



# Department of Veterans Affairs

## Financial Policy

### Volume XII

#### Debt Management

### Chapter 1

#### VA Debt Collection Standards

Approved:

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### 0101 Overview

This chapter provides an overview of the laws, regulation, and guidance applicable to the establishment of debt, due process rights, and collection efforts for debts owed to the Department of Veterans Affairs (VA).

This chapter discusses how VA, in the performance of its debt management duties, will:

- Adhere to all laws, regulations, authorities, and guidance that govern VA debt management activities;
- Pursue the collection of all debts;
- Advise debtors of their due process rights;
- Apply interest, administrative costs, and penalty charges when applicable;
- Terminate collection activities on debts when all available collection efforts have been exhausted; and
- Report discharges of non-benefit debts over \$600 as income to the Internal Revenue Service (IRS).

### 0102 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and 5- year policy review.	OFP (047G)	Reorganized chapter layout	February 2021
0103 Definitions	Updated definitions	OFP (047G)	Updated and added definitions for clarity	February 2021
0104 Roles and Responsibilities	Changed title of Chief of Finance Activity to Chief of Local Finance Activity	OFP (047G)	Updated role titles for clarity	February 2021
0105 Policies	Reformatted policies into separate sections.	OFP (047G)	Improved flow and order of information stated	February 2021
0107 Rescissions	VA Handbook 4800.1, VA Collection Standards	OFP (047G)	No longer applicable	February 2021
0108 Questions	Updated DMC and FSC Mailboxes	OFP (047G)	New Mailbox Addresses	February 2021

Section	Revision	Office	Reason for Change	Effective Date
Appendix A	Removed examples of VA Notice of Indebtedness Form Letters	OFP (047G)	Move to VA Financial Policy Volume XII, Chapter 8 – Notice of Indebtedness-Billing-Invoicing	February 2021

### 0103 Definitions

**Benefit Debts** – Debts arising out of participation in a VA benefit program (e.g., compensation, education, pension, medical etc.) under the authority of Title 38 of the U.S. Code.

**Close-out** – A classification after write-off, also referred to as a Discharge of Indebtedness, when the agency has determined that no further debt collection action will be taken and the debt will be discharged, in accordance with 31 C.F.R. § 903.5, 38 C.F.R. § 1.944, and OMB Circular No. A-129. A non-benefit debt close-out of \$600 or more must be reported to the Internal Revenue Service (IRS) per 26 U.S.C. § 6050P.

**Compromise** – Governed by 31 U.S.C. § 3711, a compromise is 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.

**Currently Not Collectable (CNC)** – A classification of a debt after write-off whereupon cost effective debt collection efforts should continue if an agency determines that continued collection efforts are likely to yield a return. In such cases, the written-off debt is not closed out but classified as CNC.

**Debt** – Money owed or property owed to VA.

**Delinquent** – Delinquency occurs when payment is not made by the due date specified in the initial billing notice.

**Discharge of Indebtedness** – In accordance with 31 C.F.R. § 903.5, and 38 C.F.R. § 1.944, a “discharge” of a debt (also referred to as a “close-out” of the debt), is the classification of a write off determination action that concludes a debt is no longer collectible.

**Dispute** – Right of a debtor to contest the legitimacy of a debt, both as to its existence and its amount.

**Due Process** – Providing debtors with notice of intended debt collection actions and the opportunity to dispute the debt or amount, request a waiver when applicable, or negotiate a compromise of the debt.

**Enforced Collections** – The referral of a delinquent debt to the Office of General Counsel (OGC) or the Department of Justice (DOJ) for collection by securing a judgement against the debtor through litigation.

**Non-Benefit Debts** – Any debt not arising as a result of participation in a VA benefits program administered under authority of Title 38 of the U.S. Code. Examples include salary overpayments; the recovery for the value of lost Government property, such as: lost keys, books, and equipment.

