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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
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DENVER, COLORADO 80211

APR 23 1980

Major General George C. Lynch
Commander
Air Force Accounting and
Finance Center
Denver, Colorado 80279 AGC00118

Dear General Lynch:

SUBJECT: [Improvements Needed in Processing and Collecting Separation Debts] (Code 903910)

We have completed a review of separation indebtedness procedures at the Air Force Accounting and Finance Center. The results of our overall review of the Air Force, Army, Navy, and Marine Corps will be consolidated in a subsequent report to the Congress.

The results and recommendations applicable to the Center are contained in the enclosure. We would appreciate any comments you and your staff may wish to provide.

We appreciate the continued excellent cooperation of your staff during this review.

Sincerely yours,

Robert W. Hanlon

Robert W. Hanlon
Regional Manager

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Enclosure

cc: Air Force Audit Agency (AFAFC)
Defense Audit Service (AFAFC)

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 ENCLOSURE

REVIEW OF AIR FORCE ACCOUNTING AND FINANCE CENTER SEPARATION INDEBTEDNESS PROCEDURES

During our review of Air Force Accounting and Finance Center separation indebtedness procedures, we selected a random sample of 100 cases examined by the Claims Division, Directorate of Settlement and Adjudication. These cases were open for collection by the Receivables Branch of the Directorate of Resource Management's Accounting and Finance Division. We also selected a random sample of 100 cases closed by the Receivables Branch. Additionally, we visited a Consolidated Base Personnel Office and an Air Force Base Accounting and Finance Office.

OPPORTUNITY EXISTS TO IMPROVE SEPARATION DEBT PROCESSING AND COLLECTION PROCEDURES

The Center can improve its separation debt processing and collection procedures by

--processing debt cases in a more timely manner,

--reducing associated debt processing costs,

--controlling debt case transfer and data entry more effectively,

--implementing more aggressive collection efforts, and

--preventing many debts.

The Claims Division's adjudication of debt cases is often unnecessary, and causes undue delay in initiating debt collection efforts. The 100 open cases, for example, averaged 169 days from member separation to establishment as accounts receivable, primarily due to the lengthy adjudication process. The adjudication process, in addition to being lengthy, is costly--nearly $482,000 in fiscal year 1978. When adjudication is completed and debt case folders are transferred to the Receivables Branch, an opportunity exists for proper debt case handling, control, and data entry to be compromised, because transfer is not controlled nor is receipt documented or assured.

The Center can increase the proportion of debts collected by adopting more aggressive collection efforts, modeled after private industry's. For example, it can report delinquent debts to the credit bureau network, which we showed in an earlier report to be an effective collection technique. The optimal solution to collection difficulties, of course, is debt prevention. The Center, while unable to prevent all debt occurrence, can preclude pay and allotments from continuing after separation, a situation from which 21 of our sample 100 open cases resulted.

Debt collection could be more timely and less costly

It is a well-established axiom that the older a debt becomes, the more difficult it is to collect. Therefore, expeditious identification, verification, and processing of debts greatly facilitate effective collection efforts. Furthermore, processing is costly, and reduction in debt processing time can save Federal funds.

The Center identifies separation debts primarily through a monthly file search for out-of-balance pay accounts. Debts are also identified through notifications of

--pay adjustments;

--excess weight on household goods shipments;

--documentation of separated members' accounts; and

--computer programing problems regarding forfeitures, fines, and withholding tax.

Twenty days after separation, each member's individual pay account is recomputed to assure proper and accurate reflection of amounts due. Accounts in which payment is due the separated member are processed and paid daily; however, accounts in which payment is due the Air Force are processed only monthly. Consequently, after the 20-day delay from member separation to account recomputation, another delay of up to 30 days occurs until the monthly listing of indebted accounts is generated.

This listing of separated members' indebtedness is sent monthly to the Claims Division. This division verifies and adjudicates debt cases, then forwards them to the Receivables Branch for collection.

Adjudication delays collection action

Although debt cases are already 20-50 days old when the Claims Division receives them, the division defers initiation of adjudication for another 50 days. This 50-day "aging" practice is to allow for late receipt of pay adjustment notifications, excess weight charges on household goods shipments, etc. The results of a 1976 Claims Division study, however, indicated that 92 percent of separation debts were correct by 50 days after separation--about the time the Claims Division receives them. The additional 50-day "aging" delay, therefore, is usually unnecessary.

