OVERSIGHT OF THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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OVERSIGHT OF THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT

THURSDAY, JUNE 8, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Members present: Representatives Horn, Turner, Owens, Ose, and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Randy Kaplan, counsel; Bonnie Heald, director of communications; Bryan Sisk, clerk; Elizabeth Seong, staff assistant; Will Ackerly and Chris Dollar, interns; Michelle Ash and Trey Henderson, minority counsel; and Jean Gosa, minority assistant clerk.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order.

The Debt Collection Improvement Act of 1996 created a process for Federal departments and agencies to collect tens of billions of dollars in delinquent non-tax related debts owed to the Federal Government. These delinquencies arise from a variety of Federal loan programs for home buyers, small business owners and students. The delinquencies also stem from agency overpayment made to Federal beneficiaries and vendors.

This law created a variety of tools and programs designed to improve the Federal Government's dismal record of collecting its delinquent debts. The act centralized the debt collection process by requiring that Federal departments and agencies refer debts that are over 180 days delinquent to the Department of Treasury for collection.

At a 1995 hearing to consider this legislation, our subcommittee learned that the Federal Government was owed almost $50 billion in non-tax related debts. Despite enactment of the law, however, that debt grew to $59.2 billion by the end of fiscal year 1999. The Treasury Department's Financial Management Service operates two programs aimed at collecting delinquent, non-tax related debt, an offset program and a cross-servicing program.

Under the offset program, the Federal payments, including salary and benefit payments, can be intercepted to satisfy delinquent debts, such as defaulted home loans or small business loans. The Treasury Department's cross-servicing program allows the Department to collect directly from the debtor, or refer the debt to a private collection agency.

For these programs to work, however, agencies must refer their delinquent debts to Treasury in a timely fashion. That's not always the case. The Department of Veterans Affairs, for example, has referred only 1 percent of the Department's eligible delinquent debts to the Department's cross-servicing program. The Social Security Administration has referred none of its eligible delinquent debts for cross-servicing collection.

Today we will hear from witnesses who represent these agencies, as well as witnesses representing the Treasury Department's Financial Management Service who will discuss the implementation of the debt collection program. The General Accounting Office will also present the results of its comprehensive study of the cross-servicing program which was requested by this subcommittee.

As part of this study the GAO reviewed the Treasury Department's efforts to promote timely debt referrals by Federal agencies. General Accounting Office investigators also reviewed the Department's allocation of delinquent debts to private collection agencies. In addition to our Government witnesses, we have a representative of the private collection agencies that are working with the Government in its debt collection effort.

[The prepared statement of Hon. Stephen Horn follows:]

ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM

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OPENING STATEMENT
Chairman Stephen Horn
Oversight of the Implementation of the Debt Collection Improvement Act
Thursday, June 8, 2000

A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

The Debt Collection Improvement Act of 1996 created a process for federal departments and agencies to collect the tens of billions of dollars in delinquent non-tax-related debts owed to the federal government. These delinquencies arise from a variety of Federal loan programs for homebuyers, small business owners and students. The delinquencies also stem from agency overpayments made to federal beneficiaries and vendors.

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At a 1995 hearing to consider this legislation, our subcommittee learned that the federal government was owed almost $50 billion in non-tax-related debts. Despite enactment of the law, however, that debt grew to $59.2 billion by the end of fiscal year 1999.

The Treasury Department's Financial Management Service operates two programs aimed at collecting delinquent non-tax-related debt -- an offset program and a cross-servicing program. Under the offset program, federal payments, including salary and benefit payments, can be intercepted to satisfy delinquent debts, such as defaulted home loans or small business loans. The Treasury Department's cross-servicing program allows the department to collect directly from the debtor or refer the debt to a private collection agency.

For these programs to work, however, agencies must refer their delinquent debts to Treasury in a timely fashion. That is not always the case. The Department of Veterans Affairs, for example, has referred only one percent of the department's eligible delinquent debts to the Treasury Department's cross-servicing program. The Social Security Administration has referred none of its eligible delinquent debts for cross-servicing collection.

Today, we will hear from witnesses who represent these agencies as well as a witness representing the Treasury Department's Financial Management Service who will discuss the implementation of the debt-collection program. The General Accounting Office will also present the results of its comprehensive study of the cross-servicing program, which was requested by this subcommittee. As part of this study the GAO reviewed the Treasury Department's efforts to promote timely debt referrals by federal agencies. GAO investigators also reviewed the department's allocation of delinquent debts to private collection agencies. In addition to our government witnesses, we have a representative of the private collection agencies that are working with the government in its debt-collection effort.

We welcome our witnesses, and look forward to their testimony.

Mr. HORN. We welcome our witnesses and we look forward to their testimony. And I now yield to the gentleman from Texas, the ranking member, Mr. Turner, for his opening statement.

Mr. TURNER. Thank you, Mr. Chairman.

We know that billions of dollars in non-tax debt are owed to the Federal Government. Recognizing that our collection practices were inadequate, this subcommittee under the leadership of Chairman Horn in 1996 passed the Debt Collection Improvement Act. This law expanded existing tools and established new tools to assist the Government in collection of debt.

I certainly want to commend the chairman, who's due much credit for the work that has been done in this area. Chairman Horn has been very diligent in trying to provide the Federal Government with greater capacity to collect debt.

I also would like to commend the leadership of my colleague from New York, Congresswoman Carolyn Maloney, who has continued in her efforts, initiated back with the chairman, as the ranking Democrat on this subcommittee, in an effort to improve our debt collection practices.

As a result of their efforts and the efforts of many people who are in this room today, we are beginning to reap the benefits of a more centralized debt collection system. Within the last 3 years, the Federal Government's centralized debt collection activities at the Financial Management Service has begun to work. In fiscal year 1999, increased management attention by program agencies and improved use of debt collection tools by the Treasury resulted in major advancements in our debt collection efforts.

Collection by the Treasury on non-tax debt for the year totaled $2.6 billion. Tax refund offset collections totaled $2.6 billion as well. That is an increase of more than $570 million over 1998.

So far this year, we've collected $2.4 billion in non-tax collections through the offset of income tax refunds. Clearly, there has been improvement in the Government's debt collection efforts, and I commend the Treasury and the agencies for their work.

However, as we will hear, many challenges remain ahead of us. I am concerned to learn many agencies have not done a thorough job of referring all of their eligible debt to the FMS for collection activities. Additionally, the delinquent debts agencies refer to FMS are generally much older than the 180 days required by law, and therefore makes recovery more difficult.

Questions have also arisen concerning the manner in which FMS is referring debts to the private collection agencies under contract with the Government. As a part of our oversight responsibility, this subcommittee is meeting today to discuss Federal agency implementation and compliance with the Debt Collection Act. It is my hope that as a result of this hearing we will be closer to meeting our goal of having an efficient, effective and equitable Federal debt collection system.

Again, I commend the chairman for his focus on this issue, and I welcome each of our witnesses here today.

[The prepared statement of Hon. Jim Turner follows:]

OPENING STATEMENT OF THE HONORABLE JIM TURNER
GMIT: Implementation and Compliance with the Debt Collection Improvement Act of 1996
June 8, 2000

Thank you, Mr. Chairman. Billions of dollars of non-tax debt are owed to the federal government. Recognizing that our current collection laws were inadequate, in 1996, this subcommittee passed into law the Debt Collection Improvement Act (DCIA), which established new tools and expanded existing ones to assist the federal government's debt-collection practices. I would like to commend the Chairman for his leadership in the area of federal debt collection. Through his legislative and oversight activities, Chairman Horn has worked diligently to provide the federal government with a greater capacity to collect its debt. I should also mention the leadership and dedication of my colleague from New York, Carolyn Maloney, who has continued in her partnership efforts with Chairman Horn since she held the position of Ranking Member of this Subcommittee.

As a result of their efforts, and of the efforts of many people in this room today, the federal government is beginning to reap the benefits of a more centralized debt collection system. Within the last three years, the federal government's centralized debt collection activities at the Financial Management Service ("FMS") have begun to work more efficiently. In fiscal year 1999, increased management attention by program agencies and improved use of debt collection tools by the Department of Treasury resulted in major advancements in federal government debt collection programs. Collections by Treasury on non-tax debt for the year totaled $2.63 billion. Tax refund offset collections totaled $2.6

billion for calendar year 1999, an increase of more than $570 million over 1998. So far this year, we collected $2.4 billion in non-tax debt collections through the offset of income tax refunds. Clearly, there has been improvement in the government's collection efforts, and I commend Treasury and the agencies for their work.

However, as we will hear, many challenges remain in this area. I am distressed to learn many agencies still have not done a thorough job of referring all of their eligible debt to the FMS for collection activities. Moreover, the delinquent debts agencies refer to FMS are generally much older than the 180 days required by law, thereby making recovery more difficult. Questions have also arisen concerning the manner in which the FMS is referring debts to the Private Collection Agencies under contract with the government. As part of our oversight responsibility, this subcommittee is meeting today to discuss federal agency implementation and compliance with the DCIA. It is my hope that as a result of this hearing, we will be closer to meeting our goal of having an efficient, effective, and equitable federal debt collection system. Again, I commend the Chairman for his focus and welcome the witnesses here today.

Mr. HORN. I thank the gentleman, and you'll be hearing about his legislation in the months ahead.

And I now yield to the gentleman from New York, Major Owens, for an opening statement.

Mr. OWENS. No statement, Mr. Chairman.

Mr. HORN. OK, thank you very much.

You know, I think most of you have been here before. But the process here is that when we introduce you along this agenda line, your full written statement is automatically part of the record. We would like you to summarize that position in about 5 minutes so we can have a dialog between the Members and the witnesses and among the witnesses as to how we might improve the act and what we're doing either on the Hill and in the administration.

And all witnesses, since this is a Government Reform Subcommittee, all witnesses have to take the oath in order to testify. So if you will stand, raise your right hands. And if there's any backup assistance, have them stand, too. Clerk will take their names. So let's get all the oaths at once.

OK, we have one, two, three, four, five backup, one, two, three, four, five, six witnesses.

[Witnesses sworn.]

Mr. HORN. The clerk will note all have affirmed. And make sure we have the names.

Thank you very much. And we will now start with Gary T. Engel, the Associate Director of Government Wide Accounting and Financial Management Issues of the Accounting and Information Management Division of the U.S. General Accounting Office, which are the eyes and ears of the legislative branch in both programmatic and fiscal matters and now debt matters. Mr. Engel is accompanied by Kenneth Rupar, the Assistant Director.

Mr. Engel.

STATEMENT OF GARY T. ENGEL, ASSOCIATE DIRECTOR OF GOVERNMENT WIDE ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY KENNETH RUPAR, ASSISTANT DIRECTOR

Mr. ENGEL. Mr. Chairman and members of the subcommittee, good morning, thank you.

It is a pleasure to be here today to discuss our review of Treasury's progress in implementing the cross-servicing provision of the Debt Collection Improvement Act of 1996. As you know, OMB has designated implementation of this legislation, which this subcommittee was highly instrumental in passing, one of the Government's priority management objectives to modernize and improve Federal financial management.

You asked that we address the effectiveness of Treasury's use of the cross-servicing tool, which involves the transfer of non-tax debt over 180 days delinquent to Treasury's Financial Management Service. I will briefly focus on four issues. First, the success of FMS' program significantly depends on agencies identifying and promptly referring eligible debt. While FMS has taken several steps, including various outreach efforts, to encourage agencies to refer eligible debt, thus far the results have been limited.

Since inception of the program in September 1996 through May 1999, almost half of the dollar amount of referred debts were over 4 years delinquent. Industry experience shows that the likelihood of recovering amounts owed decreases dramatically as debts age. The old adage that "time is money" is very relevant in the debt collection area.

Collection possibilities are also hampered by the low percent of debts eligible for cross-servicing. Of the $59.2 billion of delinquent debt reported as of September 30, 1999, about 89 percent has been excluded from cross-servicing requirements. FMS reported that through April 2000 only $3.7 billion has been referred to it since inception of the program.

Even when agencies referred debts, the debts were not always valid or legally enforceable, and thus not eligible for cross-servicing. Based on our analysis of 200 delinquent debts referred to FMS, we found 22 debts that were invalid or involved debtors that were either deceased or in bankruptcy.

The second issue in question involved the Treasury's cross-servicing process for collecting referred debts. Treasury has established standards for agencies wanting to be a debt collection center and has granted certain agencies waivers or exemptions which allow them to perform collection activity for certain of their own debts. In addition, three agencies applied to Treasury to be governmentwide debt collection centers. But, Treasury determined that these agencies did not have the needed capabilities, so they were denied approval.

As such, today, FMS is the sole operator of a governmentwide cross-servicing debt collection center. FMS' center had well developed standard operating procedures. But, our tests showed that its staff did not always follow them. For 96 of the 200 debts we reviewed, we found no evidence that FMS' collectors tried to contact the debtors who did not respond to demand letters. For 29 of the 46 demand letters in our sample that were returned as undeliverable, FMS' debt history files contained no evidence that FMS' collectors performed the required skip tracing to locate the debtors.

Contributing to these results were some large influxes of debts that were received by FMS during our test period. Concerning collection agreements, we selected and reviewed 78 compromised debts and typically found no evidence that FMS collectors adhered to key requirements, such as analyzing the debtor's ability to pay before agreeing to the compromise amount.

FMS also often did not adhere to repayment agreement timeframes. Despite a 3-month repayment limit, the terms of 30 of the 32 compromise agreements that we reviewed exceeded the limit, on average by 54 months.

The third issue you were interested in involved how FMS distributed debts to private collection agencies. FMS intended its methodology for such distributions to be performance based. Distributions were generally made biweekly by placing all available debts into a pool and systematically distributing them. Our analysis of FMS' distribution of debts to PCAs from February 1998 through February 2000 showed that 1 of the 11 PCAs had received a significantly higher percentage of the debts with smaller balances. This

PCA also received a significantly higher percentage of the total number of debts that were less than 1 year delinquent.

One contributing factor to these distribution results was that the debts within the distribution pools were generally not homogeneous. Collection industry experience, as well as FMS' collection experience, have shown that collection rates are generally higher on less delinquent debts and those with smaller dollar balances.

Finally, fees charged by FMS to referring agencies have not covered FMS' estimated fiscal year 1999 cross-servicing costs. Based on our analysis, cross-servicing collections would have to be over seven times as much as that for fiscal year 1999 for this program to operate on a break-even basis.

In summary, for FMS' cross-servicing program to become a fully implemented and mature program, challenges lie ahead that FMS as well as agencies must overcome. These challenges are magnified since, as delinquent debt ages, the likelihood of collection diminishes. To assist in addressing these issues, we plan to issue a report with recommendations.

Mr. Chairman, this concludes my testimony. I would be pleased to answer any questions.

[The prepared statement of Mr. Engel follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Management, Information and Technology, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at
10 a.m.
Thursday,
June 8, 2000

DEBT COLLECTION

Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative

Statement of Gary T. Engel
Associate Director, Governmentwide Accounting and Financial Management Issues
Accounting and Information Management Division

GAO
Accountability * Integrity * Reliability

GAO/T-AIMD-00-213

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before your subcommittee today to testify on the Department of the Treasury's progress in implementing the cross-servicing provision of the Debt Collection Improvement Act (DCIA) of 1996. As you know, the Director of the Office of Management and Budget (OMB) designated the implementation of this legislation, which your subcommittee was highly instrumental in passing, one of the Priority Management Objectives in the government's efforts to modernize and improve federal financial management.

DCIA includes several tools to facilitate collection of defaulted obligations to the federal government. Today, we are focusing on the collection of nontax delinquent debt. Among the options available for recovering these debts are (1) Treasury's consolidated federal payment offset program,[1] which the Financial Management Service (FMS) reported collected over $2.6 billion in federal nontax debts and state child support debts in fiscal year 1999, (2) wage garnishment, for which Treasury has issued a final rule and is in the process of implementing, and (3) the transfer of nontax debt over 180 days delinquent to Treasury for collection action, known as "cross-servicing." For this hearing, you asked us to address, the effectiveness of Treasury's use of the latter tool, cross-servicing, through its FMS. FMS' success in implementing its cross-servicing program, which focuses on debts that federal agencies have been unable to collect, significantly depends on federal agencies accurately and completely identifying their nontax delinquent debt that is eligible for referral to the program and promptly referring such debt.

As you requested, I will discuss (1) the status of nontax delinquent debts[2] that agencies[3] have referred to Treasury for cross-servicing and Treasury's actions to encourage these referrals, (2) Treasury's cross-servicing process for collecting referred debts, (3) Treasury's method for allocating debts to private collection agencies (PCA) for collection, and (4) Treasury's estimated cross-servicing costs and related fees earned on collections.

[1]The Treasury Offset Program (TOP) offsets federal payments such as tax refunds, vendor and miscellaneous payments, and federal retirement payments against federal non-tax debts, states' child support debts, and certain states' tax debts. For fiscal year 1999, most of the TOP offsets were from tax refunds.

[2]In this testimony, "debts" refers to nontax debts over 180 days delinquent.

[3]In this testimony, "agencies" refers to federal agencies.

FMS has taken several steps to encourage agencies to refer eligible debt and increase collections. However, the results thus far have been limited partly due to much of the eligible debt not being promptly referred and the age of the debts referred generally being significantly older than 180 days delinquent. For example, our analysis of debts referred since the inception of the program though May 1999 showed that almost one half of the dollar value of the debts referred were over 4 years delinquent at the time of referral. FMS reported that approximately $46.4 billion of debts were delinquent over 180 days as of September 30, 1998. However, primarily due to a significant amount of these debts being reported by the agencies as excluded from cross-servicing requirements, through April 2000, FMS reported only about $3.7 billion has been cumulatively referred to it since the cross-servicing program began in September 1996. From the inception of the program through April 2000, FMS reported that about $54 million has been collected by its collectors and the PCAs on these referred debts.

We identified the following key issues related to the implementation of the cross-servicing provisions of DCIA.

- Several agencies' reporting of debt balances and related aging was not accurate, and the accuracy and completeness of significant amounts reported as exclusions from cross-servicing were not required to be and were not independently verified. For various reasons, many debts eligible for referral by certain agencies were delayed in being referred or simply not referred even though FMS took steps to encourage agencies to refer such debt. In addition, even when agencies referred debts, the debts were not always valid and legally enforceable and thus not eligible for cross-servicing.
- DCIA authorized Treasury to designate other government agencies as debt collection centers based on their performance in collecting delinquent claims owed to the government. Treasury established standards for agencies that wanted to be a debt collection center. The Departments of Education and Health and Human Services were granted waivers by Treasury to the cross-servicing provision of DCIA, which allows these agencies to take collection action on certain classes of their own debts. Three agencies have applied to be governmentwide debt collection centers, but were not found by Treasury to have the needed capabilities. Today, only FMS is operating a governmentwide cross-servicing debt collection center. In operating its center, we found that FMS had well-developed standard operating procedures (SOP), however our testing showed that its staff did not always follow them or properly use certain

collection tools, such as skiptracing[4] activities to locate the debtor. For example, for 96 of 200 debts we statistically selected and reviewed, other than the initial issuance of demand letters, we found no evidence that FMS' collectors tried to contact the debtors, as required by the SOP.

FMS recently changed many of the SOP's earlier requirements to perform various collection techniques from "will" be performed to "may" or "should" be performed. In addition, in 1999 FMS changed its SOP to reduce the 50-day holding period to 30 days for performing cross-servicing procedures before referring the debts to a PCA. These actions and our discussions with FMS officials indicate that FMS is placing increased reliance on PCAs. However, FMS has not performed an analysis to determine the potential effect such reliance may have on net collections to the federal government. Such an analysis may be warranted given that (1) as debts are not actively worked by FMS and are awaiting referral to PCAs, they continue to age and thus typically become more difficult to collect and (2) the federal government pays a 25 percent fee on debt amounts collected by the PCA that the government is not always able to recoup from the debtor.