**Notice of Indebtedness (NOI)** – Written communication sent by VA providing the debtor with notification of the existence and amount of the debt, payment remittance information, accrual of interest, penalties, administrative costs, and due process rights. A NOI is sometimes referred to as a demand letter.

**Statute of Limitations** – An assigned certain amount of time after which rights cannot be enforced by legal action or offenses may not be punished.

**Termination of Collection Action** – A decision, under the guidance of the Federal Claims Collection Standards 31 C.F.R. § 903, to cease active collection action on a debt when it appears that no person liable on the claim has the present or prospective ability to pay a significant amount of the claim or the cost of collecting the claim is likely to be more than the amount recovered.

**Treasury Cross-Servicing Program (CS)** – A consolidated government-wide program operated by the Bureau of Fiscal Service's Debt Management Services (DMS) fulfilling the requirement of the Debt Collection Improvement Act of 1996. The program consists of collection tools including Treasury demand letters, telephone calls to debtors, administrative wage garnishment (AWG), and the use of Private Collection Agencies (PCAs).

**Treasury Offset Program (TOP)** – A centralized offset program, administered by the Bureau of the Fiscal Service's Debt Management Services (DMS), to collect delinquent debts owed to federal agencies and states (including past-due child support).

**Waiver** – A decision that conditions exist which should result in cancellation, forgiveness, or non-recovery of a debt owed, including interest and other latepayment charges assessed on such debts under the applicable statutes and implementing regulations 38 C.F.R. § 1.955, through 38 C.F.R. § 1.969, and 38 C.F.R. § 17.105.

**Write-off** – An accounting action that results in reporting the debt as having no value on the agency's financial and management report. Write-off may occur before, concurrently

with, or after the agency determines that collection action should be terminated. A write-off must be classified as either Currently Not Collectible (CNC) or as a close-out per OMB Circular No. A-129 guidance.

#### **0104 Roles and Responsibilities**

**Assistant Secretary for Management/Chief Financial Officer (VA 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.

**Under Secretaries, Assistant Secretaries, Chief Financial Officers, and Other Key Officials** are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

**Chief of the Local Finance Activity** is responsible for ensuring that compliance with the policies and appropriate procedures are followed for the administration of VA's debt collection activities. Any reference to the Chief of the Local Finance Activity also includes the: Executive Director of the Debt Management Center (DMC), Director of the Financial Service Center (FSC) where appropriate, as well as Chief Fiscal Officers in VA Medical Centers, Chief Finance Officers in Regional Offices, and Chief Fiscal Officers in the Consolidated Patient Account Centers (CPAC).

**Committee on Waivers and Compromises (COWC)** is the decision-making panel composed of one or more members, making decisions on a request for a waiver or compromise. The Committee is under the direction of and has authority vested in the Director of the office of jurisdiction. The Committee will have independent decision-making authority. For more information please refer to VA Financial Policy Volume XII, Chapter 11 – Committees on Waivers and Compromises.

**Debt Management Center (DMC)** is a franchise fund (fee-for-service) organization in VA. The DMC offers a wide range of debt management services including debt resolution activities, (waivers, compromises, etc.) and is responsible for debt referral to the Treasury Cross-Servicing program.

**Financial Services Center (FSC)** is a franchise fund (fee-for-service) organization where VA has centralized most Vendor payments. FSC is responsible for initiating the collection of debts on the payments it issues. FSC will forward debts to DMC for delinquent debt processing in accordance with their Service Level Agreement, (i.e., when debts become 90 days past due).

#### **0105 Policies**

## 010501 General Policies

VA will apply debt collection standards in all recovery efforts as specified in the laws, regulations, and guidance provided below.

