

CHAPTER 3

ANNEX 1AGING RECEIVABLES DUE FROM THE PUBLIC

A. Purpose. The Comptroller General and the Department of the Treasury require federal agencies to age delinquent receivable accounts reflecting amounts owed to the government. In addition, federal agencies shall establish allowances for uncollectible accounts on debt due from the public.

1. Allowance for Doubtful Accounts. Accounts receivable shall reflect their economic value. Federal Accounting Standards Advisory Board (FASAB) standards require losses on receivables to be recognized when it is more likely than not that the receivables will not be totally collected. The language “more likely than not” means more than a 50 percent chance that the full delinquent amount will not be collected. An allowance for doubtful debt shall be provided for by reducing gross receivables by the amount of the potential loss to their net realizable value. The allowance for uncollectible amounts should be reestimated on each annual financial reporting date when information indicates that the latest estimate is no longer correct. A provision to increase or decrease the allowance will result in an adjustment of nonexchange revenue, rather than a bad debt expense.

a. Measurement of Losses. Losses due to uncollectible amounts shall be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.

(1) 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 probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.

(2) Group Analysis. 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 should be assessed on a group basis. To determine the loss allowance on a group basis, receivables shall be separated into groups of homogeneous accounts with similar risk characteristics.

(a) 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 (tax delinquencies, erroneous benefit 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 may be further stratified by risk

characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables.

(b) Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation should 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.

(3) While other methods may be recognized and considered appropriate, the general reserve method is considered the most suitable for Department of Defense (DoD) Components in determining the amount of potentially uncollectible accounts receivable. Under this method, a reserve is based on bad debt experience and changes in outstanding accounts receivable balances. In recognition of the principle that the more delinquent an account receivable becomes the greater the likelihood that it will not be collected in full, the analysis of receivables by age groups can be used in determining a reasonable amount to add to the allowance for loss on accounts and refunds receivable. To make this determination, it is desirable to estimate the percentage of probable expense for each age group of accounts receivable. This percentage, when applied to the dollar amount in each age group, gives a probable expense for each group. By adding together the probable expense for each age group, the required balance in the allowance for loss on accounts and refunds receivable is determined.

(4) In preparing an aging schedule, amounts shall be considered as delinquent if not paid within 30 days from date of invoice or notice of payment due, unless different terms are specified by contract, other agreement or DoD Component procedures. Receivables shall be aged in the groups listed in following table.

★AGED RECEIVABLE GROUPS
1 to 90 days delinquent
91 to 180 days delinquent
181 to 365 days delinquent
Greater than 1 year and Less than or equal to 2 years delinquent
Greater than 2 years and Less than or equal to 6 years delinquent
Greater than 6 years and Less than or equal to 10 years delinquent
Greater than 10 years delinquent

TABLE 3-1-1

B. Extent of Collection Efforts for Domestic Debts

1. General Policy. Except for debts from foreign countries, accounting and collection procedures shall be designed to provide information to assist in determining realistic points of diminishing returns beyond which collection efforts are not justified, and the minimum amount of a debt when no collection action at all should be undertaken. Procedures shall be designed to capture the total cost of the debt collection process (both direct and indirect costs), by dollar range of debt and the total number of cases processed. Until actual cost data are accumulated, cost analysis techniques shall be developed and used to determine the unit cost of processing first debt notices, follow-up actions, requests for waiver or remission, etc. When estimated costs are used, the estimates shall be updated periodically or when circumstances and conditions change significantly.

2. Comparison Requirements. Each DoD Component shall make at least an annual comparison of costs incurred against amounts collected in its debt collection process to assist in the establishment of reasonable points at which costs of further collection efforts are likely to exceed recovery. This cost comparison, however, represents but one appraisal element to be considered in the analysis of when and where to terminate collection efforts. Other reviews concerning the type of debt, size, age statistical analysis, etc., also shall be performed before a final point of termination of collection action is determined. The following definitions should be considered when making cost comparisons, reviews, and analysis:

a. The Debt Collection Process. Includes: (1) the preparation of the first debt notice; (2) all follow-up actions such as answering rebuttals, processing requests for waiver or remission, holding hearings, negotiating compromises, handling installment contract and suspense, processing collections, and making referrals to credit reporting and collection agencies; and (3) the completion of the case, including maintaining the case file information until the appropriate statute of limitations expires.

b. Direct Cost. Includes any costs that can be identified specifically with handling cases or accounts during the debt collection process. These normally consist of personnel costs, computer equipment costs, supplies, postage, and contract services.

c. Indirect Cost. Includes any costs that are identified with the debt collection process, but which benefit that process and at least one other activity. These costs shall be accumulated only when they are expected to exceed 20 percent of the direct costs.

d. Cases Processed. The number of cases completed or closed during the year either by collection or write-off. Collection includes compromises and offsets from other federal government payments.