In fact, the 100 open cases we reviewed averaged 169 days from member separation to establishment as accounts receivable. Some of this delay was beyond Air Force control (i.e., late notifications of excess weight on household goods shipments, which are issued by the Army). Even after such cases were excluded from the sample, however, the time elapsed from member separation to debt cases' establishment as accounts receivable averaged 128 days.

Adjustments necessitated by computer programing problems are minor and can be avoided

Adjustments made through adjudication of the 100 open cases were usually necessitated by computer programing problems involving forfeitures, fines, and withholding taxes. These adjustments were relatively insignificant, and the need for such adjustments could be avoided by correcting programing errors.

The Claims Division made adjustments due to these errors to less than one-third (27) of the 100 open cases. These adjustments were relatively insignificant:

--Fifteen were for less than $10.

--Five were for more than $10 but less than $25.

--Three were for more than $25 but less than $65.

--Four were for more than $65.

In all 27 cases, the errors were caused by computer programing problems in handling forfeitures, fines, and withholding tax. Had the Joint Uniform Military Pay System been able to handle these items correctly, most types of Master Military Pay Account errors noted in our sample would have been eliminated, and these debt cases could have been established as accounts receivable without delay or adjustment through adjudication.

Since only about a third of the 100 open cases required adjustment because of programing errors, the Center could feasibly build a flag into the system to signal those cases involving fines and/or forfeitures. Although withholding tax problems generally occur only in cases of early separation, those cases could also conceivably be flagged. Flagged cases could then be reviewed and adjusted, if necessary, without delaying collection on all cases--the majority of which have correct Master Military Pay Accounts. Until programing errors can be completely eliminated, this flagging process would be a valuable and time-saving, albeit temporary, alternative to unnecessary adjudication.

Adjudication process is costly

The Center has an opportunity to reduce its debt collection costs by cutting processing costs in the Claims Division.

The Center's fiscal year 1978 debt processing costs exceeded $1.4 million, over half of the actual amount collected (about $2.6 million) that year from separated members. About $750,000 of the processing cost was incurred by the Claims Division; of that amount, about $482,000 was directly attributable to the adjudication process.

Since only 27 of the 100 open cases adjudicated required adjustments due to programing errors, correction of the programs could have avoided any such adjustments through adjudication. The fiscal year 1978 cost of reviewing debt cases with correct Master Military Pay Accounts was about $250,000. The interim flagging concept introduced above would eliminate the unnecessary review of cases which are already correct.

Conclusions and recommendations

Processing of separation indebtedness cases would be considerably hastened by eliminating their adjudication in Claims. Adjudication, as indicated earlier, is often delayed by tardy receipt of information affecting indebtedness cases. Such information, however, could be added to the debt cases after they have been transferred to accounts receivable, thereby precluding delay in initiating debt collection efforts.

The relatively few and minor adjustments made during adjudication, most of which are due to programing problems in the Joint Uniform Military Pay System, do not warrant delaying collection on all cases--the majority of which are correct prior to adjudication. Once program deficiencies are corrected, or cases with probable program-caused errors are flagged, those cases not requiring review can be identified and immediately established as accounts receivable. This will eliminate unwarranted adjudication and its associated processing costs.

Accordingly, we recommend that you:

--Correct the Joint Uniform Military Pay System's programing problems to properly handle withholding tax, fines, and forfeitures. Until program corrections are effected, however, we recommend that you build flags into the system to signal cases requiring review (and possibly, adjustment) due to problems with fines, forfeitures, and/or withholding tax.

--Establish separation debts as accounts receivable as soon as the Master Military Pay Accounts are correct.

Opportunity exists to improve control over debt cases

Accounts receivable constitute real and valuable assets of the United States Government; consequently, they must be adequately safeguarded against loss, theft, or deliberate misuse.

Current Center practices allow an opportunity for compromise of proper debt case handling and control. Upon final adjudication by the

Claims Division, debt case folders are physically transferred, via the interoffice distribution system, to the Receivables Branch. Transfer is not controlled nor is receipt documented or assured. Disappearance or alteration of one or more debt case folders could conceivably go undetected.

Upon their transfer from the Claims Division, debt cases are assigned to Receivables Branch technicians, who manually keypunch the information into the accounts receivable system. Again, no control exists to insure proper and complete entry of information into the system. Debt information could, however, be transferred electronically from the Joint Uniform Military Pay System. This would not only eliminate the need for manual data entry, but would reduce the associated risk of compromise.

Conclusions and recommendations

The Center can strengthen its control over debt cases. The physical transfer and manual keypunching of debt case information provide opportunities for theft, loss, or deliberate misuse of U.S. assets. Accordingly, we recommend that you

--transfer debt case information electronically from the Joint Uniform Military Pay System to the Receivables Branch and

--assure adequate safeguarding of all debt information.

