Testimony of
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House Committee on Government Reform
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Federal Debt Management – Are Agencies Using Collection Tools Effectively

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify today to provide an update on the Financial Management Service's (FMS) implementation of the Debt Collection Improvement Act of 1996 (DCIA).

In particular, I would like to thank you, Chairman Platts, for this opportunity. I would also like to congratulate you on your appointment as Chairman of the Subcommittee on Government Efficiency and Financial Management. Treasury worked very closely with the previous Chairman, Representative Stephen Horn, and I personally look forward to working with you and the other members of the Subcommittee as we continue to improve our debt collection initiatives.

As I have said before, this Subcommittee's long-standing support has been central in helping the Treasury Department to implement a remarkably successful government-wide debt collection program. This program has focused management attention across government agencies in making debt collection a priority. As a result, Treasury's debt collection program has significantly increased the collection of delinquent debt and has greatly improved the government's ability to accurately report outstanding delinquent debt.

The DCIA centralized the collection of delinquent nontax debt owed to the federal government and gave Treasury significant responsibilities in this area. Essentially, FMS serves as the government's central administrative debt collection agency. Debt collection is a central part of FMS' mission. In addition, improved financial performance is a governmentwide initiative under the President's Management Agenda, and debt collection is key to its success.

FMS collects delinquent debt through two major programs. First, the Treasury Offset Program compares the names and taxpayer identifying numbers (TINs) of debtors in a delinquent database maintained by FMS with the names and TINs of recipients of federal payments that are being disbursed by FMS. If there is a match, the federal payment is reduced, or "offset," to satisfy the overdue debt using this same methodology. Through its Treasury Offset Program, FMS offsets federal payments to collect delinquent non-tax debt owed to federal agencies as well as delinquent child support and income tax obligations on behalf of states, pursuant to the DCIA and other governing federal laws. FMS also levies federal payments to collect delinquent federal income taxes for the Internal Revenue Service.

The second major program is Cross-Servicing, under which federal agencies refer delinquent debt to FMS for collection by means of a variety of tools, including offset, demand letters to debtors, repayment arrangements, administrative wage garnishment, referrals to the Department of Justice, credit bureau reporting, and use of private collection agencies.

FMS has also developed a system that will enable credit agencies to identify delinquent debtors who apply for federal loans and loan guarantees. I will elaborate on this program later on in my testimony.

Mr. Chairman, I am very pleased to report Treasury's debt collection program has become a fully mature one. It has developed into an integral component of federal financial management – an important tool supporting sound and effective financial management at the federal level. As a result of the debt program, FMS has collected billions of dollars of debt, much of which would not be collected otherwise.

The debt program has had a tangible impact on agency fiscal operations, the economical stewardship of taxpayer dollars, the integrity of important federal programs, such as student loan and benefit payment programs, and efforts to collect delinquent child support debt. It is important to note that the Chief Financial Officers' Council has developed broad financial management performance metrics, one of which focuses on debt collection performance. In addition, there needs to be increased attention by the agencies and their auditors to ensure that receivable balances that agencies report on the Treasury Report on Receivables Due from the Public (a report summarizing the status of loans and accounts receivable managed by federal agencies) tie directly to their financial statements. To this end, FMS has provided instruction to agencies on how to reconcile their receivable balances to their financial statements, and we have incorporated this specific guidance in this regard in the governmentwide accounting instructional materials that we send to agencies.

Program Accomplishments:

Referrals from Agencies and Total Collections

Since enactment of the DCIA, FMS has collected about $17.6 billion in delinquent debt. Since FMS was given responsibility for centralized collection of debt, we have sharply increased collections through program changes, adding numerous payment streams and categories of debt to the offset program, and have actively worked with agencies to overcome obstacles to participating in the Treasury Offset and Cross-

Servicing programs. In every year since FY1999, FMS has collected over $2.6 billion in delinquent debt.

In FY02 alone, using all of its collection tools, Treasury collected over $2.8 billion in delinquent debt, including $1.47 billion in past due child support; $1.2 billion in federal non-tax debt; and almost $180 million in state and federal tax debts. FY02 total collections exceeded the amount collected in FY01 by $144 million.

And FMS is on track to match last year's collections performance benchmarks. In FY03, to-date, we have collected $2.57 billion in delinquent debt, including $1.3 billion in past due child support; $1.08 billion in federal non-tax debts; and $197 million in state and federal tax debts.

The $86 million collected through the Cross-Servicing Program in FY02, which represented a 51 percent increase over FY01 cross-servicing collections, was attributable to improvements in referrals from agencies - such as the Department of Health and Human Services (Medicare Secondary Payer debts), the Department of Veterans Affairs, the Department of Agriculture - and the successful implementation of private collection agency contracts. Already in FY03, over $91 million has been collected with four months still to go in the fiscal year.