### A. Statutory References

- [31 U.S.C. § 3711, Collection and compromise;](#)
- [5 U.S.C. § 5514, Installment deduction for indebtedness to the United States;](#)
- [31 U.S.C. § 3716, Administrative Offset;](#)
- [31 U.S.C. § 3717, Interest and Penalty on Claims;](#)
- [38 U.S.C. § 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States;](#)
- [The Debt Collection Improvement Act of 1996 \(DCIA\).](#)

### B. Regulatory References

- [38 C.F.R. §§ 1.910-1.929, Standards for the Collection of Claims;](#)
- [31 C.F.R. Chapter IX - Parts 900-904 Federal Claims Collection Standards;](#)
- [5 C.F.R. Vol.1 Part 550 Subpart K Collection by Offset From Indebted Government Employees;](#)
- [31 C.F.R. § 285, Debt Collection Authorities Under the Debt Collection Improvement Act of 1996;](#)
- [38 C.F.R. § 1.915, Interest, Administrative Costs, and Penalties;](#)
- [31 C.F.R. § 901.9, Interest, Penalties, and Administrative Costs.](#)

### C. Guidance

- [OMB Circular No. A-129 Policies for Federal Credit Programs and Non-Tax Receivables;](#)
- [Treasury Financial Management - Managing Federal Receivables.](#)

## 010502 Collections and Offsets

VA will pursue collection actions in accordance with the following administrative laws, regulations, and guidance when standard collection actions fail to recover the debt or the debtor has not taken appropriate action to satisfy the indebtedness.

### A. VA Administrative Offset

- [31 U.S.C. § 3716, Administrative Offset;](#)
- [38 C.F.R. § 1.912, Collection by offset;](#)
- [31 C.F.R. § 901.3, Collection by administrative offset.](#)

### B. Employee Salary Offset

- [5 U.S.C. § 5514, Installment deduction for indebtedness to the United States;](#)
- [5 C.F.R. Vol.1 Part 550 Subpart K Collection by Offset From Indebted Government Employees;](#)

- VA Financial Policy Volume XII, Chapter 3 – Employee Debt.
- C. Offset from VA Benefit Payments
- [38 U.S.C. § 5314, Indebtedness Offsets;](#)
  - [38 C.F.R. § 1.911, Collections of Debts Owed by Reason of Participation in a Benefits Program;](#)
  - [38 C.F.R. § 1.912a, Collection by Offset Form VA Benefit Payments;](#)
  - VA Financial Policy Volume XII, Chapter 2 – Benefit Debts.
- D. Mandatory referral of delinquent debt over 120 days to TOP for offset, 180 days for CS, and referral for enforced collection (litigation).
- [Public Law 113–101 Digital Accountability and Transparency Act \(DATA\)2014;](#)
  - [31 U.S.C. § 3711 \(g\)\(1\), Collection and compromise;](#)
  - [The Debt Collection Improvement Act of 1996 \(DCIA\);](#)
  - [31 C.F.R. § 285.12, Transfer of Debts to Treasury for Collection;](#)
  - [Treasury Financial Management - Managing Federal Receivables;](#)
  - VA Financial Policy Volume XII, Chapter 14 – Treasury Offset Program, Treasury Cross-Servicing, and Enforced Collection (Litigation).

For more information on collection activities, refer to VA Financial Policy Volume XII, Chapter 10 – Collection of Debts.

### **010503 Termination of Collection Action/Write-off and Close-out**

- A. VA will terminate collection activity when all available collection efforts have been exhausted, and the criteria for termination has been met per [31 C.F.R. § 903.3](#), and under the authority of [31 U.S.C. §3711](#).
- B. VA will generally write-off delinquent debt older than two years unless documented and justified. Once the debt is written-off, VA will classify the debt as either CNC or Close-Out per [OMB Circular No. A-129](#) guidance.
- C. VA will close out a debt (also referred to as discharge of a debt) when it has been determined that it is no longer cost effective to pursue any type of collection activity. The authority to close out or discharge a debt follows the same authority as termination. (See VA Financial Policy Volume XII, Chapter 13, Appendix A.)
- D. VA will report discharge of non-benefit indebtedness exceeding \$600 to the IRS in the calendar year in which the debt is closed out, or satisfied at less than face value per [26 U.S.C. § 6050P](#).

