Financial Policy

Volume XII

Debt Management

Chapter 5

Vendor Debts

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Assistant Secretary for Management
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0501 Overview

This chapter establishes the Department of Veterans Affairs' (VA) financial policy relating to the collection of vendor debts resulting from overpayments, duplicate payments, merchandise returns, contract defaults, improper payments, and any other activities whereby a vendor may have become indebted to VA.

This chapter discusses how VA, in the performance of its debt management duties will:
- Identification of vendor debt;
- Notification of Indebtedness (NOI);
- Collection activities relative to vendor debts; and
- Reporting vendor debt collection activities.

0502 Revisions

<table>
<thead>
<tr>
<th>Section</th>
<th>Revision</th>
<th>Office</th>
<th>Reason for Change</th>
<th>Effective Date</th>
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<tbody>
<tr>
<td>Various</td>
<td>Reformatted to new policy format and 5-year policy review.</td>
<td>OFP (047G)</td>
<td>Reorganized chapter layout</td>
<td>February 2021</td>
</tr>
<tr>
<td>Various</td>
<td>Changed all references of Regional Counsel to District Counsel.</td>
<td>OFP (047G)</td>
<td>Per OGC, change will encompass all specialized groups within OGC.</td>
<td>February 2021</td>
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<tr>
<td>Chapter Number</td>
<td>Chapter number changed from 7 to 5</td>
<td>OFP (047G)</td>
<td>Reorganized chapters</td>
<td>February 2021</td>
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<tr>
<td>0503 Definitions</td>
<td>Updated definitions</td>
<td>OFP (047G)</td>
<td>Updated and added definitions for clarity</td>
<td>February 2021</td>
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<tr>
<td>0504 Roles and Responsibilities</td>
<td>Changed title of Chief of Finance Activity to Chief of Local Finance Activity</td>
<td>OFP (047G)</td>
<td>Updated role titles for clarity</td>
<td>February 2021</td>
</tr>
<tr>
<td>0505 Policies</td>
<td>Reformatted policies into separate sections.</td>
<td>OFP (047G)</td>
<td>Improved flow and order of information stated</td>
<td>February 2021</td>
</tr>
<tr>
<td>0507 Rescissions</td>
<td>Rescinded Volume XII, Chapter 7, Vendor Debts</td>
<td>OFP (047G)</td>
<td>Reorganized chapters</td>
<td>February 2021</td>
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<tr>
<td>0508 Questions</td>
<td>Updated DMC and FSC Mailboxes</td>
<td>OFP (047G)</td>
<td>New Mailbox Addresses</td>
<td>February 2021</td>
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0503 Definitions

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.
Credit Memorandum – An acknowledgement received from the vendor that they owe VA money.

Currently Not Collectible (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 Collection – The process of pursuing repayment of a debt owed to VA.

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.

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 Collection – 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.

Improper Payments – Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods and services not received (except for such payments authorized by law).

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.

Suspension of Collection – A temporary delay of collection actions on a debt.

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.
**Vendor** – Per 5 C.F.R. § 1315.2, a Vendor is any person, organization, or business concern engaged in a profession, trade, or business and any not-for-profit entity operating as a vendor (including state and local governments and foreign entities and foreign governments, excluding federal entities).

**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.

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### 0504 Roles and Responsibilities

**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: 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).

**Debt Management Center (DMC)** is a franchise fund (fee-for-service) organization at VA. DMC offers a wide range of debt management services including delinquent debt processing, and 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 Debt Management Center for delinquent debt processing in accordance with their Service Level Agreement, (i.e., when debts become 90 days past due).

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### 0505 Policies

#### 050501 General Policies

A. VA will take collection action to recover monies owed to VA from vendors, as prescribed by 31 U.S.C. § 3711, and 31 C.F.R. § 904. Actions will include:

- Internal offset;
For vendor debts, the contract or purchase order should be reviewed for any distinct terms or unique provisions of the contract per Federal Claims Collection Standards guidance, 31 C.F.R. § 900.5. In addition, the Contracting Officer (CO) or Contracting Officer's Representative (COR) should also be contacted to:

- Request assistance with understanding the provisions of the contract,
- Determine if the billing issue will affect the vendor performance rating or if the issue is serious enough to lead to the disbarment of the vendor; or
- Determine if in accordance with 31 CFR §900.5, the Government may demand the return of specific property or the performance of specific services.

B. There is no legal authority for a vendor to request or for VA to grant a waiver of debt; however, under 31 U.S.C. § 3711, a vendor has the legal right to request a compromise.

