollar amounts, that debts be written off and closed out when, in their judgment, they have become uncollectible.

B. Procedures and Requirements

1. **General Principles** – When ED determines that, despite its best collection efforts, a debt has a high probability of remaining uncollectible now and in the foreseeable future, collection efforts are terminated, and the debt is to be removed from accounts receivable (i.e., write-off). ED is guided in its decisions regarding write-offs and close-outs by the write-off and close-out provisions contained in the Federal Claims Collection Standards and by OMB Circular A-129. ED takes into consideration the following criteria when making a decision regarding the collectibility (write-off and close-out) of debts: (31 CFR Parts 902 and 903).

- a. **Claims Legally Without Merit** or Enforcement of the Debt is Barred by Applicable Statute of Limitations:

- i. A debt that is legally without merit is one that was never owed in the first place and should not have been classified as a debt or, was erroneously classified/placed in default status.
- ii. The Higher Education Act Amendments of 1992 eliminated the statute of limitations for student aid debt. Accordingly, ED should not terminate debt collection activity based solely on the expiration of the statute of limitations for initiation of a lawsuit.

The statute of limitations, applicable to litigation to collect, which varies with the type of debt, does not prohibit ED from pursuing collection action other than litigation, although different limitations may apply to those actions. ED should consider the availability of other debt collection remedies that may not yet be timed-barred, such as offset and administrative wage garnishment.

- b. **Claims That Cannot Be Substantiated by Evidence** – Include cases in which the debt is disputed and ED cannot produce the evidence or the witness(es) necessary to prove the existence and amount of a debt.

- c. **Cost Will Exceed Recovery** – ED may terminate collection action on a claim when it is likely that the cost of further collection action will exceed the amount recoverable thereby, as documented by an appropriate cost estimate. When making this determination, ED officials shall consider:

- i. Fees associated with the debt collection technique(s) the

- officials are considering using. Fees and their amounts are often contingent upon factors such as the amount of the debt referred for collection and the amount ultimately recovered, if any;
- ii. The amount of time and resources needed for ED to pursue collection, and the costs associated with those efforts, including the costs of preparing an account for referral to the Department of Justice and the costs ED incurs as a result of the subsequent follow-up;
 - iii. Ability to pass administrative costs along to the debtor and chances of recovering these amounts;
 - iv. Ability to compromise or write-off some or all of the debt and to report the unrecovered portion of the debt to the Internal Revenue Service as income; and
 - v. Any need to pursue collection regardless of costs in those cases where it is in the best interest of the government.
- d. **Inability to Locate Debtor**
- i. ED may terminate collection action on a claim when the debtor cannot be located, and:
 - (A) There is no security remaining to be liquidated, (e.g., bankruptcy, all assets of the entity have been liquidated); or
 - (B) The applicable statute of limitations has expired and the prospects of collecting by offset are too remote to justify retention of the claim.
 - ii. Except for student aid debt, before ED personnel responsible for tracking and monitoring the debt determine that a debtor cannot be located, they shall refer the debt to Treasury for collection. If Treasury cannot locate the debtor and recommends write-off, the debt may then be written off.
- e. **Inability to Collect any Substantial Amount** - ED debt servicing personnel will consider the following when evaluating the collectibility of a debt:
- i. Results of collection actions already undertaken, such as:
 - (A) Inability of Treasury to collect the debt, accompanied by a recommendation and the

