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June 10, 1999

TO: B/Chief Financial Officer
F/Associate Administrator for Human Resources and Education

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on Audit of NASA's Non-Tax Delinquent Debt
Assignment Number A9901100
Report Number IG-99-031

The subject final report is provided for your information and use. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. The recommendations are resolved but will remain undispositioned and open for reporting purposes until corrective actions are completed. Please notify us when action has been completed on the recommendations, including the extent of testing performed to ensure corrective actions are effective

If you have questions concerning the report, please contact Mr. Chester A. Sipsock, Program Director, Environmental and Financial Management Audits, at (216) 433-8960, or Ms. Elaine M. Slauch, Auditor-in-Charge, at (202) 358-2599. We appreciate the courtesies extended to the audit staff. See Appendix E for the report distribution.

[original signed by]
Russell A. Rau

Enclosure

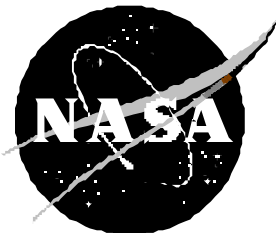
cc:
G/General Counsel
JM/Director, Management Assessment Division

IG-99-031

**AUDIT
REPORT**

NASA'S NON-TAX DELINQUENT DEBT

JUNE 10, 1999



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

CFR	Code of Federal Regulations
DCIA	Debt Collection Improvement Act
FMM	Financial Management Manual
FY	Fiscal Year
HAD	NASA Headquarters Accounting Division

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NASA Office of Inspector General

IG-99-031
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NASA's Non-Tax Delinquent Debt

Executive Summary

Background. The Debt Collection Improvement Act (DCIA) of 1996 requires Federal agencies to aggressively pursue the collection of debt once it becomes delinquent (past due more than 30 days). The Act also requires agencies to transfer non-tax debt more than 180 days delinquent to the Department of the Treasury for collection. NASA reported \$29.7 million and \$17.8 million in receivables due from the public at the end of fiscal years (FY's) 1997 and 1998, respectively.¹ Of those amounts, about \$3 million was delinquent more than 30 days at the end of both fiscal years.² The majority of those receivables represent vendor payments, amounts due from employees, and other administrative accounts.

Objectives. The overall audit objective was to assess the collectibility of the delinquent debt and to determine whether the reported amount accurately represents the universe of such debt. This audit is part of a President's Council on Integrity and Efficiency Government-wide review of non-tax delinquent debt.

We performed audit fieldwork at four NASA installations: Goddard Space Flight Center (Goddard), NASA Headquarters, Johnson Space Center (Johnson), and Kennedy Space Center (Kennedy). These four locations comprised 81 percent of NASA's accounts receivable due from the public for FY's 1997 and 1998. Additional details on the objectives, scope, and methodology are in Appendix A.

Results of Audit. NASA has made significant progress towards meeting the requirements of the DCIA and makes efforts to collect its receivables. For example, NASA has included the DCIA requirements in the Agency's Financial Management Manual (FMM) and has transferred delinquent bills to the Treasury for collection. In addition, the installations we reviewed were processing and tracking bills to debtors, and the receivables balances reported by the Agency as of September 30, 1997, and 1998, were generally reliable.

¹ Many of these receivables are with reimbursable customers who provided NASA with an advance that could liquidate the receivable. According to the Chief of the NASA Accounting, Reporting and Analysis Branch, in FY 1998, the Agency requested the installations to bill and collect on reimbursable receivables through liquidation of the related advances in a more timely manner. This action provided a more accurate reflection of NASA's financial condition. The result was an \$11.9 million (40 percent) reduction from FY 1997 to FY 1998 of total receivables reported to Treasury.

² Of the delinquencies, 192 receivables totaling \$1.5 million were also more than 180 days delinquent as of September 30, 1997, and 183 receivables totaling \$2.1 million were also more than 180 days delinquent as of September 30, 1998.

However, we identified opportunities for NASA to enhance its collection of receivables:

- Improve the timeliness of the collection of receivables by strengthening NASA installation compliance with FMM requirements to transfer to the Treasury debts that are more than 180 days delinquent and to consistently bill debtors prior to the transfer. The Agency has neither aggressively pursued nor collected all debts due the Government (Finding A).
- Increase efficiencies in Agency collections management by establishing procedures to ensure that Agency accounting offices are notified of all receivables. The Agency cannot ensure consistency in the collection of receivables without those procedures (Finding B).
- More effectively protect the Government's interest by following up on debts owed to the Agency by employees who have not completed NASA-funded academic courses. The Agency may not have been reimbursed for courses that were not completed successfully (Finding C).
- Improve the delinquent debt ratio by accurately reporting delinquent debts to the Treasury. NASA has reported a higher amount of delinquent debts to the Treasury than actually existed (Finding D).

The improvements would increase NASA's assurance that receivables are established, recorded, and collected and that penalties and administrative fees are regularly assessed.

We also identified minor instances in which installations incorrectly posted receivables in the accounting records and did not promptly correct them (see Appendix B).

Recommendations. We recommend that management strengthen internal controls to ensure compliance with NASA FMM requirements for timely debt collection and measure this compliance through the establishment of performance metrics related to the debt collection process. Management should also establish procedures to ensure that all amounts due the Agency are processed by the cognizant accounts receivable office and that reimbursement is made to the Government if NASA-funded courses are not successfully completed.