C. The standards set forth in 31 C.F.R. § 902, applies to the compromise of debts pursuant to 31 U.S.C. § 3711. Senior Executives within DMC or FSC have the authority to compromise vendor debts under $100,000, exclusive of interest, penalties, and administrative costs, as well as the authority to recommend compromise of vendor debts $100,000 and above to the Department of Justice (DOJ).

For more information refer to VA Financial Policy Volume XII – Chapter 11B Compromise of Debt.

050502 Identifying Vendor Debt

Vendor debts are discovered:

- By a fiscal clerk if insufficient funds remain to pay a current invoice related to a Purchase Order (PO);
- By a Contracting Officer during the PO's close out process;
- By a certifying official researching the PO's activity prior to providing the final certification for an invoice;
- During a Quality Review, Recapture Recovery, or Office of Inspector General audit; or
- By the vendor's acknowledgement of a debt through payment to VA, the
issuance of credit memoranda, a telephone call, or a message to VA.

050503 Recording a Debt

A. Once it is determined a vendor owes a debt, VA will establish a receivable in the accounting system by issuing a NOI to the vendor.

B. This step may be automated if an Administration or Staff Office is using a sub-system to the accounting system in order to generate the NOI.

050504 Initial Notice of Indebtedness (NOI)

A. A NOI is sent to the vendor notifying them of their debt to VA. See Appendix A. In order to be legally defensible, the NOI will contain at a minimum the following information:
   • Name;
   • Address of the vendor;
   • Amount due;
   • What caused the debt;
   • Explanation of due process rights;
   • Contact information;
   • Assessment of interest, administrative costs, and penalties; and
   • Payment options.

B. For more information on the NOI, refer to VA Financial Policy Volume XII, Chapter 8 – Notice of Indebtedness-Billing-Invoicing.

050505 Collection Activities

A. VA will implement collection procedures to resolve vendor debts by:
   • Issuing a NOI and requesting an Electronic Funds Transfer (EFT) reversal, see Appendix B;
   • Properly reflecting the refund in its accounting system, if the bank processes the EFT reversal;
   • Establishing a transaction to offset the next payment to the vendor if the EFT reversal is not processed, but the vendor either acknowledges the debt or does not respond;
   • Resolving any issues before collecting on the debt, if the vendor exercises their due process rights within 30 days of the date of the NOI;
   • Referring (via FSC) debts not fully collected after 90 days to DMC for submission to Treasury Offset Program (TOP) and Cross-Servicing;
   • Referring to DOJ for enforced collection after all collection actions have been
exhausted; and

- Compromising, terminating, or writing off the debt should VA not be able to collect the full amount.

For more information on compromise of debts refer to VA Financial Policy Volume XII, Chapter 11B - Compromise of Debt.

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

B. The Chief of the Local Finance Activity must refer all delinquent vendor debts over 120 days to DMC for submission into TOP per 31 U.S.C. § 3716. Debts over 120 days shall be referred to the Treasury Cross-Servicing Program under the authority of the Debt Collection Improvement Act (DCIA). Debts that are at least 60 days delinquent may be referred to Treasury at the discretion of the Chief of the Local Finance Activity.

C. The Chief of the Local Finance Activity may refer delinquent vendor debts in excess of $2,500 to DOJ for enforced collection per 31 U.S.C. § 3711, and 31 C.F.R. § 904.4.

D. Per 31 C.F.R. § 902.2 (f), agencies generally should not accept compromises that are payable in installment agreements. However, should an installment agreement be necessary, VA must comply with the provisions under the Federal Claims Collection Standards 31 C.F.R. § 901.8 (b).

E. Per 31 C.F.R. § 901.8 (b), size and frequency of installment payments should bear a reasonable relation to the size of the debt and the debtor’s ability to pay. If possible, the installment payments should be sufficient in size and frequency to liquidate the debt in three years or less, unless otherwise approved by the DMC.

F. See Appendix C for a quick reference table of thresholds and authorities to compromise vendor debts.

G. Refer to VA Financial Policy Volume XII, Chapter 14 – Treasury Offset Program, Treasury Cross Servicing, Administrative Wage Garnishment, and Enforced Collection (Litigation).

H. Refer to VA Financial Policy Volume XII, Chapter 13 – Termination of Collection Action and Reporting Discharge of Debt to IRS.

I. Interest, administrative costs, and penalties will be assessed on vendor debts in accordance with 31 U.S.C. § 3717. Refer to VA Financial Policy Volume XII – Chapter 9 – Interest Penalties and Administrative Fees.
J. VA stations should contact the FSC Customer Engagement Center in order to verify the vendor is not receiving payments thru VA’s accounting system, which could be offset and applied to a debt. Contact should be made via email to VAFSC Enterprise Support or by calling (866)-372-1141.

