

VA Financial Policies and Procedures  
Vendor Debts

CHAPTER 7

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## 0701 OVERVIEW

This chapter establishes the Department of Veterans Affairs (VA) financial policies and procedures relating to the collection of a vendor debt resulting from overpayments, duplicate payments, return of merchandise, contract defaults, improper payments and any other activity whereby a vendor may have become indebted to VA.

070101 AUTHORITY FOR VENDOR DEBT COLLECTION. VA is authorized to take collection action to recover monies owed to the Department from vendors, as prescribed by 31 U.S.C. 3711(a)(1).

070102 ACTIONS FOR VENDOR DEBT COLLECTION. In accordance with 31 C.F.R. 901, "*Standards for the Administrative Collection of Claims*," VA will take prompt and aggressive collection action to resolve vendor debts. Such action may include compromise, suspension, referral to the Department of the Treasury (Treasury) for offset and cross-servicing, termination/write off or referral for enforced collection of any debts owed by vendors. VA will base its collection action on various factors, such as the amount of the debt, the financial condition of the vendor debtor and any pending or future payments owed to the vendor debtor to include VA internal offset.

Refer to the following chapters in Volume XII, Debt Management, for more detailed information on vendor debt actions which may be taken:

- 1C Compromise of Debts
- 1E Treasury Offset Program and Treasury Cross-Servicing
- 1G Referrals for Enforced Collection (Litigation)
- 1H Suspension of Collection Action
- 1I Termination of Collection Action & Debt Close Out

## 0702 POLICIES

070201 AUTHORITY FOR VENDOR DEBT COLLECTION. VA will initiate collection action to recover vendor debts discovered by VA or identified by the vendors themselves through the issuance of credit memoranda, a telephone call or a fax message. Interest, administrative costs, penalties and other charges will be assessed on vendor debts in accordance with 38 C.F.R. 1.915(a)(3) "*Interest, Administrative Costs and Penalties*."

070202 ACTIONS FOR VENDOR DEBT COLLECTION.

- A. VA will establish a vendor's accounts receivable when a debt is determined.
- B. VA will promptly notify vendors of any debts owed and advise them of their due process rights and remedies relating to the debts.

C. VA will implement standardized collection procedures to resolve all vendor debts to include offset, compromise, referral to Treasury for offset and cross-servicing, termination/write off or referral for enforced collection. Vendor debts may not be waived.

**0703 AUTHORITY AND REFERENCES**

070301 31 U.S.C. 3711(a)(1), Collection and Compromise

070302 31 C.F.R. Part 900, Scope of Standards

070303 31 C.F.R. Part 901, Standards for the Administrative Collection of Claims

070304 31 C.F.R. Part 902, Standards for the Compromise of Claims

070305 31 C.F.R. Part 903, Standards for Suspending or Terminating Collection Activity

070306 31 C.F.R. Part 904, Referrals to the Department of Justice

070307 38 C.F.R. Part 1, Section 1.900-1.907, Standards for Collection, Compromise, Suspension or Termination of Collection Effort and Referral of Civil Claims for Money or Property

070308 38 C.F.R. Part 1, Section 1.910-1.929, Standards for Collection of Claims

070309 38 C.F.R. Part 1, Section 1.930-1.936, Standards for Compromise of Claims

070310 38 C.F.R. Part 1, Section 1.940-1.944, Standards for Suspending or Terminating Collection Action

070311 38 C.F.R. Part 1, Section 1.950-1.953, Department of Justice

070312 38 C.F.R. Part 14, Section 14.501, Functions and Responsibilities of Regional Counsels