- FMS developed a methodology for distributing debts to PCAs for collection that FMS intended to be performance based. For each distribution, FMS placed all the debts available into a pool and applied a systematic process to distribute the debts to the PCAs. Our analysis of the debts found that the debts within each distribution's pool were generally not of the same composition (i.e., not of the same debt balance or age of delinquency). This factor contributed to the distribution results experienced by FMS. Our analysis of FMS' distribution of debt accounts to PCAs from February 1998 through February 2000 showed that one PCA had received a significantly higher percentage of the debts with smaller balances. Specifically, debts distributed to this PCA had average balances of $11,436, while the overall average balances of debt accounts distributed to PCAs were $20,845. In addition, in many of the age of delinquency categories (i.e., less than 180 days, 180 days to 1 year, etc.) this PCA had the smallest average debt balances and had received a significant percentage of the total number of debts distributed that were less than 1 year delinquent. Collection industry statistics as well as FMS' collection experience to date have shown that collection rates are generally higher on debts with smaller dollar balances and that are less delinquent.

[4]Skiptracing involves the use of information sources including credit bureau reports, Internet resources, utility companies, motor vehicle departments, spouses or relatives, voter registration offices, and directory assistance to locate delinquent debtors.

Concerns relating to FMS' distribution method have been raised by some of the PCAs. During our interviews with the 11 PCAs, we found that the general consensus among them when asked how the debts should be distributed was that the distribution should take into consideration the characteristics of the debts, such as age of delinquency, type of debt, agency referring the debt, and debt balance. Many of the PCAs indicated that stratifying the available debts by agreed-upon characteristics would result in each of the PCAs receiving a proportionate mix of the debts and foster a more competitive environment.

- FMS has not covered its cross-servicing costs through related fees collected and is not likely to in the near future. Based on FMS' own estimated cross-servicing costs and using the current fee structure and FMS' fiscal year 1999 collection experience, we determined that collection volume would need to rise over sevenfold to put this operation on a full cost-recovery basis.

We performed our work primarily at FMS and its Birmingham Debt Management Operations Center (BDMOC). We conducted interviews with FMS officials and representatives of FMS' eleven PCAs and the American Collectors Association and reviewed pertinent policies, procedures, databases, and reports related to cross-servicing. We also statistically selected and performed detailed testing on certain debts that had been referred for cross-servicing from April 1, 1998 through May 31, 1999. In addition, we analyzed FMS' methodology for distributing debts to PCAs and reviewed certain FMS cross-servicing fee and estimated cost data for fiscal year 1999. We did not independently verify the reliability of certain information provided to us by FMS (e.g., estimated costs, debts eligible for cross-servicing, total debts referred for cross-servicing, and information in FMS' debt referral databases). We performed our work in accordance with generally accepted government auditing standards from April 1999 through May 2000.

In the rest of my statement today, I will discuss the results of our work and highlight challenges that FMS faces in implementing a viable cross-servicing operation.

Referral of Federal Debts for Cross-Servicing

According to FMS officials, the amount of debts over 180 days delinquent totaled about $59.2 billion as of September 30, 1999. Of this amount, about $52.8 billion or about 89 percent was excluded from cross-servicing, resulting in $6.4 billion eligible for referral to FMS for cross-servicing. This information was provided to us on June 2, 2000, and the eligible for referral and percent of debt excluded amounts are not significantly different from the prior year. As such, we did not have sufficient time to review the details supporting these data and much of our testimony regarding identifying debts eligible for cross-servicing and debts excluded from cross-servicing requirements is based on delinquent debt information reported for fiscal year 1998.

DCIA requires agencies to refer all eligible nontax debt that is over 180 days delinquent to FMS for cross-servicing. FMS reported that at September 30, 1998, federal agencies held $46.4 billion of debt over 180 days delinquent. Based on information obtained from the 24 agencies covered by the Chief Financial Officers Act of 1990 (CFO)[5] and FMS' own estimates for non-CFO Act agencies, FMS reported that about 85 percent, or $39.6 billion, of the debt as of September 30, 1998, was not eligible for referral to the cross-servicing program because of various exclusions, such as foreclosures and bankruptcies.

Our analysis showed that the debts agencies refer to FMS are generally well over 180 days delinquent. Further, we noted problems in the reporting of delinquent debt balances and related aging by certain agencies. We also identified problems with FMS reports on the status of delinquent debts governmentwide.

FMS reported that as of April 2000, about $3.7 billion of the approximately $6.4 billion of eligible debt had been referred for cross-servicing. Because the eligible amount is as of a specific date and the amount reported as referred is a cumulative amount covering about 3-1/2 years, these two amounts are not comparable. In addition, we found that agency-referred debts were not always valid and legally enforceable and thus not eligible for cross-servicing.

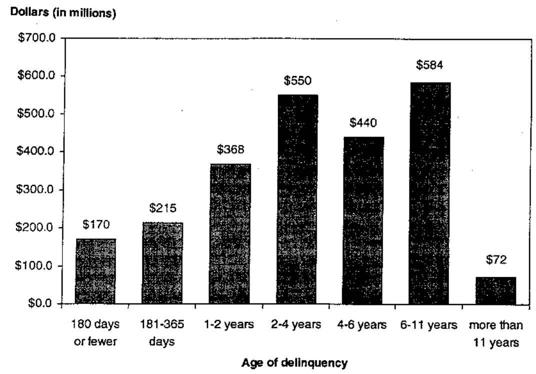
These reporting problems, coupled with the lack of independent verification of the completeness and accuracy of debt exclusion amounts, make the reliability of these reported amounts questionable. Lack of reliable identification and prompt referrals of eligible debts by the agencies to FMS is likely to result in lost opportunities for the government to recover amounts owed.

[5]The CFO Act, as expanded by the Government Management Reform Act, covers the federal government's 24 largest departments and agencies, which account for 99 percent of federal expenditures.

Age of Debts Referred

Agencies are not promptly referring debts as soon as they are eligible for cross-servicing. Figure 1 shows our analysis of the debts referred since the inception of the program through May 1999. This analysis shows that about $1.1 billion (or about 46 percent) of the $2.4 billion of debt referred during this period was over 4 years delinquent at the time it was referred to FMS for cross-servicing.

Figure 1: Dollar Amount of Debt by Age of Delinquency



Source: GAO's analysis of Treasury's cross-servicing database through May 31, 1999.[6]

A critical factor in FMS' success as a debt collection center is that all debts eligible for cross-servicing are completely and accurately identified. In addition, once identified by the agencies, debts need to be promptly referred for cross-servicing because, as industry statistics have shown, the likelihood of recovering amounts owed decreases dramatically with the age of delinquency of the debt. Thus, the old adage that "time is money" is very relevant for this effort.

[6]The number of days delinquent for debts with the above time frames is given in years delinquent, representing days within that time frame. For example, 1-2 years delinquent represents 366–730 days, 2 –4 years delinquent starts the next period, 731–1460 days and so on.

Using cross-servicing collection rates for delinquent debt obtained from a 1998 study conducted by a FMS contractor, we estimated collections on debts totaling about $1.8 billion that were referred from the inception of the program through May 1999.[7] Our analysis showed that estimated collections on these debts ranged from about $40 million to $75 million.[8] Based on our review of FMS' collections database, we determined that FMS collected about $27 million on debts that were referred for cross-servicing during this same time period.[9]

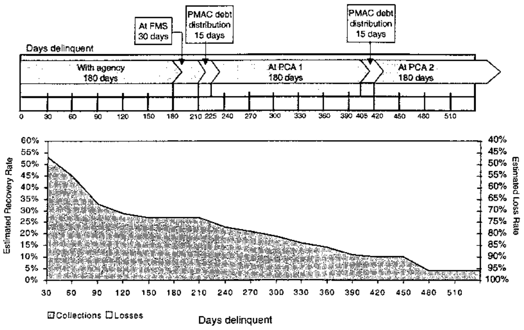
Figure 2 represents a timeline of the standard process involved in the referral of debts to FMS and subsequently, as applicable, to PCAs. In effect, this figure represents the minimum timelines for referral and collection efforts. Accordingly, it reflects the optimum scenario for cross-serviced debt, not what is actually taking place, as reflected in part by figure 1. For example, as noted in figure 1, many debts are much older than 180 days delinquent when they are referred to FMS. Also, as discussed later in this testimony, we identified delays throughout much of the process.

[7] We obtained FMS' cross-servicing collection data from inception of the program through March 2000. To allow sufficient time for collection action by FMS collectors and PCAs, we analyzed those debts referred to FMS through May 1999.

[8] Because of database limitations, we made conservative assumptions in estimating expected collections on debts referred through May 1999. Specifically, we excluded about $3.7 million of TOP offset collection amounts because FMS collectors or PCAs cannot collect on debts that have already been collected. Also, we excluded debt amounts for most debts returned to the agency. We assumed that these debts totaling about $547 million were invalid at the time of referral; thus, these debts could not be collected by FMS collectors or PCAs.

[9] An FMS official stated that FMS has identified about $15 million of active repayment agreements for debts referred from inception of the cross-servicing program through May 1999. However, collection of the full amount under repayment agreements may not be realized because we found that many of the repayment agreements we reviewed during our detailed testing of selected debts referred to FMS for cross-servicing defaulted.

Figure 2: Declining Recovery Rates by Age of Delinquency



Note: FMS uses the PCA Monitoring and Control (PMAC) system to distribute the debt accounts to the PCAs. These distributions are generally made bi-weekly.

Source: GAO's analysis of FMS' collection processes and testimony of the American Collector's Association before the Subcommittee on Government Management, Information and Technology of the Committee on Government Reform and Oversight, September 8, 1995.

Exclusions From Cross-Servicing and Accuracy of Reporting

Agencies provide information to FMS annually on debt amounts over 180 days delinquent in their *Report on Receivables Due from the Public* (hereafter referred to as the *Report on Receivables*).[10] At September 30, 1998, FMS reported that, governmentwide, agencies held $46.4 billion of debt over 180 days delinquent. However, problems were found with the accuracy and completeness of some agencies' reports of debts over 180 days delinquent, which FMS used to compile its reports.

To help monitor the extent to which agencies are referring eligible debts to FMS for cross-servicing, FMS developed and implemented the *Debt Performance Indicator* (DPI) report for each CFO Act agency. According to an FMS official, for fiscal year 1998, FMS obtained the information on debts excluded from cross-servicing from DPI reports submitted by

[10]Certain agencies are also required to prepare this report quarterly.

agencies and discussions with agency officials. FMS used the agencies' *Report on Receivables*, DPI reports, and FMS estimates to compile the *Summary Analysis of Delinquent Debt for the Federal Government*, a government-wide report.[11] FMS reported that about 85 percent of the debt or $39.6 billion was not eligible for referral to FMS because of various exclusions (see table 1).

Table 1: Nontax Debt Eligible for Referral for Cross-Servicing as of September 30, 1998[a] [12]

Characteristics of debt	Amount (in billions of dollars)
Debt over 180 days delinquent	$46.4
Exclusions:	
Cross-servicing waivers	16.6
In forbearance or in appeals	5.1
At DOJ	4.9
Foreign debt	3.6
In bankruptcy	3.1
In foreclosure	2.4
Department of Defense	1.3
Eligible for internal offset	1.0
Other	0.9
At third party	0.7
Total amount excluded	$39.6
Amount eligible to refer for cross-servicing	$6.8

[a]An explanation of the terms used in this table appears in appendix I.

Source: *Summary Analysis of Delinquent Debt for the Federal Government, Debt Portfolio Analysis for the 24 CFO Agencies*, June 1999, and other FMS reports.

The reliability of amounts reported as excluded from cross-servicing by the agencies has not been independently verified. According to FMS officials, agencies were not required to certify that all information provided to FMS was complete and accurate. Further, these agencies'

[11]The *Summary Analysis of Delinquent Debt for the* Federal Government (hereafter referred to as the *Summary Analysis*) is included in the *Debt Portfolio Analysis for the 24 CFO Agencies*, which is prepared annually.

[12]In November 1999, Treasury granted an exemption from cross-servicing to the Social Security Administration (SSA) for Supplemental Security Income program debt and debts owed by former child beneficiaries in the Old-Age, Survivors, and Disability Insurance Program. In January 2000, Treasury also granted an exemption to the Small Business Administration (SBA) for disaster loans and regular business loans over 180 days delinquent that are in active workout. The dollar amount of exemptions for SSA and SBA are about $203 million and $88 million, respectively.

respective Office of Inspector General (OIG) were not required to and did not audit most of the information, including the exclusion amounts.

We identified problems with FMS' estimates of exclusions for non-CFO Act agencies. In preparing the fiscal year 1998 *Summary Analysis* report, FMS generally estimated the amount of debts that would be excluded from cross-servicing for non-CFO agencies using the CFO Act agencies' aggregate percentages by type of exclusion. FMS estimated exclusions for the non-CFO Act agencies because these agencies were not required to report such information. FMS estimated that of the $39.6 billion of excluded debt in table 1, about $3.6 billion (approximately 9 percent) was attributed to the non-CFO Act agencies. We found that FMS' estimation of exclusion amounts was not reliable. For example, FMS estimated the amount of cross-servicing waivers for non-CFO Act agencies to be about $1.5 billion. Since we found that none of these agencies had applied to FMS for a waiver, the amounts reported as exclusions for cross-servicing waivers were overstated.

On the other hand, FMS' exclusion estimate for bankruptcies for non-CFO Act agencies is understated. Our review of the *Report on Receivables* from the Federal Communications Commission (FCC), a non-CFO Act agency, found that FCC had $2.3 billion in bankruptcies for debts delinquent over 180 days as of September 30, 1998. As such, FCC's bankruptcy amounts alone are considerably more than the $300 million bankruptcy amount FMS estimated for all non-CFO Act agencies.

Compounding these concerns are questions concerning the accuracy of the underlying agency reports that FMS uses as the basis for its reports. In December 1999, the President's Council on Integrity and Efficiency (PCIE), the Executive Council on Integrity and Efficiency (ECIE), and Treasury's OIG issued a report titled, *PCIE/ECIE Review of Non-Tax Delinquent Debt*. Among other findings, the report stated that of the 16 agencies reviewed, 5 had inaccurate accounts receivable balances as of the end of fiscal year 1998, and 3 agencies did not accurately age their accounts receivable.[13] For example,

- The Department of State OIG found that the accounting system at the department did not produce a reliable accounts receivable aging schedule.

[13] Eleven of the 16 agencies included in the PCIE/ECIE review are CFO-Act agencies. Two large CFO-Act agencies, the Departments of Health and Human Services and Agriculture, did not participate in the review.

- In reporting on its audit of the fiscal year 1998 Veterans Affairs (VA) Consolidated Financial Statements, the VA OIG qualified its opinion on material amounts of accounts and loans receivable due to the inadequacy of supporting accounting records. Specifically, of the total net debt and foreclosed property of $4.7 billion, the OIG qualified its opinion on the accounts relating to the Housing Credit Assistance Program, which comprised $3 billion of the total balance. Further, the Veterans Health Administration's receivable balance of $440 million was overstated by $65 million. These inaccurate balances resulted because VA did not consistently follow its accounting procedures and certain of its internal controls were ineffective.

FMS officials recognize the problems with the manner in which the exclusions and eligible debt amounts for cross-servicing were identified. For example, FMS officials stated that for fiscal year 1999 FMS is using the *Revised Report on Receivables* to determine debts eligible for cross-servicing for all agencies, including non-CFO Act agencies. The revised report includes the various exclusion categories which agencies will be required to use to report debt amounts excluded from cross-servicing. According to these officials, FMS plans to require agencies to certify as to the accuracy and completeness of the amounts that they report as excluded from cross-servicing, however, agencies' respective OIGs do not currently independently verify such amounts. Lack of such verification, along with the problems noted in the PCIE/ECIE report regarding inaccurate balances and aging of accounts receivable, raises concerns about the extent to which FMS can rely on agencies' reporting of 180-day delinquent debt and exclusions of debts from the cross-servicing program.

Factors Affecting Agencies' Debt Referrals

According to FMS officials and/or the PCIE/ECIE report, certain agencies have not promptly referred eligible debts for several reasons, including the following:

- Agencies focused their computer programming resources on Year 2000 problems – a decision with which we agree – rather than on cross-servicing systems requirements, such as computer systems' compatibility, so that debt information can be transmitted to FMS electronically.
- Certain agencies had to perform detailed and time-consuming due diligence reviews of the files to identify debts eligible for cross-servicing because such information was not readily available.
- Some agencies delayed referring debts while waiting for FMS to decide whether the agency's request to be designated a debt collection center was

approved. Such decisions were to be rendered within 120 days, but processing time ranged from 10 months to 19 months.

Some specific cases cited in the PCIE/ECIE report are as follows.

- Treasury's OIG selected and reviewed 10 debt case files at Treasury's departmental offices for timeliness of the referral. The average time frame that lapsed after debts were eligible to be sent to FMS was 197 days. According to a Treasury OIG official, this delay involved referrals to TOP and cross-servicing and occurred because Treasury personnel did not properly age the receivable balances.
- The Department of State did not have a routine process to certify and send its debts for cross-servicing after they became eligible. This department was sending debts to FMS for TOP collection actions only once a year, and its officials mistakenly thought that FMS would transfer the department's delinquent debts from offset to cross-servicing.

We also found that even when the agencies referred debts, the debts were not always valid and legally enforceable and thus not eligible for cross-servicing. Based on our analysis of a statistical sample of 200 delinquent debts referred to FMS, 22 delinquent debts were likely invalid or legally unenforceable.[14] Specifically, we found 14 debts that were subsequently returned by FMS to the referring agency because the debts were invalid or involved debtors in bankruptcy. At the completion of our detailed testing, another eight debts had not yet been returned to the agency. Five of these debts involved debtors in bankruptcy, and the other three debtors were deceased.

FMS' Outreach Efforts

FMS encouraged agencies to promptly refer all eligible nontax debts by assisting them in understanding the cross-servicing program and requirements for identifying and referring eligible debts. FMS officials stated that FMS conducted periodic workshops and conferences and met with agency officials. In addition, FMS stated that they took an active role

[14] The population of delinquent debts from which our sample was drawn totaled 61,269 debts. Based on our test results, we estimate that 6,740 (or about 11 percent) of the debts were likely invalid or legally unenforceable. We are 95-percent confident that the number of debts that were likely invalid or legally unenforceable was between 4,638 (or about 8 percent) and 9,393 (or about 15 percent) of the population.

in the Federal Credit Policy Working Group[15] to help determine ways to encourage federal agencies to refer eligible nontax debts promptly.

In an effort to encourage debt referrals, in the spring of 1999, FMS requested written debt referral plans from 22 of the 24 CFO Act agencies.[16] The plans were of limited use because (1) FMS had no assurance that agencies had properly identified all nontax debts that were eligible for cross-servicing, (2) many of the plans did not include debt amounts or timeframes for referral, and (3) FMS did not use the plans to closely monitor actual agency referrals.

According to FMS officials, as of the completion of our fieldwork, 21 of the 22 CFO Act agencies had submitted debt referral plans. The Social Security Administration (SSA) did not submit a plan and has not referred any debts to FMS even though information provided by FMS indicates that SSA had about $444 million of eligible debt for cross-servicing as of September 30, 1998. Five of the 21 agencies reported that all eligible debts had been referred. Ten of the remaining 16 agency referral plans did not contain details on the specific debt amounts to be referred and/or time frames for cross-servicing referrals. For example, one agency submitted a plan stating that all of its components would refer debts for cross-servicing in July and August 1999, but did not mention any specific dollar amounts. Information prepared by FMS as of February 2000 indicated that this agency had referred only $109,000 of the $11 million of debt that it had reported as eligible as of September 30, 1998.

According to an FMS official, because some of the agency plans were incomplete, FMS did not closely monitor agencies' adherence to their referral plans. In addition, as long as agencies were referring some debts, FMS generally did not contact agencies about their plans. FMS officials also stated that FMS did not have the authority to assess penalties or take other formal actions against agencies that did not promptly refer their eligible debts. In May 2000, FMS sent letters to 23 of the 24 CFO Act agencies[17] requesting debt referral milestones for fiscal years 2000 and

[15]The Federal Credit Policy Working Group provides an interagency forum for resolving DCIA implementation issues such as the debt referrals to Treasury for offset and cross-servicing and performance measures for credit programs.

[16]According to FMS officials, no referral plan request was made to the Department of Education because it was deemed to be in substantial compliance with DCIA. In addition, no written request was made to the Department of Treasury. According to FMS officials, FMS actively worked with the bureaus within Treasury to encourage debt referrals.

[17]In April 2000, the Department of State provided FMS with an update to its referral plan for fiscal year 2000.