3. Break-Even Analysis. A break-even analysis is one method of determining realistic points at which further collection efforts are not justified. A break-even analysis format and instructions are provided as Table 3-2.

BREAK-EVEN ANALYSIS					
(1)	(2)	(3)	(4)	(5)	(6)
<u>\$ Range</u>	<u># Cases Processed</u>	<u>\$ Original Amount</u>	<u>\$ Cost to Collect</u>	<u>\$ Collections</u>	<u>\$ Differences</u>
0-25					
26-50					
51-75					
76-100					
101-125					
126-575					
576-600					
SUBTOTAL					
OVER 600					
GRAND TOTAL					
<p>Column (1) - Dollar range should be meaningful to the debt collection process. Subtotal can be placed anywhere within dollar range to relate to a particular debt collection need.</p> <p>Column (2) - Total number of cases processed within this particular dollar range.</p> <p>Column (3) - Original dollar amount of debts for this particular range.</p> <p>Column (4) - Historical cost for this particular range or subtotal times number of cases in column (2).</p> <p>Column (5) - Accumulate collections per range or subtotal.</p> <p>Column (6) - Column (5) minus column (4). Break-even point is where the collections (5) are equal to the cost to collect (4).</p> <p>Grand total of collections (column (5)) divided by grand total of original dollar amount (column (3)) = percent collection range for period.</p>					

TABLE 3-1-2

C. Interest, Penalty, and Administrative Charges

1. General.

a. Accounting for receivables shall include provisions for accruing interest, penalty, and administrative charges on delinquent accounts from the public in accordance with 31 United States Code (U.S.C.) 3717. Accounting systems shall be designed to accumulate and record such charges for all debts owed the DoD. Note, however, that debts owed by any federal agency (including nonappropriated fund instrumentalities (NAFIs)), or any State or local government are exempt from interest, penalty, and administrative charges.

b. Payments of amounts owed to the federal government by organizations, businesses, and individuals are expected to be made in accordance with terms specified in contracts, agreements, or notifications of indebtedness. The Federal Acquisition Regulation is the authority for the collection of contractual indebtedness. For those debts owed to the federal government that are not covered by contracts or agreements, the initial notification of indebtedness shall inform the debtor of the basis for the indebtedness, the date payment is to be made (due date), and the requirement for interest, penalty, and administrative charges, unless otherwise prohibited by law.

c. The intent of interest, penalty, and administrative charges is to stimulate prompt payment, to recover to the U.S. Treasury the cost of borrowing necessitated by a delinquent receivable, and to recover to the creditor agency the cost of processing and handling delinquent claims, including the referral of claims to credit bureaus or collection agencies.

2. Application of Charges. Guidance on assessing interest, penalty, and administrative charges is contained in the Federal Claims Collection Standards. Interest, penalty, and administrative charges, unless prohibited by law, shall be applied according to the following:

a. Interest charges shall be assessed on all late payments whether the debt is to be paid in a lump sum or by installments. Interest shall also be charged on audit-related debt. The minimum rate shall be the average investment rate on Treasury's Tax and Loan Account for the 12-month period ending September 30 of each year, as prescribed by the Department of the Treasury.

b. Fixed or variable interest rates shall be established for each type of loan receivable and for overdue accounts receivable from the public. The factors that affect the variability of interest rates (e.g., legislation, type of contract, occurrence of an event, passage of time, debtor's income level, federal funds rate, etc.) shall be identified. In the absence of specific authority embodied in statute, regulation required by statute, contract, or other public notice, the interest rate shall be the current rate on funds to the Treasury.

c. The DoD Components shall assess a penalty charge, not to exceed 6 percent per annum on any portion of a debt that is delinquent more than 90 days.

d. In addition to interest and penalty charges, an administrative charge shall be assessed on delinquent claims to cover the costs of processing and handling them.

e. Accrued interest, administrative, and penalty charges shall be recorded in appropriate accounts contained in [Chapter 7, Volume 1](#) of this Regulation. Subaccounts may be established under existing accounts prescribed for interest and penalty charges.

f. When a debt is paid in partial or installment payments, amounts received shall be applied first to outstanding penalties, second to administrative charges, third to interest, and last to principal..

