Reclamation Manual

Directives and Standards

SUPPLEMENT TO THE DEPARTMENT OF THE INTERIOR DEPARTMENTAL ACCOUNTING MANUAL

FILE: 08 ACCOUNTS RECEIVABLE
20 Collections

Subject(A): Tracking and Write-Off of Delinquent Accounts Receivable

Purpose: Establishes policies, procedures, and responsibilities for tracking and write-off of delinquent accounts receivable.

Authority: Department of the Interior, Departmental Accounting Manual (Section 8-20); Debt Collection Act of 1982; Debt Collection Improvement Act of 1996; Title 31, Chapter II, Code of Federal Regulations (31 CFR Part 285); Title 31, Chapter IX, Code of Federal Regulations (31 CFR Parts 900-904); Office of Management and Budget (OMB) Circular A-129, *Managing Federal Credit Programs*; Financial Administration Memoranda Nos. 94-022 and 2001-014.

Contact: Finance and Accounting Division (FAD), General Accounting and Technical Analysis Group (GATAG), by calling (303) 445-3430.

1. **Tracking of Delinquent Accounts Receivable.** A bill for collection is classified as delinquent if the debtor has not paid or resolved the debt by the due date. Generally speaking, as soon as a bill enters into delinquency status, an overdue status code should be assigned to it, and the process of sending dunning notices to the debtor should begin.

   A. **Overdue Status Codes.**

      (1) The approved overdue status codes and titles may be found in the Overdue Status Code Table (OSCT) of the Federal Financial System (FFS). The definitions of these status codes may be viewed on the FAD intranet site. These codes are used to track delinquent debts by category for the U.S. Treasury Report on Receivables Due from the Public (formerly the Standard Form 220-9), as well as for Bureau debt management and analysis purposes.

      (2) An overdue status code is assigned to a bill via the Outstanding Billing Documents Reference Table (OBDT) in FFS. When updating this table for a particular bill, the appropriate code should be entered in the "Overdue Status" field, and the date on which this code is being entered should be inserted in the "Overdue Date" field.

(3) When any knowledge is received of a change in the status of a bill, such as a bankruptcy notice or a request for waiver, the OBDT table should be updated with the appropriate status code and the date on which this change to the status code is being made should be inserted in the “Overdue date” field. Any bill that is assigned a status code of “AR” should not remain in this status for more than 180 days. The review should be done expediently, and the bill should be moved to an appropriate status code based on the outcome of the review.

B. **Dunning Notices.**

(1) The Federal Claims Collection Standards, as established in 31 CFR Parts 285 and 900-904, provide guidance on collecting and writing off delinquent debt and spell out the various collection tools which are available to an agency when the normal billing process fails to yield results. Before using these collection tools, however, an agency must provide due process notification, which includes notification of the debtor’s rights and notice of intent on the part of the agency to refer delinquent debt to the Department of the Treasury. This due process notification is accomplished primarily through the dunning process.

(2) Dunning notices should be sent at the 1st, 30th, and 60th day of delinquency. FFS generates dunning notices one business day following the collection due date and in 30-day increments thereafter. The dunning notice should be mailed to the debtor on the first business day following the nightly FFS generation process that creates the notice.

(3) The dunning process is applicable only for true dunning notices. The Department has acknowledged that certain types of Reclamation bills only require "courtesy" notices. These bills are actually issued in advance of providing goods and services. Some examples include reimbursable agreements where advance funding is required, boat dock permits, cabin site leases, and temporary water services. (This is in accordance with the memorandum from the Chief, FAD, dated June 11, 1993, which describes dunning notice procedures and the use of “courtesy” notices.) These types of bills should be assigned an “AV” overdue status code, and courtesy notices may be sent at the region’s discretion and as circumstances dictate.

(4) The notice of intent letter stating that delinquent debt will be referred to the Treasury should be sent no later than 110 days of delinquency, so that the debt is ready for referral at 180 days of delinquency. (A sample of this letter is provided in Appendix A.)

C. **Application of Payment Received on Delinquent Debt.** When a payment is received on a delinquent bill, the payment shall be applied first to outstanding penalties, second to administrative charges, third to interest, and last to principal. This means that if an unpaid balance remains on the bill, and if the office which had originally issued the bill chooses not to pursue additional collection action, the balance must be written off as principal. There are, however, two exceptions to this rule:

(1) If the payment is received within 30 days of the due date, any interest which has accrued shall automatically be waived, meaning that the payment will be applied in full to principal.