2001. In the letter, FMS enclosed a debt referral schedule for agencies to complete detailing the specific debt amounts to be referred and the related time frames. In addition, FMS has recently been meeting with CFO Act agencies to determine debt amounts eligible for cross-servicing. Further, a FMS official stated that FMS plans to request written referral plans from non-CFO Act agencies and meet with officials from the larger non-CFO Act agencies regarding such plans.

FMS' Cross-Servicing Operations Management

In passing DCIA, the Congress intended, in part, to establish an efficient and effective governmentwide debt collection operation, known as cross-servicing. DCIA authorized Treasury to designate other government agencies as debt collection centers based on their performance in collecting delinquent claims owed to the government.

Since then, FMS has established the Birmingham Debt Management Operations Center (BDMOC) as its primary facility for handling governmentwide cross-servicing operations. This facility was a former FMS payment center that was being phased out as part of Treasury's consolidation of payment operations. Except for efforts to collect on erroneous payments under the former payment center operations, the staff had little prior experience in debt collections. According to FMS officials, FMS trained BDMOC employees before they assumed their debt-collection duties and periodically updated their debt collection training, as needed, on topics such as debt collection techniques and the servicing of particular debts.

Thus far, FMS has not engaged the services of federal agencies with ongoing and experienced debt collection operations to assist in governmentwide cross-servicing debt collection efforts. In December 1996 and October 1999, FMS issued standards allowing agencies to apply to be part of a collection network. The Departments of Education and Health and Human Services were granted waivers by Treasury to the cross-servicing provision of DCIA, which allows these agencies to take collection action on certain classes of their own debts. Three agencies – VA, the Department of Health and Human Services, and the Department of Agriculture's National Finance Center – submitted applications for designation as governmentwide debt collection centers. Treasury denied approval of these agencies primarily because it determined that these entities did not have the needed capabilities. FMS officials stated that they have not received any additional applications for designation as governmentwide debt collection centers.

Oversight of FMS Debt Collectors and PCAs

FMS' strategy for debt collection is reflected in its Cross-Servicing Implementation Guide, Standard Operating Procedures (SOP), and contracts with PCAs. These documents indicate that when nontax debts are referred to FMS, BDMOC collects debts using tools such as demand letters, phone calls, and payment offset through TOP. Debts were to be referred to PCAs for collection if FMS could not secure an acceptable agreement with the debtor or locate the debtor. To expedite debt collection, the procedures stated that debts may be referred to TOP and will be referred to PCAs within stipulated time frames.

We statistically selected a sample of 200 debts from a population of 61,269 debts with balances greater than $100 referred to FMS from April 1998 through May 1999. We identified FMS' collection activity for these 200 debts, as well as by PCAs for the debts that were subsequently referred to the PCAs.

Our tests of these 200 selected debts found that FMS collectors[18] did not always adhere to the cross-servicing SOP. For example, we found that FMS collectors

- did not always attempt to contact debtors or perform skiptracing to locate debtors who did not respond to demand letters,
- negotiated two repayment agreements that significantly exceeded authorized pay back time frames, and
- did not always promptly refer all debts to TOP or PCAs.

Contacting Debtors

One of the most critical steps in collecting delinquent debt is communicating with the debtor after the required demand letter is sent. This is necessary because the collector must (1) determine whether the debtor acknowledges the debt is owed, (2) determine the debtor's willingness to fully pay or pay a portion of the debt, and (3) attempt to establish a formal repayment agreement with the debtor.

When the debtor fails to respond within 10 days after the demand letter is sent, collectors were required to contact the debtor by telephone. If a valid telephone number was not available or the demand letter had been returned as undeliverable, the collector was then required to start skiptracing activities to locate the debtor.

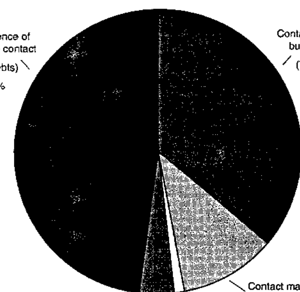
[18] "FMS collectors" refers to FMS' collectors at BDMOC.

The debt history files indicated that FMS issued demand letters for all 200 debts we statistically selected and reviewed. However, for 168 of these 200 debts, there was no subsequent contact between the debtor and the collector, and, as shown in figure 3, we found no evidence that FMS' collectors subsequently tried to contact 96 (48 percent) of these debtors.[19] For the remaining 72 of the 168 debts, information in the debt history files indicated that FMS collectors had no success in their attempts to contact the debtor by telephone or locate the debtor by other collection activities, such as skiptracing. FMS collectors attempted to phone the debtor for 31 of the 72 debts. However, for certain of these debts, available documentation suggests that these efforts were limited. Specifically, the debt history files showed that for 18 of these 31 debts, the collector placed only one phone call to the debtor with no subsequent follow-up. For the remaining 41 of the 72 debts, FMS collectors performed skiptracing.

[19]The population of delinquent debts from which our sample was drawn totaled 61,269 debts. Based on our test results, we estimate that for 29,409 (or about 48 percent) of the delinquent debts, there was no evidence that FMS collectors attempted to telephone or make any other contact with the debtor. We are 95-percent confident that the number of debts with no evidence of telephone or other contact was between 25,727 (or about 42 percent) and 33,116 (or about 54 percent).

Figure 3: Most Debtors Not Contacted by FMS Collectors Subsequent to Issuance of Demand Letter

(Statistical sample of 200 delinquent debts referred to FMS from April 1998 through May 1999)



Source: GAO's analysis of selected FMS debt history files.

In our sample of 200 delinquent debts, the debt history files indicated that demand letters for 46 of the debts were returned as undeliverable. For 29 of these 46 debts, we found no evidence that FMS collectors performed the required skiptracing to locate the debtor.

FMS officials stated that its collectors might not have documented all discussions they had with debtors. However, FMS' procedures required collectors to record all debtor conversations and collection activity in the debt history files. Moreover, the *Comptroller General's Standards for Internal Controls in the Federal Government*[20] states that all transactions

[20] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

and other significant events need to be clearly documented and that the documentation should be readily available for examination.

FMS officials also stated that its collectors might not have been able to perform all the collection activities for each debt within the stipulated time frames. In particular, according to these officials, FMS' collection efforts were negatively affected when FMS received large batches of referred debts from the Department of Housing and Urban Development (HUD) and the Small Business Administration during our detailed testing period. Our review of referred debts by month for the 14-month testing period showed that, generally, as referrals increased, the percentage of debts in our sample with no evidence of attempts to contact the debtor also increased.

FMS did not establish any written guidance to help its collectors determine which debts to cross-service first during peak referral periods. In addition, FMS did not perform any analysis to determine if it would be more cost effective, especially during peak referral periods, to send all or certain types of debts immediately to the PCAs. For example, FMS did not review its history of debt collections to determine if its collectors have had more success in collecting debts with certain characteristics (e.g., age of delinquency, dollar value of debt, referring agency, commercial versus consumer). During peak referral periods, FMS collectors could then focus on such types of debts while forwarding the rest to the PCAs, thereby avoiding further aging of debts for which no collection efforts are likely to be taken.

Repayment Agreements

When entering into a repayment agreement with debtors who are unable to pay the full debt immediately, collectors were required to adhere to repayment period time limitations. The recommended period for repayment agreements is up to 36 months or the period established by the referring agencies in their Agency Profile Form.[21]

For 13 debts in our sample of 200 that involved repayment agreements, 2 had terms of 75 months and 96 months, significantly exceeding the 36-month preauthorized limit established by the referring agency. We found no evidence in the debt history files that FMS collectors obtained approval to exceed these limits from the referring agency or FMS management.

[21] Agency Profile Forms are used by the referring agency to report its collection parameters, such as maximum repayment periods and limits on compromise and repayment amounts.

According to FMS officials, this lack of evidence was likely due to errors made by FMS collectors.

Compromised Debts

A debt compromise involves agreeing to accept less than the full amount owed in satisfaction of the entire debt. In accordance with the cross-servicing SOP, a debt may be compromised if there is legitimate doubt about the debtor's ability to pay, the government's ability to collect, or if the cost of collecting exceeds the benefit. If a compromise is accepted and the agreed amounts are paid, the debt is closed and returned to the client agency.

According to FMS' cross-servicing SOP,

- collectors first had to attempt to obtain payment in full before they offered a compromise,
- before offering a compromise, the collector was required to obtain the debtor's Taxpayer Identification Number (TIN) so that the compromised amounts could be reported to IRS,
- collectors were required to obtain current financial statements from the debtor to determine the debtor's ability to pay and assess the merits of a proposed compromise, and
- collectors were authorized to enter into a written compromise repayment agreement not to exceed 3 months.[22]

In our statistically selected sample of 78 compromised debts, our analysis showed that the compromised amounts ranged from about $27 to $36,000 and averaged $4,863. The compromised amount as a percentage of outstanding balance averaged 39 percent. During our review of the 78 compromised debt history files, we found that

- 75 (96 percent) files did not indicate why collectors compromised debts or the basis used to determine how these debts met FMS' criteria for compromising,

[22]The Federal Claims Collection Standards state that agencies that agree to accept payment in regular installments should obtain a legally enforceable written agreement from the debtor that specifies all the terms of the arrangement and contains a provision for accelerating the debt if the debtor defaults.

- 72 files had no evidence that the collector attempted to obtain a lump sum payment in full or a repayment agreement for the full amount before compromising the debt, and
- 74 files did not have documentation, such as financial statements or any other type of financial analysis, to support the compromise decision.

For example, one debt history file indicated that a debtor was allowed to pay $62,000 to settle an agency's debt with an outstanding balance of about $98,000. This agency had authorized FMS to compromise up to 10 percent of the outstanding balance of the debt, but there was no authorization from the agency or other support for compromising about $36,000, approximately 37 percent, of the outstanding debt. Further, there was no documentation to show that the FMS collector had followed the cross-servicing SOP or had analyzed the debtor's financial condition or ability to pay.

Our review of the 78 compromised debts also found the following.

- Thirty-two debts involved written or oral compromise repayment agreements. Of these 32,
  - 30 agreements exceeded the established 3-month repayment limit. The terms of these agreements ranged up to 13 years, half of which exceeded 3 years, for an average of 57 months.[23] One FMS collector compromised $7,966, or about 50 percent, of an agency's debt with an outstanding balance of $15,932 and entered into a compromise repayment agreement in which the debtor is being allowed to pay $50 per month for 159 months.
  - the debt history files for 19 debts did not contain (1) a signed written compromise repayment agreement and (2) evidence that the FMS collector attempted to follow up to obtain a signed written agreement from the debtor.
  - the debtors defaulted on 16 of the 32 agreements. Of these 16 debts, 7 had no evidence in the debt history files that the FMS collector

[23]Under the revised procedures, collectors may offer compromise repayment agreements for up to 12 months.

contacted the debtor to determine whether the debt collection strategy could be modified.

- Four of the 16 debts with defaulted compromise repayment agreements were not requested for referral to PCAs until more than 30 days after default.
- Eleven of the 78 debts did not have a TIN listed in the debt history files or any evidence that the FMS collector attempted to obtain a TIN required for IRS reporting and needed for referral to TOP.

TOP Referrals

When routine debt collection techniques fail, the cross-servicing SOP requires FMS collectors to pursue the debtor with more aggressive approaches, such as using TOP. According to FMS' cross-servicing SOP, debts may be referred to TOP for offset 20 days after the date of the demand letter. FMS' debt management system notifies collectors when the 20 days has expired.

We found that FMS' collectors referred 13 of the 62 debts that were eligible for referral to TOP within the stipulated time frames. On the other hand, FMS did not refer 36 of the 62 debts that were eligible for referral to TOP promptly at 20 days because of interface problems between internal computer systems. In addition, FMS collectors referred another 7 debts to TOP between 5 and 141 days after the 20-day period and had not referred 6 other debts as of the completion of our detailed testing. According to FMS officials, the late referrals or lack of referrals for the latter 13 debts were likely due to errors made by FMS collectors.

Referral to PCAs

FMS' cross-servicing SOP required FMS collectors to request debts that are not in an active repayment status, paid in full or compromised, or referred to the Department of Justice for litigation to be referred to a PCA. FMS collectors were to request eligible debts be sent to the PCAs at 30 days after the date of the demand letter (before January 1999, the standard was 50 days).

We found that FMS' collectors did not promptly request referral of many debts to PCAs. In our sample of 200 delinquent debts, 183 debts were eligible for referral to PCAs at the time of our detailed testing. For 33 (about 18 percent) of the 183 debts eligible for referral to PCAs,[24] FMS collectors requested referral of these debts to PCAs between 3 and 383 days, or an average of 62 days, after the 30-day (or 50-day) time period.

We also identified instances where there were significant delays between the date the FMS collector requested a debt referral to a PCA and the date FMS actually transferred the debt to a PCA. Of the selected 183 debts eligible for referral, 178 had been referred to PCAs as of the date of our detailed testing. Nineteen of these 178 debts were transferred from FMS to the PCAs between 30 and 64 days after the FMS collectors' request. As a result, no collection activities were taking place and these debts continued to increase in age of delinquency. FMS officials could not provide an explanation for the longer time frame.

PCA Collection Activities

For the 178 debts in our sample that were referred to the PCAs, we found that several PCAs did not perform or document certain debt collection procedures required by FMS' contract.

PCAs, among other things, are required by their contract with FMS to send demand letters within 5 working days of receipt of the debt from FMS, attempt to locate debtors through skiptracing, including obtaining credit bureau reports for debtors with debt balances of $500 or more, and attempt to obtain full payment before compromising any debt. In addition, PCAs are required by contract to record all collection activity occurring on debts in their respective debt collection systems. PCA contract monitors employed by FMS have access to the PCA debt collection systems and are required to regularly review debt records in these systems to verify that demand letters are issued, ensure that collection activity is appropriate, and evaluate payment schedules.

PCAs sent demand letters for 158 of the 178 debts (or about 90 percent) on time. For 17 debts, PCAs sent letters between 1 and 87 days late, averaging 15 days late. As of the date of completion of our detailed testing, no demand letters had been sent for 3 of these selected debts. According to FMS officials, delays in sending 13 of the 17 late demand letters were primarily caused by one PCA that did not download its electronic debt files in a timely manner.

[24]The population of delinquent debts from which our sample was drawn totaled 61,269 debts. Based on our test results, we estimate that FMS collectors did not promptly request referral to a PCA for 10,109 (about 16 percent) debts of this population. We are 95-percent confident that the number of debts lacking prompt referrals was between 7,554 (about 12 percent) and about 13,136 (about 21 percent) of the population.

In addition, PCAs did not always obtain credit bureau reports as part of skiptracing. Of the 178 debts referred to PCAs, 152 debts had balances over $500, and their debt history files indicated that the collector performed or should have performed skiptracing. For 19 of these 152 debts, we did not find evidence in the PCAs' debt collection systems that the collector obtained the required credit bureau report. When we brought this to the attention of FMS officials, they immediately acted by issuing a technical bulletin to PCAs to remind them of the contractual requirement to obtain credit bureau reports as part of skiptracing activity for debts with balances of $500 or more.[25]

Of the 178 delinquent debts referred to PCAs, we identified 10 debts that involved compromise offers by PCAs. For 4 of these 10 debts, the PCA's debt collection system had no indication that the PCA attempted to obtain either a lump sum payment in full or a repayment agreement for the entire amount before compromise. Further, for all 10 debts, the PCA's debt collection system did not indicate that the collector requested financial statements or other documents reflecting the debtor's financial condition or ability to pay, and such documents, if they existed, were not provided to us by FMS.

Revised SOP

In February 2000, after we completed our detailed testing of FMS' collection activities and briefed FMS on the results of such testing, FMS revised its cross-servicing SOP. The new procedures allow FMS collectors discretion over which debt collection procedures they choose to perform by changing many of the SOP requirements that used to be designated as "will" be performed to "may" or "should" be performed. FMS officials have also emphasized to us that FMS will rely heavily on PCAs to collect referred debt under the revised procedures. However, under the revised SOP, FMS' collectors may continue to hold and cross-service debts for 30 days before referring them to PCAs.

Based on these actions and discussions with FMS officials, FMS is placing increased reliance on PCAs. However, FMS has not performed an analysis to determine the potential effect such reliance may have on net collections to the federal government. Such an analysis may be warranted given that (1) as the debts are not actively worked by BDMOC and are awaiting referral to PCAs, they continue to age and thus typically become more difficult to collect and (2) the federal government pays a 25-percent fee on

[25] Technical Bulletin-Number 18 (Revised) August 30, 1999.

debt amounts collected by the PCA that the government is not always able to recoup from the debtor.

Distribution of Debts to PCAs

You were interested in how debts were distributed to PCAs. In the fall of 1996, FMS began development of the PCA Monitoring and Control (PMAC) system to distribute debt accounts to PCAs, track PCA collection performance, and monitor PCA collection activities. For the first distributions made to PCAs from February through June 1998, each PCA received an equal percentage of the total dollar amount of debt accounts from each distribution. After this first performance period, FMS assessed the performance of the PCAs every 4 months thereafter to determine the dollar percentage of a distribution that each PCA would receive typically on a biweekly basis. FMS then adopted a systematic process, described below, to distribute the debts to the PCAs.

In preparing for these subsequent distributions to the PCAs, the debts were first arrayed by the earliest to the latest date the electronic data were entered into the PMAC system and then, for each date entered, by dollar amount from highest to lowest. The PCAs were then arrayed starting with the PCA with the highest distribution goal amount,[26] followed by the remaining PCAs in descending order. The system then began sequentially assigning the debts to the PCAs until each PCA had received at least one debt. After the first round, the system reordered the PCAs from the largest remaining goal amount to the smallest. The PMAC system continued to sequentially assign debts and reorder the PCAs after each debt was assigned until all eligible debts had been distributed. A more detailed description of this process is included in appendix II.

We obtained copies of pertinent data from the PMAC system and performed various analyses of the debt account information, including distribution of the debt accounts to the PCAs, age of delinquencies, and collection rates. Our analysis of FMS' distribution of debt accounts from the inception of the program (February 1998) through February 2000, which is partially summarized in table 2, showed that one PCA had received a significantly higher percentage of the debts with smaller balances. Overall, the average balances of the debts distributed to this particular PCA were 45 percent lower than the average balances of all debts distributed during this time frame. Specifically, debts distributed to

[26]Every four months, FMS evaluated PCAs' performance based on several performance indicators. These results were then used to determine each PCAs percentage of debts to be received for each distribution during the next performance period. The PCA with the top performance was to receive the largest dollar amount of debts.

this PCA had average balances of $11,436, while the overall average balances of debt accounts distributed to PCAs were $20,845.

Table 2: Analysis of Debt Distributions

PCA	Number of debts distributed as a percent of total debts distributed	Dollar amount of debts distributed as a percent of total dollars distributed	Average debt balance
1	4%	6%	$31,034
2	6%	10%	$31,944
3	6%	6%	$23,041
4	29%	16%	$11,436
5	8%	8%	$22,275
6	7%	9%	$29,620
7	9%	9%	$19,722
8	11%	13%	$24,922
9	7%	7%	$18,603
10	7%	9%	$25,025
11	6%	7%	$26,217
	100%	100%	$20,845

Source: GAO's analysis of the PMAC database for debts distributed to PCAs from February 1998 through February 2000.

This trend also existed for many of the age of delinquency categories: less than 180 days, 180 days to 1 year, 1 to 2 years, 2 to 4 years, 4 to 6 years, 6 to 11 years, and greater than 11 years. We found that in the first four delinquency categories noted above, the PCA mentioned above had the smallest average debt balances. This PCA also had the next to the smallest average debt balances in the 4 to 6 years and 6 to 11 years delinquency categories. For example, we found that 27 percent of this PCA's debts were less than 1 year delinquent, with an average balance of $5,593. In addition, we found that 32 percent of the total number of debts that were less than 1 year delinquent were distributed to the one PCA. These debts also represented 19 percent of the total dollars of debt in this delinquency category. The PCA to receive the next highest percentage of the debts less than 1 year delinquent was distributed 11 percent of the total number of debts representing 13 percent of the total dollars, with an average debt balance of $10,694.

On the other hand, we found that for one agency's debts for which no collections had been made through February 2000, 35 percent of the total number of accounts for this same agency were distributed to two PCAs, representing 55 percent of the total amounts received by these PCAs, with a combined average balance of $2.7 million. The one PCA mentioned above, who is not one of these two, received 17 percent of the total number of accounts of this same agency's debts representing 14 percent of the total amounts received by the PCA with an average balance of $1.4 million. We noted that several agencies had referred debts with large average dollar balances ranging from $54,000 to $1.7 million for which no amounts have been collected.