Collection efforts can be more effective

Private industry officials have stated that the single most powerful motivation for an individual to pay a debt is the stigma attached to a poor credit rating. In debt collection, commercial firms place great emphasis on the consequences of such a poor rating, then aggressively pursue debt collection. Some aggressive collection actions include reporting debts to the credit bureau network, using debtor locator services, and obtaining inexpensive credit reports. For example, as we reported in a previous review--"The Government Can Be More Productive in Collecting Its Debts By Following Commercial Practices" (FGMSD-78-59, February 23, 1979)--statistics accumulated by the New Jersey Office of Student Assistance show that reporting debts to the credit bureau network has been highly successful in preventing students from defaulting and in collecting on defaulted loans.

The Center's collection efforts consist primarily of sending debtors a series of computer-generated letters. These letters neither state

--that interest will be charged if the debt is not promptly paid nor

--that the credit bureau network will be notified of the delinquent debt.

Although a large percentage of debts are not eligible for waiver, the first letter informs the debtor that certain debts can be waived. If a debtor does not respond to the first two letters, the Center sends a third letter, which offers to compromise the debt if the debtor has not paid or agreed to pay. According to the Joint Claims Collection Standards of the Attorney General and The Comptroller General, however, agencies generally may compromise debts only when it has been ascertained that the debtor's financial ability will not permit full payment of the claim, or when litigative risks or costs dictate such action.

Our sample of 100 closed cases demonstrated the ineffectiveness of the Center's collection efforts. Thirty-two of the debtors ignored all correspondence; their debt cases were subsequently closed with no further collection action. For example:

--One debtor, owing $1,033, ignored the several collection letters. Without obtaining a credit report or notifying the credit bureau network, the Center terminated the debt. We obtained a credit report which estimated the debtor's worth to be about $200,000, with an annual income of about $40-50,000. As a result, the Center reopened the case.

--Another debtor, when contacted about his $453 debt, responded but refused to pay, saying that at separation he was told he could keep the overpayment if the Air Force did not ask for it back within 90 days, which it did not do. Upon receipt of the third letter, which offered to compromise the debt, the debtor responded that if the Air Force were willing to compromise, it must not have a good case. He again refused to pay, whereupon the Center terminated the debt without further collection action or credit bureau network notification.

A poor collection rate is the logical result of such lenient collection efforts. In fact, of about $13 million in fiscal year 1978 debts available for Center collection, only about $2.6 million was actually collected--about 20 percent. Writeoffs constituted about $2.9 million--about 22 percent.

As one would expect, debtors often respond to the initial collection letter without protest and promptly pay their debts, requiring no collection pursuit. While this occurred in many of the 100 closed cases we reviewed, collection history in the following cases demonstrates the Center's nonaggressive collection efforts.

--Forty-nine (with debts over $13,000) were closed with no collection.

--Four (with $1,564 in debts) were closed with only $101 collected.

Conclusions and recommendations

The Center should be able to improve its collection rate by adopting the more aggressive collection practices used successfully by private industry. Although reporting delinquent debts to credit bureaus is not always appropriate, it would be effective in most cases where debtors have the ability to pay.

To accomplish greater collection success, we recommend that you

--make arrangements with the credit bureau network for reporting delinquent debts;

--revise collection letters to inform debtors that if debts are not paid on time, interest will be assessed and the credit bureau network will be notified;

--offer waivers only when appropriate;

--offer debt compromise only when responding debtors can demonstrate limited repayment ability, or when litigative risks or costs dictate such action; and

--use credit reports and debtor locator services more extensively.

Debt prevention needs greater emphasis

While the Center cannot prevent all separation debts, it can preclude pay and allotments from continuing after separation. Of our sample 100 open cases (involving debts of $30,478), 21 (with debts of $5,254) resulted from pay and allotments erroneously continuing after separation.

The departing member's Consolidated Base Personnel Office and Accounting and Finance Office have primary responsibility for shutting down the member's pay account. These offices and the pay system function well for normal separation processing. Early, short-notice separations, however, require a departure from normal processing; frequently, the system is not shut down in time. Of the 21 sample debt cases resulting from pay and allotments erroneously continuing after separation, 20 were early separations.

The Center could prevent most of these debts by automatically shutting down a member's pay account whenever the member receives separation travel pay. Although this procedure would not eliminate debts for members who separate without receiving travel pay, it would have eliminated not only 76 percent of our sample debt cases (in the amount of $2,997), but also the related workload and processing costs at the Center.