Management's Response. Management either agreed or concurred in principle with each recommendation. The complete text of the response is in Appendix D. We consider management's comments responsive.

Introduction

To collect non-tax receivables once they become delinquent past 30 days, agencies may employ collection tools such as demand letters, negotiated repayment agreements, and wage garnishment to collect non-tax delinquent debt. See Appendix C for an overview of these types of collection actions under the DCIA.

In June 1997, NASA entered into an agreement with the Treasury to have the Agency's delinquent debts serviced. The agreement called for each NASA Center to transfer its delinquent debts directly to the Treasury for collection. The Treasury uses a variety of collection tools and strategies, including those mentioned above and others identified in Appendix C.

Findings and Recommendations

Finding A. Pursuit of Debt Collection

NASA could improve its collection of non-Government receivables by fully implementing the debt collection requirements in the DCIA and the Code of Federal Regulations (CFR). Provisions in the FMM are adequate to meet the requirements in the Act and the CFR; however, some NASA installations did not transfer all debts that were more than 180 days delinquent to the Treasury and did not consistently bill debtors within the 180-day timeframe. Also, some NASA installations did not charge the debtors the required penalties and administrative fees. As a result, bills are not pursued in a timely manner and amounts due the Government are not collected.

Transfer of Debts to Treasury

When a non-tax debt becomes more than 180-days delinquent, agencies must transfer the debt to the Treasury for collection. As the examples indicate, NASA did not always meet the 180-day timeframe.

- In January 1999, Johnson transferred three debts that averaged 883 days delinquent. In addition, Johnson did not transfer receivables totaling \$741 that were more than 180 days delinquent.
- In October 1998, the Headquarters Accounting Division (HAD) transferred four debts that averaged 608 days delinquent. Also, one bill that totaled \$16,101 and that was more than 600 days delinquent had not been transferred.
- As of January 1999, Goddard had not transferred receivables that totaled \$9,173 and that were more than 180 days delinquent.

We did not note any problems at Kennedy with regard to transferring debts to the Treasury. Although only four NASA installations were included in our audit, our analysis of the Report on Receivables Due from the Public as of September 30, 1998, submitted by all NASA Centers, indicated that all receivables more than 180 days delinquent have not been transferred to the Treasury.

Financial management personnel at HAD and Johnson had not submitted debts to the Treasury within the required timeframe because those installations were developing internal procedures to incorporate the DCIA, CFR, and FMM requirements and to comply with Treasury's transfer procedures. In accordance with the new requirements, HAD and Johnson then had to notify the debtors prior to transferring the debts to the Treasury. HAD and Johnson indicated that the notifications required even more time before the transfers could be made.

In June 1997, Goddard implemented an automated accounts receivable system to track receivables, produce bills, and assess late fees. However, the system was not programmed to produce a notification to the debtor of the intent to transfer to Treasury. Further, Goddard had no process in place to manually send out the notices. Without the final notification, the Center was unable to transfer any debts to Treasury. As a result of our audit, Goddard's financial management division has agreed to implement a procedure to manually send notification letters to debtors.

At Johnson and HAD, receivables that were more than 180 days delinquent could not be transferred to Treasury until the installations validated the amounts due and the debtors' addresses. While we agree that the debts cannot be transferred until those issues are resolved, taking more than 180 days to resolve the debts is excessive and indicates a need for improvement. When debts are not being transferred to Treasury after 180 days, NASA is not in compliance with the full intent of the DCIA.

Compliance with NASA FMM Debt Collection Provisions

NASA did not fully follow the FMM requirements regarding debt collection. Some installations did not consistently:

- send debtors demand notices within the timeframes specified;
- assess penalties and administrative charges; and
- bill debtors using forms that included the Treasury-mandated language regarding interest, penalties, and administrative charges.

As a result, NASA did not aggressively pursue collection of its receivables that were more than 30 days old.

Demand Notices. NASA FMM 9051-5(c) requires installations to send debtors written demand (delinquency) notices at 45, 75, and 105 days after the date of the initial bill. The purpose of the demand notices is to inform the debtor of the consequences of failure to pay. Table 1 outlines the average number of days between the original bill and the first demand notice sent by the four installations we reviewed.

Table 1 – Average Days to Send Late Notices

Installation	Average Days between Original Bill and 1st Demand Notice*
Goddard	30 days
HAD	162 days
Johnson	56 days
Kennedy	239 days

* We determined averages as follows: at Goddard, we reviewed 44 judgmentally selected receivables outstanding during FY's 1997 and 1998; at HAD, we reviewed the 13 receivables outstanding as of January 1999; at Johnson, we reviewed the 45 receivables outstanding as of January 1999; at Kennedy, we reviewed 13 judgmentally selected receivables outstanding as of September 30, 1998.

Goddard surpassed the FMM requirement because its policy is to send out delinquent notices every 30 days. HAD employees working with contract payments generated a bill and then retained it while trying to get the contractor to pay before notifying accounts receivable personnel of the debt. As a result, delays in sending out the required delinquent notices occurred. In the fall of 1998, HAD began forwarding a report that shows outstanding receivables on contracts to the individual responsible for processing and tracking accounts receivable.

