

**VOLUME 4, CHAPTER 3, ANNEX 2: “EXTENT OF COLLECTION EFFORTS
DETERMINATION FOR DOMESTIC DEBTS BASED ON BREAK-EVEN
ANALYSIS”**

SUMMARY OF MAJOR CHANGES

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol 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 [August 2014](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
A201	Updated format to align with the Department of Defense Financial Management Regulation Revision Standard Operating Procedure dated June 2015.	Revision
A203	Added requirement to consider all fees in the break-even analysis.	Revision

Table of Contents**VOLUME 4, CHAPTER 3, ANNEX 2: “EXTENT OF COLLECTION EFFORTS DETERMINATION FOR DOMESTIC DEBTS BASED ON BREAK-EVEN ANALYSIS” 1**

*A201.	GENERAL	3
A20101.	Overview	3
A20102.	Purpose	3
A20203.	Authoritative Guidance	3
A202.	BREAK-EVEN ANALYSIS	3
A203.	COMPARISION REQUIREMENTS	3
*A204.	DEFINTIONS	4
A20401.	The Debt Collection Process	4
A20402.	Direct Cost.....	4
A20403.	Indirect Cost	4
Table A2-1.	Break-Even Analysis.....	5

ANNEX 2

**EXTENT OF COLLECTION EFFORTS DETERMINATION FOR DOMESTIC DEBTS
BASED ON BREAK-EVEN ANALYSIS*****A201 GENERAL****A20101. Overview**

Except for debts from foreign countries, accounting and collection procedures **must** 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 **must** 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 **must** be developed and used to determine the unit cost of processing first debt notices, follow-up actions, **and** requests for waiver or remission. When estimated costs are used, the estimates **must** be updated periodically or when circumstances and conditions change significantly. The methodology utilized to estimate costs **must** be standardized, documented, and retained.

A20102. Purpose

The annex presents break-even methodology which is one methodology that could be used to determine the extent of collection efforts undertaken for debt collection.

A20203. Authoritative Guidance

This annex is not based on statutory or other authority, but presents a technique used in the financial community to determine the point where further collection efforts are not justified.

A202 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 in Table **A2-1**.

A203 COMPARISON REQUIREMENTS

As needed, the Debt and Claims Management Office and Debt Management Office must 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 the cost 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, and statistical analysis also must be performed before a final point of termination of collection action is determined.

*A204 DEFINITIONS

The following definitions should be considered when making cost comparisons, reviews, and analysis:

A20401. The Debt Collection Process

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.

A20402. Direct Cost

A direct cost includes any cost that can be identified specifically with handling cases or accounts during the debt collection process. These costs normally consist of personnel costs, computer equipment costs, supplies, postage, contract services, and administrative fees charged by the Department of Treasury.

A20403. Indirect Cost

An indirect cost includes any cost that is identified with the debt collection process, but which benefits that process and at least one other activity. These costs must be accumulated only when they are expected to exceed 20 percent of the direct costs.

A20404. Cases Processed

Cases processed are 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.

Table A2-1. Break-Even Analysis

BREAK-EVEN ANALYSIS					
(1) <u>Dollar Range</u>	(2) <u>Number of Cases Processed</u>	(3) <u>Original Dollar Amount</u>	(4) <u>Historical Cost to Collect</u>	(5) <u>Total Dollars Collected</u>	(6) <u>Dollar Difference</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>					