3. Disposition of Charges

a. Interest charges collected shall be deposited directly into Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

b. Penalty charges shall be deposited directly into Treasury's receipt account 1099, "Fines, Penalties, and Forfeitures, Not Otherwise Classified."

c. Administrative charges required to pay for contractor collection fees or claims collection litigation reports shall be paid directly to the GSA-designated contractor. Any excess amounts shall be deposited monthly to Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

4. Computation of Amounts

a. Interest Charges shall be computed using the following formula:

$$I = DNF$$

Where: I = Interest charge
D = Amount of delinquent account receivable
N = Number of days delinquent
F = Interest rate per day

b. A penalty charge cannot exceed 6 percent per year of that portion of the debt that is delinquent more than 90 days. A debt becomes delinquent if not paid by the established due date, therefore, a penalty charge of up to 6 percent shall be applied on a debt that has been delinquent for 91 days past the established due date. Penalty charges shall be applied to those accounts reported in the aging category 91-180 days delinquent and beyond. The DoD Components may determine what percentage, up to the maximum 6 percent, will be applied to delinquent accounts.

c. An administrative charge shall be assessed to cover the added costs incurred in handling a debt beyond the date on which payment was due. Unlike the interest charge, which begins to accrue on the date the delinquent notice actually is mailed, the administrative charge is

applied only if payment is not made by the due date specified in the notice. The DoD Components shall calculate administrative charges based upon actual costs incurred. If actual cost is not available, DoD Components may base administrative charges upon other historical costs or cost analyses so long as the method used supports determination of the charge. The administrative charge shall be applied to all delinquent debts with due regard given to the length of time the debts are delinquent, such as the age categories identified in Table 3-1.

5. Application to New Accounts. Rules for application of interest charges to newly established accounts are as follows:

a. The first interest rate used to determine charges on a delinquent account shall be applicable for the life of the delinquent account, unless the account is rescheduled or other events occur that justify an interest rate adjustment. The Department of the Treasury provides federal agencies with **the** percentage rate to be used in applying interest by publishing the applicable rate in the Federal Register each quarter.

b. Payment terms specified in the notice of indebtedness shall be consistent with payment terms in the related contract or formal agreement.

c. Unless other provisions have been included in a contract or prior agreement, interest charges shall not be assessed until the debtor has been notified in writing that interest and penalty charges will accrue.

d. Interest and penalty charges shall continue to accrue after “date of death” when a claim is to be filed against an estate.

6. Application to Existing Accounts. Rules for application of interest and penalty charges to accounts receivable on the effective date of this chapter are as follows:

a. On those debts for which payments are current and are being paid on a regular basis, an advisory notice shall be issued prescribing interest requirements with a stipulation that interest charges will not be imposed so long as payments remain current. This applies to in-service and out-of-service debts.

b. On those accounts for which payments are being made, but which are in arrears because some payments have been missed, the notice shall advise that federal regulations require interest and penalty charges to be assessed on the unpaid balance of the account if a regular payment schedule is not maintained.

c. Debtors with accounts that are over 90 days delinquent shall be notified of the requirement for assessing interest and penalty charges. If the debt is not liquidated by the due date prescribed in the notice, interest and penalty charges shall begin to accrue on the date of the notification.

7. Payment Within 30 Days. Interest shall not be charged if payment is made within 30 days after the date from which interest begins to accrue (30 days after date notification was

mailed). The DoD Components may extend this period for an additional 30 days on a case-by-case basis.

8. Waiver of Accrual of Interest, Penalty, and Administrative Charges. The head of a DoD Component, or designee, may promulgate regulations identifying circumstances appropriate to waive collection of interest penalty, and administrative charges in conformity with the Federal Claims Collection Standards; otherwise, the policy regarding the waiver of the accrual of interest, penalty, and administrative charges is as follows:

a. The accrual of interest, penalty, and administrative charges may be waived when accounts are terminated or compromised, or when the additional charges would cause extreme hardship or would not be in the best interest of the government. A debt is compromised whenever less than the full amount of the outstanding debt is accepted in full satisfaction of the entire amount.

b. Decisions to waive the accrual of interest, penalty, and administrative charges shall be considered on a case-by-case basis (no blanket waivers will be granted). Decisions on such waivers shall be documented, including an explanation as to the reasons for the waiver, and retained as a part of the official file.

c. Waiver of the accrual of interest, penalty, and administrative charges shall be approved at the same organizational level or by the same designee authorized to waive claims.

d. Once accrued, interest, penalty, and administrative charges shall be collected, reported, compromised, or written off in the same manner as the basic debt.

e. Debts shall be compromised, suspended, terminated, or reported to the Department of Justice in accordance with the Federal Claims Collection Standards, as required by paragraphs 0308 and 0309 of this chapter. An inventory of cases referred including dollar amounts shall be maintained by each DoD Component for reporting purposes.