Further, we analyzed collections on closed debt accounts with payments categorized by age of delinquency. Collection industry statistics have shown that collection rates are generally higher on debts with smaller dollar balances and that are less delinquent. While the PCA mentioned above had collected the most in total dollars, it ranked highest in collections as a percentage of the total amounts referred only in the 1 to 2 years and 4 to 6 years delinquency categories. In the other five delinquency categories, other PCAs had higher collection percentages. Our analysis also showed that generally three out of the four PCAs with the highest collection percentages in each delinquency category had average debt balances that were below the overall average balances for that category. For example, the three PCAs with the highest collection percentages in the less than 180 days delinquent category had average account balances of $265, $810, and $857. The overall average account balances for this delinquency category was $2,003. Thus, FMS' collection experience appears to be consistent with that of the collection industry statistics noted above.

Concerns relating to the distribution method have been raised by some of the PCAs. During our interviews with the 11 PCAs, we found that when asked how the debts should be distributed, the general consensus among them was that the distribution should consider the characteristics of the debts, such as age of delinquency, type of debt (consumer or commercial), agency referring the debt, and debt balance. Many of the PCAs indicated that stratifying the available debts by agreed-upon characteristics would result in each of the PCAs receiving a proportionate mix of the debts and foster a more competitive environment.

An important consideration to help ensure that each PCA receives a proportionate mix of debts is that the population of debts to be distributed is homogeneous, i.e., of the same characteristic, such as age of delinquency, balance, type, or originating agency. For each distribution, FMS placed all the debts available into one pool. Our analysis of the debts found that the debts within each distribution's pool were generally not of the same composition, i.e., not of the same average balance or age of delinquency. This factor contributed to the distribution results experienced by FMS which are discussed above.

FMS compiled information on the distribution and collection of the debts referred to the PCAs in response to various congressional and other requests. During our fieldwork, FMS had not yet analyzed these data. Given the above noted PCAs' feelings about the distribution method and the results thus far of FMS' distributions to the PCAs, it may be necessary for FMS to periodically analyze the distribution and collection data to determine whether adjustment is needed to the distribution model to assure that a proportionate mix of debts is being distributed to the PCAs and competition among the PCAs is more fully promoted.

FMS' Cross-Servicing Fees and Related Costs of Operations

For its services, FMS collects cross-servicing fees from referring agencies that range from 1 percent to 18 percent of the referred debt amounts collected (see appendix III for the details regarding the fees collected). As stated in the SOP, effective during the period of our detailed testing, and as allowed by DCIA, FMS intended for the fees charged for its cross-servicing debt collection activities to fully cover the cost of its related operations. However, for fiscal year 1999, cross-servicing fees totaled $1.6 million, or about 15 percent, of FMS' $11 million of estimated cross-servicing costs.[27]

FMS hired a contractor to assist with the development of its estimated costs, a model for conducting break-even analyses, and fee setting. The FMS contractor indicated that fees for cross-servicing would have to increase substantially over current levels for FMS to achieve full cost recovery.

We determined, using the current fee structure and the fiscal year 1999 collection experience, that FMS would have to increase annual collections by over sevenfold, or collect approximately $173.5 million, to cover its fiscal year 1999 estimated costs of $11.0 million. The estimated $173.5 million in collections would include approximately $141.6 million to be returned to the referring agency for collected debts, $20.9 million in fees paid to PCAs, and $11 million in cross-servicing fees paid to FMS.[28]

[27]FMS' estimated costs do not include any agency costs, such as costs incurred by the agencies to refer debts to FMS for cross-servicing.

[28]Our analysis assumes that no additional costs will be incurred to increase the collection amount. Also, we assumed that all DOJ collections are from post judgment debts where the 18-percent fee would apply on the initial amount. During fiscal year 1999, most of DOJ collections were from post judgment debts.

The amount of collections needed to reach a break-even basis varies substantially depending on who collects the debt, FMS or the PCAs. If FMS did all the collections at its 18 percent rate, debt collections of about $72 million would be needed to cover the $11 million estimated costs. Conversely, if FMS relied on the PCAs exclusively for collections, its 3 percent fee on these collections would require that the PCAs bring in collections of about $471 million to cover these costs.

Projected higher future costs will require even more collections to break even. FMS' fiscal year 2000 cross-servicing cost estimate that we were provided is about $12.9 million or about 17 percent greater than the fiscal year 1999 estimate. According to FMS officials, FMS has not projected cross-servicing fee revenues and costs beyond fiscal year 2000. Although the officials stated that FMS is currently considering increasing cross-servicing fees, they have acknowledged that the cross-servicing program will not be fully reimbursable in the foreseeable future. Thus, the cross-servicing program will likely have to be funded primarily through appropriations at least in the near term.

In summary, for FMS' cross-servicing program to become a fully implemented and mature program, many challenges lie ahead that must be overcome to assure success in the collection of delinquent debt. These challenges are magnified since as delinquent debt ages further, the likelihood of collection diminishes.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

For information about this testimony, please contact Gary T. Engel at (202) 512-3406. Major contributors to this testimony include Kenneth R. Rupar, Paula M. Rascona, Matthew F. Valenta, Michael S. LaForge, Gladys Toro, and Sophia Harrison.

Appendix I

Explanation of Terms/Data in Table 1

Cross-servicing waivers—Treasury granted the Departments of Education and Health and Human Services waivers from cross-servicing for certain classes of their own debts. According to FMS officials, the waiver, which is valid for a 3-year period, allows the agencies to perform collection activity on those debts subject to the waivers. As of October 1999, agencies can no longer apply for waivers, but rather must apply for exemption from cross-servicing for specific classes of debts.

Debts in forbearance or in appeals—Debts that are subject to forbearance or that are in appeals generally are not "legally enforceable." Forbearance action taken by a creditor generally extends the time for payment of a debt or postpones, for a time, the enforcement of legal action on the debt. The government cannot pursue collection against a debtor if the debt is not legally enforceable.

At DOJ—Debts that are referred to DOJ for litigation or collection are excluded for referral to Treasury for cross-servicing by DCIA.

Foreign debt—Debt that is owed by foreign governments is excluded for referral to Treasury. Treasury stated that, for the most part, collecting these delinquent debts is infeasible primarily due to foreign diplomacy considerations and affairs of state.

Debts in bankruptcy—The automatic stay mandated by 11 U.S.C. Section 362 generally prevents the government from pursuing collection action against debtors in bankruptcy.

Debts in foreclosure—Debts in foreclosure are governed by state laws. In some states, to maintain the right to foreclose, a creditor must foreclose the collateral securing the debt before seeking other collection remedies. DCIA excludes debts that are in foreclosure for referral to Treasury for collection action.

Department of Defense—According to an FMS official, certain contractor debt held by the Department of Defense (DOD) and reported as debt over 180 days delinquent as of September 30, 1998, was subsequently reclassified from eligible to ineligible debt. Specifically, in August 1999 FMS and DOD agreed to reclassify $1.3 billion of such debt to ineligible debt due to ongoing litigation.

Debts eligible for internal offset—Debts that will be collected under agency-initiated offset, if such offset is sufficient to collect the claim within 3 years after the date the debt or claim is first delinquent, are excluded for referral for cross-servicing by DCIA.

Debts at third party—Debts being serviced and/or collected in accordance with applicable statutes and/or regulations by third parties, such as private lenders or guaranty agencies, are exempt from cross-servicing by Treasury regulations.

Appendix II

FMS Distribution Methodology

The PMAC system begins the distribution process by creating a list of debt accounts for distribution that are ordered first by the earliest to latest date the debt account was entered into the PMAC system. Then, for each date entered, by dollar amount from highest to lowest. The PMAC system then performs a series of calculations to determine a dollar-limiting amount that represents the highest dollar amount of an individual debt account included in the distribution list. All individual debts that exceed the dollar-limiting amount are excluded from that distribution. According to FMS officials and its contractor, the dollar-limiting amount was established to help ensure that no debt accounts would be assigned that are larger than every PCA's distribution goal amount. According to FMS, the list of debt accounts are ordered by date entered into the PMAC system to help ensure that no debt account will remain unassigned for an extended period of time.

Next, the PMAC system calculates the goal distribution percentages for each PCA. The goal distribution percentages are based on the performance evaluation results of the prior 4 month performance period and are used to determine the dollar amount of debts each PCA will be allocated. The PMAC system then orders the PCAs by listing the PCA with the largest distribution goal first followed by the remaining PCAs in descending order according to goal distribution amounts. The PMAC system assigns the debt accounts sequentially from the debt account listing to PCAs so that the PCA with the largest remaining distribution goal amount will receive the debt with the largest balance and so forth. A debt can be assigned to a PCA if the debt amount will not cause the PCA to exceed its remaining distribution goal amount within a preestablished tolerance amount and the debt account has not been previously assigned to the PCA in a prior distribution. If the debt account cannot be assigned to the first PCA on the list, the system proceeds to the next PCA. This process continues until each PCA has been assigned at least one debt account.

After each PCA has been assigned at least one debt account, the PCAs are reordered from the largest remaining distribution goal amount to the least. The PMAC system continues to sequentially assign the debt accounts and reorder the PCAs after each debt account is assigned until all eligible debts that can be assigned have been assigned. Debt accounts that are not assigned during the distribution process are included with the next distribution.

Appendix III

FMS' Cross-Servicing Fee Rates

In its standard written agreement with all referring agencies, FMS requires agencies to pay FMS cross-servicing fees for nontax debt collections on debts referred to FMS. The agreement states that FMS is entitled to a cross-servicing fee for all nontax debt collections received after it initiates collection action, which is defined as the issuance of a demand letter and/or an attempt to contact the debtor. FMS fees are based on a percentage of the initial referred debt amount that is collected. FMS' cross-servicing fees effective during the period of our fieldwork are listed below in table 3.

Table 3: Cross-Servicing Fee Rates

Type of cross-servicing collection	Fee rates (%)
Debts referred to FMS for cross-servicing and collected by FMS collectors	18
Post-judgement debts referred to FMS and subsequently collected by the Department of Justice (DOJ)	18
Debts referred to FMS for cross-servicing and subsequently collected by PCAs	3
Debts referred to FMS for cross-servicing and subsequently collected by TOP	3
Debts referred to FMS for cross-servicing and subsequently collected by DOJ (excluding post-judgement enforcement)	3
Debts referred to FMS and sent directly to and collected by PCAs with no collection activity performed by FMS, referred to as "pass-throughs"	1

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Mr. HORN. Well, we appreciate the thoroughness with which you've looked at this matter, and we do look forward to any further recommendations you want to make.

Next is Richard L. Gregg, the Commissioner of the Financial Management Service of the Department of the Treasury.

STATEMENT OF RICHARD L. GREGG, COMMISSIONER, FINANCIAL MANAGEMENT SERVICE, U.S. DEPARTMENT OF THE TREASURY

Mr. GREGG. Mr. Chairman and members of the subcommittee, thank you for giving me the opportunity to update you on the progress of the Financial Management Service in implementing the Debt Collection Improvement Act of 1996. As always, FMS is grateful for the subcommittee's support for its governmentwide debt collection program.

I am pleased to report that during this past year, FMS has continued to make significant strides in carrying out the provisions of this landmark legislation. The Treasury Department is firmly committed to the successful operation of the governmentwide debt collection.

Federal debt collection is a highly complex and ever expanding program, one that requires active participation and support from Federal program agencies, States and private collection agencies. In addition to carrying out the requirements of the DCIA, in January, FMS began collecting State income tax debt as mandated by the 1998 IRS Restructuring and Reform Act.

Next month, FMS will initiate the continuous tax levy program as authorized by the 1997 Taxpayer Relief Act, to collect delinquent Federal tax debt. FMS developed these important programs, I might add, in conjunction with undertaking an intensive 2 year effort that successfully modified FMS' mission critical systems for a smooth and uninterrupted transition to the year 2000.

Mr. Chairman, FMS has moved swiftly on each of these major collection initiatives and has concurrently implemented appropriate administrative safeguards and controls. Nevertheless, challenges do lie ahead. This morning, I will provide a status report on FMS' debt collection efforts using the Treasury Offset Program [TOP], and the cross-servicing program, including the important contract work of private collection agencies. Finally, I will discuss our most recent program enhancements aimed at increasing future collections.

As I reported last year, the Tax Refund Offset and Treasury Offset Programs were successfully merged in January 1999. For calendar year 1999, collections through the offset of income tax refunds totaled $2.6 billion, an increase of more than $570 million over 1998. An increase of this magnitude in such a short period of time, I believe, represents a most impressive achievement.

This calendar year to date, we have collected almost $2.4 billion. This figure includes almost $1.3 billion in delinquent child support payments and $1.1 billion in non-tax debt collections. Collecting $1.3 billion in overdue child support debts, Mr. Chairman, is a reflection of Secretary Summers' commitment to supporting our children and strengthening American families.

The dollar amount of delinquent debt referred to TOP by the program agencies continues to increase. As of September 1999, $31.3 billion in Federal delinquent debt was eligible for referral. And as of May 31 of this year, $25.4 billion, or 81 percent of that amount, has been referred. This represents an increase of $16.6 billion in referrals since 1997.

The TOP Customer Assistance Center, located in Birmingham, AL, provides toll-free telephone customer service 7 days a week. During peak workload periods, up to 100 center representatives answer questions regarding tax refund and other offsets and provide agency contact information. The center has already responded to more than 2 million phone calls during the 2000 tax season. Furthermore, FMS prides itself on its track record of timeliness, fairness and balance in responding to all inquiries.

Mr. Chairman, I will now discuss the newest addition to the TOP system, the State income tax debt offset program. This program entails offsetting Federal income tax refunds to collect delinquent State income tax debt. Since launching the State income tax program in January of this year, seven States including Delaware, Illinois, Iowa, Kentucky, Maryland, Missouri, and New Jersey have referred $362 million in delinquent State income tax debts. As of May 31, 2000, collections have exceeded $20 million and participating States have been greatly enthusiastic and see enormous potential for growth. Additional States will be added as they become ready.

Under cross-servicing, agencies refer debt to FMS for collection that have been delinquent for more than 180 days. Upon receiving debts for cross-servicing, FMS' Birmingham Debt Collection Center attempts to collect the delinquent debt by using a variety of approaches, including demand letters, telephone followup and administrative offset. If, at the end of 30 days, the debt has not been collected or a repayment agreement has not been negotiated, it is referred to 1 of the 11 private collection agencies on FMS' contract.

Since the establishment of this program in September 1996, $63.4 million has been collected and repayment agreements total $160.4 million. As of May 31 of this year, fiscal year to date, total collections are $28.6 million, which is more than the $23.5 million that was collected in all of fiscal 1999.

Currently, 62 percent, or $3.95 billion of the $6.4 billion of delinquent debt eligible for cross-servicing has been referred to FMS. This represents an increase of approximately $2 billion in referrals over fiscal 1998. Progress in increasing referrals has been slow; nevertheless, FMS will continue to press and encourage agencies on this front and we expect further progress. Attached is a report on the 10 agencies with the largest dollar amounts eligible for cross-servicing.

Private collection agencies are an integral and critical part of the cross-servicing program. Referring debts to the 11 PCAs under contract with the Treasury Department allows these agencies to bring their unique expertise, systems, and techniques to the cross-servicing program. These specialized skills and methods have not been, nor should they be, replicated by FMS' cross-servicing operation. The contract for the services of private collection agencies is, first and foremost, performance based. FMS continues to work diligently to ensure that the terms of the contract are met.

As the members of the subcommittee are aware, the process by which delinquent debts are distributed by FMS to the PCAs has been the subject of some debate. While FMS is agreeable to considering alternative distribution procedures for future contracts, complying with the terms of the current contract, administering the contract efficiently, and maximizing collections are, without question, FMS' primary goals.

As I stated earlier, all FMS debt collection programs include safeguards and controls. FMS monitors the actions of private collection agencies with call monitoring and onsite reviews. Private collection agencies collected $14.9 million during fiscal year 1999, and as of May 31 of this year, collections total $13.6 million for this fiscal year.

Additionally worth noting are the efforts of private collection agencies in working with debtors to negotiate repayment agreements, resulting in agreements totaling $30 million fiscal year to date and cumulatively $71.3 million.

At this point, Mr. Chairman, I will focus my remarks on FMS' other new collection initiatives. FMS is moving forward on the implementation of the program to offset the remaining Federal salary payments. Based on the results of a test match conducted by FMS, between $48 million and $80 million can be collected through the offset of Federal salary payments. Beginning in March 2001, we expect to implement a phase-in of the Federal salary offset program.

With respect to the offset of Social Security benefits, FMS estimates that annual collections will be between $37 million and $61 million. While FMS is currently prepared to move forward on implementation, we have been advised the by Social Security Administration that they will not be ready until February 2001. We will continue to meet with them to resolve implementation issues.

On July 1, 2000, FMS and IRS will launch the continuous tax levy program. Under the provisions of the Taxpayer Relief Act of 1997, the IRS is authorized to collect overdue Federal tax debts from individuals and businesses that receive Federal payments by levying up to 15 percent of each payment until the debt is paid. Initially, IRS will levy vendor and Federal retiree payments disbursed by FMS, with the levy of Federal salary and Social Security benefit payments to follow.

At full implementation, GAO projects annual collections of $478 million from the tax levey program, with an estimated annual collection of $312 million from levies of Social Security benefit payments. Although FMS has made the necessary preparations to move forward with the tax levy program, as of this date, we have not received a commitment from SSA on an implementation date.

In addition to sharply reducing debt collections, the delay in implementing the programs to offset benefit payments and to levy benefit payments has significant consequences for overall operations of the program. Specifically, it will result in an $8 million reduction in reimbursable income to FMS for fiscal year 2001.

Mr. Chairman, in conclusion, FMS' governmentwide debt collection program continues to experience solid growth. The dollar amount of collections has increased in all program areas, with total collections from fiscal year 1998 to the present amounting to $7.1 billion. FMS is making headway in increasing the delinquent debt referrals by program agencies. Furthermore, amounts projected to be collected by expanding the offset and cross-servicing programs to include tax levy, benefit offset, salary offset, and administrative wage garnishment should result in significant increases in collections of debt owed to the Federal Government. The efforts to date of FMS in the governmentwide debt collection arena clearly demonstrate our firm commitment carrying out the express intent and purposes of the DCIA.

Again, thank you for the opportunity to testify. I would be happy to answer any questions.

[The prepared statement of Mr. Gregg follows:]

Testimony of
Commissioner Richard L. Gregg
Financial Management Service - U.S. Department of the Treasury
Before the
Subcommittee on Government Management, Information, and Technology
House Committee on Government Reform
June 8, 2000
"Implementation of the Debt Collection Improvement Act of 1996"

Mr. Chairman and Members of the Subcommittee:

Thank you for giving me the opportunity to update you on the progress of the Financial Management Service (FMS) in implementing the Debt Collection Improvement Act of 1996 (DCIA). As always, FMS is grateful for the subcommittee's support for its governmentwide debt collection program. I am pleased to report that during this past year, FMS has continued to make significant strides in carrying out the provisions of this landmark legislation. The Treasury Department is firmly committed to the successful operation of governmentwide debt collection.

Federal debt collection is a highly complex and ever-expanding program, one that requires active participation and support from federal program agencies, states, and private collection agencies. In addition to carrying out the requirements of DCIA, in January, FMS began collection of state income tax debt as mandated by the 1998 Internal Revenue Service Restructuring and Reform Act. Next month, FMS will initiate the continuous tax levy program, as authorized by the 1997 Taxpayer Relief Act, to collect delinquent federal tax debt. FMS developed these important programs, I might add, in conjunction with undertaking an intensive two-year effort that successfully modified FMS' mission critical systems for a smooth and uninterrupted transition to the year 2000.

Mr. Chairman, FMS has moved swiftly on each of these major collection initiatives and has concurrently implemented appropriate administrative safeguards and controls. Nevertheless, challenges do lie ahead. This morning, I will provide a status report on FMS' delinquent debt collection efforts using the Treasury Offset Program (TOP) and the cross-servicing program, including the important contract work of private collection agencies. Finally, I will discuss our most recent program enhancements aimed at increasing future collections.

