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UNITED STATES GENERAL ACCOUNTING OFFICE

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STATEMENT OF
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UNITED STATES GENERAL ACCOUNTING OFFICE
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
CONCERNING FEDERAL DEPARTMENTS AND AGENCIES
FAILURE TO COLLECT AUDIT-RELATED DEBTS



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Mr. Chairman and Subcommittee members, we are pleased to be with you today to discuss the results of our Government-wide review of problems with Federal agencies' actions to collect debts arising from audits.

My testimony today will summarize the major issues addressed in our report "Federal Agencies Negligent in Collecting Debts Arising from Audits," issued to you Mr. Chairman, on January 22, 1982. This report is the third in a series of reports, all done upon your requests, on how Government agencies follow up on and resolve findings identified through the audit process. Our two earlier reports resulted in hearings before your Subcommittee in 1979 and 1981. Your Committee also issued two reports covering Government agencies' failure to take effective action on audit findings.

The collection of audit-related debt is a significant part of the entire Federal debt collection process. Both GAO and the Congress have been seeking improvements in the Government's ability to collect all debts. Three bills in fact have been introduced in Congress to help correct debt collection problems: the Debt Collection Act of 1981 (S. 1249), the Debt Collection Improvement Act of 1981 (H.R. 2543), and the Debt Collection Act of 1981 (H.R. 2811), the last of which you introduced. In addition, the Office of Management and Budget, the President's Management Improvement Council and the President's Council on Integrity and Efficiency have all recognized the importance of improving debt collection and have made it a priority issue. In fact, the President's Budget for 1983 identifies debt collection as one of its management initiatives.

Our report shows that Federal agencies are doing a poor job of managing and collecting audit-related debts because of poor accounting and collection control systems and poor management practices. And, when I say audit-related debts, I am speaking of those amounts that both auditors and Federal program managers have agreed were misspent; and therefore, owed to the Federal Government. We also found that when audit-related debts are paid or otherwise settled, Federal departments and agencies have no assurance that payments are made with non-Federal funds or that when these debts are settled that Federal programs are maintained at the same level.

Poor Accounting and Collection
Control Systems

We found that Federal agencies' collection systems are often so inadequate that the total amount of audit-related debts due the Government cannot be determined. Despite statutory and administrative requirements to aggressively collect debts, we found that the \$374 million of audit-related debts that was identified by relatively few agencies remains uncollected for years.

Based on a questionnaire that we sent to the 36 Federal agencies with the largest amounts of monetary audit findings and a detailed review at seven of the agencies responding to this questionnaire, we conclude that agencies (1) are slow to determine the amount of audit debt subject to collection, (2) do not promptly bring debts under accounting control, (3) delay collections because of weak monitoring efforts, and (4) rarely pursue collection of subgrantee audit-related debts.

OMB requires that agencies make written determinations on all audit findings within 6 months after issuance of the audit reports and that agencies establish accounting and collection controls over amounts determined by the audits to be due the Government. We found that many agencies are not making these written determinations within the 6 month period, and once the amount of disallowed costs is determined, agencies are not establishing accounting and collection controls over these amounts. Furthermore, the Federal Claims Collection Standards require agency heads to take prompt, aggressive action, with effective follow up to collect debts due the United States. However, in this regard we found agency collection efforts to be ineffective, irregular, and infrequent.

Under contractual law grantees are responsible for Government funds spent by their subgrantees. Generally, when these funds are spent for unauthorized expenses the grantee is responsible for the repayment of these funds. Yet, we found that agencies either are not requiring grantees to repay subgrantee debts at all or that they are not requiring grantees to repay these debts promptly. We found, too, that when Federal agencies attempt collection of subgrantee debts from grantees, some grantees have refused to pay and no further action to resolve the claim is taken. For example, one grantee refused to repay \$501,000 of subgrantee debts to the Federal agency until or unless the subgrantees repaid these funds knowing that four of the five subgrantees involved had no resources to repay.

