

DECISION

**THE COMPTROLLER GENERAL
OF THE UNITED STATES**
WASHINGTON, D.C. 20548

FILE: B-115800
B-117604

DATE: ⁶¹³⁵⁵ AUG 17 1976

MATTER OF: Debt Collections -
DOD Military Pay and Allowance
Committee Action Number 520

98670

DIGEST:

1. There is no objection, in principle, to the use of a reasonable method of establishing realistic points of diminishing returns for debt collection purposes when determining whether to engage in collection action in out-of-service debt cases so long as the method is sufficiently flexible to serve the needs of the services yet retain appropriate controls within the system. See 31 U.S.C. 951-953 and 4 C.F.R. 104.3 and 4 GAO 55.3.
2. The request of the military departments for GAO concurrence in a change in policy with respect to the establishing of minimum debt amounts for which collection action will be taken against individuals no longer in service is not approved since the submission and other information available indicate differences, inaccuracies, and errors in the justification of such action. The General Accounting Office will not endorse a change of rules until it is demonstrated that the departments can accurately establish the point of diminishing returns in collection cases.

This action is in response to a letter from the Assistant Secretary of Defense (Comptroller) requesting an advance decision concerning several questions relating to possible changes in the minimum amount of collection when determining whether to engage in collection action for out-of-service debt cases. The questions and discussion thereof are contained in Department of Defense Military Pay and Allowance Committee Action No. 520, enclosed with the letter.

The questions presented are as follows:

- "1. May the services be authorized to use a floating minimum amount for collection when determining whether to engage in collection action in out-of-service indebtedness cases?

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- "2. If the answer to 1 above is in the negative, may the services be authorized to use different minimum amounts for collection, not to exceed \$150, when determining whether to engage in collection action in out-of-service indebtedness cases?"

The discussion contained in the Committee Action notes that this Office concurred in the recommendation of the Department of Defense Military Pay and Allowance Committee in Committee Action No. 266 and Committee Action No. 455, which recommended that collection action not be taken in out-of-service debt cases for amounts of \$10 or less and \$25 or less, respectively, when a notice of exception had not been issued.

The discussion states that results of recent cost studies conducted by the various services to determine the cost of establishing, maintaining, and finalizing a debt case for former members indicate that the costs associated with collection action vary among the services and will continue to vary. Thus, the discussion suggests that an open-ended, floating, minimum amount for collection be used instead of a uniform minimum amount. However, if the services are not authorized to use such a floating minimum amount, the discussion indicates that it would appear desirable that each service, based on its estimate as to the cost effectiveness of its collection efforts, be permitted to use different minimum amounts not to exceed \$150.

The Federal Claims Collection Act of 1966, approved July 19, 1966, Public Law 89-503, 80 Stat. 303, 31 U.S.C. 951-953, provides that collection action may be terminated or suspended when it appears that the cost of collecting the claim is likely to exceed the amount of recovery.

This act further provides that:

"The head of an agency or his designee, pursuant to regulations prescribed by him and in conformity with such standards as may be promulgated jointly by the Attorney General and the Comptroller General, shall attempt collection of all claims of the United States for money or property arising out of activities of, or referred to, his agency."

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The standards prescribed jointly by the Attorney General and the Comptroller General pursuant to the above authority are contained in 4 C.F.R. 101-105. In those standards section 104.3(c) provides that--"Collection action may be terminated on a claim when it is likely that the cost of further collection action will exceed the amount recoverable thereby."

Chapter 3 of the General Accounting Office Manual for Guidance of Federal Agencies (4 GAO 52 - 57.2) sets out in detail collection procedures for debts in general of which 4 GAO 55.3 provides in part as follows:

"Administrative collection procedures should provide for the establishment and observance of realistic points of diminishing returns * * * beyond which further collection efforts by the agency are not justified. In establishing points of diminishing returns, consideration should be given to estimated or actual recovery rates in relation to:

"(1) The costs of the different types of action;

"(2) The size of the debt; and

"(3) The apparent possibilities of collection through agency's efforts and those of other agencies."