The majority of delinquent bills at Kennedy were those due from former employees. To process those bills, Kennedy accounts receivable personnel forwarded the bills to the Office of Personnel Management for future collection. Kennedy would then hold the bill without further action. During FY 1998, Kennedy changed its policy and is sending the debtor the required delinquent notices. To test the new policy, we reviewed seven of the most recent bills and determined that the average days before sending the first delinquent notice had improved from the 239 days (see Table 1) to 59 days.

Johnson issues all delinquency notices only once every 30 days; therefore, a notification could be delayed up to 30 days. When a receivable is not pursued in a timely manner, the possibility increases that the debtor will not make payment.

Uncollected Fees. Title 4 of CFR §102.13 states that agencies should assess interest, penalties, and administrative fees on delinquent debts. NASA FMM 9051-4(c) states that administrative charges should cover the additional costs incurred in processing and handling delinquent debts. In addition, this section of the FMM provides that the penalty charge will be assessed on any principal portion of a debt more than 90 days delinquent. While Johnson and Kennedy assessed these charges, neither Goddard nor HAD assessed debtors' penalties or administrative charges.

When Goddard implemented its automated accounts receivable system in June 1997, it was designed to calculate interest only. Goddard did not implement additional procedures

to assess penalties and administrative charges. The Goddard Financial Management Division Chief indicated that the system would be modified to assess the additional late charges.

Prior to February 1999, HAD financial management personnel mistakenly believed that penalties and administrative fees could be waived until the debts were transferred to the Treasury. In February 1999, the Associate Chief of HAD sent a memorandum to all HAD financial management personnel, stating that penalties and administrative fees should be assessed on delinquent bills.

As a result of the conditions at these installations, the total amount due to the Government was not collected. We were unable to determine the total amount of uncollected penalties and administrative fees, because billings and collections are made throughout the year and because we limited our review to bills outstanding as of January 1999 and at the end of FY's 1998 and 1997.

Required Notification for Demand Notices. One objective of the DCIA is to ensure that the public is fully informed of the Federal Government's debt collection policies. In accordance with the Treasury Financial Manual requirements, the NASA FMM 9051-4(c) requires that bills contain the following notification:

The payment due date is 30 days from the date of this bill. Pursuant to 31 USC 3717, additional charges will be assessed on payments received after the due date, including:

1. Interest at ___%, from the date the debt is owed;
2. Administrative charges; and
3. Penalties, not to exceed 6 percent per year on any portion of the debt delinquent for more than 90 days, accrued from the date the debt became delinquent.

The original billing forms issued by HAD and by the Agency payroll office at Marshall³ did not contain the required notification, because these offices were unaware of the DCIA requirements to include the notification concerning the interest, penalties, and administrative fees. Controls were not adequate to ensure that all financial management personnel were made aware of and complied with FMM requirements. In February 1999, the Associate Chief of HAD notified all HAD financial management personnel that the required statement must be included on the bills.

NASA's FMM 9051-5(c) requires that the first demand notice to the debtor incorporate a notification of the possible alternative collection methods to be used. Methods include referring delinquent consumer accounts to credit reporting agencies, initiating Federal salary offset, and referring delinquent accounts to Treasury for collection. The demand notices Goddard issued did not include this information. Goddard financial management officials indicated that this information was included in a final notice to the debtor just prior to transferring the debt to Treasury. Goddard financial management personnel did

³ In September 1997, NASA payroll processing was consolidated at Marshall.

not realize that this information should be sent with the first demand notice because internal controls did not ensure that all financial management personnel were made aware of and complied with FMM requirements.

Conclusion

A key element of debt management is timely collection. Without prompt billings and timely submission to the Treasury, timely collection is not possible. A key factor in getting debtors to pay bills in a timely manner is to charge interest, penalties, and administrative fees. Without assessing fees and notifying the debtor of the extent of late charges and employing other collection methods, debtors have less incentive to pay. NASA can maintain an aggressive debt collection program by ensuring that NASA installations follow FMM provisions. To that end, the NASA Chief Financial Officer should strengthen controls to ensure compliance with FMM requirements and measure this compliance through the establishment of performance metrics⁴ related to the debt collection process.

Recommendation, Management's Response and Evaluation of Response

- 1. The NASA Chief Financial Officer should strengthen controls to ensure compliance with FMM requirements to include placing the required information on billing forms and demand notices, and measure compliance through the establishment of performance metrics related to the debt collection process.**

Management's Response. Concur. The Director, Financial Management Division, stated that the requirements for the Centers' independent Cash Management Reviews will be strengthened, specific metrics will be established through their Quality Assurance Evaluation process, and the FMM will be modified (see Appendix D).

Evaluation of Response. The planned actions are responsive to the recommendation.

⁴ The Government Performance and Results Act of 1993 provides a mandate to Federal agencies to account for program results through the integration of strategic planning, budgeting, and performance measurement. Purposes of this Act include improving Federal program effectiveness and public accountability by promoting a new focus on results, quality of service, and customer satisfaction and improving internal management of the Federal Government. To meet those requirements, NASA has initiated program performance reform by setting program goals (performance measures), measuring program performance against those goals, and reporting publicly on the Agency's progress in the Annual Accountability Report.

