

**VOLUME 4, CHAPTER 3: “ANNEX 1 INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES”**

**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by a \* preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated October 2008 is archived.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updated hyperlinks and references. Substituted word “receivable” for “debt, as applicable, to enhance understanding. Realigns chapter to add summary of changes, table of contents, and adjust general formatting/structure to enhance readability.	Update
A.	Added purpose section.	Add
B.	Added applicability section and provides clarification to denote that accounting for receivables includes IPA charges resulting from DoD Working Capital/Revolving Funds transactions.	Add
C.	Added section to address Audit Readiness <u>AUDIT READINESS/INTERNAL PROCEDURES</u> : In promoting audit readiness, this section requires DoD Components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume. Also adds requirement for all organizations involved in the collection and management of IPA to establish and maintain internal controls to ensure IPA charges owed to DoD are aggressively managed and collected.	Add
D.	Added reference to Volume 10, Chapter 18, relative to policy covering the collection of IPA charges arising from debts owed to the DoD by contractors, vendors, assignees, and business entities.	Add
E.1.b	Clarified guidance on use of Current Value of Funds Rate (CVFR) to calculate interest on overdue receivables.	Update
E.5.	Updated provides clarification on recording IPA in appropriate general ledger accounts.	Update

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
E.6.	Added clarification for accounting for IPA as non entity assets and requirement to establish a liability upon identification of these amounts within the appropriate Department of Treasury, General Fund Receipt Account.	Add
F.	Added section on disposition of charges. Adds reference the <u><i>Federal Account Symbols and Titles (FAST) Book I and FAST Book II</i></u> . Adds clarification of policy on disposition of interest, penalties, and administrative collected into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."	Add/ Clarify
G.	Changed title from Waiver of Accrual of Interest, Penalty, and Administrative Charges to WAIVERS/WRITE-OFFS.  Added link for locating write-off guidance as cited in OMB Circular 129 (Policies for Federal Credit Programs and Non-Tax Receivables Programs).	Change
H.	Added section to address write-offs accrued IPA and link to <u><i>Office of Management and Budget (OMB), Circular #129 (Revised)</i></u> .	Add

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## CHAPTER 3

ANNEX 1INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES**\*A. PURPOSE**

This chapter provides policy guidance for accounting and reporting of Interest, Penalties, and Administrative (IPA) charges owed by the Public to the Department of Defense (DoD).

**\*B. APPLICABILITY**

Accounting for receivables shall include provisions for accruing interest, penalty, and administrative charges on all delinquent debts owed by the public in accordance with [31 United States Code 3717](#), "Interest and Penalties on Claims," to include IPA charges resulting from DoD Working Capital/Revolving Funds transactions. These charges shall continue to accrue until the debt/delinquent receivable is paid in full or otherwise resolved through compromise, termination, or waiver of the charges. Debts owed by any Federal agency, including nonappropriated fund instrumentalities for purposes of this Annex, are exempt from interest, penalty, and administrative charges.

**\*C. AUDIT READINESS/INTERNAL CONTROLS**

1. Each DoD component and activity is required to develop and implement internal operational procedures and/or guidance to implement the overarching policy contain in this Annex to ensure accurate, timely, and relevant reporting of financial data.

2. All organizations involved in the collection and management of IPA will establish and maintain internal controls to ensure IPA charges owed to DoD are aggressively managed and collected in accordance with this chapter and other applicable regulatory and statutory requirements.

**\*D. GENERAL**

1. Payment 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 \(FAR\) subpart 32.6, Contract Debts](#), prescribes policies and procedures for identifying, collecting, and deferring collection of contract debts including IPA changes, if applicable. Volume 10, Chapter 18 provides additional policy for the collection of IPA charges arising from debts owed to the DoD by contractors, vendors, assignees, and business entities. 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.

2. The intent of interest, penalty, and administrative charges is to stimulate prompt payment, to recover to the Department of the Treasury the cost of borrowing necessitated by a delinquent receivable, and to recover the cost of processing and handling delinquent receivables, including referral to credit bureaus or collection agencies.

\*E. APPLICATION OF CHARGES

Guidance on assessing interest, penalty, and administrative charges is contained in [Title 31, Code of Federal Regulations \(CFR\), Sections 900-904](#) (Federal Claims Collection Standards). Interest, penalty, and administrative charges, unless prohibited by law, shall be applied as follows:

1. Interest Charges

a. Interest charges shall be assessed on all **delinquent debt regardless if the debt** is to be paid in a lump sum or in installments. **Debt** that is paid through installment plans is not considered delinquent as long as the payments are made **on time**; however, interest will continue to be assessed until the debt is paid in full.

