

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 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 [January 2018](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
070103.D	Added U.S. Department of the Treasury guidance as an authoritative source.	Addition
0702	Added a reference to Department of Defense Instruction 5010.40, “Managers’ Internal Control Program Procedures,” to clarify requirement to maintain internal controls.	Addition
0703	Reorganized information for improved readability.	Revision
0703	Added a reference to Volume 4, Chapter 3, Annex 1 for policy on the disposition of IPA charges collected.	Addition
070302.B	Added statement that interest may not be compounded or assessed on administrative costs or penalties.	Addition
070302.D	Added clarifying statement that the interest rate remains the same through the life of a debt unless a new repayment plan is established, at which point, a new rate may be assessed.	Addition
070303	Clarified that assessed penalties apply to delinquent interest and administrative charges.	Addition
070401	Revised this paragraph to provide a more thorough reference for the authority to waive IPA charges.	Revision

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CHAPTER 7

INTEREST, PENALTIES, AND ADMINISTRATIVE (IPA) CHARGES

0701 GENERAL

070101. Overview

A. This chapter pertains to the collection of debts owed to the Department of Defense (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 can also be found in the [Federal Acquisition Regulation \(FAR\), 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.

C. The intent of IPA charges is to stimulate prompt debt payment, to compensate the government for loss of use of funds when debt is not paid timely, and to recover the cost of processing and handling delinquent debts, including referral to credit bureaus or collection agencies.

070102. Purpose

This chapter establishes policy and requirements for the DoD Components for the accounting and reporting of IPA charges on delinquent debts and debts repaid via installment agreement.

*070103. Authoritative Guidance

Requirements contained in this chapter are primarily based on:

A. [Title 31, United States Code \(U.S.C.\), section 3717](#);

B. The FAR, subpart 32.6; and

C. Title 31, Code of Federal Regulations (CFR), Parts [900-904](#) (Federal Claims Collection Standards (FCCS)).

* D. Published U.S. Department of the Treasury (Treasury) guidance, concerning the collection of interest, contained in “Managing Federal Receivables,” [Chapter 6](#).

*0702 INTERNAL CONTROLS

All organizations involved in the collection and management of IPA charges must adhere to the basic standards for internal controls in DoD Instruction [5010.40](#), “Managers’ Internal

Control Program Procedures,” to ensure IPA charges owed to the DoD are managed and collected in accordance with this chapter and other applicable regulatory and statutory requirements.

*0703 APPLICATION OF CHARGES

Title 31, CFR, section [901.9](#) contains guidance on assessing IPA charges. Unless prohibited by law, IPA charges will be applied accordingly. Refer to Volume 4, Chapter 3, Annex 1 for requirements on the disposition of IPA charges.

070301. General

A. All debts owed to the Government and not paid in full by the date due will accrue IPA charges in accordance with 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, or non-appropriated fund instrumentality, 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. 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.

*070302. 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. Pursuant to 31 U.S.C. 3717, 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, an 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, at a minimum, will be the same rate as the Current Value of Funds Rate (CVFR) established by the Secretary of the Treasury. Interest may not be compounded or assessed on administrative costs or penalties.

C. The CVFR is used to calculate interest on overdue Federal Government receivables. 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 the Treasury Financial Manual Bulletins. Additional information can be found at the Treasury Bureau of the Fiscal Service [CVFR webpage](#).

* D. The interest rate used to determine charges on a delinquent debt will remain fixed for the life of the debt. However, if a debtor defaults on a repayment agreement and seeks to enter into a new agreement, the agency may require payment of interest at a new rate that reflects the CVFR at the time the new agreement is executed.

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.

*070303. 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, to include interest and administrative charges. 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 “date of death” when a claim is to be filed against the estate.

070304. 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.

070305. 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.

0704 WAIVER OF ACCRUAL OF IPA CHARGES

*070401. Authority

Under 31 U.S.C. 3717, IPA charges may be waived, in whole or in part, either based on a compromise or settlement agreement, or when the collection of IPA charges is against equity and good conscience or is not in the best interest of the United States. See also 31 CFR 901. A decision to waive IPA charges must be made in accordance with the guidelines in paragraph 070402.

070402. Guidelines for Waiver of IPA Charges

The following guidelines for waiver of IPA charges 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 **should** be considered on a case-by-case basis. **In most circumstances**, blanket waivers will **not** 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.

C. The same organizational level, or the same designee, authorized to approve compromises, write-off indebtedness, or **approve** 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.

0705 WRITE-OFF OF ACCRUED IPA CHARGES

When a debt is written off, the accrued IPA charges 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 additional requirements on debt write-off.