Finding B. Processing Receivables

NASA installation accounting offices did not process all receivables generated by the functional offices⁵ such as the payroll, Freedom of Information Act, and training offices. Processing was lacking because NASA policy does not require the generating offices to notify accounts receivable personnel of the bills. Because accounts receivable personnel did not process these receivables, NASA has no assurance that billing notices are sent out in accordance with the NASA FMM; delinquent bills are transferred to Treasury within the specified timeframe; and interest, administrative fees, and penalties are assessed. Accordingly, the Agency cannot ensure consistency in the collection of receivables.

Consolidation of Debt Collection Functions Within the Agency

Title 31 of the United States Code § 902 makes the Chief Financial Officer responsible for overseeing all financial management activities relating to an agency's programs and operations, including directing and managing the implementation of agency debt collection systems. The NASA Chief Financial Officer has established procedures for effective debt collection in NASA FMM 9050. The FMM requirements related to bill collection are discussed in Finding A.

Receipt of Bills by Accounts Receivable Offices

NASA's functional offices did not forward bills of collection they generated to accounts receivable offices for processing. For example, payroll-related receivables were not received and recorded by accounts receivable personnel at some NASA installations. At Ames Research Center (Ames), Dryden Flight Research Center (Dryden), and Stennis Space Center (Stennis), debtors had either paid off or negotiated cancellation of payroll receivables totaling \$5,650, but those installations had not notified the NASA payroll office of the liquidation of the receivables. As of March 1999, the NASA payroll office reported \$59,083 in outstanding payroll receivables. We asked the accounting offices at the installations with outstanding payroll receivables to review their records in order to validate that accounts receivable personnel were tracking and processing payroll receivables. The installations verified that they had not received and did not process the following payroll receivables.

⁵ The functional offices establish and disseminate policy and leadership strategies within their areas of responsibility. They serve in an advisory capacity to the Administrator and work in partnership with the Enterprise Associate Administrators and Center Directors to ensure that Agency activities are conducted in accordance with all statutory and regulatory requirements. Examples of these functional offices include Human Resources and Education, General Counsel, and Public Affairs.

Table 2 – Unrecorded Payroll Receivables

Installation	Amount Unrecorded
Ames	\$ 2,642
Dryden	2,365
Glenn Research Center	3,320
Goddard	3,397
HAD	2,043
Johnson	9,084
Langley Research Center	17
Stennis	810
Total Unrecorded	\$23,679

Other functional offices generated bills and did not forward them to the accounts receivable office.

- The Freedom of Information Act offices at both Goddard and Headquarters did not forward bills generated as a result of Freedom of Information Act requests.
- The Johnson and Kennedy training offices did not forward bills generated for academic courses that NASA employees had not completed successfully.

Functional Offices Not Required to Forward Receivables

Currently, NASA has no policy, procedure, or financial management requirement for functional offices to forward bills to accounts receivable offices for processing. On the other hand, while the payroll office forwarded bills to the installations, the bills did not always reach the individual responsible for tracking accounts receivable at the various installations. When the payroll function was consolidated at Marshall, NASA financial management did not establish controls to ensure that payroll receivables were received and processed by installation accounts receivable personnel.

Because we could not identify all the Agency offices that generate receivables, we could not quantify the total amount of unrecorded, untracked receivables NASA-wide. However, as of February 1999, outstanding receivables generated from FY's 1997 and 1998 Freedom of Information Act requests totaled \$2,302 at Goddard and \$1,359 at Headquarters.

Because accounts receivable personnel are not processing all receivables, the Agency cannot ensure consistency in the collection of receivables. In addition, bills not processed by the accounts receivable office do not accrue the required interest, penalties, and administrative fees and are not submitted to Treasury promptly.

Recommendation, Management's Response, and Evaluation of Response

- 2. The NASA Chief Financial Officer should establish a requirement for the Agency's functional offices to promptly forward all receivables to the cognizant accounts receivable division for bill processing and should establish a requirement for the accounts receivable division to notify the respective functional office when payment is received.**

Management's Response. Partially concur. Management will issue a memorandum requiring functional offices to promptly forward all receivables to cognizant management organizations for bill processing. However, management believes that it would be cost-beneficial to notify the respective functional office only when payment is not received (rather than in all cases when payment is received), so that new receivables with delinquent debtors are not generated. Management will establish FMM provisions to cover the latter circumstance (see Appendix D).

Evaluation of Response. The proposed actions are responsive to the intent of the recommendation.

Finding C. Follow-Up of NASA-Funded Academic Training

Training offices at NASA installations did not ensure that Agency-funded academic courses for employees were completed successfully. This occurred because the Agency does not require the installations to follow up on course completion. Consequently, the Agency may not have been reimbursed for courses that were not completed successfully.

Protection of the Government's Interest

Federal agencies are responsible to develop policies to ensure that employees reimburse an agency when an academic course is not completed successfully. The policies are required by 5 CFR §410, which states:

The Head of an agency shall establish such procedures as he or she considers necessary to protect the Government's interest when employees fail to complete, or to successfully complete, training for which the agency pays the expenses.