Treasury Offset Program -- As I reported last year, the Tax Refund Offset and Treasury Offset Programs were successfully merged in January 1999. For calendar year 1999, collections through the offset of income tax refunds totaled \$2.6 billion, an increase of more than \$570 million over 1998. An increase of this magnitude in such a short period of time, I believe, represents a most impressive achievement. This calendar year to-date, we have collected almost \$2.4 billion. This figure includes almost \$1.3 billion in delinquent child support payments and \$1.1 billion in non-tax debt collections. Collecting \$1.3 billion in overdue child support debts, Mr. Chairman, is a reflection of Secretary Summers' commitment to supporting our children and strengthening American families. The dollar amount of delinquent debt referred to TOP by the program agencies continues to increase. As of September 30, 1999, \$31.3 billion in federal delinquent debt was eligible for referral. As of May 31, 2000, \$25.4 billion or 81% of that amount has been referred. This represents an increase of \$16.6 billion in referrals since 1997.

TOP Customer Assistance Center -- The TOP Customer Assistance Center, located in Birmingham, Alabama, provides toll-free telephone customer service seven days a week. During peak workload periods, up to 100 Center representatives answer questions regarding tax refund and other offsets and provide agency contact information. The Center has already responded to more than two million calls during the 2000 tax season. Furthermore, FMS prides itself on its track record of timeliness, fairness, and balance in responding to all inquiries.

State Income Tax Debt -- Mr. Chairman, I will now discuss the newest addition to the TOP system, the state income tax debt offset program. This program entails offsetting federal income tax refunds to collect delinquent state income tax debt. Since launching the state income tax program in January of this year, seven states (Delaware, Illinois, Iowa, Kentucky, Maryland, Missouri, and New Jersey) have referred $362 million in delinquent state income tax debts. As of May 31, 2000, collections have exceeded $20 million, and participating states have been greatly enthusiastic and see enormous potential for growth. Additional states will be added as they become ready.

Cross-servicing -- Under cross-servicing, agencies refer debt to FMS for collection that has been delinquent for more than 180 days. Upon receiving debts for cross-servicing, FMS' Birmingham Debt Collection Center attempts to collect the delinquent debt by using a variety of approaches, including demand letters, telephone follow-up, and administrative offset. If, at the end of 30 days, the debt has not been collected or a repayment agreement has not been negotiated, it is referred to one of 11 private collection agencies on FMS' contract. Since the establishment of this program in September 1996, $63.4 million has been collected and repayment agreements total $160.4 million. As of May 31, 2000, fiscal year to-date, total collections are $28.6 million, which is more than the $23.5 million that was collected in all of fiscal 1999. Currently, 62% or $3.95 billion of the $6.4 billion of delinquent debt eligible for cross-servicing has been referred to FMS. This represents an increase of approximately $2 billion in referrals over fiscal 1998. Progress in increasing referrals has been slow; nevertheless, FMS will continue to press and encourage agencies on this front and we expect further progress. Attached is a report on the ten agencies with the largest dollar amounts eligible for cross-servicing.

Private Collection Agencies -- Private collection agencies are an integral and critical part of the cross-servicing program. Referring debts to the 11 private collection agencies under contract with the Treasury Department allows these agencies to bring their unique expertise, systems, and techniques to the cross-servicing program. These specialized skills and methods have not been, nor should they be, replicated by FMS' cross-servicing operations. The contract for the services of private collection agencies is -- first and foremost -- performance-based. FMS continues to work diligently to ensure that the terms of the contract are met. As the members of the subcommittee are aware, the process by which delinquent debts are distributed by FMS to the private collection agencies has been the subject of some debate. While FMS is agreeable to considering alternative distribution procedures for future contracts, complying with the terms of the current contract, administering the contract efficiently, and maximizing collections are, without question, FMS' primary goals.

As I stated earlier, all FMS debt collection programs include safeguards and controls. FMS monitors the actions of private collection agencies with call monitoring and on-site reviews. Private collection agencies collected $14.9 million during fiscal year 1999. As of May 31, 2000, collections total $13.6 million for this fiscal year. Additionally, worth noting are the efforts of private collection agencies in working with debtors to negotiate repayment agreements, resulting in agreements totaling $30 million fiscal year to-date and cumulatively, $71.3 million.

New FMS Debt Collection Initiatives -- At this point, Mr. Chairman, I will focus my remarks on FMS' other new debt collection initiatives. FMS is moving forward on the implementation of the program to offset the remaining federal salary payments. Based on the results of a test match conducted by FMS, between $48 million and $80 million can be collected through the offset of federal salary payments. Beginning in March 2001, we expect to implement a phase-in of the federal salary offset program. With respect to the offset of Social Security benefits, FMS estimates that annual collections will be between $37 million and $61 million. While FMS is currently prepared to move forward on implementation, we have been advised by the Social Security Administration that they will not be ready until February 2001. We continue to meet with them to resolve implementation issues.

Tax Levy -- On July 1, 2000, FMS and the IRS will launch the continuous tax levy program. Under the provisions of the Taxpayer Relief Act of 1997, the IRS is authorized to collect overdue federal tax debts from individuals and businesses that receive federal payments by levying up to 15% of each payment until the debt is paid. Initially, IRS will levy vendor and federal retiree payments disbursed by FMS, with the levy of federal salary and Social Security benefit payments to follow.

At full implementation, the General Accounting Office (GAO) projects annual collections of $478 million from the tax levy program, with an estimated annual collection of $312 million from levies of Social Security benefit payments. Although FMS has made the necessary preparations to move forward with the tax levy program, as of this date, we have not received a commitment from SSA on an implementation date. In addition to sharply reducing debt collections, the delay in implementing the programs to offset benefit payments and to levy benefit payments has significant consequences for overall operations of the program. Specifically, it will result in an $8 million reduction in reimbursable income to

FMS for fiscal 2001.

Conclusion -- Mr. Chairman, in conclusion, FMS' governmentwide debt collection program continues to experience solid growth. The dollar amount of collections has increased in all program areas, with total collections from fiscal 1998 to the present amounting to $7.1 billion. FMS is making headway in increasing the delinquent debt referrals by program agencies. Furthermore, amounts projected to be collected by expanding the offset and cross-servicing programs to include tax levy, benefit offset, salary offset, and administrative wage garnishment, should result in significant increases in collections of debt owed to the federal government. The efforts to-date of FMS in the governmentwide debt collection arena clearly demonstrate our firm commitment to carrying out the express intent and purposes of DCIA.

Again, thank you for the opportunity to testify. I would be happy to answer any questions you might have.

Cross-Servicing Compliance Top 10 Agencies (by eligible debt)
(Dollars in thousands)

Agency	Eligible for Referral to Treasury for Cross-Servicing (as of 9/30/99)	Referred to Treasury for Cross- Servicing (as of 5/31/00)[1]		Estimated Balance Available
		$	%	
HHS	$1,121,617	$495,092	44%	$626,525
SBA	$903,115	$1,085,280	120%	($182,165)
Education	$790,144	$1,007,567	128%	($217,423)
Defense	$667,985	$188,575	28%	$479,410
VA	$463,900	$5,219	1%	$458,681
USDA	$461,166	$138,445	30%	$322,721
SSA	$389,928	$0	0%	$389,928
HUD	$193,829	$337,148	174%	($143,319)
Interior	$81,756	$42,764	52%	$38,992
Transportation	$47,183	$35,401	75%	$11,782

1/ Referral amounts are cumulative since the program inception in September 1996. Debt referrals can exceed eligible amounts for many reasons including agencies referring debt less than 180 days delinquent, referring debts that become eligible after cut off date of 9/30/99 and because of the cumulative nature of the current reporting method.

Mr. HORN. Thank you very much, Commissioner. We appreciate that. There will be a few questions when we get through the panel.

The next witness is the first of the agency witnesses. Edward A. Powell, Jr., is Assistant Secretary for Financial Management and Chief Financial Officer of the Department of Veterans Affairs. Welcome.

STATEMENT OF EDWARD A. POWELL, JR., ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF VETERANS AFFAIRS

Mr. POWELL. Thank you, Congressman.

Mr. Chairman and members of the subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs [VA] regarding VA's implementation of the Debt Collection Improvement Act [DCIA] of 1996.

As a former banker and business owner, the issue of receivable collection is one I know to be of critical importance. It is clear the most important time to collect a receivable is during the first 90 days of its life. We have initiated a coordinated effort in VA directed at receivables management to consolidate all debt collection activity, with the exception of the vendee home loan program, into our Debt Management Center in Minneapolis, MN.

VA has reduced its outstanding receivables from $4.7 billion at the end of fiscal year 1991 to $3.3 billion as of the end of fiscal year 1999. Much of VA's success in benefit debt collection can be attributed to the DMC. Utilizing all available tools, including benefit and salary offset, credit bureau reporting and private collection agency referrals, compromises and litigation, write-offs and the Treasury's Offset Program. DMC has become the cornerstone of our debt management effort.

Even though we have reduced our outstanding debt by 11 percent last year, we continue to emphasize the importance of debt management. How we deal with our debt is in large part determined by the different types of debt generates. Of the $3.3 billion debt outstanding at the end of fiscal year 1999, $1.1 billion was delinquent and $937 million was more than 180 days delinquent.

$1.96 billion of the $3.3 billion outstanding are active vendee home loans. A vendee loan is a mortgage which is generated by the sale of foreclosed property under the Home Loan Guaranty Program. These mortgages are not delinquent debts per se, but assets of VA. Periodically, we package and sell vendee loans to the private markets, which eliminates the mortgage and any obligation owed to the Government.

The remaining program debt is comprised of compensation and pension overpayments, defaulted home loans, which by the way are generally in transition to the vendee loan home program, readjustment benefit overpayments and receivables for the provision of medical care and services.

My staff works closely with the Department of the Treasury's Financial Management Service to implement the provisions of the DCIA. We have worked with FMS to revise the report on receivables due from the public so it will provide better information on the implementation and effectiveness of the DCIA requirements, not just for VA, but for all Federal agencies. Last year we worked with FMS to refer most of eligible debt from VA to them for offset and to develop the programming and processes needed to refer those same debts for cross-servicing.

VA has been a long time participant in all available administrative offset programs, including tax refund offset, Federal salary offset and benefit offset, and has effected many interagency matching programs. We continue to actively pursue Federal salary offset pending its inclusion in the TOP.

Of the $937 million debt that was more than 180 days delinquent at the end of fiscal year 1999, approximately $329 million was eligible for TOP and $460 million was eligible for cross-servicing. Many debts are eligible for both administrative offset and cross-servicing. The debts not eligible for referral for TOP or cross-servicing are exempt for a variety of reasons, including debt in bankruptcy or foreclosure proceedings, debt in VA's mandatory waiver/appellate process, and debt statutorily barred from referral.

As of December 8, 1999, VA referred $250 million for TOP. By the end of this fiscal year, VA expects to implement the new automated file formats required by Treasury and to be in compliance with the offset referral requirement of the DCIA.

To date, VA's cross-servicing referrals to Treasury total $4 million worth of debt from the health professional scholarship program. We targeted these debts for referral because they are among the most collectible of VA's debts and the easiest to refer. Thus far, Treasury has collected approximately $225,000 of the $4 million referred since May 1998.

The DMC currently houses approximately 80 percent of VA debt over 180 days delinquent and eligible for cross-servicing. This debt will be referred for cross-servicing in September 2000 when Treasury and the DMC will have completed the development of automated processes needed to update each other's databases. This has been a joint effort between us and Treasury and is progressing well.

Although it is taking longer than we had hoped to refer the bulk of our portfolio for cross-servicing, we have continued to refer our debts for the Treasury offset program and for Federal salary offset, both of which have historically proven to be highly effective external sources for collection of VA debt. The subcommittee should know that the Debt Management Center is a highly efficient and effective operation which already executes all the functions required of a cross-servicing center. The DMC has generated an average of approximately $10 of cash collections for every dollar of operating cost.

The DMC's recent collection rates for overpayment debts are approximately 67 percent for compensation and pension debt and over 95 percent for education debt. We believe the DMC collects a high percentage of debt before it becomes seriously delinquent.

As for the remaining 20 percent of eligible VA debt not managed by the DMC, VA staff and Treasury's FMS staff are now determining how we can best achieve referral. We are also considering whether VA should request the Secretary of the Treasury to exercise his authority to exempt most of this debt from the referral requirements, since it may not be cost effective to refer certain VA types for cross-servicing.

For example, VA's first party medical debts are especially problematic and expensive to refer, as explained in my full written statement. The first party medical debt and the debt management of the DMC comprise most VA debt potentially eligible for referral. Therefore, once the DMC has referred its debt in September, VA will be over 90 percent compliant with the cross-servicing requirements of the DCIA. The remaining debt is made up of a few smaller benefit programs not managed by the DMC, and miscellaneous VHA debt such as vendor debt, employee debt and non-Federal sharing agreement debt. We plan to refer all appropriate debt for cross-servicing during the fiscal year 2001.

This concludes my statement, and I will be happy to answer any questions that the subcommittee may have.

[The prepared statement of Mr. Powell follows:]

STATEMENT BY
THE HONORABLE EDWARD A. POWELL, JR.
ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT
MANAGEMENT, INFORMATION AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

JUNE 8, 2000

INTRODUCTION

Mr. Chairman, and members of the Subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs (VA) concerning our implementation of the Debt Collection Improvement Act (DCIA) of 1996.

As VA's Chief Financial Officer (CFO), I have been working with VA's three administrations—the Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and National Cemetary Administration (NCA) as well as other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA. I would like to begin today by summarizing for you our success at reducing debt throughout VA, and then quickly review the major components of our debt portfolio.

SUMMARY OF VA DEBT COLLECTION STATUS

Our hard work and success in debt reduction are reflected in our debt numbers. As of September 30, 1999, total debt owed to VA was $3.3 billion, down from $3.7 billion owed one year earlier. That is a reduction in debt of 11% during FY 1999.

The decline in VA's debt portfolio is due, in large part, to VA's efforts to reduce establishments and collect debt. In the past decade, we have undertaken many initiatives to prevent the establishment of debt, such as: VA now requires eligible veterans to verify their education attendance on a monthly basis in order to continue to receive educational benefits, and we created an outreach program to assist veterans in retaining home ownership prior to home loans becoming delinquent. An example of a collection tool is our ability to apply VA benefit payments to a benefit debt. This has resulted in approximately $250 million in benefit collections per year. For those debts we could not prevent, VA has vigorously pursued collection by employing the powerful collection tools available to federal agencies. For example, VA has contracted with Transworld Inc. for follow-up collection action on Third Party Health Insurance claims over 90 days old which has resulted in VA collecting an additional $23 million at a cost of $1.3 million. This is a return of $18 for every dollar spent.

Over a decade ago, VA set a goal of reducing its delinquent benefit debt portfolio in VBA through an integrated approach employing prevention and collection as strategic objectives. Since then, we have had great success in achieving each objective and meeting the overall goal. VA has reduced its outstanding receivables from $4.7 billion at the end of FY 1991 to $3.3 billion as of the end of FY 1999. This is a reduction of $1.4 billion (or 30%) in outstanding receivables.

Much of VA's success in benefit debt collection can be attributed to the Debt Management Center (DMC), which was created in 1991 to facilitate consolidation and management of VBA's debt collection program. The DMC extensively uses all available tools including: automated payment processing and collections systems; benefit and salary offset; credit bureau reporting and private collection agency referrals; compromises and litigation; write-offs; and the Treasury Offset Program. To strengthen the focus and emphasis on the importance of the DMC's role in VA's financial management, we moved the DMC organizationally from VBA to VA's Office of Financial Management. This realignment will enable VA to coordinate debt management initiatives among all the Department's administrations (VBA, VHA, NCA).

Even though we reduced our debt by 11% last year, there is still much work left to be done. We take the VA debt of over $3 billion very seriously. How we deal with our debt is in large part determined by the different types of debt we hold. Of the $3.3 billion debt outstanding at the end of FY 1999, $1.1 billion was delinquent and $937 million was more than 180 days delinquent. Of the same $3.3 billion, $1.96 billion, or almost 60%, was comprised of Active Vendee Home

Loans. These are mortgages held by VA, the majority of which will be sold. Few of these receivables ever become delinquent before being sold. Of the remaining major program debt, $494 million was owed for Compensation & Pension overpayments, $384 million for defaulted home loans, $53 million for Readjustment Benefit overpayments, and $334 million, the bulk of which comprises third-party health insurance receivables, was owed to the Medical Care Collections Fund for the provision of medical care and services. The balance of VA's debt consists of debt established under programs that individually contribute less than one percent to the Department's total outstanding debt.

VA IMPLEMENTATION OF THE DCIA REQUIREMENTS

My staff has also been working closely with the Department of the Treasury's Financial Management Service (FMS) to implement the provisions of the DCIA. For example, we worked with FMS to revise *the Report on Receivables Due From the Public* so it will provide better information on the implementation and effectiveness of the DCIA requirements, not just for VA, but for all federal agencies. Last year, we worked with FMS to refer most eligible VA debt to them for offset and to develop the programming and processes needed to refer those same debts for cross-servicing.

I wish to point out VA has been a long-time participant in all available administrative offset programs including IRS, Federal Salary Offset, and benefit offset, and has effected many interagency matching programs. VA continues to actively pursue Federal Salary Offset pending its inclusion in the Treasury Offset Program (TOP).

Of the $937 million debt that was more than 180 days delinquent at the end of fiscal year 1999, approximately $329 million (or 35%) is currently eligible for the TOP and $460 million (or 49%) is currently eligible for cross-servicing. The categories, of course, are not mutually exclusive and many debts are eligible for both administrative offset and cross-servicing. The debts not eligible for referral for TOP or cross-servicing are exempt for a variety of reasons, including debt in bankruptcy or foreclosure proceedings, debt in VA's mandatory waiver/appellate process, and debt statutorily barred from referral.

IMPLEMENTATION OF TREASURY OFFSET PROGRAM

As of December 8, 1999, VA referred $250 million for TOP (this figure is part of the $329 million referenced above). The $250 million included all $199 million of eligible debt managed by the DMC, $47 million of first party medical care debt, and $4 million of debt referred for cross-servicing that was subject to subsequent TOP referral by Treasury. By the end of this fiscal year, VA expects to implement the new automated file formats required by Treasury and to be compliant with the offset referral requirement of the DCIA.

IMPLEMENTATION OF CROSS-SERVICING REQUIREMENT

To date, VA's cross-servicing referrals to Treasury total $4 million worth of debt from the Health Professional Scholarship Program. We targeted these debts for referral first because they are among the most collectible of VA's debts and the easiest to refer. These debts are highly collectible because the majority of the debtors are employed in the health care services profession and should be able to pay their debts. Thus far, Treasury has collected approximately $225,000 of the $4 million referred since May 1998. This indicates that delinquent debts cannot be easily collected.

The DMC currently houses approximately 80% of VA debt over 180 days delinquent and eligible for cross-servicing. This debt will be referred for cross-servicing in September 2000 when Treasury and the DMC will have completed the development of automated processes needed to update each other's databases.

Although it is taking longer than we had hoped to refer the bulk of our portfolio for cross-servicing, we have continued to refer our debts for the Treasury Offset Program and for Federal Salary Offset which have historically proven to be a highly effective external source of collection for VA debt.

I think it is important for the Subcommittee to recognize our Debt Management Center is a highly efficient and effective operation that already executes all the functions required of a cross-servicing center. The DMC has generated an average of about $10 in cash collections (excluding collections from VA benefit offset) for every dollar of operating cost.

Cash collections - $58.0 million

Operating costs - $6.1 million

The DMC's recent collection rates for overpayment debts are approximately 67% for compensation and pension debt and over 95% for readjustment benefit (education) debt. These collection rates represent the ratio of collections to establishments. To achieve these results, the DMC employs every collection tool available to federal agencies which includes the same federal collection tools Treasury will employ for cross-servicing VA debts. We believe the DMC collects a high percentage of debt before it becomes seriously delinquent.

As for the remaining 20% of eligible VA debt not managed by the DMC, VA staff and Treasury's FMS staff are now determining how we can best achieve referral. We are also considering whether VA should request the Secretary of the Treasury to exercise his authority to exempt most of this debt from the referral requirement ,since it may not be cost-effective to refer certain VA debt types for cross-servicing. Specifically, we want to examine the desirability of referring VA's first party medical debts of which approximately $45 million are eligible for cross-servicing. These debts often resemble a "revolving credit" account in that they incur additional charges on a periodic basis as medical services are provided. The nature of these debts makes the cross-servicing process especially problematic and expensive.

