

VOLUME 4, CHAPTER 3, ANNEX 1: “INTEREST, PENALTIES, AND ADMINISTRATIVE CHARGES”

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
All	Updated United States Standard General Ledger (USSGL) account references to align with U.S. Department of the Treasury's (Treasury) six-digit format.	Revision
A101	Updated formats to align with Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures dated June 2015.	Revision
A10201	Added an explanation of how the amount of interest, penalties, and administrative charges are determined.	Addition
A10202	Listed all Treasury debtor disclosure requirements.	Addition
A10303	Removed the timing restriction for administrative charges.	Deletion
A10303	Added a requirement to disclose in a note to the financial statements any immaterial custodial non-exchange revenue. Also added debts paid by installment must accrue interest on the unpaid balance.	Addition
A10303	Revised reference to the DoD Standard Chart of Accounts rather than to the USSGL.	Revision

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ANNEX 1

INTEREST, PENALTIES, AND ADMINISTRATIVE CHARGES***A101 GENERAL**

A10101. Purpose

This [annex](#) provides policy for accounting and reporting of Interest, Penalties and Administrative (IPA) charges owed by the public to the [Department of Defense \(DoD\)](#).

A10102. Authoritative Guidance

[Title 31 United States Code \(U.S.C.\) Section 3717](#), “Interest and Penalties on Claims,” requires the charging of interest on an outstanding debt on a U.S. Government claim owed by the public. Policies and procedures for identifying, collecting, and deferring collection of contract debts including IPA charges, if applicable, are found in [Federal Acquisition Regulations subpart 32.6](#).

A102 OBJECTIVE

The intent of IPA charges is to stimulate prompt payment, to recover to the U.S. Department of the Treasury ([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. [Depending on the debt type, certain requirements apply](#).

***A10201. Statutory Provisions**

A. Accounting for receivables [must](#) include provisions for accruing IPA charges on all delinquent debts owed by the public in accordance with 31 U.S.C. § 3717 to include IPA charges resulting from DoD Working Capital/Revolving Funds transactions.

B. IPA charges continue to accrue until the debt/delinquent receivable is paid in full or otherwise resolved through compromise, termination, or waiver of the charges.

C. IPA charges [must be equal to the average investment rate for Treasury tax and loan accounts for the 12-month period ending on September 30 of each year, rounded to the nearest whole percentage point. The Secretary of the Treasury must publish the rate before November 1 of that year. The rate is effective on the first day of the next calendar quarter.](#)

D. Debts owed by any federal agency, including nonappropriated fund instrumentalities for purposes of this Annex, are exempt from IPA charges.

*A10202. Other Requirements

Volume 10, Chapter 18 provides 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 must inform the debtor of:

- A. The status of the debt as overdue;
- B. The amount owed;
- C. The basis of the indebtedness;
- D. Policies on assessing IPA costs;
- E. The agency's intention to use various collection tools to collect the debt;
- F. Opportunities for the debtor to review the debt records, contest the debt and provide evidence to support the contentions, and enter into a reasonable repayment agreement; and
- G. The name, work phone number, and work address of an individual to contact within the agency to resolve the delinquency.

A103 APPLICATION OF CHARGES

Guidance on assessing IPA charges is contained in [Title 31, Code of Federal Regulations 900-904](#), Federal Claims Collection Standards. IPA charges, unless prohibited by law, must be applied as follows:

A10301. Interest Charges

A. Interest charges must 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 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 two 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 TFM Bulletins. Refer to the [Treasury Current Value of Funds Rate](#) for more information.

C. Interest rates must 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) must be identified. In the absence of specific authority embodied in statute, regulation required by statute, contract, or other public notice, the interest rate must be the CVFR on funds to the Treasury.

D. The interest rate used to determine charges on a delinquent receivable must 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 must 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 must 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 must 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

[A10302.](#) Penalty Charges

DoD Components must assess a penalty charge not to exceed six 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 must 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 six percent, will be applied to delinquent accounts.

[*A10303.](#) Administrative Charges

In addition to interest and penalty charges, administrative charges must be assessed to cover the added costs incurred in handling a delinquent receivable beyond the date on which payment was due. The Components must 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 must 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 Chapter 3, Figure 3-1. [If custodial non-exchange revenue is collected and it is immaterial and incidental to agency's primary mission, a custodial note should be disclosed on the financial statement.](#)

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

B. Accrued IPA charges must be recorded in appropriate general ledger accounts as defined in the DoD Standard Chart of Accounts, one of the resources available on the [Standard Financial Information Structure](#) web page. General ledger subaccounts may be established under existing accounts prescribed for IPA charges or fees, [but must be cross-walked to the DoD Standard Chart of Accounts.](#)

C. All IPA charges in the DoD are non-entity assets and a liability must be established upon identification of these amounts within the appropriate Treasury, General Fund Receipt Account (refer to the [Federal Account Symbols and Titles \(FAST\) Books](#) for descriptions). [Also refer to the Governmentwide Treasury Account Symbol Adjusted Trial Balance System \(GTAS\) web site for additional information.](#) These IPA charges are non-entity assets and may be either the receivable associated with the revenue or the subsequent collection of the IPA and should be recorded as follows:

1. Non-entity revenue resulting from interest charges is considered exchange and should be recorded in account number 531000 (Interest Revenue-Other).

2. Non-entity revenues resulting from penalty/fine charges are considered non-exchange and should be recorded in account number 532000 (Penalties and Fines).

3. Non-entity revenues resulting from administrative fee charges or collections are treated as exchange revenue and should be recorded in account number 532500 (Administrative Fees Revenue).

D. When a debt is paid in partial or installment payments, amounts received must be applied first to contingency fees, second to outstanding penalties, third to administrative charges, fourth to interest, and last to principal. [Debts paid by installment must accrue interest on the unpaid balance.](#) Documentation supporting the payment allocation must be retained.

A104 DISPOSITION OF CHARGES

A10401. Interest Deposits

Interest charges collected must be deposited directly into Treasury receipt account 3210, “General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified.”

A10402. Penalty Charges

Penalty charges must be deposited directly into 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 FAST Book I and FAST Book II for further guidance and expanded description.

A10403. Administrative Charges

Administrative charges required to pay for contractor collection fees or claims collection litigation reports must be paid directly to the General Services Administration-designated contractor. Any excess amounts must be deposited monthly to 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 must be deposited directly into Treasury receipt account 3210, “General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified.”

A105 WAIVER OF ACCURAL OF IPA CHARGES

The head of a DoD Component, or designee, may promulgate regulations identifying circumstances appropriate to waive collection of IPA 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:

A10501. Interest Accrual Waiver

The accrual of IPA 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.

A10502. Waiver Decisions

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 must be documented, including an explanation as to the reasons for the waiver, and retained as a part of the official debt file.

A10503. Waiver Approval

Waiver of the accrual of IPA charges must be approved at the same organizational level or by the same designee authorized to approve requests for waiver or remission of indebtedness.

A10504. Accrued Interest

Accrued IPA charges must be collected, reported, compromised, or written-off in the same manner as the basic receivable.

A106 WRITE-OFF OF ACCRUED IPA

Accrued IPA charges must be collected, reported, compromised, or written-off in accordance with [OMB Circular A-129](#).

A107 AUDIT READINESS/INTERNAL

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