- supporting documentation for write-off;
 - (B) Failure of a court or administrative judgment to result in recovery;
 - (C) Inability to collect by Treasury Offset program or Federal salary offset;
 - (D) Failure to collect through garnishment of known wages (where not relevant anymore and Federal law allows garnishment);
 - (E) Inability to meet Department of Justice's litigation requirements or rejection of case by the U.S. Attorney; and,
 - (F) Inability to certify debts in accordance with Treasury referral criteria.
- ii. Present and future financial condition of the debtor, taking such factors into account as employment history, potential for future earnings, receipt by the debtor of public assistance payments, inheritance prospects, and debtor bankruptcy. In some circumstances, the debtor's future financial prospects may warrant the suspension rather than the termination of collection action. Suspension is discussed in Section X.B.8. below.
- iii. In other cases, the debtor's present financial condition and future prospects may warrant accepting a compromise settlement from the debtor (31 CFR Part 902). In compromising a debt, ED:
- (A) Accepts, generally in lump sum, less than the full amount owed;
 - (B) Compromises the amount owed in a final settlement that takes into account other debts owed to ED. A possible exception to the consideration of other debts is when compromise settlements are negotiated by ED collectors, or by Treasury for ED, with individuals who received student financial assistance under programs governed by Title IV of the Higher Education Act of 1965, as amended;
 - (C) When payment agreed on by the compromise is received, writes off the amount compromised and treats such write-offs in accordance with the write-off and close-out policy and procedures contained

in this handbook; and

- (D) Closes out the remainder of the debt immediately following receipt of payment under a compromise settlement regardless of whether the required number of years have elapsed, provided that the debt was *clearly* not compromised due to a dispute over the debt.
 - iv. In the case of an institutional debt, if ED debt servicing personnel have knowledge that the debt will be uncollectible because the institution is closed, the debt, if otherwise eligible, shall be referred to Treasury for collection and written-off, but not closed out. If Treasury fails to collect and recommends the debt be written off and closed out, the debt shall be written off and closed out upon concurrence by the responsible ED official.
 - v. Death of the debtor (unless there is a program statute that prohibits such action), taking into account the availability of assets that could be liquidated to satisfy the debt. Soon after the time of death, while the estate exists and owns the assets, ED shall file a claim against the estate for payment of the debt.
 - vi. Age and health of the debtor, including full or partial disability.
 - vii. Availability of the debtor's assets for liquidation, including the possibility that assets were transferred or concealed to avoid liquidation.
- f. **Relationship Between Write-off and Compromise**
- i. When ED compromises a debt and receives payment for the agreed-upon amount, the difference between the amount accepted for repayment and the amount of the debt that existed before compromise must be written off and closed out.
 - ii. If the amount of the debt agreed to be paid in compromise is not immediately satisfied, the amount of the original debt continues to be carried in the records of ED. ED management shall decide whether the reduced amount agreed on in the compromise will be written off at any time during the repayment period, using the standards in this handbook.
 - iii. The authority of ED's management to compromise a debt is

subject to various statutory limitations, based on the amount of the debt and the program under which the debt arose. If the amount of the debt (excluding interest and penalties) exceeds the statutory limitations, ED management must obtain approval from the Department of Justice for the compromise. If the compromise requires Department of Justice approval, that approval must be obtained before the compromise can be agreed to and payment accepted. Also, certain debts for which the Secretary has authority independently to compromise must be compromised under special statutory procedure. If the compromise requires special ED procedures, those procedures must be completed before the compromise may be agreed to and payment accepted.

- iv. The limitations on the Secretary's compromise authority are as follows:
 - (A) For debts arising under the Federal Family Education Loan Program (formerly Guaranteed Student Loans – Stafford Student Loans, Supplemental Loans for Students, and Parent Loans for Undergraduate Students, or PLUS) ED has unlimited compromise authority under Section 432(a)(5) and (6), of the Higher Education Act of 1965, as amended, 20 U.S.C. 1082(a)(5), (6). ED has this same unlimited authority for Federal Perkins Loan Programs under Section 468(2) of the Higher Education Act of 1965, 20 USC 1087hh (2) and the Direct Loan Program under Section 455(a)(1), 20 U.S.C. 1087e(a)(1).
 - (B) For debts subject to Section 452(j) of the General Education Provisions Act (20 U.S.C. 1234a(j)), the Secretary may compromise a debt not exceeding \$200,000 under procedures specified in that Section and in 34 CFR 81.35 of the implementing regulations. The \$200,000 is determined based on the difference between the amount of the debt and the amount agreed to be returned under the compromise.
 - (C) For debts not subject to the statutory authorities listed in paragraphs 6.d. (1) and (2), the Secretary may compromise a debt not exceeding \$100,000 at the time the decision to compromise is made. Debts that are subject to the General Education Provisions Act compromise authority (paragraph 6.d. (2)) that are less than \$100,000 at the time the decision to

compromise is made may also be compromised under this paragraph without regard to the General Education Provisions Act procedures.