\* b. The Current Value of Funds Rate (CVFR) is used to calculate interest on overdue Federal Government receivables. The Department of the Treasury annually publishes the CVFR in [The Federal Register](#) by October 31. The interest rate is subject to revision only if the published rate changes by 2 percentage points (e.g., from 6.0 percent to 4.0 percent) at the close of the prior calendar quarter. Changes in the CVFR are published in Treasury Financial Management (TFM) Bulletins. Refer to the Treasury Financial Management Service's Treasury Current Value of Funds Rate webpage, <http://www.fms.treas.gov/cvfr/index.html> for more information.

c. **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, or Federal funds rate 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 CVFR on funds to the Department of Treasury.

d. The interest rate **used** to determine charges on a **delinquent receivable** shall **remain fixed** for the life of the debt, unless it is rescheduled or other events occur that justify an interest rate adjustment.

e. 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. Payment terms specified in the invoice, demand letter, or notice of indebtedness shall be consistent with payment terms in the related contract or formal agreement.

f. 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).

- g. 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

\*2. **Penalty Charges.** The Department of Defense (DoD) Components shall assess a penalty charge not to exceed 6 percent per annum on any portion of a **receivable** that is delinquent more than 90 days. A **receivable** becomes delinquent if not paid by the established due date; therefore, penalty charges shall be applied to those accounts reported in the aging category 91-180 days delinquent and beyond. The Components may determine what percentage, up to the maximum 6 percent, will be applied to delinquent accounts.

\* 3. **Administrative Charges.** In addition to interest and penalty charges, administrative charges shall be assessed to cover the added costs incurred in handling a **delinquent receivable** 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 Components shall calculate administrative charges based upon actual costs incurred. If actual cost is not available, Components may base administrative charges upon other historical costs or cost analyses as 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 Figure 3-1, Chapter 3.

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

\* 5. Accrued interest, administrative, and penalty charges shall be recorded in appropriate general ledger accounts as defined in the **United States General Ledger Chart of Accounts** (USSGL). General ledger subaccounts may be established under existing accounts prescribed for interest, penalty, and **administrative charges or fees**.

\* 6. **All IPA charges** in the DoD are non-entity assets and a liability must be established upon identification of these amounts within the appropriate Department of Treasury, General Fund Receipt Account (refer to the **Federal Account Symbols and Titles (FAST) Book I and II** for descriptions). These IPA charges non-entity assets may be either the receivable associated with the revenue or the subsequent collection of the IPA and should be recorded as follows:

a. Non-entity revenue resulting from **interest charges** is considered exchange (see SFFAS 7, paragraph 272) and should be recorded in USSGL account number 5310 (Interest Revenue-Other).

b. Non-entity revenues resulting from penalty/fine charges are considered non-exchange (see SFFAS 7, paragraph 260) and should be recorded in USSGL account number 5320 (Penalties and Fines).

c. Non-entity revenues resulting from administrative fee charges or collections are treated as exchange revenue and should be recorded in USSGL account number 5325 (Administrative Fees Revenue).

7. 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. Documentation supporting the payment allocation shall be retained.

#### \*F. DISPOSITION OF CHARGES

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

2. Penalty charges shall be deposited directly into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified," or account 1099, "Miscellaneous Fines, Penalties, and Forfeitures," (covers all other fines, penalties, and forfeitures, other than those arising out of contracting or similar business transactions). Refer to the *Federal Account Symbols and Titles (FAST) Book I and FAST Book II* for further guidance and expanded description.

\* 3. Administrative charges required to pay for contractor collection fees or claims collection litigation reports shall be paid directly to the General Services Administration-designated contractor. Any excess amounts shall be deposited monthly to Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified." All administrative charges collected (to include charges collected through the DoD Working Capital Fund) to recover DoD costs of processing and handling the delinquent debt shall be deposited directly into Department of Treasury receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified."

#### G. 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. If a DoD Component publishes regulatory guidance, then the following general guidelines must be adhered to:

1. The accrual of interest, penalty, and administrative charges may be waived when a delinquent receivable is terminated, compromised, or when the additional charges would cause extreme hardship or would not be in the best interest of the government.

2. 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 debt file.

3. 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 approve requests for waiver or remission of indebtedness.

4. Accrued interest, penalty, and administrative charges shall be collected, reported, compromised, or written off in the same manner as the basic [receivable](#).

\*H. [WRITE-OFF OF ACCRUED IPA](#).

Accrued interest, penalty, and administrative charges shall be collected, reported, compromised, or written off [in accordance with guidance and flow process contained in Office of Management and Budget \(OMB\), Circular #129 \(Revised\)](#).