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A. Purpose and Scope

This item establishes policies and procedures prescribed by the Director of the Budget for all State agencies regarding the use of an administrative offset as a method of collecting past-due debt.

An administrative offset is an intra-agency collection method whereby a payment from a State agency is withheld in whole or in part to satisfy a non-tax debt to that State agency. Funds collected by an intra-agency offset are not deposited in the Revenue Arrearage Account.

B. Procedures for Obtaining Payment of Debt Through Intra-Agency Administrative Offset

1. Internal Verification

   Once an account is classified as past-due, a State agency is responsible for determining through an internal verification procedure, whether the debtor owing money to the State agency will also receive a payment from that same State agency. If such a payment is deemed to be forthcoming to a debtor who also owes a past-due debt, then the State agency should attempt to implement an administrative offset.

   Example:

   A not-for-profit drug treatment facility has been audited by the State Comptroller and found to have been overpaid by Agency A three years earlier. Written repayment requests by Agency A to the treatment facility have not been disputed by the facility, nor has the treatment facility made any repayment.

   Meanwhile, under an existing contract between Agency A and the treatment facility, Agency A is preparing to make a payment to the treatment facility for current services. Agency A should withhold the payment amount equal to the previous disallowance as an administrative offset.

2. Intra-Agency Cross-check

   In order for prompt payments to be made to vendors, not-for-profit corporations, and other private service enterprises, it is important for State agencies to determine quickly if a payment should be reduced in order to satisfy an outstanding debt.

   State agencies must create and maintain a centralized system. In order to determine if an administrative offset is warranted, the State agency should compare all debts that are over 90 days past-due with its voucher file. This should be done on a monthly

basis. Both the past-due debt file and the voucher payable file should contain Social Security Numbers and Employer Identification Numbers.

If a match is made between the two files, the central fiscal office of the State agency should immediately confirm with the appropriate accounts receivable billing office that the debt is still outstanding. If the debt has not been paid, the central fiscal office should reduce the voucher to reflect the appropriate offset, inclusive of any interest, penalties, returned check charge, and collection fees. This voucher should be prepared according to special procedures issued by the Office of the State Comptroller.

C. Debtor Notification

Prior to the submittal of a voucher to the Comptroller for payment, the State agency must notify the debtor in writing that a reduced payment will be made. The State agency's notification should itemize the debt (principal, interest due, etc.) and provide the debtor with a State agency contact and telephone number if the debtor wishes to seek further information and clarification.

If a debtor contacts the State agency, either by telephone or in writing prior to the implementation of administrative offset and requests clarification of the billing charges, protests the bill, asks for a hearing (if applicable), or asks to meet with a State agency representative to discuss the debt, **the State agency should not implement an administrative offset**.

The State agency should proceed to resolve any dispute with the debtor. If the creditor State agency can substantiate the debt while meeting the appropriate due process requirements, then that agency may resume any administrative offset action — if the opportunity is still available.

If a debtor does not contact the creditor agency within 30 days after the date of the notification letter, the creditor agency shall assume due process requirements have been met and it can implement an administrative offset.

D. Summary

It is important to stress that administrative offset requires:

1. Timely and coordinated intra-agency information sharing;

2. Complete debtor information (name, address, Social Security Number or Employer Identification Number);

3. Complete debt information (e.g., amount of debt, date of bills sent from the State agency);

4. Appropriate documentation (e.g., microfiche, image storage, microfilm or paper copy of correspondence from a debtor); and

5. Internal controls within the State agency's central fiscal office concerning administrative offset.

Since State agencies may bill in a decentralized manner and receive payment for accounts receivable on a regional basis, it is important that a State agency implement an administrative offset only after it has afforded sufficient opportunity for a debtor to make full payment.

It should be noted that the Office of the State Comptroller may initiate an intra-agency offset according to the Comptroller's constitutional authority.