- g. ED officials must adhere to the guidelines contained in Sections X.B.2., 3., and 7. below in determining when a debt is written off and closed out. For debts handled by the DMG, the Director, FIPAO, approves write-off and close out.

2. **Write-off Guidelines for Student Aid Debts**

- a. ED's debt servicing personnel must aggressively attempt collection of a debt, and be able to show documentation of such collection efforts, before it is written off and closed out in accordance with the provisions of the Federal Claims Collection Standards and OMB Circular A-129. ED's debt servicing personnel shall have a strong indication that further attempts to collect the debt will not be successful. In addition, a debt of over \$150.00 should be referred to one or more collection agencies, and if it is owed by an individual, should also be referred each year to Treasury for Federal Payment offset.
- b. There is no statute of limitations on Title IV, Student Aid Debts.
- c. Student Aid Debts that are deemed uncollectible may be written off for Department accounting purposes in accordance with applicable Federal law and OMB/Treasury regulations when one or more of the criteria in Section X.B. above have been met and the designated/approving official has authorized the write-off. Write-off agreements above an individual's listed authority must be approved by an authorized official prior to conveying such agreements to borrowers. Supervisors are responsible for the continuous review of write-off processes to ensure that write-offs are accomplished without fraud, waste or abuse. The directors of the Collection Centers and the Student Receivables servicing are responsible for determining the positions that will be delegated these write-off authorities. They are also responsible for lowering authorities below maximum levels, if individual staff members are found by their actions to be not fully capable of accepting the responsibility, which the maximum write-off authority requires.

3. **Write-Off Guidelines for All Other Institutional and Individual Debts Due to ED.**

- a. Before a debt is written off, ED debt servicing personnel:
 - i. Must aggressively attempt legally permissible collection action of a debt, in accordance with the provisions of the Federal Claims Collection Standards and OMB Circular A-

129 and maintain a file showing supporting documentation of such collection efforts. Debts of any amount referred to Treasury for collection are written off within 30 days of the time of referral.

For a receivable up to \$1,000.00, which is being tracked by ED, the Supervisor of DMG has the approval authority to writeoff these amounts.

- ii. ED's debt servicing personnel refer debts over \$100,000 (or other statutory established limit), if deemed appropriate by the Director, FIPAO, to the Department of Justice for write-off concurrence, when one or more of the criteria in Section X.B. above have been met. Once notice is received that the Department of Justice concurs with the decision to terminate collection action on a debt, FIPAO immediately writes off the debt and closes out the account. (Treasury also refers debts over \$100,000 to the Department of Justice under the cross servicing agreement between Treasury and ED).
 - b. For a debt not requiring Department of Justice approval, the Director, FIPAO, writes off the debt once it is determined that the debt is uncollectible and future collection efforts are considered futile.
 - c. FMO notifies ED's OPE; Director, OCFO CAM, and appropriate program offices within ED of all accounts that are written off. This information is essential in the issuance of future awards, contracts, grants, and loans.
 - d. The DMG and Treasury report, if appropriate, accounts written off and closed out to the Internal Revenue Service as income to the debtor.
4. When debts are written off, adjustments shall be made in the ED's allowance for uncollectible accounts.
 5. Accounts which have been written off, shall be closed, and the debtor's account ledgers removed from active ED files.
 6. Debt referred to the Department of Justice cannot be written off during litigation.
 7. **Close-Out Guidelines**
 - a. Prior to closing out a written off account, ED's debt servicing personnel may continue to take advantage of the Treasury offset program, Federal salary offset program, Department of Justice

litigation, and contingency fee collection by private collection agencies and law firms. However, when an account is closed out, all collection efforts cease.