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

050506 Termination of Collection Action, Write-off, or Close-out

A. VA will terminate collection activity and write-off vendor debts when all available collection efforts have been exhausted, and the criteria for termination and write-off has been met, which can be found in the Federal Claims Collection Standards 31 C.F.R. § 903.3.

B. VA will classify the write-off as either CNC or Close-Out in accordance with guidance in OMB Circular No. A-129 Ch. 5 - Section E, and Bureau of The Fiscal Service - Managing Federal Receivables - Chapter 7.

C. VA will close-out / discharge a debt when it has been determined that it is no longer cost effective to pursue any type of collection activity. VA will report discharge of indebtedness exceeding $600 to the Internal Revenue Service (IRS) in the calendar year in which the obligation is closed out or satisfied at less than face value (compromised) per 26 U.S.C. § 6050P, Returns relating to the cancellation of indebtedness by certain entities.

D. VA will refer debts exceeding $100,000, excluding interest and other late payment charges, to DOJ for termination approval.

E. For more details regarding debt termination and reporting discharge of debt to the IRS, refer to VA Financial Policy Volume XII, Chapter 13 – Termination of Collection Action, and Reporting Discharge of Debt to IRS.

050507 Reporting a Debt

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

B. For more information regarding reporting debt to Treasury, refer to VA Financial Policy Volume XII, Chapter 15 – Treasury Report on Receivables.
0506  Authorities and References

- 5 C.F.R. § 1315, Prompt Payment
- 26 U.S.C. § 6050P, Returns relating to the cancellation of indebtedness by certain entities
- 31 C.F.R. Part 900, Scope of Standards
- 31 C.F.R. Part 901, Standards for the Administrative Collection of Claims
- 31 C.F.R. Part 902, Standards for the Compromise of Claims
- 31 C.F.R. Part 903, Standards for Suspending or Terminating Collection Activity
- 31 C.F.R. Part 904, Referrals to the Department of Justice
- 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
- 38 C.F.R. § 1.944, Discharge of indebtedness; reporting requirements

Bureau of The Fiscal Service - Managing Federal Receivables - Chapter 7

Debt Collection Improvement Act

Department of Veterans Affairs Forms

OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables

Treasury Financial Management - Managing Federal Receivables

U.S. National Archives and Records Administration (NARA) General Records Schedule 1.1

VA Handbook 6300.1, Records Management Procedures

0507  Rescissions

VA Financial Policy Volume XII, Chapter 7 – Vendor Debts
Questions concerning these financial policies should be directed to the following points of contact:

<table>
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<tr>
<th>Agency</th>
<th>Contact Information</th>
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<tr>
<td>VHA</td>
<td>VHA 10A3A Accounting Policy (Outlook)</td>
</tr>
<tr>
<td>VBA</td>
<td>VAVBAWAS/CO/OPERATIONS (Outlook)</td>
</tr>
<tr>
<td>DMC</td>
<td>VAVBASPL/DMC/BDEV (Outlook)</td>
</tr>
<tr>
<td>FSC</td>
<td><a href="mailto:VAFSCEnterpriseSupport@va.gov">VAFSCEnterpriseSupport@va.gov</a></td>
</tr>
<tr>
<td>All Others</td>
<td>OFP Accounting Policy (Outlook)</td>
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</table>
Appendix A: Notice of Indebtedness

DEPARTMENT OF VETERAN AFFAIRS

In Reply refer to: XXXXXXX

NOTICE OF INDEBTEDNESS: According to our records, you are indebted to the United States Government for $X.XX. This indebtedness was caused by: (See attached Bill of Collection).

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.

If you have any questions concerning this letter, you may contact this office for assistance at PH# XXX-XXX-XXXX or email at XXX@XXX. Please disregard this letter if you have recently paid this debt in full.
BILL FOR COLLECTION

Bill No. XXXXXXX
Date

Send payment to:

VENDOR NAME
STREET ADDRESS/PO BOX
CITY, STATE, ZIP CODE

Department of Veterans Affairs
Financial Services Center (662)
ATTN: Agent Cashier (0474B)
PO BOX 149975
Austin, TX 78714

This bill should be returned by the payer with their remittance. SEE INSTRUCTIONS BELOW

Ref: XXXXXXXXXX

<table>
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<tr>
<th>DESCRIPTION</th>
<th>AMOUNT</th>
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<tbody>
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<td></td>
<td>$______</td>
</tr>
</tbody>
</table>

Electronic Transfer #___, dated_____ in the amount of $, was issued to you in error. This Electronic Transfer included a duplicate payment of $ on Invoice #_____, DLN, under PO#_____. Payment was already paid to___ on EFT#______ dated______.