070313 Office of Management and Budget (OMB) Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables

070314 Treasury Financial Manual, Volume 1, Part 6, Chapter 8000, Cash Management

070315 Department of the Treasury Guide: Managing Federal Receivables

070316 Department of Veterans Affairs Forms

## 0704 ROLES AND RESPONSIBILITIES

070401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

070402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

### 070403 DELEGATION OF AUTHORITY

A. The Chief of the Finance Activity has authority on debts not in excess of \$1,000 (exclusive of interest and other late payment charges) to reject any compromise offer or to accept an offer for payment greater than 50 percent of the total debt. The Chief may also recommend to the appropriate Committee on Waivers and Compromises (COWC) to accept a compromise offer for payment less than 50 percent of the total debt. The Chief will refer all eligible delinquent vendor debts over 180 days, without dollar limitation, to the Treasury Offset Program (TOP) and Treasury Cross-Servicing Program. Debts that are at least 60 days delinquent may be referred at the discretion of the Fiscal Officer, but debts over 180 days delinquent must be referred, unless they are exempt. When a vendor's debt is at least \$2,500 (exclusive of interest and other late payment charges), the Chief may refer the debt for enforced collection through the Regional Counsel (RC) to the United States Attorney in whose judicial district the debtor can be found. The Chief may write off vendor debts up to \$40,000, exclusive of interest and other late payment charges, where the criteria for write off of debts have been met.

B. The Chief Financial Officer (CFO) for each of VA's Administrations has the authority to terminate debts greater than \$40,000 but less than \$100,000. Each CFO may retain this authority or redelegate it to a level deemed appropriate.

C. Debts of \$100,000 or greater will be submitted to the RC for review and subsequent submission to VA Central Office's (VACO) Cash and Debt Management Division for final review prior to being referred to the Department of Justice (DOJ) for enforced collection.

070406 The Financial Services Center (FSC), located in Austin, Texas, is a franchise fund (fee-for-service) organization in VA. FSC's Financial Support Service researches VA's present financial accounting system to determine if vendors are receiving payments from other VA facilities that could be offset.

070407 The Regional Counsel (RC) and designated staff attorneys are authorized, in any matter within the jurisdiction of the VA General Counsel, delegated or otherwise assigned, to conduct investigations, examine witnesses, take affidavits, administer oaths and affirmations and certify copies of public or private documents. The RC is authorized to and shall, under the guidance of the General Counsel, provide legal services, advice and assistance to VA installations within the region assigned. In any area of regulatory, assigned or delegated responsibility, the RC may delegate to staff members or other VA attorneys authority to perform, to the extent specified, any legal function under the professional direction of the RC. The RC may modify, suspend or rescind any authority delegated hereunder.

## **0705 PROCEDURES**

### **070501 AUTHORITY FOR VENDOR DEBT COLLECTION.**

VA will initiate collection action with the vendor at the time VA determines a vendor debt is owed. Interest, administrative costs, penalties and other charges will be assessed in accordance with 31 C.F.R. 901.9 and 38 C.F.R. 1.915(a)(3). Administrative costs accrue beginning 31 days from the date of initial demand payment letter. Penalty charges will be assessed if a debt is not paid in full or in a current repayment plan within 91 days of delinquency, counted 31 days from the date of the initial demand letter.

### **070502 ACTIONS FOR VENDOR DEBT COLLECTION.**

A. VA will establish vendor accounts receivable either at the time of mailing the VA-initiated letter above or upon receipt of the vendor's credit memorandum. When a suspected debt is associated with a specific contract, the associated contracting officer will also be consulted.

B. VA will send a standardized demand letter (bill of collection) to vendors notifying them of their debts owed to VA. See Appendix A for an example of standardized collection notification forms FL 4-521 First Demand Letter Vendor Debts and FL 4-521a Demand for Vendor Debt Payment. Refer to Chapter 1, "*VA Debt Collection Standards*," of this volume of VA financial policies and procedures.

1. When the VA determines that a vendor debt has occurred, it will advise the vendor of the following:

- a. The vendor has the right to dispute the existence and amount of the debt.
- b. Interest, administrative costs and other charges will be assessed if payment is not received in full within 30 days from date of initial notification.
- c. Penalty charges will be assessed if the debt is not paid in full or in a current repayment plan within 120 days from the date of initial notification.

d. If payment is not made within 30 days from notification, the amount owed, plus interest and other late payment charges, will be offset from future payments owed the vendor by VA.