(2) If the payment is not received within 30 days of the due date, but the amount of interest, penalties, and administrative charges (IPA) which has accrued is below Reclamation's minimum bill amount threshold, the IPA shall be waived, and the payment will be applied in full to principal.

When either of these two exceptions apply, the bill will be assigned a "final" code in FFS and liquidated in full.

D. **Repayment Agreements.** In some cases, a debtor who is not able to pay off the full amount of the bill by the due date will want to enter into a repayment agreement so that the debt can be paid on an installment basis. In such a case, the office which had originally issued the bill must use its own discretion in determining whether it is in the best interest of the Government to enter into such an agreement, taking into account such factors as whether the dollar amount of each installment payment will be sufficient to justify the additional administrative cost of processing multiple collections on the same bill. Moreover, the office should clearly explain to the debtor that IPA will continue to accrue on the bill until it is paid in full, that the full amount of the debt (including IPA) must be repaid within 3 years, and that the debt will be promptly referred to the Treasury if the agreed-upon monthly payment is not made. Appendix B provides a sample of the form which should be sent to the debtor at the time a repayment agreement is established.

E. **Bankruptcies.** At the time a bankruptcy notification is received, swift processing is necessary to enable Reclamation to be listed as a creditor. Paperwork must be returned by a specified date to the court to enable Reclamation to be listed as creditor and to receive any disbursement of funds.

2. **Referral of Delinquent Accounts Receivable.**

A. **Referrals to Treasury.**

(1) After due process notification, a debt should be referred to the Treasury for collection through cross-servicing as early as 61 days but no later than 181 days of delinquency. Exceptions are debts under $100 with no Taxpayer Identification Number (TIN), debts in foreclosure or in bankruptcy, debts with foreign governments and Federal agencies, and debts in forbearance (i.e., debts for which a satisfactory arrangement has been made to pay off the past-due balance at a future date), appeals, or at Department of Justice/Litigations. Also excluded are deceased debtors, debts not legally enforceable, and debt which is currently being collected within 3 years of delinquency (e.g., debt being collected through installment payments). If a debt does not fall into one of these categories and exceeds 180 days of delinquency, it must be referred to the Treasury unless a waiver has been applied for through FAD.

(2) When it is a regionally issued bill that is to be referred to the Treasury, the issuing office should prepare a packet and submit it to FAD's Accounts Receivable and Travel Team. The packet should contain the following:

- Copies of the original bill, dunning notices, letter of intent to offset, and any other pertinent information regarding the bill or attempts at collection.

- A completed *Request to Add/Update/Delete Debt, Treasury Offset/Debt Servicing Program* form. (See Appendix C.)

- A *Certification - Debt Collection* form signed by the Regional Finance Officer for all debts being forwarded. (See Appendix D.)

(3) After this packet has been submitted to FAD, the debt will be reviewed for any updated bankruptcy filing and prepared for referral electronically. FAD will then update the OBDT table to change both the overdue status code and the overdue date, as well as to place a waiver flag on the debt so that IPA will no longer be calculated. (IPA will not be accrued in FFS, since the dollar figure of the debt should not change once it is placed with the Treasury. Nonetheless, the Treasury will continue to assess IPA on the debt, and, when collected, the IPA will be recorded accordingly in FFS.) If the debt is considered collectible, the overdue status code that will be assigned to it will be TP, TS, or TW. If collection is considered unlikely, the overdue status code that will be assigned to the debt will be CP, CS, or CW, in anticipation of its being written off. In this case, a request for write-off should either accompany the packet submitted by the regional office or be sent to FAD within 30 days of the submission of the packet.

(4) It is important to emphasize that once a bill has been referred to the Treasury, the regional offices should not accept payment on the bill directly from the debtor, but

rather should instruct the debtor to work with the Treasury directly. This is to ensure that the administrative fee which the Treasury imposes for debt referrals will be paid by the debtor instead of by Reclamation. However, should a payment be received via a Reclamation lockbox, that payment should not be refunded, but should be applied to the outstanding receivable, with notification being given to the Accounts Receivable and Travel Team.

(5) Once a debt has been referred to the Treasury, any changes made to it in FFS should be done by the FAD Accounts Receivable and Travel Team. Therefore, the office which had originally issued the bill should make FAD aware of any problems or new developments related to the debt, and FAD will make the determination if any changes are warranted.