Poor Management Control Practices

In addition to the poor accounting and control systems, we noted a number of poor management practices which we believe contribute to agencies' inability to collect audit debts promptly and effectively. Specifically, we noted that agencies are inappropriately "forgiving" debts without a reasonable collection effort. The Claims Collection Standards supported by a 1978 Comptroller General decision require agencies to aggressively collect all claims of the United States and not waive recovery of debts. At one regional office of the Department of Agriculture, we found that \$12 million in audit-related debts were waived without even attempting collection.

A second poor management practice we noted was that agencies have allowed legitimate appeal processes to be used by grantees to delay payment of their debts at a cost of millions of dollars to the Federal Government. We found that most disallowed costs are appealed, the appeals process is time-consuming, and many of these appeals are often withdrawn prior to settlement. While we are not questioning the right to appeal, we believe changes must be made to discourage groundless appeals and that Federal agencies must ensure that legitimate appeals are processed without undue delay. One method to accomplish these objectives is to accrue interest while debts are under appeal.

A third poor management practice we noted was that agencies have not charged interest over the last 3 years on hundreds of millions of dollars in delinquent debt. Since April 1979 the Claims Collection Standards have required that agencies charge

interest on delinquent debts according to the Treasury Fiscal Requirements Manual. Yet, only one agency, of all those responding to our questionnaire, reported an amount of interest collected, and this amount was only \$3,100. Agencies reported \$374 million of audit-related debt outstanding as of June 30, 1981. If it takes agencies one year to process and collect this debt, which agencies reported to be the average length of time for debt recovery, we estimate that about \$66 million in interest could be collected on this audit-related debt. Let me point out though that we believe the potential interest income is even greater than this because all of the audit-related debt was not reported to us.

No Assurance Required
That Grantee Performance Is Maintained
When Debts Are Paid

In addition to the lack of accounting and collection controls and poor management practices, we found that Federal agencies unknowingly accept funds provided under Federal grant programs which obviously were provided for purposes other than repayment of debt. Furthermore, Federal agencies have no assurance that Federal programs have been maintained at the intended level. We also found that when debts are repaid by the use of offset, agencies have no assurance that non-Federal funds equal to the amount of the offset were restored to the Federal program to keep it at the intended funding level. When repayments of audit-related debts are made in cash, most agencies do not know the source of the payments or whether the repayment reduces program benefits. We found several cases at HUD where program

benefits may not have been maintained when audit debts were repaid.

Recommendations

Mr. Chairman, our report sets forth recommendations which we believe will correct the problems I have mentioned. We have recommended that the heads of Federal agencies implement policies and procedures that:

- Require a written determination of the allowability of all questioned costs within 6 months of audit report issuance.
- Ensure establishment of accounts receivable for all disallowed costs within 30 days of the written determination of indebtedness.
- Ensure aggressive collection action in accordance with the Claims Collection Standards, which include written demands for payment at 30-day intervals, affecting the debtor's credit rating, offsetting the debt against amounts due from other Federal programs, and suspension or termination of funding.
- Hold grantees fully responsible where they are liable for the debts of their subgrantees and apply the Claims Collection Standards in collecting these amounts.
- Ensure compliance with the Claims Collection Standards to preclude the termination of any debts over \$20,000 and ensure that all Claims Collection Standards concerning compromise and termination are met before settling debts of \$20,000 or less.
- Streamline the audit disallowance appeal process to ensure that unnecessary delays are eliminated and that interest is charged on all amounts under appeal.
- Require interest to be charged and collected on all debts at the rate specified by the Treasury Fiscal Requirements Manual, beginning no later than 30 days from establishment of the debt and continuing until collection or final disposition.
- Require grantees to certify that their payment of audit-related debts does not reduce the level of benefits of any Federal program and institute program and audit followup.

Furthermore, Mr. Chairman, we have recommended that the Director of the Office of Management and Budget incorporate these recommendations in the management circular on audit resolution which is currently being revised and then follow up to ensure that agencies are complying.

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This concludes my prepared statement. My colleagues and I will be pleased to respond to any questions you or other members of the Subcommittee may have.