NASA Policy Directive 3410.2D⁶ makes the Human Resources Directors at the installations responsible for operating their organizations' training programs consistent with applicable laws and regulations.

Effectiveness of Training Policies

Each NASA installation implemented various procedures for follow-up with varying results. Of the four installations reviewed, only Goddard's training office has a commendable process. That office's standard policy requires employees to submit their grades at the end of each course. If an employee does not provide a grade, a series of letters is sent to the employee. If no response is received or if an employee responds that the course had been dropped or that he or she received less than a "C," Goddard's training office follows up. The training office issued letters informing the employee and the accounts receivable office of the amount owed. At that point, the accounts receivable office would take over in establishing and collecting the bill. As of January 1999, receivables totaling about \$6,800 were being collected at Goddard, through payroll deduction, for employees who had not completed academic courses successfully.

The training offices at the three other installations – NASA Headquarters, Johnson, and Kennedy – intended to have employees reimburse NASA for unsuccessful completion of academic training; however, the offices had not established a formal follow-up process.

- Johnson training office personnel reviewed their records as time allowed and then asked employees to submit grades. In addition, Johnson training office personnel indicated that the employees were aware of the rules and some had paid for courses not completed successfully.

⁶ "Employee and Organizational Development," July 7, 1997.

- Rather than follow up, Headquarters simply notified the employee of the policy during the registration process.
- The Kennedy training office relied on employees to submit their grades before determining whether reimbursement was due to NASA.

Because the four installations reviewed do not keep statistics on courses not completed successfully, we could not determine the amounts currently due to NASA.

The three installations did not consistently perform formal follow-up because NASA does not have an Agency-wide requirement. In response to our audit, the NASA Training and Development Division Director indicated he would conduct a video teleconference to inform all Agency training offices of the need to formally follow-up on completion of employee academic training. While notifying employees of policy is the first step in implementing procedures to protect the Government's interest, it is not enough to ensure that employees repay for courses not completed successfully. A formal policy should be established to more effectively protect the Government's interest.

Recommendation, Management's Response, and Evaluation of Response

- 3. The Associate Administrator for Human Resources and Education should establish procedures for NASA's training offices to determine whether courses are successfully completed and to notify the cognizant accounts receivable offices of any receivables resulting from incomplete courses.**

Management's Response. Concur. The Director of Training and Development has already requested that Center training offices implement appropriate procedures to correct this problem, and the Centers currently are implementing corrective action (see Appendix D).

Evaluation of Response. Management's actions are responsive to the recommendation.

Finding D. Reporting Delinquent Receivables to Treasury

NASA is not accurately reporting delinquent receivable amounts to the Treasury because some installations are not correctly identifying the amount of delinquent debts in their Report on Receivables Due from the Public. As a result, NASA has been reporting a higher amount of delinquent debts to Treasury than actually exists. NASA reported \$14.3 million in delinquent debts as of September 30, 1997, and \$8 million as of September 30, 1998, instead of the approximately \$3 million that actually existed at the end of both fiscal years.

Report on Receivables Due From the Public

One tool that the Treasury uses to determine the effectiveness of collection activities is the Federal agencies' Report on Receivables Due from the Public. Each NASA installation is required to submit a receivables report as of September 30 each year to NASA Headquarters, which consolidates the data and submits the required Agency report to the Treasury. Among other items, the report contains the total amount of accounts receivable and the amount of delinquent receivables.

The instructions for completing the Report on Receivables Due from the Public are outlined in Treasury Financial Manual, volume 1, part 2, section 4100, appendix 2. The instructions require the report to show the amount of receivables that are delinquent for the respective time periods (1 to 30 days, 31 to 60 days, 61 to 90 days, 91 to 180 days, 181 to 365 days, and over 1 year). NASA FMM 9051-4(b) states that "A payment due date, not more than 30 days from the bill, will be included on the bill, unless otherwise provided by law." Therefore, delinquent receivables to be included in the report should be those that are more than 30 days delinquent from the billing date.

Reporting of Delinquencies

The Goddard and HAD reports on receivables did not show accurate amounts of delinquent receivables. The installations reported debts under 30 days old as "delinquent." Also, Johnson considered debts from 1 to 60 days old as nondelinquent. In addition, Goddard and Johnson were classifying as delinquent those debts for which the debtor was making payments on the balance due, in accordance with an agreement between the installation and the debtor.

The misreporting occurred because the installations incorrectly interpreted the FMM. The delinquencies section of the report requires that the receivables be classified by days late such as 1- 30 days, 31 – 60 days, and 61 –90 days; however, Goddard and HAD incorrectly interpreted "days" to mean the days from the date of bill issuance rather than days of delinquency. Also, because NASA Headquarters does not require an explanation of the collection status for receivables less than 60 days delinquent, Johnson did not report those receivables as delinquent. Regarding debts for which the debtor was making

payments, the NASA FMM is silent on the classification of these debts; however, the Treasury Financial Manual volume 1, part 2, chapter 4100, states that rescheduled⁷ receivables should not be considered delinquent.

Table 3 shows that the installations⁸ overstated the amount of delinquent debts reported to the Treasury by at least \$11 million at September 30, 1997, and by at least \$5 million at September 30, 1998. The table also shows that Kennedy correctly classified its delinquent receivables.