As a first step in determining the feasibility of referral, we have been executing a pilot project in which we referred for cross-servicing $1.1 million of VA's first-party medical debts that are not subject to recurring charges. Treasury has collected approximately $10,000, or less than 1%, of this amount since August 1999. The results of the pilot project will be reviewed by Treasury and VA before the end of FY 2000 to determine if VHA should incur the expense of developing the automated processes necessary to refer all eligible first-party debt, or whether VA will request a waiver for this type of debt.

The first-party medical debt and the debt managed by the DMC comprise most VA debt potentially eligible for referral. Therefore, once the DMC has referred its debt in September, VA will be over 90% compliant with the cross-servicing requirements of the DCIA. The remaining debt is made up of a few smaller benefit programs not managed by the DMC, and miscellaneous VHA debt such as vendor debt, employee debt, and non-federal sharing agreement debt. We plan to refer most of this debt for cross-servicing during fiscal year 2001.

This concludes my statement. I will be happy to answer any questions the Subcommittee may have.

Mr. HORN. Thank you very much. We appreciate that presentation. And we now move to the next agency and that's going to be represented by Yvette Jackson, the Deputy Commissioner for Finance, Assessment and Management of the Social Security Administration. Ms. Jackson.

STATEMENT OF YVETTE S. JACKSON, DEPUTY COMMISSIONER FOR FINANCE, ASSESSMENT AND MANAGEMENT, SOCIAL SECURITY ADMINISTRATION

Ms. JACKSON. Thank you, Mr. Chairman and members of the subcommittee.

Thank you for the opportunity to come here today to discuss the Social Security Administration's efforts to implement the Debt Collection Improvement Act of 1996 that I will refer to as the DCIA. We particularly appreciate your leadership, Mr. Chairman, and that of this subcommittee, in enactment of this legislation which has enabled SSA to improve our debt management program.

As you will see, we have already implemented a significant number of debt collection improvements. We will implement five more debt collection tools in the year 2001. When we finish with these tools, we will turn our attention to the remaining provisions to be implemented. The public's trust in the Social Security program is absolutely critical. Even a perception of a lack of program integrity can threaten this trust. SSA is dedicated to program stewardship and program integrity. We must remain vigilant if we are to fulfill our role as capable stewards of the public trust.

SSA has undertaken significant initiatives over the past several years to prevent and detect Social Security program overpayments. Our stewardship responsibilities require that we recover as much of the debt owed as possible. We have a high degree of success in collecting debts owed by people on the rolls, achieving a collection rate of more than 90 percent. If the debtor is no longer on the rolls, the tools provided by the DCIA give us the enforcement capability we need to collect from delinquent debtors.

SSA has made substantial progress toward implementing the debt collection tools authorized by the DCIA, as well as other legislation enacted during the 1990's. This has greatly improved SSA's ability to collect its debt.

In January 1992, we began receiving our first collections from the tax refund offset in which debts are recovered directly from Federal tax refunds before the refunds are sent to taxpayers. We expanded the tax refund offset twice, in 1995 and again in 1998, to add new classes of debtors, such as SSI debtors, and to make use of the Treasury offset program which allows us to collect delinquent debts from Federal payments in addition to tax refunds. These tools have resulted in collections of $370 million.

In 1995, we began using credit bureau locator services to help track down delinquent debtors who moved and left no forwarding address. And in 1998, we began reporting our delinquent Social Security debtors to credit bureaus as a way of inducing them to repay their debts and therefore clear their credit records. To date we have located more than 200,000 debtors using the credit bureau locator services.

We have been busy over the last year developing the debt collection tools that we think will have the most payoff. Our choices are governed by deciding which tools will give us the most return earliest in the process of collecting the debt. Of course, for the last few years, much of our systems resources were devoted to the year 2000 changeover during which SSA reviewed all of its systems supported by more than 35 million lines of in-house computer code and all vendor products. We accomplished this changeover without additional resources.

In January 2001, we will implement mandatory cross program recovery or the collection of an SSI debt from the debtor's Social Security benefits. We estimate that it will yield about $175 million in extra collections over the next 5 years.

Also in January 2001, we plan to implement two additional tools to collect delinquent SSI debts. These tools are administrative offset, which is the collection of a delinquent debt from a Federal payment in addition to a tax refund, as well as credit bureau reporting.

In February 2001, SSA, in partnership with the Financial Management Service, plans to implement benefit payment offset. This is the reduction of Social Security benefits to collect delinquent debts owed to other Federal agencies. While this tool will not contribute to SSA's debt collections, it will benefit the Federal Government by enabling the Treasury Department to collect an estimated $40 million to $60 million in delinquent debt. Treasury estimates that about 400,000 Social Security beneficiaries per year will incur a reduction of their benefits as payment toward another Federal debt.

We have been working with the Financial Management Service since July 1998 to develop a program that gives maximum collections at minimum cost to the Federal Government. As you can imagine, we had many issues to resolve, such as concerns about adequate notification of Social Security beneficiaries who will incur an offset. We want to make sure that the right people are offset for the correct amount. We also want to ensure that the people who are offset under this program understand why it is happening and who they can contact if they have questions.

We have worked out these issues with the Financial Management Service and our agencies are in the final phase of our development of our payment benefit offset. In less than 1 year, we expect payment benefit offset to start generating debt collections for the Federal Government.

In June 2001, we plan to implement administrative wage garnishment, a DCIA authorized tool, as one more tool for collecting delinquent Social Security and SSI overpayments. In addition, we will focus on another DCIA provision, Federal salary offset. Treasury plans to incorporate Federal salary offset into the Treasury offset program after the third quarter of fiscal year 2001.

We will also implement another DCIA provision, Treasury's cross-servicing program, in which Treasury acts as a debt collector for Federal agencies. An important aspect of cross-servicing involves the use of private collection agencies which is on our list of debt collection tools to implement after we finish the tools that are currently being implemented.

Interest charging is another provision of DCIA that we plan to implement. Our priorities are such that we will begin developing interest charging as early as the year 2002. While interest charging is a valuable tool, we believe it will yield collections in the form of voluntary payments by people who will perceive it as something to avoid.

In conclusion, our agency has accomplished much in implementing the new debt collection tools authorized for us. SSA is committed to implementing the provisions of DCIA and other relevant debt collection laws. Our record of achievement in implementing the tax refund offset, administrative offset and credit bureau reporting shows our commitment to debt management.

Thank you for the opportunity to testify before you today. I will be glad to answer any questions that you may have.

[The prepared statement of Ms. Jackson follows:]

FOR RELEASE UPON DELIVERY

IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

STATEMENT BY

YVETTE S. JACKSON
DEPUTY COMMISSIONER FOR
FINANCE, ASSESSMENT AND
MANAGEMENT

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT
MANAGEMENT, INFORMATION, AND
TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM

JUNE 8, 2000

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to come here today to discuss the Social Security Administration's (SSA) efforts to implement and comply with the Debt Collection Improvement Act of 1996 (DCIA). We particularly appreciate your, leadership, Mr. Chairman, and that of this subcommittee in enactment of this legislation which has enabled SSA to improve our debt management program. As you will see, we have already implemented a significant number of debt collection improvements. We will implement five more debt collection tools in the year 2001. When we finish with those tools, we will turn our attention to the remaining provisions to be implemented.

Background on SSA's Debt

The public's trust in the Social Security program is absolutely critical. Even a perception of lack of program integrity can threaten this trust. SSA is dedicated to program stewardship and program integrity. We must remain vigilant if we are to fulfill our role as capable stewards of the public trust.

Before I discuss our progress in implementing the debt collection provisions of DCIA and other laws, I will briefly describe some basic points about SSA's debt. It is important to know why it occurs, how much of it occurs, and actions we take to control it.

SSA has undertaken significant initiatives over the past several years to prevent and detect Social Security program overpayments. Our stewardship responsibilities require that we recover as much of the debt owed as possible. Our goal is to achieve an annual average increase of 7 percent in debt collections over the 5-year period from Fiscal Years 1998-2002. In Fiscal Year 1999, we met our goal for both the Title II and Title XVI programs. In Fiscal Year 1999 our collections for Title II were $1.2 billion, an 8 percent increase. In the Title XVI program, we collected $640 million, an 18.7 percent increase.

SSA's debts consist of overpayments that occur in the Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs. An overpayment results when a beneficiary is paid more money than he or she is due. People become overpaid for a variety of reasons. Retirees under the age of 65 are overpaid when, for example, they work and earn more money than allowed for unreduced benefits. Disabled beneficiaries can become overpaid as a result of medical recovery. SSI recipients are overpaid when they have increased income or resources over the allowable limit.

In fiscal year (FY) 1999, overpayment-related events led to $3.6 billion in new debts in the OASDI and SSI programs. While this amount seems high, I would like to put it in context. In FY 1999, SSA paid $410 billion in benefits to over 50 million people receiving OASDI and SSI payments. Overpayments of $3.6 billion amounted to less than 1 percent of those benefit outlays. The elimination of the annual earnings test for beneficiaries who are age 65 up to age 70 will further reduce the rate of new debts by avoiding about $445 million in new debt in the OASDI program.

When overpayments do occur, SSA uses a vigorous debt collection program. If the individual is on the benefit rolls, we recover the overpayment by withholding future monthly payments. We have a high degree of success in collecting debts owed by people on the rolls, achieving a collection rate of more than 90 percent. If the overpaid person is no longer on the rolls, we employ our in-house billing and follow-up system to collect the debts. It is this type of debt for which the tools provided by DCIA and other laws are effective, since they give us the enforcement capability we need to collect from recalcitrant debtors. Of course, if the overpaid person later becomes re-entitled, we collect the debt from ongoing monthly benefits. We are committed to using every available technique to collect debts owed to SSA.

Embedded in our commitment to provide world class service to our customers are measurements and enhancements that promote an accurate benefit calculation. The accuracy of our decisions in the Old Age and Survivors Insurance program and the effect of any error on dollar outlays have consistently been very good, exceeding 99 percent. In fact, the systematic fixes and improvements we have made in postentitlement computations over the last few years have eliminated hundreds of thousands of errors.

On another crucial front, we have initiated a series of actions to attack the problem of the accuracy rate in the SSI program which was 94.3 percent in 1999. The SSI program is a needs-based program that provides monthly cash assistance to individuals who are aged, blind or disabled. Over the past several years, the program has grown in size and complexity. We have increased the number of SSI case reviews once individuals are on the rolls which helps us to detect overpayments.

We also have a strong program of computer matches that detect and prevent debts. For instance, SSA conducts matches involving prisoners, nursing homes and wages that detect debts each year. In FY 1999, SSA's matches saved $2.5 billion in combined collections and debt prevention. Redeterminations of ongoing SSI eligibility led to the eventual collection of $0.6 billion and prevented the occurrence of $1 billion in overpayments. It is critical to note that the Social Security Number (SSN) is used in those matching operations, and is essential to its continuance.

SSA's Progress on Debt Collection Tools

SSA has made substantial progress toward implementing the debt collection tools authorized by DCIA, as well as other legislation enacted during the 1990s. This has greatly improved SSA's ability to collect its debt.

Tools Already Implemented

In the decade of the 1990s, SSA strengthened its debt collection program in a number of significant ways. In November 1990, we were given the authority to use tax refund offset (TRO), in which debts are recovered directly from Federal tax refunds before the refunds are sent to taxpayers. We began receiving our first collections from TRO in January 1992. We expanded TRO twice--in 1995 and again in 1998--to add new classes of debtors, such as SSI debtors and to make use of the Treasury Offset Program (TOP). TRO and TOP, which allows us to collect delinquent debts from Federal payments in addition to tax refunds, have yielded $275 million in offsets from former OASDI and SSI recipients who owed delinquent debts.

In 1995, we began using credit bureau locator services to help us track down delinquent debtors who moved and left no forwarding address. This online, automated system has enabled us to obtain close to 200,000 addresses of delinquent debtors, and resume our debt collection efforts.

In 1998, we began reporting our delinquent OASDI debtors to credit bureaus as a way of inducing them to repay their debts, and thus clear their credit records. To date, we have reported almost 75,000 delinquent debtors to credit bureaus. As a result of the letters we send to delinquent debtors warning them of our plans to refer them for offset and report their delinquencies to credit bureaus, we have collected $95 million in voluntary payments from people who seek to avoid those actions.

Tools to Be Implemented by February 2001 (Phase 1)

We have been busy over the last year developing the debt collection tools that we think have the most payoff and can be fairly quickly implemented. Our choices were governed by which tools would give us the most return earliest in the process of collecting the debt.

In January 2001, we will implement mandatory cross program recovery, or the collection of an SSI debt from the debtor's OASDI benefits. The Noncitizen Benefit Clarification and Other Technical Amendments Act, which was enacted in October 1998, granted the authority for this collection tool. We estimate that it will yield about $175 million in extra collections over the next 5 years.

Also in January 2001, we plan to implement two additional tools to collect delinquent SSI debts. Those tools are administrative offset, which is the collection of a delinquent debt from a Federal payment in addition to a tax refund, and credit bureau reporting. We received the authority to use these tools for SSI debts when the Foster Care Independence Act of 1999 was passed in December 1999.

In February 2001, SSA, in partnership with the Financial Management Service (FMS) plans to implement Benefit Payment Offset (BPO). This is the reduction of Social Security benefits to collect delinquent debts owed to other Federal agencies. While this tool will not contribute to SSA's debt collections, it will benefit the Federal government by enabling the Treasury Department to collect an estimated $40-60 million in delinquent debt. Treasury estimates that about 400,000 Social Security OASDI beneficiaries per year will incur a reduction of their benefits as payment toward another Federal debt.

In view of the magnitude and potential sensitivity of this program, I would like to talk about what SSA and FMS are doing to develop it. First, we fully support this project and we intend to implement it as soon as possible. We have a target date of February 2001. We have been working with FMS since July 1998 to develop a program that gives maximum collections at a minimum cost to the Federal government.

As you can imagine, we had many issues to resolve, such as concerns about adequate notification of Social Security beneficiaries who will incur an offset. We want to be sure that the right people are offset for the correct amount. We also want to ensure that the people who are offset under this program understand why it is happening and whom they can contact when they have questions.

We have worked out these issues with FMS. Our agencies are in the final phase of our development of BPO. SSA and FMS signed an agreement for conducting the program. We have developed the required systems changes, which were extensive because they would affect the amount of Social Security benefits payable to people. We are poised to begin the testing phase of the program, where both FMS and SSA will ensure that BPO functions as it should. All of our preparations have been designed to make sure that the citizens to whom BPO applies are treated fairly; that Federal agencies which are owed debts receive them in an efficient and effective way; and that SSA can deliver world-class service to the public. In less than one year, we expect BPO to start generating debt collections for the Federal government.

Tools to Be Implemented After February 2001 (Phase 2)

In June 2001, we plan to implement administrative wage garnishment, a DCIA-authorized tool, as one more tool for collecting delinquent OASDI and SSI overpayments. We believe that this debt collection tool plus administrative offset and credit bureau reporting for SSI debts will yield at least an additional $10 million per year in debt collections.

While the next year will be one of great activity for our development of debt collection tools, we also have plans for putting into place additional tools. We will initially focus on a DCIA provision, Federal salary offset, which is the collection of a delinquent debt owed by a Federal worker from his or her salary. Treasury plans to incorporate Federal salary offset into TOP after the third quarter of FY 2001.

We will also implement another DCIA provision--Treasury's cross servicing program, in which Treasury acts as a debt collector for Federal agencies. Although we fully intend to participate in cross servicing, we want to use our limited resources to first complete implementing the debt collection tools that will yield the most collections. We have been working with Treasury and will continue to work with them on this program. In fact, we have a round of meetings coming up this month with Treasury on cross servicing.

An important aspect of cross servicing involves the use of private collection agencies, which is on our list of debt collection tools to implement after we finish the tools that we believe are more lucrative and can be quickly implemented.

Interest charging is another provision of DCIA that we plan to implement. Our priorities are such that we will begin developing interest charging as early as the year 2002. While interest charging is a valuable tool, we believe it will function more as a threat to our debtors, yielding collections in the form of voluntary repayments by people who perceive it as something to avoid.

Recently, we began working with FMS and the Internal Revenue Service (IRS) on the continuous tax levy program. Under this program, IRS will collect delinquent tax debts from payments made by SSA. We fully support this program, which is conducted by Treasury through the Treasury Offset Program. At this time, SSA, together with FMS and IRS, are engaged in planning and analysis of the impact on Treasury, SSA and the American people to whom this program will apply. As with Benefit Payment Offset, we want to be sure that the continuous tax levy program is built to achieve collections in an efficient and effective way, while protecting the people subject to it, and allowing SSA to continue its mission.

Conclusion

In conclusion, our Agency has accomplished much in the way of implementing the new debt collection tools authorized for us. We are well on our way to completing the implementation of an additional five major debt collection tools. In less than one year, we will implement mandatory cross program recovery, administrative offset and credit bureau reporting for SSI debts, administrative wage garnishment for OASDI and SSI debts, and benefit payment offset. Immediately after that, we will focus on the remaining authorities of Federal salary offset, cross servicing, private collection agencies and interest charging.

SSA is committed to implementing the provisions of DCIA and other relevant debt collection laws. Our record of achievement--implementing TRO, administrative offset, and credit bureau reporting--shows our commitment to debt management.

Thank you for the opportunity to testify before you today. I will be glad to answer any questions you may have.

Mr. HORN. Thank you, Commissioner. That's very helpful.

Our last witness this morning is Barry G. Cloyd, the chairman of the Government Services Program for the American Collectors Association, Inc.

STATEMENT OF BARRY G. CLOYD, VICE PRESIDENT, SALES AND MARKETING, C.B. ACCOUNTS, INC.; CHAIRMAN, GOVERNMENT SERVICES PROGRAM, AMERICAN COLLECTORS ASSOCIATION, INC.

Mr. CLOYD. Thank you, Chairman Horn, subcommittee members, good morning.

My name is Barry Cloyd, and I am vice president of sales and marketing for C.B. Accounts, Inc., which is a private debt collection agency based in Peoria, IL. I appear before you this morning as chairman of the Government Services Program [GSP], which was formed in 1996 to promote active participation by debt collectors in developing new collection opportunities in the specialized area of Government collections and to assist members serving Government entities.

GSP is part of the American Collectors Association [ACA], which is an international trade association comprised of 5,000 credit and collection organizations and companies. The Association's mission is to help members comply with a strict code of ethics and applicable State and Federal laws and regulations through a variety of means, including educational material, seminars, research, legislative updates and guidance with individual problems.

On behalf of all ACA members, who represent approximately one half of third party collection agencies in the United States and their 65,000 employees, I want to express our appreciation to you, Mr. Chairman, for holding this hearing and for giving us the opportunity to present this statement.

As you are well aware, Chairman Horn, the Debt Collection Improvement Act, which is Public Law 104–13, affects private collection agencies [PCAs], and the services they provide. The act was designed to accomplish three goals: maximize collection of delinquent debts owed to the Government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools. No. 2, minimize debt collection costs by consolidating related functions and activities and utilizing interagency teams. No. 3, rely upon the experience and expertise of private sector professionals to provide debt collection services to Federal agencies.

Now, PCAs work very hard to return money to Government agencies that could otherwise be lost. And most financial management, FMS contractors, are ACA members. Since the first Government contracts were placed with private collection agencies shortly after the Debt Collection Act of 1982, literally billions of dollars have been collected, including more than $3.2 billion for the Department of Education from fiscal year 1986 to the present.

PCAs continue to improve the amount that they return to the Government, which of course also benefits American taxpayers. PCAs collected $265 million in fiscal year 1998, and in fiscal year 1999, they returned $536 million. And so far through 9 months in fiscal year 2000, PCAs have collected $445 million and look well positioned to surpass last year's record.

We would hope that DOE's success could be replicated by the Department of Treasury's FMS contract. The FMS, which has been working with PCAs since March 1998 reported that PCAs have collected slightly more than $30 million for the agency according to figures tallied through April 30, 2000. In addition, referrals of accounts total 272,127, with a value of more than $4 billion for those accounts.