B. **Referrals to the Department of Justice (DOJ).**

(1) Typically, Reclamation will not work directly with DOJ in referring delinquent debt. Rather, it is the Treasury which, after exhausting all other options in attempting to collect a debt which has been referred to it for cross-servicing, may recommend to Reclamation that the debt be referred to DOJ for "enforced collection." This means that DOJ will get a judgment against the debtor and pursue all available post-judgment remedies (wage garnishment, liens filed against property, etc.). In this case, if Reclamation concurs with the Treasury's recommendation, the Treasury will process the necessary paperwork to refer the debt to DOJ, as well as work with DOJ in monitoring the progress of the case.

(2) In some instances, a regional office, in consultation with its Regional Solicitor, may choose to work directly with DOJ in the referral of a delinquent debt. The referral package which the regional office will submit to DOJ will consist of a fully completed Claims Collection Litigation Report (a copy of which may be obtained from the Accounts Receivable and Travel Team), a Certificate of Indebtedness, copies of demand letters sent to the debtors, a copy of the contract or agreement on which the debtor defaulted, and a letter from the Solicitor authorizing referral to DOJ. It will be noted, moreover, that debt referred to DOJ should typically be $2,500 or more (exclusive of IPA), though a regional office may choose to refer a debt which is less than $2,500 if it is deemed necessary. Since the regional office will be working with its Regional Solicitor when referring debt to DOJ, it is not necessary that the referral package flow through FAD.

3. **Write-Off of Delinquent Accounts Receivable.** The monthly accounts receivable aging report shows outstanding balances by the various aging categories. The report is sorted by customer type, region, status code, and bill number. It provides management with a tool for

maintaining and writing off delinquent accounts receivable. It is reasonable to assume that the older the debt, the higher the probability it is uncollectible. Therefore, serious consideration should be given to writing off debts which are more than 1 year old, unless the debt is under appeal or in litigation. Moreover, since the Treasury will not accept for referral any debt which is under $100 with no TIN, debt which falls under this category should generally be written off as early as 61 days, if no response is received from the dunning notices.

Write-off is mandatory for delinquent debt older than 2 years unless documented and justified to OMB in consultation with the Treasury. The types of debt for which OMB will typically grant an exception to the 2-year write-off requirement include debt for which a compromise settlement is in the negotiation process and debt for which a bankruptcy is still open and where Reclamation is listed as a creditor. It will be observed, moreover, that debt which is in the appeal process is not technically considered to be delinquent and is therefore exempt from the 2-year write-off requirement.

A. **Write-Off Procedures.** When it is determined that a debt should be written off, the office which had originally issued the bill for collection should prepare a form similar to the one shown in Appendix E. If the form is prepared by FAD, it should be initially reviewed and signed by the Manager, Accounts Receivable and Travel Team. If the form is prepared by a regional office, it should be initially reviewed and signed by the Regional Finance Officer. The number of additional signatures which will be required for approval of the write-off will depend on the amount of the debt (excluding IPA) and whether it is a FAD-issued bill or a regionally issued bill which is to be written off.

(1) For FAD-issued bills, approval must be obtained from the following sources:

- For debt that is $1,000 or less, the request for write-off should be approved by the Manager, Accounts Receivable and Travel Team.

- For debt that is greater than $1,000 but not greater than $10,000, the request should be approved by the Manager, FAD.

- For debt that is greater than $10,000 but not greater than $25,000, the request should be approved by both the Manager, FAD, and the Director, Management Services.

- For debt that is greater than $25,000 but not greater than $100,000, in addition to the aforementioned approval of the Manager and the Director, the request must be approved by the Solicitor.

- For debt that is greater than $100,000, in addition to the aforementioned approval of the Manager, the Director, and the Solicitor, the request must be approved by DOJ.

(2) For regionally issued bills, approval must be obtained from the following sources:

- For debt that is $1,000 or less, the request for write-off can either be approved by the Regional Director or be submitted to FAD for approval by the Manager, Accounts Receivable and Travel Team.

- For debt that is greater than $1,000 but not greater than $25,000, the request should be approved by both the Regional Director and by the Manager, FAD.

- For debt that is greater than $25,000 but not greater than $100,000, in addition to the aforementioned approval of the Regional Director and the Manager, the request must be approved by the Regional Solicitor.

- For debt that is greater than $100,000, in addition to the aforementioned approval of the Regional Director, the Manager, and the Regional Solicitor, the request must be approved by DOJ. (The regional office will typically go through its Regional Solicitor in obtaining the approval of DOJ.)