2. If VA receives a credit memorandum from the vendor acknowledging the existence of the debt for any reason (e.g., utilities and supplies), the letter to the vendor will indicate the following:

a. The credit memorandum has been received.

b. Interest, administrative costs and other charges<sup>1</sup> will be assessed if VA is not able to collect the full amount of the debt by offsetting a payment to the vendor within 30 days or the vendor does not submit payment in full within 30 days from the date of initial notification. See 070502A above for action to establish accounts receivable when credit memorandum is received.

c. Penalty charges will be assessed if the debt is not paid in full or in a current repayment plan within 120 days from the date of initial notification.

d. If the vendor is not expecting to receive a payment from VA in an amount equal to or greater than the amount of the credit memorandum, the vendor should remit payment in full or contact the appropriate office to make other payment arrangements within 30 days.

e. If the vendor disputes in writing the existence or amount of the debt within 30 days, then VA will not withhold any future payments until it is confirmed that the vendor owes the debt and the amount is correct.

C. In response to the original vendor communication above (070502B1), if the vendor has not disputed the existence or amount of the debt and has not made payment within 30 days from the date of the communication or if the vendor has not paid the debt in full and other payment arrangements have not been made, VA will initiate offset of payments to the indebted vendor from any other future payments. If the offset does not result in full liquidation of the vendor debt, VA will follow its standardized collection procedures.

1. VA will send a demand letter to the vendor in accordance with 31 C.F.R. 901.2, *Demand for Payment*. Generally only one demand letter is required, but follow up letters may become necessary, at 30-day intervals, if the vendor still has not made payment. In lieu of follow-up letters, VA may also make telephone calls to the debtor with the results of the conversations documented and maintained in the accounts receivable file. The following information will be included, as a minimum: date, time,

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<sup>1</sup> If the debtor reaches an agreement on a repayment plan within the 30 day time period, then there is no administrative fee charged.

participants, subject discussed and any agreements reached during the telephone conversations.

2. VA may arrange installment payments from the vendor debtor as an alternative means of collection or even compromise the debt. For more information on compromising a debt, refer to Chapter 1C, *Compromise of Debts*, in this volume of VA's financial policies and procedures.

3. VA will send an eligible vendor debt to the TOP for collection purposes when it becomes delinquent after 180 days. For additional information on policies and procedures and required documentation, relating to referral action to the TOP and Treasury Cross-Servicing, refer to Chapter 1E, *Treasury Offset Program and Treasury Cross-Servicing*.

4. VA may refer vendor debts of at least \$2,500 for enforced collection through the RC to the United States Attorney in whose judicial district the debtor can be found.

a. Debts of lesser amounts may not be referred, unless they meet the requirements in 31 C.F.R. 904.4(b) and 38 C.F.R. 1.953.

b. Before submitting a vendor debt for enforced collection, the Chief of the Finance Activity should contact VA's Financial Services Center (FSC), Financial Support Service, Operations Oversight Division, Quality Review Staff, to determine if the vendor is receiving payments from other VA facilities that could be offset. VA's FSC Quality Review Staff may assist with appropriate actions for an offset. For more information on financial policies and procedures relating to enforced collection, refer to Chapter 1G, *Referrals for Enforced Collection (Litigation)*, in this volume of VA's financial policies and procedures.

5. VA may write off/terminate vendor debts, where the criteria for such write offs have been met. Prior to writing off vendor debts, the Chief should contact VA's FSC, Financial Support Service, Operational Oversight Division, Quality Review Staff, to determine if the vendor is receiving payments from other VA facilities that could be offset.

a. Before writing off/ terminating a vendor debt, FSC should review all payments in VA's Financial Management System (FMS) to ensure the vendor is not receiving payments that should be withheld and applied to the debt.

b. The action taken, reasons for the decision and the applicable standard(s) that were applied will be documented on the appropriate vendor accounts receivable record.

c. Supporting documentation relating to the vendor debt written-off should be maintained pending any future audit.

For additional information on VA's financial policies and procedures relating to writing off/terminating vendor debts and applicable standards, refer to Chapter 11, *Termination of Collection Action and Close Out of Debt*, in this volume of VA's financial policies and procedures.