Moreover, 4 GAO 55.1 provides in part:

"To be effective, agency debt collection programs must be comprehensive, vigorous, and uniformly applied in principle. * * *"

See also in connection with the foregoing, Department of Defense Directive Number 5515.11, December 19, 1966.

With respect to the collection action of indebtedness of out-of-service personnel, the Army stated in a report dated August 12, 1975--which accompanied the Committee Action request--that it was the Army's view that an approach to determine costs of collection action based solely on the costs of sending

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collection letters fails to consider the total spectrum of collection activity. For example, under the Army's procedures, costs associated with the dispatch of second and third letters are relatively small since these letters are prepared by a computer, whereas cost of the first collection letter involves maintenance of controls, research and response to rebuttals and additional processing actions including address requests to the Internal Revenue Service when debtors fail to respond. Based on its analysis of debt categories, costs per letter, and estimated recovery, the Army recommends that collection action be increased from \$25 to \$150.

The Navy, which based its analysis on a slightly different concept, "Return on Investment," concluded that it would be cost effective for the Navy to ignore debts of \$100 and below whereas the Marine Corps, using a cost/return analysis, determined that it was not cost effective to collect debts under \$50. The Air Force cost study of 1974 indicated that the total cost for each out-of-service debt case, including the costs of originating, maintaining, and monitoring debt collections totaled \$74.27. The Air Force recommends that each service be responsible to prove its own position for minimum collection and concluded that the current Department of Defense minimum debt collection criterion of \$25 was understated.

Review of the cost effectiveness studies prepared by the services and submitted with Committee Action No. 520, reveals wide differences and possible errors both in the methods used and the resulting points of diminishing returns.

For example:

There is a large unexplained difference between the Marine Corps' estimate of the cost of sending a collection letter (\$3.78) and the Navy's estimate (\$15.56). Although the Marine Corps recommends that the \$25 limit be increased to \$75, the cost data submitted indicates that pursuing debts in both the \$25.01 to \$50 range and the \$50.01 to \$75 range is cost effective because of the high percentage of collections from the third collection letter.

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The Army cost figures show that the total 1st, 2nd, and 3rd letter costs for debts in the \$125 - \$149.99 range was \$135,796.00 whereas total costs for debts in the \$150.00 to \$174.99 range was \$140,300.00. These two cost figures suggest that each dollar range included substantially the same number of debts. However, estimated recoveries for the two dollar ranges were respectively \$90,200 and \$314,040. This great recovery disparity does not appear to be consistent with the small difference in average debt amount for the two ranges.

Although such apparent discrepancies might be satisfactorily resolved by examination of the supporting data and discussion of the service studies with service representatives, a very limited inquiry by our auditors into these studies at two of the finance centers raised further doubts as to the usefulness of those studies. For example, we have been advised that:

As a result of computer processing, the Air Force believes its costs now approximate \$49.00 per case rather than the \$74.27 determined by the March 28, 1975, study.

The Navy's analysis-which developed an average cost of \$13.56 to issue a collection letter-appears erroneous in that total costs were divided by the number of debts processed, rather than by the number of letters issued. Navy records show that it cost \$6.51 to issue the first demand letter and about \$.44 per letter for subsequent letters.

We do not object in principle to either of the proposals suggested in the submission, nor any other reasonable method of establishing realistic points of diminishing returns for debt collection purposes which would be sufficiently flexible to serve the needs of the services, yet retain appropriate controls within the system. However, in view of the indicated differences among the services in the accounting concepts used to support their own debt collection point of diminishing return and the apparent disparity of findings, we do not believe that the information as supplied is sufficiently informative to justify implementing a change from the current procedures.

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In response to the questions presented, we would have no objection to approving a floating minimum amount for collection, but the plan for determining whether to engage in collection action, including the cost studies justifying minimum amounts, must have a sound and reasonably consistent basis. Accordingly, until a coordinated and properly justified plan is prepared, we do not endorse a change in existing procedures.

Deputy

R.F.KELLER

Comptroller General
of the United States