(3) Regardless of the amount of the debt which is to be written off, all requests for write-off should be submitted to FAD for processing. The write-off package should consist of the aforementioned form, along with supporting documentation related to the debt (e.g., copy of the bill, dunning notices, and any other documents which reflect the efforts that have been made to collect the debt).

(4) In many cases, an office will submit a write-off request to FAD at the same time that it submits a Treasury referral package. When this occurs, FAD will submit the debt to the Treasury in one accounting period, while it is still showing as a receivable on the aging report, and classify it as "Currently Not Collectible" with either a CP, CS, or CW overdue status code. In the following accounting period, the debt will be written off and be maintained in a memorandum account outside of FFS. It will remain in this "Currently Not Collectible" memorandum listing until Treasury collects payment, at which time the account will be reactivated in FFS, and the payment will be recorded. If Treasury returns the account as uncollectible, it will be closed out and finalized. At that time, the account will be closed (taken off the memorandum listing), and FAD will issue a 1099C for the year in which the account has been closed if the amount is over $600.

B. **Bills Requiring Special Treatment.**

(1) Though the vast majority of Reclamation's bills which are deemed uncollectible will be written off in accordance with the procedures outlined above, there are certain types of bills which require special treatment. A bill which pertains to a reimbursable or revolving fund, for example, should not be written off directly, but rather must first be modified to move the principal balance to the program's appropriation as an appropriation refund. This is because the appropriation has to incur the expense, which means that the expenses in the reimbursable or revolving fund for which the bill was issued must be redistributed to the program's appropriation before the bill can be written off.

(2) Other types of bills which require special treatment are those which are issued in advance for such things as boat dock permits and cabin site leases. These types of bills should be cancelled rather than written off if they are deemed uncollectible, since Reclamation will simply discontinue the contract and/or not provide the specific service for which the bill was issued if the bill is not paid. (This is not to say, however, that all bills which are issued in advance should be cancelled rather than written off, since some advance billings, such as those which are issued for operation and maintenance, are for costs which Reclamation will incur regardless of whether a particular bill is paid. It is not appropriate, therefore, to merely cancel these bills if they are deemed uncollectible. Instead, they should be written off.)

(3) Finally, if it is determined that a bill had been issued in error, it should be cancelled rather than written off.

4. **Responsibilities.**

A. The **Regional Finance Officers** are responsible for the following:

(1) The initiation of follow-up collection actions on all regionally issued bills, including the transmittal of Treasury cross-servicing referrals and requests for write-off to FAD's Accounts Receivable and Travel Team.

(2) The referral of write-off requests for regionally issued bills to the properly delegated official.

(3) The assignment of an accurate overdue status code for each delinquent account and for the data entry of the status code and overdue date in the OBDT table.

(4) Coordination with the FAD Accounts Receivable and Travel Team on the status of delinquent debt.

B. The FAD **Accounts Receivable and Travel Team** is responsible for the following:

(1) The initiation of follow-up collection actions on all FAD-issued bills.

(2) The referral of write-off requests for FAD-issued bills to the properly delegated official.

(3) The coordination and forwarding of all regional referrals to Treasury cross-servicing, assigning the proper overdue status code to the debt, and adding the waiver flag so that IPA will no longer accumulate.

(4) The data entry of all properly authorized write-off transactions in FFS.

(5) The determination and transmittal of write-offs which meet the referral criteria for inclusion in the Treasury cross-servicing program or the IRS Form 1099 Report.

(6) Quarterly review of accounts in protected status codes for validity. These will include, but not be limited to, status codes AR, B, IP, PD, RC, RD, RN, S1, and W.

(7) Notifying the appropriate regional office when one of its debts has either been collected or been classified as uncollectible by the Treasury.

(8) Oversight of the collection process.

C. The FAD **Review and Analysis (R&A) Team** is responsible for the following:

(1) The initiation of follow-up collection action on all R&A-issued bills.

(2) Oversight of all reimbursable billings.

D. **GATAG** will be responsible for ensuring compliance with policy, coordinating status code usage, and reporting to the Treasury and OMB.

5. **Related References.**

- Commissioner's Administrative Delegation of Authority Memorandum dated July 14, 1994. (It should be noted that the Commissioner's memorandum refers to both waiver and write-off authority. This Supplement does not address the administrative delegation of waiver authority established by the Commissioner's memorandum.)

- Memorandum dated July 11, 1993, from the Chief, FAD, addressing dunning notice procedures.

- FIN 08-30, Supplement to the Department of the Interior Departmental Accounting Manual, *Estimating the Allowance for Doubtful Accounts and Loans Receivable*.