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Report to Alan K. Campbell, Civil Service Commission; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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A review of the Civil Service Commission's (CSC) accounting system for accounts receivable from the public showed that accounting and reporting practices were, for the most part, effective and in accordance with the approved accounting system, but several shortcomings were found. Findings/Conclusions: Accounts receivable from the public as of September 30, 1976, were understated by $7,264,134 because a refund was misclassified in the report as accounts receivable from Government agencies. These two major categories of accounts receivable should be accurately segregated. CSC officials stated, after this matter was brought to their attention, that procedures had been revised to help prevent similar misclassifications. The Government was not charging interest on claims against retirement accounts of its former employees. There were about 8,700 unpaid Government claims in the CSC files in amounts ranging from $5 to $18,625. About one-half of these claims were in a suspended status because the individual had a vested right to a deferred annuity, and collection action could not be completed until he requested either an annuity or refund of his contributions. The other half were in a suspended status because the employees' total contributions to the retirement account only partially satisfied the claims. Recommendations: CSC should revise its current policy to require that interest charges be added to Government claims to be collected through reduction of an individual's annuity. (Author/HTW)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND GENERAL MANAGEMENT STUDIES

B-159687

SEP 15 1977

The Honorable Alan K. Campbell
Chairman, Civil Service Commission

Dear Mr. Campbell:

This report reviews the Civil Service Commission's accounting system for accounts receivable from the public, including related billings and collection procedures. The review was part of a multiagency review on which we plan to issue an overall report to the Congress.

Our review showed that the accounting and reporting practices for accounts receivable were, for the most part, effective and in accordance with the accounting system approved by the Comptroller General in May 1970. However, we found that the balance of accounts receivable from the public as reported to the Department of the Treasury was inaccurate. Also, the Commission's procedures do not provide for charging interest on Government claims against former employees when claims are collected through reduction of an employee's annuity. The purpose of this report is to give you our findings on these matters.

SCOPE OF REVIEW

We reviewed the Civil Service Commission's accounting for and reporting of accounts receivable from the public. Our work was done at the Commission's headquarters in Washington, D.C., and at its records storage center in Boyers, Pennsylvania.

During our review we analyzed the procedures and practices used to control, report, and collect accounts receivable from the public, including Government claims against former civil service employees' retirement accounts. At September 30, 1976, the Civil Service Commission reported accounts receivable from the public of $5,903,000.

ACCOUNTS RECEIVABLE INCORRECTLY CLASSIFIED

The two major categories of receivables to the Government are those due from the public and those due from other Government

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agencies. To facilitate clear and full disclosure, agency financial statements should accurately segregate accounts receivable from the public and accounts receivable from other Government agencies.

The Commission's reported accounts receivable from the public as of September 30, 1976, were understated by $7,264,134 because a refund due from an insurance carrier was included in the accounts receivable from Government agencies. The refund was correctly classified in the accounting records but was incorrectly classified in the report. The Commission's accounting staff discovered the error after the financial report had been filed with the Treasury. If the expected refund had been correctly classified, the accounts receivable from the public would have been $13.2 million instead of the $5.9 million reported.

We discussed this matter with Commission officials, and we were informed that internal review procedures had been revised to help prevent the recurrence of similar misclassifications.

INTEREST SHOULD BE CHARGED ON DELINQUENT ACCOUNTS

The Government was not charging interest on claims against retirement accounts of its former employees. We estimate that, at the time of our review, there were about 8,700 unpaid Government claims in the Civil Service Commission files in amounts ranging from $5 to $18,625.

Government agencies may request payment of amounts due from former employees through direct offset against the individuals' civil service retirement accounts. A majority of the offset requests come from the U.S. Postal Service for collection of former employees' indebtedness for unearned annual leave. Other agencies also request offset action for unearned leave as well as for a wide variety of other reasons.

When a request for collection action is received, the Civil Service Commission will make the offset against the debtor's annuity or retirement account balance, depending upon an individual's retirement status. In the case of an annuity, the Commission simply reduces the debtor's annuity compensation by the amount of the claim without any charge for interest. If the debtor has less than 5 years of creditable service, which makes him ineligible for annuity benefits, the Commission simply makes the offset. If the debtor has 5 years or more of creditable service, he has a vested right to a deferred annuity and the collection action cannot be completed until the individual requests either an annuity or a refund of his contributions. While collection action is suspended, the Government does not charge interest on the amount of the debt.

We examined Civil Service Commission files to determine the number of cases in which the Government was not charging interest on debts that could not be immediately offset against retirement accounts. We randomly selected and reviewed 460 Government claims ranging in amounts from $5 to $18,625. Although statistics on the total volume of such claims were not compiled by the Civil Service Commission, we estimated, using statistical sampling techniques, that there were about 8,700 unpaid claims in the files. Because of the wide dollar range of the claims reviewed, we could not make a statistically reliable projection of the total dollar value of the 8,700 claims.

We also analyzed the status of these unpaid claims. About one-half were in a suspended status because the individual had a vested right to a deferred annuity and the collection action could not be completed until the individual requested either an annuity or refund of his contributions. If an individual were to request a lump sum payment, the retirement account would then be reduced by the amount of the debt to the Government, and the balance would be forwarded to the individual. If the individual were to request an annuity, the annuity payments would be reduced until the debt to the Government, without any interest, was recovered. Although the Government was not charging interest to these debtors, the law did not prohibit such interest charges.

The other one-half of these unpaid claims were in a suspended status because the employees' total contributions to the retirement account only partially satisfied the claims.

CONCLUSIONS

The Commission's procedures for processing claims against retirement accounts of former Government employees results in a loss of interest to the Government. Inasmuch as the Government must pay interest to borrow money, we believe it is reasonable to charge interest on claims against accounts that must be held until they can be collected through reduction of an individual's annuity.

RECOMMENDATION

We recommend that you revise the current policy to require that interest charges be added to Government claims to be collected through reduction of an individual's annuity.

We discussed the results of our review with the Director, Bureau of Retirement, Insurance and Occupational Health. He generally agreed with our findings. However, he said that a February 1977 decision by the U.S. District Court for the Northern District of California prevents further offsets against annuity accounts until the court has approved the Commission's procedures for providing due process protection to the annuitants. The Commission has initiated action to comply with the decision of the court by requiring agencies requesting collection by offset to certify to the Commission that due process requirements have been met.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the House Committees on Government Operations and Appropriations and the Senate Committee on Governmental Affairs. Because of their expressed interest, we are also sending copies to Senator Robert Packwood and Congressman Newton I. Steers. Copies are also being sent to the Director, Office of Management and Budget, and the Secretary of the Treasury.

We appreciate the courtesies and cooperation shown to us by your representatives during this review.

Sincerely yours,

D L Scantlebury

D. L. Scantlebury
Director