Table 3 – Delinquencies Reported by NASA Installation (FY’s 1997 and 1998)

Installation	Total Delinquencies for FY 1997			Total Delinquencies for FY 1998		
	Reported	Should Be	Difference	Reported	Should Be	Difference
Goddard	\$ 12,088,089	\$ 783,936	\$ 11,304,153	\$ 5,442,221	\$ 409,716	\$5,032,505
HAD	51,457	51,007	450	108,592	99,589	9,003
Johnson	728,695	728,695	0	390,250	398,920	(8,670)
Kennedy	1,193,112	1,193,112	0	1,285,204	1,285,204	0
Total	\$14,061,353	\$2,756,750	\$11,304,603	\$7,226,267	\$2,193,429	\$5,032,838

Recommendations, Management’s Response, and Evaluation of Response

The NASA Chief Financial Officer should:

- 4. Establish training for financial management personnel at Goddard, HAD, and Johnson and for other Agency installations, if necessary, on the correct procedures for classifying debts as delinquent in the annual Report on Receivables Due from the Public.**
- 5. Revise the FMM to clarify that receivables are not reported as delinquent when the debtors are making current payments.**

Management’s Response. Partially concur. Management believes that the process of classifying delinquency is not overly complex and that new training is not needed. Management will revise the FMM to clarify the requirements, direct Center Deputy Chief Financial Officers to ensure their employees are adequately trained in the FMM, and revise FMM Cash Management Review requirements to include an analysis of this area (see Appendix D).

⁷ The Treasury Financial Manual defines “rescheduled” as modifying the terms and conditions to facilitate debt repayment, also called restructuring or refinancing. Rescheduled includes establishing a payment plan to satisfy the receivable.

⁸ Because we reviewed the delinquencies reported at only four installations, we did not determine whether the other installations are correctly classifying their delinquent receivables.

Evaluation of Response. The proposed actions are responsive to the intent of the recommendations.

Appendix A. Objectives, Scope, and Methodology

Objectives

The objectives of the audit were to determine whether the NASA-reported amount of delinquent receivables due from the public was accurate and to assess the collectibility of the delinquent debt. Specifically, we determined whether:

- NASA collects delinquent debt amounts effectively; and
- The NASA-reported accounts receivable balances as of September 30, 1997, and 1998, were presented fairly in accordance with applicable accounting standards in agency financial statements.

Scope and Methodology

Each NASA installation maintains its own accounting system. We examined and selected specific installations for review based on the volume of receivables reported by each NASA installations' Report on Receivables Due from the Public for FY's 1997 and 1998. Because a total of 81 percent of NASA's receivables at yearend were for Goddard, HAD, Johnson, and Kennedy, we selected those installations for a detailed review. Table 4 shows the amounts of receivables by installation.

Table 4 - NASA's Accounts Receivable Due from the Public

Installation	Accounts Receivable			Percent of Total
	FY 1997 Amount	FY 1998 Amount	Total	
Ames	\$ 445,302	\$ 197,130	\$ 642,432	1%
Dryden	935	1,875	2,810	Less than 1%
Goddard	12,965,848	7,989,857	20,955,705	44%
HAD	3,713,316	261,436	3,974,752	8%
Johnson	7,716,156	2,794,625	10,510,781	22%
Kennedy	1,811,093	1,421,353	3,232,446	7%
Langley Research Center	65,158	431,734	496,892	1%
Glenn	896,372	300,313	1,196,685	3%
Marshall	1,101,145	1,718,579	2,819,724	6%
JPL	733,890	2,069,775	2,803,665	6%
Stennis	267,061	584,239	851,300	2%
TOTAL	\$ 29,716,276	\$ 17,770,916	\$ 47,487,192	100%

Appendix A

We performed audit fieldwork at the financial management divisions and training offices of Goddard, NASA Headquarters, Johnson, and Kennedy. We interviewed NASA accounts receivable personnel at all Agency installations to determine the extent of their receipt of payroll bills of collection. In addition, we interviewed NASA Headquarters officials in the Office of the Chief Financial Officer, the Office of Human Resources and Education, and the Office of Public Affairs. We also interviewed Treasury Financial Management Service representatives to obtain their perspective on the Report on Receivables Due from the Public and to obtain the list of the NASA installations that had submitted debts for collection.

To accomplish the objectives, we:

- reviewed receivables due from the public and supporting documentation at the selected installations;
- reviewed the installations' FY's 1997 and 1998 Reports on Receivables Due from the Public and supporting documentation;
- interviewed installation and Headquarters financial management and other functional offices' personnel; and
- compared Agency performance to the requirements of the DCIA and implementing regulations.

Management Controls Reviewed

We reviewed the process NASA uses to document, classify, and certify its current and delinquent debt. We also examined the procedures used to collect the non-tax delinquent debt before it is referred to Treasury for collection as well as the procedures used to resolve delinquent debt returned by Treasury to the Agency as not eligible for collection. Except for those areas identified in the findings of the report, controls in place were considered adequate.

Audit Field Work

We conducted field work from November 1998 through April 1999, at Goddard, HAD, Johnson, Kennedy, and NASA Headquarters. The audit was performed in accordance with generally accepted government auditing standards.