As of May 31, the Treasury Offset Program database contains $30.8 billion in federal non-tax debts, $70.9 billion in child support debts, $4 billion in state income tax debts, and $77 billion in federal tax debts.

Treasury has also worked hard to have agencies refer eligible debt in a timely manner. FMS has made important enhancements to the Treasury Report on Receivables Due from the Public, which enable us to more thoroughly monitor and evaluate agency referral and collection performance by generating computerized five-year trend analysis reports. To keep debt collection in the forefront of agencies financial management objectives, in the last year and a half, approximately 2,000 agency participants attended FMS workshops, conferences, symposia, and seminars on debt collection throughout the country. FMS also regularly conducts meetings with agency Chief Financial Officers (CFO) and finance offices on debt referral and other debt collection developments.

As you can see, the steps we have taken have produced outstanding results. For both the Treasury Offset Program and cross-servicing, currently 91 percent of debt identified as eligible has been referred. To put this in perspective, at the end of FY99, agencies had referred to Treasury only 43 percent of their eligible delinquent cross-servicing debt. During the first four years of the program – 1997 through 2000 – agencies referred roughly $4.3 billion for cross-servicing. In just two years since then, agencies have referred an additional $6 billion.

Mr. Chairman, I would now like to give the Subcommittee a progress report on some of Treasury's well-established collection initiatives as well as some new efforts.

Benefit Payment Offset

With the cooperation of the Social Security Administration (SSA), the offset of Social Security benefit payments, an extraordinarily complex undertaking that we started in 2001, continues to go smoothly. In fact, for FY02, FMS collected approximately $55 million in federal non-tax debts through this program. So far in FY03, we have collected over $36 million.

The Administration proposes to amend the DCIA to authorize offset of additional SSA payments to improve collection of delinquent child support debt. Enacting this provision would enable us to aggressively target the collection of funds intended for the care of our nation's children, and would result in additional child support collections estimated at $55 million over five years and $113 million over ten years. It is also worth noting that the House version of the welfare reform legislation includes a similar provision. FMS and the Department of Health and Human Services have also been working with the Senate in an effort to include such a provision in the Senate version of the bill.

Continuous Federal Tax Levy

We have also made excellent progress in collecting tax debt. With the good support of the IRS, implementation of the continuous federal tax levy initiative, which began in July 2000, is progressing smoothly. Of all the federal payments being levied, Social Security benefit payments account for most of the levies. For FY02, a total of approximately $60 million in delinquent federal income tax was collected, primarily as a result of the SSA benefit levy, which accounts for $43 million of the total. Thus far in the current fiscal year, we have collected $61 million. Of that amount, $50.5 million (83 percent of the total) has been collected through the levy of SSA payments.

State Income Tax Debt Collection

State governments have also benefited from our debt collection program. FMS implemented the program to collect delinquent state tax debt in 2000. For FY02, $119 million was collected. In FY03, we have already collected $136 million. Currently, 30 of 41 states that collect state income tax and the District of Columbia are participating. Several additional states are expected to begin by the end of this calendar year. FMS is actively encouraging the remaining states to participate.

Administrative Wage Garnishment

FMS issued regulations providing guidance to federal program agencies for garnishing private sector wages to collect agency debts. FMS views Administrative

Wage Garnishment (AWG) as a powerful collection tool with enormous potential. AWG was implemented in July, 2001. To date, cumulative collections under AWG total $317,000, including $298,000 coming in this fiscal year alone.

So that agencies can take full advantage of FMS' centralized processes and established safeguards, we continue to strongly encourage them to use administrative wage garnishment through Treasury's Cross-Servicing Program. We appreciate the Subcommittee's support in encouraging agencies to participate fully.

Some agencies are already using this debt collection tool through FMS, including the Department of Housing and Urban Development, which started in the AWG program in September 2002 and now already accounts for 82 percent of the dollars collected under AWG. HHS and the Department of Education have published regulations and several others are preparing to publish regulations that will allow them to participate. FMS is also working closely with the Department of Defense and the Department of Agriculture to help facilitate their participation.

<u>Contract for the Services of Private Collection Agencies</u>

Since 1998, FMS has contracted for the services of private collection agencies (PCAs). The present contract with five private collection agencies went into effect October 1, 2001, and we have seen solid improvements in performance and service. The goal of the PCA contract is to complement FMS' efforts to collect and resolve delinquent non-tax debt. The PCA contract is a performance-based competitive initiative -- PCAs compete against each other under the contract and those PCAs who collect and resolve more debt gain a larger share of the PCA debt portfolio.