For more information regarding debt termination, write-off, and close-out refer to VA Financial Policy Volume XII, Chapter 13 – Termination of Collection Action and Reporting Discharge of Debt to IRS.

#### **010504 Reporting Debt**

VA will provide reports on debt collection actions as required by [31 U.S.C. § 3719](#), incorporate the required data into the quarterly Treasury Report on Receivables (TROR).

For more information regarding reporting debt, refer to VA Financial Policy Volume XII, Chapter 15 – Treasury Report on Receivables.

#### **010505 Record Retention**

- A. Supporting documentation relating to debt will be maintained for a minimum period of 6 years after final payment or close out of the debt; longer retention is authorized if required.
- B. For more information regarding Record Retention, refer to U.S. National Archives and Records Administration (NARA) General Records Schedule 1.1 and VA Handbook 6300.1, Records Management Procedures.

#### **0106 Authority and References**

[5 C.F.R. Vol.1 Part 550 Subpart K Collection by Offset from Indebted Government Employees](#)

[5 U.S.C. § 5514 Installment Deduction for Indebtedness to the United States](#)

[5 U.S.C. § 5584, Claims for overpayment of pay and allowances, and of travel, transportation and relocation expenses and allowances](#)

[26 U.S.C. § 6050P Return Relating to the Cancellation of Indebtedness by Certain Entities](#)

[26 U.S.C. § 6402 Authority to Make Credits or Refunds](#)

[31 C.F.R. § 285 Debt Collection Authorities Under the Debt Collection Improvement Act of 1996](#)

[31 C.F.R. Chapter IX - Parts 900-904 Federal Claims Collection Standards](#)

[31 U.S.C. § 3711, Collection and compromise](#)

[31 U.S.C. § 3716, Administrative Offset](#)

[31 U.S.C. § 3717, Interest and Penalty on Claims](#)

[31 U.S.C. § 3719, Reports on Debt Collection Activities](#)

[31 U.S.C. § 3720A, Reduction of Tax Refund by Amount of Debt](#)

[38 C.F.R. §§ 1.910-1.929 Standards for the Collection of Claims](#)

[38 C.F.R. § 1.944, Discharge of Indebtedness, reporting requirements](#)

[38 C.F.R. §§ 1.950-1.970, Referrals to GAO, Department of Justice, or IRS](#)

[38 C.F.R. § 17.105, Waivers](#)

[38 U.S.C. § 309, Chief Financial Officer](#)

[38 U.S.C. § 5302, Waiver of recovery of claims by the United States](#)

[38 U.S.C. § 5314, Indebtedness Offsets](#)

[38 U.S.C. § 5315, Interest and Administrative Cost Charges on Delinquent Payments of Certain Amounts Due the United States](#)

[Chief Financial Officers Act of 1990](#)

[OMB Circular A-129 Policies for Federal Credit Programs and Non-Tax Receivables](#)

[Public Law 113–101 Digital Accountability and Transparency Act \(DATA\) 2014](#)

[The Debt Collection Improvement Act of 1996 \(DCIA\)](#)

[Title 38 of the U.S. Code, Veterans' Benefits](#)

[Treasury Financial Management - Managing Federal Receivables](#)

## **0107 Rescissions**

VA Handbook 4800.1, VA Collection Standards

## **0108 Questions**

Questions concerning these financial policies should be directed as shown below:

VHA  
VBA  
FSC

VHA CFO Accounting Policy (10A3A) (Outlook)  
VAVBAWAS/CO/OPERATIONS (Outlook)  
VAFSC ENTERPRISE SUPPORT (Outlook)

DMC  
All Others

VAVBASPL/DMC/BDEV (Outlook)  
OFP Accounting Policy (Outlook)