Appendix B. Other Matters

We identified minor instances in which accounts receivable were not recorded correctly in the general ledger and in which receivables were not recorded in the installations' internal accounts receivable systems. Also, some receivables with other Federal Government agencies were incorrectly classified as due from the public. While we did not find material misstatements, there is a potential for errors to occur and not be corrected in a timely manner.

- Goddard overstated a receivable in the general ledger by \$135,433 as of September 30, 1998. This occurred because Goddard did not post a payment received during the transition of the receivable from HAD. In addition, Goddard held three payments in a suspense account pending notification of the job order number so that Goddard could post the receipts. Also, during FY 1998, Goddard incorrectly classified bills totaling \$157 with Government agencies as “nongovernment.”
- As of September 30, 1998, HAD did not include in its general ledger four bills totaling \$16,580. Also, one bill for \$60 had been paid, but HAD did not remove it from the general ledger. In addition, one bill was underrecorded by \$500 in the general ledger.
- Johnson incorrectly omitted one bill totaling \$616 from the general ledger at September 30, 1998, and incorrectly included another bill for \$2,168. Also, during FY's 1997 and 1998, Johnson incorrectly classified bills totaling \$446,124 with other Federal Government agencies as “due from the public.”

Appendix C. Overview of the Debt Collection Improvement Act of 1996

Purposes of the DCIA

1. Maximize collection of delinquent debt owed to the Government.
2. Consolidate debt collection functions to minimize costs.
3. Ensure that debtors are provided appropriate due process rights.
4. Improve Government credit management to minimize delinquency rates.
5. Ensure that the public is fully informed of the Government's debt collection policies and that debtors are cognizant of their financial obligations.
6. Utilize services of private collection agencies, when appropriate.
7. Encourage agencies to sell delinquent debt, under certain circumstances.

Requirements of the DCIA Applicable to NASA

1. Agencies may transfer debts less than 180 days delinquent⁹ to the Treasury for collection, but must transfer debts more than 180 days delinquent.
2. Agencies submitting debts must certify that the debts are delinquent, valid, legally enforceable in the amount stated, and that the debtor has been provided notice and an opportunity for review.
3. Creditor agencies shall participate at least annually in centralized salary offset computer matching. To meet this requirement, agencies shall refer debts more than 180 days delinquent to Treasury.
4. Federal agencies shall obtain the taxpayer identifying number of anyone "doing business" with the Government.

Treasury Collection Process

Treasury may take any of the following collection actions on NASA's behalf:

1. Send demand letters on U.S. Treasury letterhead and telephone debtors.
2. Refer accounts to credit bureaus.
3. Purchase credit reports to assist in the collection effort.
4. Refer accounts for offset such as from tax refunds and Federal employee salaries.
5. Refer accounts to private collection agencies.
6. Refer accounts to the Department of Justice for litigation.
7. Report written off/discharged debts to the Internal Revenue Service on Form 1099.
8. Enforce recovery using any additional steps necessary.
9. Terminate collection action, as appropriate.

⁹ Debts less than \$25, in litigation, debts for which the debtor is deceased, and debts owed by Federal agencies are not eligible for referral to Treasury.

Appendix D. Management's Response

National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001



JUN 7 1999

Reply to Attn of: BF

TO: W/Assistant Inspector General for Auditing
FROM: BF/Director, Financial Management Division
SUBJECT: Draft Report on Audit of NASA's Non-Tax Delinquent Debt
(Assignment Number A9901100)

This memorandum provides our comments on the subject draft report. We agree with the intent of the report and with the essential elements of each of the draft recommendations. However, we do not agree with all elements of the draft recommendations. In addition, we would like to emphasize that the amount of dollars involved are quite small in relation to NASA's financial activities and that we believe that all elements of any recommended corrective action must produce agency benefits that clearly outweigh the related costs.

The draft OIG report presents 5 recommendations. NASA agrees or concurs with the principle element of each of these recommendations. With respect to two recommendations, however, we believe that certain supplementary elements of the recommendations appear overly prescriptive and of questionable cost-benefit. In that regard, we partially concur with two of the draft report recommendations. Details follow.

Finding A. Pursuit of Debt Collection

The subject draft report recommends that the NASA Chief Financial Officer should:

- 1. Strengthen controls to ensure compliance with FMM requirements to include placing the required information on billing forms and demand notices, and measure compliance through the establishment of performance metrics related to the debt collection process.**

We concur. Requirements for Centers' independent Cash Management Reviews will be strengthened and specific metrics will be established through our Quality Assurance Evaluation process to monitor the inclusion of required notification on all demand notices. The Financial Management Manual (FMM) will be modified and other changes to enhance the Cash Management Review Process will be made by August 31, 1999.

