

VOLUME 16, CHAPTER 7: “INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES”

SUMMARY OF MAJOR CHANGES

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

Substantive revisions are denoted by an * 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**.

This is the initial publication.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Moved policy and procedures on Interest, Penalties, and Administrative (IPA) charges previously found in Volume 4, Chapter 3, Annex 1.	New

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CHAPTER 7

*INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES

0701 GENERAL

070101. Purpose

This chapter establishes policy and procedures for the Department of Defense (DoD) Components for the accounting and reporting of IPA charges on delinquent debts and debts repaid via installment agreement.

070102. Scope

A. This chapter pertains to the collection of debts owed to DoD from current and retired DoD civilian employees, current members of the military services (active and reserve), military retirees, individuals who are no longer employed by DoD, contractors, vendors, assignees, and business entities. Contractor-specific guidance is also found in the Federal Acquisition Regular (FAR), Subpart 32.6.

B. This chapter does not pertain to the collection of debts owed to DoD by Foreign Entities, which is covered in Chapter 6.

070103. General

A. All debts owed to the Government and not paid in full by the date due will accrue IPA charges in accordance with Title 31, United States Code, Section 3717 (31 U.S.C. 3717). These charges will continue to accrue until the debt is paid in full or otherwise resolved through compromise, termination, or waiver of the charges. Debts owed by any federal agency (including non-appropriated fund instrumentalities (NAFIs)) are exempt from IPA 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 FAR is the authority for the collection of contract debts. For those debts owed to the federal government that are not covered by provisions contained in contracts or agreements, the notification of indebtedness will inform the debtor of the basis for the indebtedness, the date the debt payment is to be made (due date), and the requirement for IPA charges, unless otherwise prohibited by law.

C. The intent of IPA charges is to stimulate prompt debt payment, to recover to the Department of the Treasury (Treasury) the cost of borrowing necessitated by a delinquent debt, and to recover the cost of processing and handling delinquent debts, including referral to credit bureaus or collection agencies.

070104. Internal Controls

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

0702 APPLICATION OF CHARGES

Title 31, Code of Federal Regulations, Parts 900-904 ([31 C.F.R. 900-904](#)) contains guidance on assessing IPA charges. Unless prohibited by law, IPA will be applied accordingly.

070201. Interest Charges

A. Interest charges will be assessed on all debt not paid in full by the date due, regardless if the debt is to be paid in a lump-sum or installments. Debt that is paid through an installment plan is not considered delinquent as long as the payments are made on time; however, interest will continue to be assessed on the outstanding balance owed and collected 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 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. The Treasury publishes changes to the CVFR in Treasury Financial Manual (TFM) Bulletins. Additional information can be found at the Treasury Bureau of Fiscal Services [CVFR webpage](#).

C. Interest rates must be established for each loan receivable and overdue debt 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) will be identified. In the absence of specific authority embodied in statute, regulation required by statute, contract, or other public notice, the interest rate will be the CVFR on funds to the Treasury.

D. The interest rate used to determine charges on a delinquent debt will 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 exist in a contract or prior agreement, interest charges will 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 must be consistent with payment terms in the related contract or formal agreement.

F. Interest will not be charged if payment is made by the date specified in the debt notification (typically 30 days from the date on the notification).

G. Interest will continue to accrue after “date of death” when a claim is to be filed against the estate.

H. Interest Charges will be computed using the following formula:

$$I = D * N * F$$

Where: I = Interest charge,
D = Amount of outstanding debt,
N = Number of days delinquent, and
F = Interest rate per day.

070202. Penalty Charges

A. DoD Components must accrue and assess a penalty charge, not to exceed 6 percent per annum, on any portion of the debt that is delinquent more than 90 days. A debt becomes delinquent if not paid by the established due date; therefore, penalty charges must be applied to those accounts reported in the aging category 91-180 days delinquent and beyond. This does not include payments that are current and made based on an agreed upon installment plan. The Components may determine what percentage, up to the maximum 6 percent, will be applied to delinquent accounts. The Component’s rationale for charging a lesser amount must be documented and become part of the official debt file.

B. Penalty charges will continue to accrue after the “date of death” when a claim is to be filed against the estate.

070203. Administrative Charges

A. In addition to interest and penalty charges, administrative charges will be assessed to cover the added costs incurred in handling a delinquent debt beyond the date on which payment was due. Unlike the interest charge, which begins to accrue on the date the delinquent notice is issued, the administrative charge is applied only if payment is not made by the due date specified in the notice. This does not include payments that are current and made based on an agreed upon installment plan.

B. The Components must calculate administrative charges based upon actual costs incurred to cover the cost of processing and handling delinquent debt. If actual cost is not available, then Components may base the administrative charges upon other historical costs or cost analyses, as long as the method used supports determination of the charge and is documented in the official debt file. An administrative charge will be applied to all delinquent debts with due regard given to the length of time the debts are delinquent.

070204. Installment Payments and Application of Fees

When a debt is collected by installment payments, the amounts received must be applied first to contingency fees, second to outstanding penalties, third to administrative costs, fourth to

interest, and last to principal. Contingency fees are paid by a Federal agency to other Federal agencies or private collection contractors for collection services rendered. These fees are paid from the amounts collected from the debtor.

0703 WAIVER OF ACCRUAL OF INTEREST, PENALTY, AND ADMINISTRATIVE (IPA) CHARGES

070301. Authority

The head of the DoD Component, or designee, may promulgate regulations identifying circumstances appropriate to waive the collection of IPA charges in conformity with the Federal Claims Collection Standards.

070302. General Guidelines

The following general guidelines for IPA must be followed.

A. The accrual of IPA charges may be waived when a debt is terminated or compromised, or when the additional charges would cause extreme hardship or would not be in the best interest of the government.

B. Decisions to waive the accrual of IPA charges must be considered on a case-by-case basis. No blanket waivers will be granted. Decisions on such waivers will be documented, including an explanation as to the reasons for the waiver, and retained as a part of the official debt file.

C. The same organizational level, or the same designee, authorized to approve compromises, write-off of indebtedness, or requests for waiver or remission of indebtedness, depending on the disposition of the basic debt, is authorized to approve waiver of the accrual of IPA charges.

D. Accrued IPA charges will be collected, reported, or compromised in the same manner as the basic debt.

0704 WRITE-OFF OF ACCRUED INTEREST, PENALTIES, AND ADMINISTRATIVE CHARGES (IPA)

When a debt is written off, the accrued IPA must also be written off. Write-off must be done in accordance with Office of Management and Budget *Circular A-129*. Volume 4, Chapter 3 contains guidance on debt write-off.