## **0706 DEFINITIONS**

070601 Close-out. Occurs when an agency, after determining that additional future collection efforts on a debt would be futile, reports the amount of a terminated debt to the Internal Revenue Service (IRS) as potential income to the debtor on Form 1099-C, Cancellation of Debt. For debts that are not reportable to IRS, close-out never actually occurs.

070602 Compromise. An offer and acceptance of a partial payment in settlement and full satisfaction of the offeror's indebtedness as it exists at the time the offer is made. It is a final settlement, binding on the parties to the compromise, unless procured by fraud, misrepresentation of a material fact or mutual mistake of fact.

070603 Credit Memorandum. A document issued by the vendor that supports money owed to VA. A credit memorandum may be issued if VA had overpaid on its account and the vendor advised VA of such overpayment without returning the overpayment. A credit memorandum may also be required if VA returned some merchandise to the vendor that had previously been purchased.

070604 Debt. Claim for money made by or owed to the Government, arising out of activities of VA.

070605 Due Process. The constitutional right of "due process" requires an agency to provide debtors with notice of and the opportunity to dispute, a debt or intended debt collection action.

070606 Improper Payments. Refers to any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative or other legally applicable requirements. This also includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received and any payment that does not account for credit for applicable discounts.

070607 Suspension of Collection Action. Temporary delay of collection actions on a debt owed to VA.

070608 Termination of Collection Action. Refers to a decision made to cease active collection action on a debt, in accordance with criteria set out in the Federal Claims Collection Standards, because such action is not economically worthwhile or is otherwise inappropriate.

070609 Termination, Currently Not Collectible. A decision by the Government to stop all collection activity on an account, but to hold the account for possible future collection action. This decision is made when it is determined that further collection activity will be fruitless or not cost effective at the time, but may be warranted at some future date. Terminated debts may be reactivated and collected if they have been written off, but not closed out. The word “termination” is often used interchangeably with “write off.” However, “termination” is a legal procedure, while “write off” is an accounting procedure generally associated with removing the debt from an agency records.

070610 Waive. A decision that conditions exist, under the applicable statutes (38 U.S.C. 5302 and 5 U.S.C. 5584) and implementing regulations (38 CFR 1.955-1.969, 17.105) that prohibit recovery by VA of certain debts as defined in the statutes and regulations, including interest and other late payment charges assessed on such debts. Vendor debts may not be waived.

070611 Write-Off. This process involves reducing receivables in accounting records as a result of the determination that they are uncollectible. All write-offs must be made through allowance accounts for bad debts. Under no circumstances are debts to be written off directly to expense. Write-offs should be distinguished from reversals of receivables. Federal accounts receivable are not written off; they are cancelled.

### **0707 RESCISSIONS**

070703 VA Handbook 4800.8, Vendor Debts

### **0708 QUESTIONS**

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)

APPENDIX A

VA FORM LETTER (FL) 4-521



DEPARTMENT OF VETERANS AFFAIRS

In Reply Refer To:  
File No./SSAN:

**NOTICE OF INDEBTEDNESS:** According to our records, you are indebted to the United States Government for \$ . This indebtedness was caused by:

If you do not believe you owe this debt or you think the amount is incorrect, you have a right to dispute the debt (see enclosed Notice of Rights and Obligations). Regardless of whether you dispute the debt, if you cannot repay this debt in full, you should contact us within 30 days from the date of this letter to work out a satisfactory repayment plan.

Debts being repaid by installments will be charged interest at an annual rate of % . A monthly administrative cost of collection fee of \$ (subject to change annually) may also be charged. Further, a penalty charge of 6% annually will be assessed on any account more than 90 days past due. If full payment of the debt is received within 30 days, no interest or administrative cost of collection fees or penalty charges will be assessed.

Please make your check or money order payable to the Department of Veterans Affairs and send it to the above address along with the bottom portion of this letter. Please include your full name and Social Security Number on your check or money order to insure proper credit.

If you have any questions concerning this letter, you may contact this office for assistance. Please disregard this letter if you have recently paid this debt in full.

