

DECISION PAPER

AUDIT OF INTEREST CHARGES ON DELINQUENT DEBTS DUE FROM THE PUBLIC

Report No. 7AM-M02-073
Issue Date: May 22, 1987

Issue:

Should the Department charge interest and administrative costs on compensation and pension-related debts?

Finding:

Federal law (Veterans Rehabilitation and Education Amendments of 1980; P.L. 96-466, § 605(a); 38 U.S.C. § 5315 (formerly § 3115)) requires that VA charge interest and administrative costs on compensation, pension and other benefit related debts. VA has not instituted procedures to comply with these requirements.

Recommendation:

Revise and implement procedures to charge interest at the prescribed rate on compensation, pension, and other benefit debts.

VBA Position:

The Veterans Benefits Administration is opposed to charging interest on compensation and pension-related debts for the following reasons:

- Most C&P debtors live at or near the poverty level and are elderly with no resources to pay the debts much less interest charges.
- Interest charges would lead not to a reduction in the pension debt load but to an increase as interest charges and administrative costs are added to the amounts already unpayable. The end result would be not only an increased debt total but also increased mental and financial burdens for elderly, disabled, and destitute veterans.
- The Department is already able to recoup a high percentage of compensation and pension debts by withholding overpayments from on-going payments.
- Charging interest on C&P debts would defeat the purpose for which the benefit is being paid. In pension cases, the veteran needs the pension to meet the basic necessities of life. In compensation cases, the disabled veteran may not be able to make a living without the compensation payment.

- Interest charging is intended to coerce debtors to liquidate debts on a timely basis or suffer a monetary penalty. Because most C&P debtors would be unable to pay debts, the "threat" of charging interest would serve no practical purpose.
- Interest charging is inconsistent in relation to similar benefit programs such as Social Security.
- Implementation of interest charging would cost the Department approximately \$835,000 over a 23-month period. Based on current and projected levels of collections and the increased debt load caused by the addition of interest charges, implementation of the program would not be cost-effective for the Department.

VBA has developed, and the Department has submitted, legislative proposals to exempt VA from the requirement in successive Congresses. Implementation of the law has been avoided on the grounds that pending legislation would remove the requirement.

OIG Position:

We disagree with continuing to propose legislation to exempt C&P debts from interest charges for the following reasons:

- Recipients of compensation or pension overpayments have use of these funds with a cost to the Government (imputed interest) until the funds are repaid. This practice, in effect, provides an interest free loan that is not equitably available to others.
- The "threat" of charging interest - to coerce debtors to liquidate debts on a timely basis - could induce an increase of cash collections above the current 11 percent rate. In addition, by not charging interest, the Department loses the ability to encourage quick repayments.
- Interest charging would not unfairly burden veterans unable to pay C&P debts. Existing waiver and compromise procedures provide for nonpayment of debts when it is against equity and good conscience.
- VBA's \$835,000 implementation cost over a two-year period is a one-time cost. VBA's November 1991 cost benefit analysis projects interest accruals of nearly \$3 million annually in succeeding years.

More importantly, the language of the law is clear in the requirement that these charges be levied. The initial legislative requirement was established in 1980. The unsuccessful attempts to obtain legislative relief in successive Congresses should be accepted and the requirement implemented. There has also been

increased opposition to VA's legislative initiative within the Administration, making legislative relief less likely to occur. The Department of Education formally opposed the VA proposal on the grounds that it could establish a precedent that could adversely affect Government-wide collection provisions.i

The Chief Financial Officer's position (copy attached) is a concurrence with our position and also includes the statement that VA should begin to assess interest and administrative costs on delinquent C&P debts as required by law. The CFO position paper also indicates that the Departmental decision should take into consideration the fact that the legislative proposals to date have not been approved. We agree that administrative costs should also be assessed.

Another factor to consider is that the GAO has issued five reports since 1986 recommending that the VA implement procedures to charge interest and administrative costs on C&P debts. The latest report (July 1991) did not include a recommendation to the Secretary but rather to the OMB, recommending that OMB direct VA to assess interest and administrative costs on C&P debts.

The decision options outlined below also address interest charging on loan guaranty debts. VBA has agreed to revise the current interest rate on loan guaranty debts to the government-wide rate as recommended by the audit report. However, no action has been taken since the report was issued in 1987. VBA's plan is to develop two projects simultaneously to charge interest on both C&P and loan guaranty debts if required to do so. If the final decision is that the Department will not charge interest on C&P debts, a timetable for implementing loan guaranty interest charging should be required.

Deputy Secretary's Decision:

Option 1:

_____ Implement the recommendation to revise and implement procedures to charge interest at the prescribed rate on compensation and pension (C&P) debts. Administrative costs should also be assessed.

_____ Provide a time-phased implementation plan to the OIG for charging interest and administrative costs on both C&P and loan guaranty debts. Interest charging should begin no later than October 1, 1994 unless sufficient justification can be provided for a later date.

Option 2:

~~_____~~
~~_____~~

Do not implement interest charging on C&P debts.

Provide a time-phased implementation plan to the OIG for charging interest and administrative costs on loan guaranty debts. Interest charging should begin no later than October 1, 1994 unless sufficient justification can be provided for a later date.

7/8/97

DATE

[REDACTED]

ANTHONY J. PRINCIPI