Appendix D

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Finding B. Processing Receivables

- 1. The subject draft report recommends that the NASA Chief Financial Officer should establish a requirement for the Agency's functional offices to promptly forward all receivables to the cognizant accounts receivable division for bill processing and should establish a requirement for the accounts receivable division to notify the respective functional office when payment is made.**

Recommendation 2

We partially concur. We will explicitly require functional offices to promptly forward all receivables to cognizant management organizations for bill processing. In that regard, we will notify, via memorandum, each Center financial management office and Headquarters program office regarding the proper procedures for all receivable transactions. We do not believe it necessary or cost beneficial to notify the respective functional office in all cases when payment is received. Once the account receivable is established in financial management, it is a financial management responsibility to track and collect it, not a functional office responsibility. For small debts, such as those shown in table 2 of the Draft Report, especially those for Freedom of Information Act requests, we see no need to notify the functional office of payments received. Rather, we do see a need to notify functional offices when we do not collect, so they can avoid generating new receivables with delinquent debtors. We will establish FMM provisions to cover the latter circumstance. The memorandum and the revision to the FMM will be completed by August 31, 1999.

Finding C. Follow-Up of NASA-Funded Academic Training

- 1. The draft report recommends that the Associate Administrator for Human Resources and Education should establish procedures for NASA's training offices to determine whether courses are successfully completed and to notify the cognizant accounts offices of any receivables resulting from incomplete courses.**

Recommendation 3

We concur. The Associate Administrator's office concurs with this recommendation. The Director of Training and Development has already requested that Center training offices implement appropriate procedures to correct this problem. The GSFC procedure was cited as a model. The Centers currently are implementing corrective action.

Finding D. Reporting Delinquent Receivables to Treasury

The draft report recommends that the NASA Chief Financial Officer should:

- 1. Establish training for financial management personnel at Goddard, HAD, and Johnson and for other Agency installations, if necessary, on the correct**

Recommendation 4

Appendix D

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procedures for classifying debts as delinquent in the annual Report on Receivables Due from the Public.

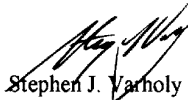
- 2. Revise the FMM to clarify that receivables are not reported as delinquent when the debtors are making current payments.**

We partially concur. While the auditors found instances in which Center staff inaccurately reported delinquent receivables, we believe that the process of classifying delinquency is not overly complex and that the Chief Financial Officer does not need to "establish [new] training." However, we will clarify the FMM instructions, direct Center Deputy Chief Financial Officers (Finance), to ensure their employees are adequately trained in the application of the rules, and enhance the FMM Cash Management Review requirements to include an analysis of this area. The FMM will be revised to clarify that a debt is not delinquent if the debtor has entered into a repayment agreement and that all payments are current in accordance with the new agreement. Each Center financial management office will be reminded to follow all procedures as written in the FMM. The FMM revision will be completed by August 31, 1999.

Other

As discussed with your staff, we suggest two other clarifications to the draft report. Footnote 1 should clarify that the monies involved are not "with reimbursable customers," but are in NASA deposit accounts. The recommendation on processing receivables should be clarified. It appears that the last word in Recommendation B. 1. should be "received," rather than "made."
receivables should be clarified. It appears that the last word in Recommendation B. 1. should be "received," rather than "made."

If you have any questions regarding these comments, please call Dave Gribble at (202) 358-1025.


Stephen J. Varnoly

Recommen-
dation 5

Appendix D

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cc:

BF/Mr. Gribble

BFB/Mr. Moede

BFZ/Mr. Smith

BFZ/Mr. Denwiddie

FT/Mr. McElwee

JM/Ms. Myles

Deputy Chief Financial Officers for Finance

ARC/CF/Mr. Rodrigues

DFRC/D1009/Mr. Otero

JSC/LF/Ms. Hammond

KSC/GG-B/Mr. Lenck

LaRC/MS-136/Mr. Ogiba

GRC/0220/Ms. Root

MSFC/BF01/Mr. Mayhall

SSC/EA20/Ms. Epperson

JPL/670/Ms. Wolf

Appendix E. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

Code A/Administrator
Code AI/Associate Deputy Administrator
Code B/Chief Financial Officer
Code B/Comptroller
Code C/Associate Administrator for Headquarters Operations
Code F/Associate Administrator for Human Resources and Education
Code G/General Counsel
Code H/Acting Associate Administrator for Procurement
Code J/Associate Administrator for Management Systems
Code JM/Director, Management Assessment Division
Code P/Associate Administrator for Public Affairs

NASA Centers

Director, Goddard Space Flight Center
 Chief Financial Officer, Goddard Space Flight Center
Director, Lyndon B. Johnson Space Center
 Chief Financial Officer, Lyndon B. Johnson Space Center
Director, John F. Kennedy Space Center
 Chief Financial Officer, John F. Kennedy Space Center
 Chief Counsel, Kennedy Space Center

NASA Offices of Inspector General

Ames Research Center
Dryden Flight Research Center
John H. Glenn Research Center at Lewis Field
Goddard Space Flight Center
Jet Propulsion Laboratory
Lyndon B. Johnson Space Center
John F. Kennedy Space Center
Langley Research Center
George C. Marshall Space Flight Center
John C. Stennis Space Center

Appendix E

Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Budget Examiner, Energy Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

Chairman and Ranking Minority Member - Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform and Oversight
House Subcommittee on National Security, Veterans Affairs, and International Relations
House Committee on Science
House Subcommittee on Space and Aeronautics

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

Major Contributors to this Report

Chester A. Sipsock, Program Director, Environmental and Financial Management Audits

Elaine M. Slauch, Auditor-in-Charge

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