Finance Officer

Enclosure

*FOR PROPER CREDIT TO YOUR ACCOUNT, PLEASE DETACH AND RETURN WITH YOUR PAYMENT*

PAYMENT REMITTANCE			
FILE NO./SSAN	NAME OF DEBTOR	AMOUNT ENCLOSED \$	YOUR TELEPHONE NO. (Include Area Code)
ENTER YOUR CURRENT ADDRESS BELOW ONLY IF THE ONE ABOVE IS INCORRECT. PLEASE INCLUDE YOUR ZIP CODE.			

*\*Please include this number on your check or money order.*

VA FORM LETTER (FL) 4-521a



DEPARTMENT OF VETERANS AFFAIRS

In Reply Refer To:  
File No./SSAN:

**NOTICE OF INDEBTEDNESS:** According to our records, you are indebted to the United States Government for \$ . This indebtedness was caused by:

If you do not believe you owe this debt or you think the amount is incorrect, you have a right to dispute the debt (see enclosed Notice of Rights and Obligations). Regardless of whether you dispute the debt, if you cannot repay this debt in full, you should contact us within 30 days from the date of this letter to work out a satisfactory repayment plan.

Debts being repaid by installments will be charged interest at an annual rate of % . A monthly administrative cost of collection fee of \$ (subject to change annually) may also be charged. Further, a penalty charge of 6% annually will be assessed on any account more than 90 days past due. If full payment of the debt is received within 30 days, no interest or administrative cost of collection fees or penalty charges will be assessed.

Please make your check or money order payable to the Department of Veterans Affairs and send it, along with a copy of the bill of collection, to the address noted on the bill. Please include your full name and Social Security Number on your check or money order to insure proper credit.

If you have any questions concerning this letter, you may contact this office for assistance. Please disregard this letter if you have recently paid this debt in full.

Enclosure

VA FORM LETTER (FL) 4-550



DEPARTMENT OF VETERANS AFFAIRS

In Reply Refer To:

File No./SSAN:

We have received your credit memo number \_\_\_\_\_ dated \_\_\_\_\_ in the amount of \$ \_\_\_\_\_. If we do not process a payment to you within the next 30 days to which we can apply the full amount of the credit, and if you do not remit payment in full within those 30 days, we must assess late charges on this receivable. Late charges include interest at an annual rate of \_\_\_\_\_ % accruing from the date of this letter, and a monthly administrative cost of collection fee of \$ \_\_\_\_\_ (subject to change annually). Further, a penalty charge of \_\_\_\_\_ % annually will be assessed on any receivable more than 90 days past due.

If you are not expecting to receive a payment from the Department of Veterans Affairs in an amount at least as great as the amount of the credit memo, please remit payment of the balance due within 30 days. If you cannot remit payment in full, contact this office within 30 days to work out a satisfactory repayment plan. Debts being repaid by installments will be assessed interest as explained in the preceding paragraph, but other late charges will not be assessed if we have agreed to an installment plan within 30 days. If full payment is received within 30 days, no late charges will be assessed.

If remitting payment, please make your check or money order payable to the Department of Veterans Affairs and send it to the above address along with the bottom of this letter. Please include your company's full name and Taxpayer Identification Number (TIN) on your check or money order to ensure proper credit.

If you have any questions concerning this letter, you may contact this office for assistance. Please disregard this letter if you have recently paid this debt in full.

Finance Officer

Enclosure

**FOR PROPER CREDIT TO YOUR ACCOUNT, PLEASE DETACH AND RETURN WITH YOUR PAYMENT**

PAYMENT REMITTANCE			
FILE NO./SSAN	NAME OF DEBTOR	AMOUNT ENCLOSED \$	YOUR TELEPHONE NO. <i>(Include Area Code)</i>
ENTER YOUR CURRENT ADDRESS BELOW ONLY IF THE ONE ABOVE IS INCORRECT. PLEASE INCLUDE YOUR ZIP CODE.			
*Please include this number on your check or money order.			

FL 4-550  
MAR 2003 (RS)

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