The above payment has been deposited to your account. Please forward your payment to the Agent Cashier at the above address. Please reference the bill number on your payment for identification purposes.

PAYMENT DUE 30 DAYS FROM THE DATE OF THIS BILL AMOUNT DUE THIS BILL $___

THIS IS NOT A RECEIPT

INSTRUCTIONS

Tender of payment of the above bill may be made in cash, United States postal money order, express money order, bank draft, or check, to the office indicated. Such tender, when in any other form than cash, should be drawn to the order of the Department or Establishment and Bureau or Office indicated.

Receipts will be issued in all cases where "cash" is received, and only upon request when remittance is in any other form. If tender of payment of this bill is other than
cash or United States postal money order, the receipt shall not become a quittance until such tender has been cleared and the amount received by the Department or Establishment and Bureau or Office indicated above.

Failure to receive a receipt for a cash payment should be promptly reported by the payer to the chief administrative officer of the bureau or agency mentioned above.

NOTICE OF RIGHTS AND OBLIGATIONS

DEBTS OWED THE UNITED STATES GOVERNMENT: The law requires that the Department of Veteran Affairs (VA) collect debts owed the government. VA is required to offset future payments owed you to apply to this debt. Any current or future VA payments or other payments made under any law administered by VA may be withheld.

NOTE: Whenever this letter states you have a period of time to take some action or to notify us, the period of time begins to run from the date appearing on the front of this letter.

RIGHT TO DISPUTE THE EXISTENCE OR AMOUNT OF THE DEBT: If you tell us in writing within 30 days that you believe that you do not owe this debt or that the amount is incorrect, we will not withhold any current or future payments until we confirm that you do owe this debt and the amount is correct or we determine that the delay required to resolve the dispute will jeopardize our ability to collect the full amount of the debt. You should explain to the extent that you can, why you believe you do not owe the debt or why the amount is incorrect.

ADMINISTRATIVE COST OF COLLECTION FEES: The monthly administrative cost of collection fee will not be added to your debt if, within 30 days, full payment is received, or an acceptable repayment plan is worked out. Other costs of collection may also be added to the debt if additional actions become necessary.

PENALTY CHARGES: The monthly penalty charge will not be added to your debt if, within 90 days, full payment of the debt is received, or an acceptable repayment plan is worked out. If an acceptable repayment plan is agreed upon and you default on that agreement, we will begin assessing a penalty charge 90 days after the default.
Notice to Customers Making Payment by Check

Implementation of Paper Check Conversion Over the Counter (PCC OTC)
Any checks submitted to the Agent Cashier at VA Financial Service Center in Austin, TX will be deposited in the Treasury using the PCC OTC system. Checks submitted for payment will be processed as an electronic fund transfer. While most checks will be deposited using PCC OTC, we retain the option of depositing checks in the traditional manner.

When you provide a check as payment, you authorize us to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.

When we use information from your check to make an electronic fund transfer, funds may be withdrawn from your account as early as the same day we receive your payment, and you will not receive your check back from your financial institution.

Privacy Act – A Privacy Act Statement required by 5 U.S.C. § 552a(e)(3) stating our authority for soliciting and collecting the information from your check, and explaining the purposes and routine uses which will be made of your check information, is available from our internet site at: https://home.treasury.gov/footer/privacy-act, or call toll free at 1-866-945-7920 (local number (Delaware) 302-324-6442, Military DSN 510-428-6824 (option 4, option 5, option 4) ) to obtain a copy by mail. Furnishing the check information is voluntary, but a decision not to do so may require you to make payment by some other method.
Appendix B: EFT Reversal Letter

Department of Veterans Affairs
Financial Services Center
PO Box 149975
Austin, TX 78714

DATE
104/0473A/C

Wells Fargo Bank
ATTN: ACH
Coordinator 255
2nd Ave S.
Minneapolis,
MN 55479
Phone# 800-745-2426
FAX # 866-359-6365

ACH Department:

The Department of Veterans Affairs Financial Services Center is requesting the reversal of the following electronic funds transfer. Payment was paid to the wrong account. Please process the reversal as R06 so that we can issue the payment to the correct account. The payment information is:

Vendor name:
Tax identification number:
ABA number:
Account number:
Deposit Date
Trace Number Amount Deposit Date
XX14XX161XX1036151XX2899 $11,100.0 09/14/2016 0

VA agrees to indemnify Wells Fargo Bank of any liability in acting in compliance with this request.

We thank you for your assistance and if you have any questions, please call John Smith at 512.460.5544.

Sincerely,

Jane Doe, Chief, Customer Support Section
Financial Operations Services Division, Financial Services Center