- b. Despite write-off, it may be appropriate for debt servicing personnel to maintain subsidiary records of individual accounts so that debts may be offset against future benefit claims. ED's debt servicing personnel shall reinstitute collection action on closed-out accounts if evidence subsequently obtained indicates that a debtor has the ability to repay a substantial portion of the debt (25 percent or more).
- c. For Title IV student assistance debts, ED's debt servicing personnel do not generally close out accounts, since the statute of limitations was permanently rescinded on these debts in 1992.
- d. For non-Title IV individual and institutional debt, ED's debt servicing personnel and Treasury close out the account subsequent to write-off by reporting the amount written off to the Internal Revenue Service when appropriate or when permissible under the guidelines of Section X.B.7.f.
- e. ED is not required to wait until the statute of limitations has expired before reporting a debt to the Internal Revenue Service.
- f. Reporting debts to the Internal Revenue Service:
 - i. ED's debt servicing personnel must exhaust all reasonable collection efforts before the decision can be made to close out a debt.
 - ii. ED personnel in charge of close-outs have the option to report write-offs of \$600 or less to the Internal Revenue Service but are required to report amounts greater than \$600. Generally, write-offs of less than \$150 are not reported. (Also accomplished by Treasury under the cross servicing agreement).
 - iii. ED personnel in charge of close-outs include administrative costs (to the extent assessed by ED), penalties, and a portion of interest along with the loan principal in calculating the amount reported.
 - iv. ED personnel in charge of close-outs must not report as income any debts discharged through a Chapter 11 bankruptcy, Chapter 7 bankruptcy, a debtor's insolvency, a closed or dissolved corporation and when a taxable entity no longer exists.

- v. ED personnel in charge of close-outs must report to Internal Revenue Service any amounts compromised due to a debtor's inability to pay or the possibility that collecting the full debt would cost more than the debt is worth. When the government compromises a debt because of doubts that it could prove its case in court, it shall not report amounts compromised.
- vi. ED personnel in charge of close-outs must make good faith efforts to provide debtors with information on ED's intent to report close-out or compromise information to the Internal Revenues Service.
- vii. After ED personnel in charge of close-outs have reported an account to the Internal Revenue Service, it shall take no further collection action.
- viii. ED personnel will accept voluntary repayments of the debt after close-out.

Note: Federal law does not exempt a debtor from consequences of failure to repay the debt even after close-out and reporting of the debt to the Internal Revenue Service (IRS)

8. **Suspension** – ED management may determine that circumstances warrant suspension of collection action rather than its termination (write-off). When collection efforts are suspended, attempts to enforce collection, including offset and garnishment, are deferred for a period of time. ED debt servicing personnel must review suspended accounts annually to determine the debtor's ability or willingness to repay.
- a. ED's management shall suspend collection action on an account only when there is reason to believe that the suspension will not endanger the recovery of the debt or could, in fact, enhance the chances of recovery, and when the circumstances are such that the collectibility of the debt is questionable only at a specific time. The following are examples of when suspension may be more appropriate than write-off:
 - i. Student loan defaulters, due to maturity and higher income levels, begin repayment of debts several years after the default;
 - ii. Debtors, due to receipt of a trust fund, demonstrate an ability and a willingness to repay the loan; and
 - iii. Debtors, due to the inheritance of an estate, demonstrate the ability and a willingness to repay their loan.

- b. The decision to suspend collection action is subject to the same dollar limits and requires the same approvals as a write-off. ED's management refers debts for possible suspension action to the Department of Justice for concurrence, based on the guidelines specified for compromise in Section X.B.1.f. of this handbook. Supervisors at or above the level of the Director FIPAO must approve any deviation from the prescribed timeframes.