The important work of this subcommittee in fashioning the DCIA under your able leadership, Mr. Chairman, has been very significant. But we would respectfully suggest several modifications that we believe would allow PCAs to return more money to the Government and ultimately to the taxpayer.

In preparing this testimony, ACA asked member agencies that had been under contract with FMS to provide suggestions for improving the implementation of and compliance with the DCIA. Those contractors suggested three important improvements for achieving better results from the DCIA relating to timeliness and number of accounts that are referred, current delays in resolving accounts, and the inefficiency of multiple contractors contacting the same debtor.

First, we feel that accounts aren't being referred to PCAs on a timely basis. In order to maximize collection of delinquent debts, Federal agencies must comply with the DCIA and forward to the Department of Treasury all non-tax debt that is more than 180 days delinquent. At this time many accounts which ACA members receive are far more than 180 days old, so the ability to collect on them is greatly decreased.

And as the old saying goes, which was echoed earlier this morning, time is money, and that saying couldn't be more appropriate for today's hearing. There is a direct correlation between the time a debt is turned over to a debt collector for collection and the amount of dollars that are recovered. Simply put, the longer a debt remains unpaid, the less likely recovery becomes.

And per a recent Price Waterhouse survey, as well as my association's research, we find evidence for those statements. If an account is referred to a collection agency when it is 180 days past due, it has a much better chance of being collected than if it's referred, say, 2 or 3 years later. A debt that is 181 to 210 days delinquent has a 23 percent chance to be collected. But for items that are more than 421 days past due, the ability to collect decreases to 4 percent.

Now, these results, which show how time affects debt collection, were backed by a portfolio analysis conducted by Price Waterhouse which found that only 1 percent of debts are collectible after 2 years of delinquency. Obviously, time plays an important role in the recovery of these debts.

And another important factor to consider is approximately how many referring agencies are participating in the referrals of delinquent debt to the Department of Treasury. According to some estimates of ACA members that contract with Government agencies, the number of participating referring agencies is only around 40 percent. According to a June 5, 1998 General Accounting Office report, literally $26.4 billion of reported non-tax debt over 180 days delinquent has not been referred to Treasury and was unlikely to be referred in the near future.

While our members feel that Treasury within its current boundaries is doing a very commendable job, they realize that the Department doesn't have the necessary power to enforce the DCIA. Accordingly, we believe that Treasury must be given enforcement power to bring non-participating referring agencies into compliance with the act's provision, stipulating that all non-tax debt over 180 days old be referred to Treasury for collection.

Bringing more accounts to our members in a more timely manner will only work to the advantage of all parties involved. And this would clearly help the Government attain one of those goals of the act, to ensure quick action on recovery of debts. To be perfectly frank, the sooner PCAs receive delinquent accounts, the sooner they will be able to return delinquent money to Government agencies.

Second, multiple contractors contacting the same debtor is of course inefficient.

Another modification we respectfully suggest concerns the transfer of accounts. Now, we believe that multiple debts for the same debtor should be consolidated and placed with only one contractor. Placing a debtor's various debts with different contractors through the same or different referring agencies, which is currently the process, is unproductive. It's also confusing for debtors, because many different contractors are contacting them, which some debtors even interpret as harassment.

Now, we strongly recommend that FMS adopt an account referral policy that consolidates all transfers for the same debtor and places them with a single contractor. We also suggest that any additional debts that are referred to FMS for these debtors should be flagged and referred to that same contractor so all of the debts can be maintained together. Very common practice, particularly in private and State sectors.

Based on our members' extensive experiences, consolidating the debts would provide a much better chance to resolve that debt, as well as reduce the possibility of a complaint. And third, there are unnecessary delays in resolving accounts. PCAs must undergo a cumbersome process when seeking account information from referring Federal agencies. And as such, PCAs would like the authority to approve repayment agreements, and compromise directly with a referring agency. PCAs desire this direct contact with referring agencies, especially in regard to compromises, to ensure that cases will get resolved in a timely manner.

As a case in point, if a debtor says that he or she has just entered a payment arrangement with a referring agency, the PCA would be able to quickly verify that claim and speed up the process. Several contractors have mentioned that it currently takes up to 6 months to resolve accounts, which makes the accounts more difficult to collect. The expedience a PCA can offer in this situation results in efficiency as well as good customer service, which is a primary focus of the very successful education contract.

Contact with referring agencies would also result in debtor sensitivity and likely a higher percentage of collectible debts. Overall, resolving debts more quickly will allow PCAs to collect and return money sooner to Government agencies. If the recommendation for direct compromises with referring agencies cannot be met, we respectfully suggest that Federal agencies be strongly encouraged to respond on a more timely basis to inquiries they receive from PCAs via Treasury.

We believe these changes, as well as the others I have mentioned earlier, would provide several benefits to both PCAs and to the Federal agencies they collect on behalf of. The improvements we recommend would meet the goals of the DCIA to maximize collection of delinquent debts allowed to Government agencies by ensuring quick action on accounts, and minimize collection cost through consolidation. In addition, we believe that these changes would promote increased competition among PCAs that contract with Government agencies.

At the current time, we believe that healthy competition is not being fostered among contractors due to incomplete data and unequal distribution of accounts. By making the changes that ACA suggests, referred accounts would be distributed more evenly by volume and better partnerships would result.

Thank you very much, Chairman Horn and subcommittee members, for the opportunity to present this testimony. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Cloyd follows:]

AMERICAN COLLECTORS

association, inc.

Testimony of
Barry Cloyd,
Chairman of the Government Services Program
of the American Collectors Association, Inc.
Before the Subcommittee on Government Management, Information and Technology
Committee on Government Reform and Oversight
United States House of Representatives

Hearing on "Implementation of the Debt Collection Improvement Act"
June 8, 2000

Chairman Horn and Subcommittee members, my name is Barry Cloyd, and I am Vice President of Sales and Marketing for C.B. Accounts, Inc., a private debt collection agency in Peoria, Ill. I appear before you this morning as Chairman of the Government Services Program, known as GSP, formed in 1996 to promote active participation by debt collectors in developing new collection opportunities in the specialized area of government collections and to assist members serving government entities.

GSP is part of the American Collectors Association, Inc. (ACA), an international trade association comprised of 5,000 credit and collection organizations and companies. The association's mission is to help members comply with a strict code of ethics and applicable state and federal laws and regulations through a variety of means, including educational material, seminars, research, legislative updates and guidance with individual problems. On behalf of all ACA members—who represent approximately one-half of third-party collection agencies in the U.S. and their 65,000 employees—I want to express our appreciation to you, Mr. Chairman, for holding this hearing and for giving us the opportunity to present this statement.

As you know, Chairman Horn, the Debt Collection Improvement Act (DCIA), Public Law 104-13, affects private collection agencies—which I will refer to as PCAs—and the services they provide. The Act was designed to:

- Maximize collection of delinquent debts owed to the government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools.
- Minimize debt collection costs by consolidating related functions and activities and utilizing interagency teams.

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- Rely upon the experience and expertise of private sector professionals to provide debt collection services to federal agencies.

PCAs work hard to return money to government agencies that could otherwise be lost. Most Financial Management Service (FMS) contractors are ACA members. Since the first government contracts were placed with private collection agencies shortly after the Debt Collection Act of 1982, billions of dollars have been collected, including more than $3.2 billion for the Department of Education (DOE) from fiscal year 1986 to the present. PCAs continue to improve the amount they return to the government—which also benefits American taxpayers. PCAs collected $265 million in fiscal year 1998, and in fiscal year 1999, they returned $536 million. So far through nine months in fiscal year 2000, PCAs have collected $445 million and look well positioned to surpass last year's record. We would hope that the DOE's success could be replicated by the Department of Treasury's FMS contract.

The FMS, which has been working with PCAs since March 1998, reported that PCAs have collected slightly more than $30 million for the agency, according to figures tallied through April 30, 2000. In addition, referrals of accounts total 272,127. The value of these accounts totals more than $4 billion.

The important work of this Subcommittee in fashioning the DCIA, under your able leadership, Mr. Chairman, has been significant, but we would respectfully suggest several modifications that we believe would allow PCAs to return more money to the government.

In preparing this testimony, ACA asked member agencies that have been under contract with FMS to provide suggestions for improving the implementation of and compliance with the DCIA. Those contractors suggest three improvements for getting better results from the DCIA relating to the timeliness and number of accounts that are referred; current delays in resolving accounts; and the inefficiency of multiple contractors contacting the same debtor.

- **First, accounts aren't being referred to PCAs on a timely basis.**

In order to maximize collection of delinquent debts, federal agencies must comply with the DCIA and forward to the Department of Treasury all nontax debt that is more than 180 days delinquent. At this time, many of the accounts ACA members receive are more than 180 days old, so the ability to collect on them has greatly decreased.

As the old saying goes, "Time is money," and that saying couldn't be more appropriate for today's hearing. There is a direct correlation between the time a debt is turned over to a debt collector for collection and the amount of dollars that are recovered. Simply put, the longer a debt remains unpaid, the less likely recovery becomes. A recent Price Waterhouse survey, as well as my association's research, gives evidence to these statements:

> If an account is referred to a collection agency when it is 180 days past-due, it has a much better chance of being collected than if it is referred to an agency two or three years later. A debt that is 181 to 210 days delinquent has a 23 percent chance to be collected, but for items that are more than 421 days past-due, the ability to collect decreases to 4 percent.[1]

These results, which show how time affects debt collection, were backed by a Portfolio Analysis conducted by Price Waterhouse which found that only 1 percent of debts are collectible after two years of delinquency.[2]

Obviously, time plays an important role in the recovery of these debts. Another important factor to consider is approximately how many referring agencies are participating in the referrals of delinquent debt to the Department of Treasury. According to some estimates of ACA members that contract with government agencies, the number of participating referring agencies is only 40 percent. According to a June 5, 1998 General Accounting Office (GAO) report, $26.4 billion of reported nontax debt over 180 days delinquent had not been referred to Treasury and was unlikely to be referred in the near future.

While our members feel that Treasury, within its current boundaries, is doing a commendable job, they realize that the Department doesn't have the necessary power to enforce the DCIA. Accordingly, we believe that Treasury must be given enforcement power to bring nonparticipating referring agencies into compliance with the Act's provision stipulating that all nontax debt over 180 days old will be referred to Treasury for collection.[3]

Bringing more accounts to our members in a more timely manner will only work to the advantage of all parties involved. This would clearly help the government attain one of the goals of the Act—to ensure quick action on recovery of debts. To be blunt, the sooner PCAs receive delinquent accounts, the sooner they will be able to return delinquent money to government agencies.

- **Second, multiple contractors contacting the same debtor is inefficient.**

Another modification we respectfully suggest concerns the transfer of accounts. We believe that multiple debts for the same debtor should be consolidated and placed with only one contractor. Placing a debtor's various debts with different contractors through the same or different referring agencies, which is currently the process, is unproductive. It also often creates confusion for debtors because many different contractors are contacting them, which some debtors even interpret as harassment.

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[1] 1995 Top Collection Markets Survey, American Collectors Association, Inc.

[2] Portfolio Analysis: Report on the Federal Government's Delinquent Non-Tax Debt, p. 6, Price Waterhouse LLP.

[3] Transfer of Debts to Treasury for Collection; Final Rule, *Federal Register*, Department of the Treasury, 31 CFR Part 285, April 28, 1999.

We strongly recommend that FMS adopt an account referral policy that consolidates all transfers for the same debtor and places them with a single contractor. We also suggest that any additional debts that are referred to FMS for these debtors should be flagged and referred to that same contractor so all of the debts can be maintained together. This is a very common practice in the public and state sectors. Based on our members' extensive experiences, consolidating the debts would provide a much better chance to resolve the debt, as well as reduce the possibility of a complaint.

- **Third, there are unnecessary delays in resolving accounts.**

PCAs must undergo a cumbersome process when seeking account information from referring federal agencies. As such, PCAs would like the authority to approve repayment agreements and compromise directly with the referring agency. PCAs desire this direct contact with referring agencies, especially in regard to compromises, to ensure that cases will get resolved in a timely manner. Case in point: If a debtor says he or she has just entered a payment arrangement with a referring agency, the PCA would be able to quickly verify that claim.

Several contractors have mentioned that it currently could take up to six months to resolve accounts, which makes the accounts more difficult to collect. The expedience a PCA can offer in this situation results in efficiency, as well as good customer service, which is a primary focus of the very successful Education contract. Contact with referring agencies would also result in debtor sensitivity and likely a higher percentage of collectible debts. Overall, resolving debts more quickly will allow PCAs to collect—and return—money sooner to government agencies.

If the recommendation for direct compromises with referring agencies cannot be met, we respectfully suggest that federal agencies be strongly encouraged to respond on a more timely basis to inquiries they receive from PCAs, via Treasury.

We believe these changes, as well as the others I mentioned earlier, would provide several benefits to both PCAs and to the federal agencies they collect on behalf of. The improvements we recommend would meet the goals of the DCIA to maximize collection of delinquent debts owed to government agencies by ensuring quick action on accounts, and to minimize debt collection costs through consolidation.

In addition, we believe that these changes would promote increased competition among PCAs that contract with government agencies. At the current time, we believe that healthy competition is not being fostered among contractors due to incomplete data and unequal distribution of accounts. By making the changes that ACA suggests, referred accounts would be distributed more evenly by volume and dollar amount, and better partnerships would result.

Mr. HORN. Well, we thank you, thank you for coming and making that perspective.

We now go to the questions and answers. We're going to have 5 minutes per member, alternating the membership between the majority and the minority. I will first yield 5 minutes for questioning to the ranking member, Mr. Turner of Texas.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. Engel, I want to address a portion of your testimony. It's pretty clear that we are collecting more of our outstanding Government debt. That's the good news. The bad news seems to appear on page 4 of your statement, and I believe you shared this with us in your oral presentation, which says the FMS has not covered its cross-servicing costs through related fees collected and is not likely to do so in the near future.

Based on FMS' own estimated cross-servicing costs and using the current fee structure, and FMS fiscal year 1999 collection experience, we determined that collection volume would need to rise over sevenfold to put this operation on a full cost recovery basis. In common language, what are you saying there?

Mr. ENGEL. What we're talking about there is that under the act, distribution centers such as FMS are allowed to charge fees to the referring agencies. Typically they'll charge 3 percent if the debt that comes in ends up going to a private collection agency and there's a collection on it. If instead FMS collects on those funds, they charge the referring agency 18 percent.

What we were saying is that we went through and calculated, based on FMS' estimated costs to run the cross-servicing program, which for fiscal year 1999 was about $11 million, based on that and their collection experience as to which percent was collected by the private collection agencies and themselves, and using the fees that they charged at that time, that in order to cover the $11 million of costs, they would have to have about $173 million of collections, which was well more than what they actually collected during a year.

Mr. TURNER. So are you saying we're losing money on this deal?

Mr. ENGEL. Well, not in total as it relates to collections coming in and total for the Federal Government and just what FMS' costs are. However, we only know what FMS' costs are for this program, you'd have to add to that agency costs. But what we're talking about is for their program itself, what it's costing them to run the program, the fees that they're charging, whether the fee rates could be increased or their costs could go down, something would have to happen for them to be able to break even and it would have to happen in quite a large amount, as we said, sevenfold, the collections would have to be.

Mr. TURNER. Well, do we need to consider some adjustments in the fees that are charged? Or are we simply considering those appropriate and the only answer is to increase the volume to show the agency's paying its way?

Mr. ENGEL. Actually, FMS has had a contractor look at this area, not just in the cross-servicing. And there are some suggestions to consider increasing the fee rate.

However, I think an important point to make is again that as we pointed out, much of the debt that's coming over is extremely old by the time it comes over. And as the American Collection Association representative has said, you can expect a very small fraction of those dollars to be collected because they are so old.

So unless we start getting more current debts coming over from the agencies, it will be very difficult for FMS to generate the collections that would be needed to cover those costs. So I'd say a fee increase may be something to consider, but the fees would have to be increased, I think the one study that was done, one of the fees would have to increase from the 18 percent they currently charge to 106 percent, which would be more than you're even collecting, which is obviously unrealistic.

Mr. GREGG. If I might, Congressman Turner, may I respond to that?

From my perspective at FMS, there's a couple issues. First of all, we're still rolling out this program. As I indicated in my testimony, we're about halfway there in the amount of referrals coming into cross-servicing. So that's one element. And as part of that element, there's a lot of cleanup work that's going on within FMS and with the private collection agencies on just how good some of that debt is.

Now, in many cases, we don't collect a fee, but it actually is a benefit to the Government, because there's a lot better information on what's collectible and what's a good debt and what's not a good debt. So that's part of our process.

The other thing from my perspective, is that our overall debt collection program, not just at the cross-servicing. And if you look at the total amount that we brought in last year, of $2.6 billion, and we're spending about $30 million, the return is great. Whether or not we should charge an additional fee or higher fee in cross-servicing, I'm not sure. We have to be careful not to go overboard there.

But that's really part of the whole process. It's tied in very closely with our top system. From my perspective, just to look at the cross-servicing and the fee income you are only looking at part of the picture.

Mr. TURNER. Thank you. Thank you, Mr. Chairman.

Mr. HORN. We'll have 5 minutes, I yield to myself for the purpose of questioning, and then we'll have Major Owens.

This is directed to Commissioner Gregg. A few agencies, including the Department of Veterans Affairs, have applied to the Treasury to be debt collection centers. However, their applications have been denied. Currently, the Financial Management Service is the only agency with this status. Why were these agency applications denied?

Mr. GREGG. The primary reason that they have been denied is based on our own reading of the DCIA, plus hearings that have taken place over the last 3 years. I think it was clear to us that a high standard had to be established in order to be debt collection centers. And we, in looking at different applications that we did receive, tried to apply those standards and make up our own determination whether or not we thought that they would either for their own debts or for governmentwide debts be an organization do an outstanding job. That's really the threshold that we set. We want someone who can do a good job.

In some cases, we did authorize agencies to continue the work that they'd been doing, because we felt that they were doing well. For example, the Department of Education, has done, in my view, an outstanding job in collecting delinquent student debts and they continue to perform that work.

In other cases, we didn't feel that agencies really had their act together, if you will, in coming to us. Because when we started asking questions about how well they were doing on their own debts, at least in some cases, they couldn't give us the information that made us comfortable that they'd be able to continue that role.

So the standard has been high. And that we also have refined the process which was taking way too long when the program first started, to expedite it and set some clearer standards on what our expectations are.

Mr. HORN. Well, I guess I want to ask the question here, what do you have to do to have a governmentwide debt collection center in the future if all of these applications have been turned down?

Mr. GREGG. I think first of all it's to demonstrate that you can do an excellent job. I think it's a responsibility of the agencies to demonstrate to us and show that they can do that. The other thing is that this program is still in its early stages. And we're not opposed to granting additional debt collection centers, whether it's for their internal debts or for governmentwide debts.

At the same time, there is an obligation on us as performing this governmentwide function to look at it very broadly. That's what we try to do.

There's also an issue of first of all, walking before you run. The walking part is, have only half of the cross-servicing debt referred to us. And the process of going through that I think is very beneficial. Also, some of the debt we get is very old. I think if an agency came to us and made a very strong case and a good case to be a debt collection center for their own debts or for others, maybe we would approve it.

Mr. HORN. Secretary Powell, how do you feel about the VA application to become a debt collection center, and do you think it was appropriately denied?

Mr. POWELL. I'm reminded I'm under oath, is that correct?

Mr. HORN. That's right. [Laughter.]

Mr. POWELL. What Mr. Gregg has said, I don't take a great deal of exception with when we first applied. We've come a long way from that point, I think as evidenced in my testimony. I do think there's a case to be made for continuity in the collection efforts for some of these debts, as we heard. There is an issue of having multiple contact points disrupting the continuity.

The VA in particular, as you know, is fairly sizable relative to most of the departments. We have significantly improved our debt collection efforts. We feel we are fully capable of being an effective debt collection center. TOP delay for us is really a software issue. It's not a lack of willingness on our part to comply.

I think Treasury does a credible job. We have no argument with the effort that they make, especially on these very old debts. I think the point is well taken that as this program evolves, you'll see the process become more effective. I know from many arguments and discussions within CFO Council, there is a real problem distinguishing those debts that are collectible from those which actually should be written off, removing them from the Government's balance sheets as you would do in the private sector.

I think over time, it would be appropriate for VA to reapply and make the case for certification as a debt collection center. That will take a natural course, and hopefully we will receive a favorable ruling.

Mr. HORN. Well, do we know, Commissioner Gregg, the degree to which someone has to redo their denial? I mean, is it the supervision of the employees, if they haven't been trained yet, or just what is it that turns people down? Now, the aging debt you and I have talked about, because that to me is, I just can't believe it. But when they tried the first IRS bit, before the law, well, the law had just started, and they gave us several year old debts.

Now, I'd like to know from GAO who's got most of the old debts. Is it the FMS, the Financial Management Service in Treasury? Is it some of the agencies that are just letting it accumulate? And we all agree, I think, the evidence shows that when you have ancient debt, don't expect to collect very much. Because everybody thinks it's a grant by that time, certainly if you're in the Department of Education, and they forget it's a loan.

So what's your feeling on looking at it?

Mr. GREGG. Well, as it relates to the debts that have been referred over to FMS, they do have a significant portion that is extremely old, as I had pointed out.

Mr. HORN. So they're dumping it on the Treasury, you're saying?

Mr. GREGG. Yes. Most of what is coming over to FMS is very old debt.

Now, as far as how much debt is still sitting at the other agencies that have not yet been referred over, I can't really speak to the age of those. I don't know.

Mr. HORN. Well, how do you feel, Commissioner Gregg? I mean, are you the dumping ground for the aged debt? [Laughter.]

Mr. GREGG. Well, it goes with the territory. I think that you can't make progress in this area unless you go through what we're going through. If you have I don't know how many years of having debt sit there and some agencies take a very aggressive stand on collections, others not, and then pass the DCIA and expect a magical transformation, I think we'd all be misleading ourselves. I think from my perspective, whether it's considered a dumping ground or not isn't so important. But it's to look at the debt, figure out whether there is documentation actually go after the debt. In some cases that isn't there, and in some cases there are delinquencies that weren't identified.

So I think it's an important process. And as I envision it, in the next few years, when we get through this and agencies are able to send their debts to us that are delinquent, 180 days and do that quickly, then we'll be looking at a different picture. And I think this is, from my own view, something we have to work through.

Mr. HORN. Well, I've overtaken my time here. But we might have an exchange in writing, for at this point in the record, without objection.

I now yield 6 minutes to Major Owens, the gentleman from New York for questioning.

Mr. OWENS. When you collect debts, where does the money go, the money you've collected, what do you do with it?

Mr. GREGG. It does back to the agencies.

Mr. OWENS. The agencies get the money back? So they have a great incentive for you to collect debts.

Mr. GREGG. Well, it goes back, but I'm not sure that they can use it in their ongoing appropriations. It goes back so they can clear out their books. But I think for the most part, maybe with some exceptions, it goes back into the general fund of the Treasury and there may be some exceptions to that.

Mr. OWENS. Which is it now? It's an important question. Does it go to the general fund or can they just recycle it and spend it? Do they have any incentive for collection of debts?

Mr. GREGG. It really does depend on the program. And I'll have to give you a specific answer in writing.

Mr. OWENS. Most of it goes to the general fund, doesn't it?

Mr. GREGG. In some cases it does go to the general fund. But it has to go back to the agencies so they know the debt has been collected. In some cases, I think the agency can keep some of it.

Mr. OWENS. Does GAO know the answer to that question?

Mr. ENGEL. Well, one thing I would add to that is that the amount that goes back to the agency is net of the fees that FMS charges the agencies.

Mr. OWENS. So they do have some incentive for cooperating in getting their debts collected, great incentive, the money goes back to them?

Mr. ENGEL. The portion that they can apply toward the receivable itself, yes, they would want to have that money back.

Mr. HORN. If I might help this question along, because I remember distinctly, we wanted to give an incentive, but I'm told that not too many agencies, if any, are taking that incentive, because they feel the appropriators will not give them the money for the next budget. And they don't really like that. So that's part of the problem, I think, and Major has his finger on the right one. And here's the Treasury with the general fund, they throw it in there, and the agency says, you know, I'd like to do it. We wanted an incentive for them to help improve the debt collection process and computing and everything else, telephones, you name it.

Mr. OWENS. Thank you, Mr. Chairman.

Mr. HORN. You're welcome.

Mr. OWENS. Where do patterns of multiple debtors appear? What agencies is that like? Is that Agriculture, or do you have students who are multiple debtors in the Department of Education? There was a discussion of multiple debtors and how it's difficult to collect because several people will contact them. Where do those kinds of patterns appear?

Mr. GREGG. Well, I think it can appear anywhere. There are 24 CFO agencies and what our colleague from the PCA was saying is that we will refer debt to them from agencies, say from Veterans Affairs or from somebody else. And that same individual will owe a debt to the Small Business Administration and we might send it to another PCA.

Mr. OWENS. Oh, you mean a multiple debtor across agencies?

Mr. GREGG. Yes.

Mr. OWENS. You don't mean within? Because we've seen situations in the Department of Agriculture where people who are delinquent sit on the credit committees and they were allowed to get additional loans. I call those multiple debtors, and that's what I thought you were talking about, within an agency. Is it likely a student who's delinquent can get more loans for graduate or postgraduate education in the Department of Education?

Mr. GREGG. Well, I can't speak for the Department of Education, but I do know that is an issue that's been addressed by this subcommittee, the concern that once you have a debtor, whether or not they can continue to get loans from the Government.

Mr. OWENS. In New York City, we have something called a VINDEX system, where it's highly computerized, and if you get a grant or a contract, it runs through there and they can spit out any debt you owe to any agency of the city and you're stopped from getting an additional contract. We don't have anything similar to that for the Federal Government, centralized checking system where a debtor would be picked up? I know it doesn't apply to the Pentagon, but normal agencies.

Mr. GREGG. Probably the closest thing that we have is the references to credit bureaus, if in fact they were checked.

Mr. OWENS. Private sector credit bureaus?

Mr. GREGG. No, for Government debts, if providing the debts were reported to credit bureaus and that tool was used by agencies systematically in granting loans.

Mr. OWENS. So Federal agencies do report debts to credit bureaus?

Mr. GREGG. In most cases, yes.

Mr. OWENS. Is that required, that they must do that?

Mr. ENGEL. There's a bar provision within the act that individuals that have a delinquent debt to the Federal Government are not supposed to be given another loan until they've cleared that delinquent debt.

Mr. OWENS. That's a gentleman's agreement or understanding or is that a law?

Mr. ENGEL. That's in law. The agencies are responsible for reporting in information that can be used by other agencies such as through credit bureau reports. HUD has a system called KAVERS, where they also track information from agencies as to delinquent debtors, that agencies can go to and they should be going in and looking and seeing, before they give a new loan, does that individual have an outstanding delinquent loan to the Federal Government. If they do, under the bar provision, they should not be.

Mr. OWENS. They've broken the law, if the Farm Credit Committee gives a loan to someone who's delinquent, they've broken the law, is that correct?

Mr. ENGEL. Yes, they've broken that provision. Now, there are a few exclusions, and I think disaster loans and, there's a couple type of loans that are excluded. But that is what's supposed to happen.

Mr. OWENS. Is it possible to get a list of persons or corporations who owe the Department of Agriculture more than $1 million? Can it be generated? A $1 million debtor, that's a pretty big debt, isn't it? Do some people owe as much as $1 million?

Mr. GREGG. Congressman, the Department of Treasury would not have that. Treasury would not. The debts that we get from any agencies are by definition supposedly delinquent of 180 days or more.

Mr. OWENS. The Department of Agriculture would have it, right?

Mr. GREGG. Yes.

Mr. OWENS. Is it possible to publicize those? Is there any provision of privacy rights that debtors have that would keep the public from knowing who owes large amounts of money?

Mr. HORN. Well, that's a good suggestion, and Mr. Turner is drafting a bill now, you might want to do it. I think when we had this discussion before, the small farm area that I grew up in, if you didn't pay your taxes, the sheriff printed everybody who hadn't paid their taxes. So the next month, everybody paid their taxes. And I don't know whether that's done anywhere in the Government, where they've posted these.

But what you're talking about, they're not the farmer that's really working his field, it's somebody that's got a loan out of them, which could be a ski lift, and those have known to be granted over in Agriculture, or it could be a mansion. With the mansion bit, it got me motivated to do something about it on these loans. Because this person in northern California had his mansion, defaulted on it, the right hand didn't know what the left was doing, went to Santa Barbara, rather tiny place, and they got another mansion.

So I think you're on the right trail.

Mr. OWENS. Let me conclude with this line of questioning, I know I'm a little over my time.

We've asked for documents in the past, and I'm not sure we've gotten them. We've been promised lists and summaries. But if it's possible to get a list of those who owe more than $1 million, more than $100,000, is there some how in this very computerized bureaucracy that we can get such lists? For the Department of Education, I'd like to know how many individuals, is there any individual who owes more than $100,000, more than $25,000? And how many individuals owe less than $10,000? If you look at the amount for the Department of Education, it looks like they're one of the big places where we have a lot of crime being committed in terms of people not paying their loans.

But I think that represents many, many individuals at very low rates.

Mr. HORN. In the law, let me just read you these two sentences, perhaps, section 37(2)(o)(e), dissemination of information regarding identity of delinquent debtors. A, the head of any agency may, with the review of the Secretary of the Treasury, for the purpose of collecting any delinquent non-tax debt owed by any person, publish or otherwise publicly disseminate information regarding the identity of the person and the existence of the non-tax debt.

So they have the authority to do that. And I now yield to the ranking member, the gentleman from Texas, Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. Gregg, your report makes it clear that you have noted the complaints made by the private collection agencies regarding the distribution of the account debts among the various 11 contractors. And we've heard the testimony today from Mr. Cloyd, who represents the association of private collection agents, and he has shared with us his concern not only about the distribution based on the size of the debt and the age of the debt, but he's also brought up the point that debts owed by one debtor ought to be referred to the same agency.

Those seem like very sensible suggestions. And I noted a reluctance, Mr. Gregg, in your testimony, what I interpreted as a reluctance, to make these changes, when you said, and I'm reading here from your statement, while FMS is agreeable to considering alternative distribution procedures for future contracts, complying with the terms of the current contract, administering the contract efficiently and maximizing collections are without question FMS' primary goals.

Now, it seems to me that if one of your goals is to maximize collections, you're going to have to keep the 11 private contractors who are out there on the playing field trying to collect these debts happy with the rules of the game. And it seems to me that it would be appropriate if what I'm hearing is correct, that all of the contractors agree that the current distribution of account of debts is unfair, that we would all be better off if we revised that distribution system immediately and corrected that problem and renewed the enthusiasm that I suspect may be lacking in these 11 contractors to collect the debts of the Federal Government.

Mr. Engel, what is your thought on that comment I made?

Mr. ENGEL. Well, based upon our discussions with the 11 PCAs, what I think they were looking for was what we term as a proportionate mix of accounts being sent to them. In other words, taking a look at the different characteristics such as age of debt, maybe the dollar amounts of the debt, maybe the particular agency that is being referred over. And they felt that more competition would be in place if there was a proportionate mix, so that each of them would be getting some proportion of those different types of characteristics of debt.

There was no problem with it being performance based and that the better performer be rewarded with more of the proportion. But I think they were hoping to get debts where they might have as many small type debts, or a proportion of small type debts which have generally been shown to be a little easier to collect, or the less delinquent debt, which again has been a little easier to collect. They'd like to get a proportionate mix of that, so they're standing on a similar ground to their competitor.

Mr. TURNER. Well, it's of course important to preserve the performance based incentives that we have in the system. But it seems to me that the distribution of accounts as suggested by the private debt collectors is not inconsistent, in fact may be supportive of the performance based incentives that we are trying to pursue. Do you think they're mutually exclusive?

Mr. ENGEL. No. No, I'm not saying that.

Mr. TURNER. And do you see any reason why the FMS should not proceed immediately to make that correction, to renew that enthusiasm and that incentive on the part of those 11 collectors?

Mr. ENGEL. No, I think that your advice of getting together with the PCAs to get a agreement as to what characteristics, if they're going to go down this, or what characteristics the PCAs agree should be used, I think that has to happen first. Because you wouldn't want to go and start devising something that then again half of the PCAs don't agree, or the characteristics that should be there.

Mr. TURNER. If FMS yielded to the suggestions of the private collectors, do you see anything that we could possibly lose from the point of view of the Federal taxpayer by following their suggestions in the way the accounts are distributed?

Mr. ENGEL. Well, it's hard for me to say that because of the distribution there's been less collections than there would have been if the distribution was done differently. Again, I think the belief is, it fosters more competition if you feel that you're getting your share of the debts, and as you pointed out, are going to try harder.

Mr. TURNER. Mr. Gregg, is there any reason why you can't proceed immediately to make these suggested changes to renew the fairness of the system as it's perceived by the debt collectors?

Mr. GREGG. Yes, Mr. Turner, there are a number of reasons. First of all, this contract has been looked at six ways to Sunday. And from my perspective, the good news is that we're complying with the contract as agreed upon by ourselves and the 11 PCAs. That's very important. And it's been looked at very carefully.

The other thing is that, as I had said in my opening statement, this is complex business. And we actually have a system set up for the way that debts are distributed today. And to change that, you don't just turn a switch, you have to go through and make programming changes.

What I am willing to do, and we've been talking with the PCAs and with GAO, is to consider these suggestions when we renew the contract. Next year we'll have the opportunity to go out for bids again. And we will certainly consider all of these ideas in looking at how to structure this.

I would like to make one point, however. And that is that I don't know whether you have all 11 PCAs that are unhappy with the way it's done. For those that are doing the best, I'm not so sure that they wouldn't think it's pretty good.

But the other thing is that it's structured in a way where PCAs can actually improve their status. For example, back in the letter that the Department of Treasury sent you in October, one of the agencies, one of the PCAs listed there was at that time I think ranked No. 10 in how well they were doing. And currently, they're tied for first. And you have that, throughout the this fiscal year to date on how well the PCAs were doing.

And I'm not suggesting that this is proof that a different kind of distribution methodology would be better. What I am saying is that it is complex. And the data that I have pulled, the PCA that was ranked first, and actually, this one's been ranked first since the beginning, it got out of the blocks very early, has the eighth highest average distribution of debt for this fiscal year, eighth highest distribution, average distribution of debt. The PCA ranked second has the 10th highest, 10 of 11.

So again, I'm not saying that there couldn't be a correlation. But it is complex, and it's complex because we don't know which agencies are going to be referring debt to us at any given time. There's no schedule, as we had talked about earlier. We've been pushing to get debts, and suddenly a block of them show up. Part of our responsibility, and also something we talked about, is to move those quickly so that they don't age further.

And that's one of the things we'll have to look at as we think about the new contract. We don't want to sit there waiting for a really good homogeneous blend of debts and let them age another 60 or 90 days. So those are the kinds of things that we would certainly want to consider as we prepare for this next contract.

Mr. TURNER. I think the complaint has been that the private collection agency that was ranked No. 1 was getting the smaller debts and the fresher debts. Let me just ask you if you'd be willing to do this. If all 11 collection agencies got together and came up with an agreement among themselves as to a fair system of distribution, would you be willing to sit down with them and try to implement that earlier than the renewal of a new contract? Because at some point, I think your agency needs to come to grips with this, or otherwise, we're going to start losing contractors. And I don't think that would be a healthy outcome, either.

Mr. GREGG. I think that we have to be careful in doing that. This is a legal contract that we agreed to with the 11 PCAs. And I'm not sure that we know enough and really could move any faster than the renewal of the contract before we take these into consideration and see who, actually we don't even know whether these same 11 current PCAs will be the ones that win out in the next contract.

Mr. TURNER. Thank you, Mr. Chairman.

Mr. HORN. I think you raised a very good question and we need to maybe hold further hearings on this.

Commissioner Jackson, let me ask you this. According to Financial Management Service, the Social Security Administration has not referred any of its delinquent debts to the Treasury for cross-servicing as required by the Debt Collection Improvement Act. Can you explain why Social Security isn't cooperating with the law?

Ms. JACKSON. Mr. Chairman, soon after Treasury issued its guidelines for Federal debt collection center designations, the Social Security Administration did submit an application to be designated as a debt collection center. We made that application on May 30, 1997.

We received notification of the denial of our request on May 10, 1999, some 2 years later. We then pursued a request to have some of our debts, specifically our SSI debts and our debts owed by former child beneficiaries exempted, and we did receive approval of that waiver request on November 15, 1999. So these are very recent decisions that we received.

At that point in time, we were very much embroiled in dedicating almost all of our systems activities to preparing for the year 2000 rollover, and in fact, we were basically barred from any new systems activity until after the rollover period, which continued through February of this year.

We have continued to work with FMS, have made commitments, and have worked out our various systems program requirements with them. We will be testing over the next 6 months for the benefit offset program, and we will be actually implementing that in February 2001.

We have also set up meetings, including going down to the Birmingham Debt Collection Center with FMS later on this month. So we are proceeding, but much of our delay in moving forward was based on our waiting for the final decision from Treasury on our request to be designated as a debt collection center for our own debts.

Mr. HORN. Let me ask Secretary Powell, the Department of Veterans Affairs has referred only 1 percent of its eligible delinquent debt to the Treasury for cross-servicing. Why is it taking so long for this debt to be referred?

Mr. POWELL. Congressman, I believe, as I commented, one of the problems we've had has been the computer interface issue. Like SSI, this effort that was interrupted by the Y2K moratorium. We now have a September 1 deadline that I believe we are working toward, in which case, at which time that will be resolved. We would anticipate at that point in time that the flow of data would be much improved and much more seamless. And we fully expect to be compliant with the law in the relatively near future.

Mr. HORN. What will happen to the Veterans Administration debt management center when all of its delinquent debts are referred to the Treasury?

Mr. POWELL. Well, we wouldn't be referring to them debts under 180 days old. As I mentioned, when you were asking the question about our designation as a collection center, we are very active with our management of our debts. We do a number of things to get in touch with our debtors immediately after the first 30 days. We begin contacting them and we begin a process of calling and notification. And we do experiment with PCAs as appropriate in certain locales.

We have a number of debts that are also not eligible for cross-servicing, such as medical claims, because of their lack of specificity. There's oftentimes a negotiated amount that ends up being paid by the insurance companies. And we have with Treasury come to an agreement that those would not be eligible for cross-servicing.

So we will still have functionality, and as I indicated, hopefully we will prevail in our application as well at some future date.

Mr. HORN. Any particular view on this, Commissioner Gregg?

Mr. GREGG. The issue on the nimbleness of which Treasury was reviewing debt collection requests is accurate. When I got to FMS in 1998, that process had really bogged down. I think it was a matter of other priorities. We have taken steps to certainly streamline that and make some clear criteria for agencies referring debt.

From our perspective on the cross-servicing, we'd just as soon not see any debt. The idea of, and I don't know what's going to happen, but the idea of over time the agencies being able to collect all this within 180 days is really what we're all interested in. To the extent that that can happen, then it needs to come to us and we need to get it to the PCAs as quickly as we can.

Mr. HORN. Well, I don't want to rush this today, but I think the best way I've heard now about the couple of places where the law is not being implemented, and we ought to deal with that, and I think we ought to deal with early time for the collectors, very frankly. And I think in the next few months, we'll call another hearing and maybe with a few different debtors here, if you will.

And we will get back to what Major Owens has brought up on the publicity bit, and see where we're going.

So I'm going to have, as was mentioned earlier, Mr. Ose had a markup, Mr. Turner had another commitment, both majority and minority have some questions they'd like to ask, and we'd like them, without objection, at this point in the record. So we'd appreciate it when they send them to you, back in your office.

I would like to thank the following people that set up this hearing, Russell George, standing there, just came in, staff director, chief counsel. Randy Kaplan, to my left, your right, has responsibility for this matter. And so you'll be hearing a lot from him, as counsel to the subcommittee. Bonnie Heald, director of communications; Bryan Sisk, clerk; Elizabeth Seong, staff assistant; Will Ackerly, intern; Chris Dollar, first day at work, I think, intern, highly paid by us, namely nothing. [Laughter.]

And minority staff, Trey Henderson, counsel; and Jean Gosa, minority clerk. And we've had the pleasure of the official reporter, Ruth Griffin, and thank you all.

And with that, we're going to adjourn this hearing, and we'll pick it up about 3 months from now.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned.]