Over the past five years, PCAs have collected over $156 million, attesting to the importance of these partnerships. For FY02, PCAs collected $43 million, up from $27 million for FY01. PCAs administratively resolved \$82 million in FY02, up from \$41 million in FY01. PCAs have already collected \$45.6 million in FY03, easily surpassing FY02 collections. So far, FY03 resolutions total \$55 million, and we expect to match the FY02 level of resolutions.

Since May of last year, PCAs have averaged over \$5 million in collections each month. In fact, this May, the PCAs achieved their highest monthly collection total at \$7.6 million.

On an annual basis, compliance reviews are performed on-site at each PCA under contract. Data for this review is accumulated throughout the year. During the on-site review, a team from FMS examines the contractor's site security, personnel security, adherence to laws and regulations, collection techniques, and overall compliance with the terms of the contract. The findings of the review are forwarded to the PCA for action or correction. FMS also maintains regular contact with the PCAs and we have daily access to their collection systems. There have been no substantiated cases of PCAs using abusive or bullying tactics with debtors under our contracts.

Building on the Foundation – Strengthening a Mature Program

<u>Centralized Federal Salary Offset/Levy</u>

Looking ahead, we have several significant improvements underway. In 2001, FMS began phasing in the program to collect delinquent debts through the offset of federal salary payments. In addition to collecting federal non-tax debt, we have also begun to collect tax debt by levying federal salaries. We collected a total of \$1.9 million for FY02 and \$1.1 million so far in FY03.

Salary payments processed by the U.S. Department of the Agriculture's National Finance Center and the Department of the Interior, both of which process payroll for numerous federal agencies, as well as those processed by the U.S. Postal Service and the Department of Defense are currently being offset through the Treasury Offset Program. The General Services Administration (GSA) has committed to implement salary offset in the near future. When GSA implements centralized salary offset, all payroll providers selected as part of the E-Payroll initiative will be in the program.

In order to offset salary payments, creditor agencies must make their debts eligible. The Department of Veterans Affairs has just recently activated their debts, and we have also been working closely with the Department of Education to activate student loan debts for collection through centralized salary offset. In our view, this program would complement Education's very successful collection efforts they undertake through the use of private collection agencies and AWG. Because of the dollar amounts associated with the student loan debts, Education's participation would greatly boost the success of the salary offset program. We will continue to work with that department in an effort to bring them into the program.

Offset of Non-Treasury Disbursed Vendor Payments

I am pleased to tell you that another new element of our debt collection program has also been initiated – the offset of non-Treasury disbursed payments. The practice of offsetting vendor payments disbursed by Treasury has been in place since 1997. Under this new initiative, we will collect debts owed by vendors by offsetting the payments disbursed by officials other than Treasury. Debts in the FMS debtor database will be compared to non-Treasury disbursed vendor payments. When there is a match, participating disbursing agencies will offset the payment. Non-Treasury disbursed vendor payments will also be levied to collect federal tax debt.

The Department of Defense is already participating in this initiative, and FMS is currently working with the Postal Service and the USDA's Commodity Credit Corporation regarding offset of their vendor payments. We believe this initiative holds great promise and will significantly enhance debt collection.

Delinquent Debtor Database Information Sharing

As I noted in my introduction, Mr. Chairman, ensuring that delinquent debtors are barred from obtaining federal loans and loan guarantees is a high priority for both FMS and for those federal agencies with loan authority. FMS has developed a system we call "Debt Check" that will allow lending agencies to access information from the FMS delinquent debtor database so that government loans are not made to previously identified delinquent debtors. The web-based system is designed to complement existing sources of information available to agencies – to provide an additional tool to bar delinquent debtors from obtaining federal loan assistance. Debt Check has already been implemented with the Small Business Administration, and planning is underway for additional agencies to participate in the near future. FMS is working closely with the Department of Agriculture's Farm Services Agency, for example.

FedDebt

FedDebt is a Web-based system that will replace the current debt program cross-servicing computer system. FedDebt will enhance the effectiveness of the Cross-Servicing Program – providing increased flexibility, automating a number of processes that are currently handled manually, and improving system access for customers and service partners. Specifically, the program will include on-line access for creditor agencies and private collection agencies, increased automation of processes such as collection files, and enhanced communication and coordination between private collection agencies and Treasury. It will also provide increased flexibility to incorporate new debt collection tools. The target implementation date for the system is 2005.

Conclusion

Mr. Chairman, in summary, Treasury's debt program is one that is both robust and effective, one that has consistently met or exceeded its performance measures. Nonetheless, we are continually working to enhance the program and increase collections.

In addition to maximizing the statutory authority FMS possesses to collect delinquent debts, we believe that congressional oversight of the debt collection program has been and will continue to be critical to our success. We applaud this Subcommittee for the role it has played in that regard. We also believe that agency leadership and agency Inspectors General can enhance oversight at the agency level in order to ensure that debts are being referred on a more timely basis and that debt collection in general is a higher priority. In fact, we recently learned that in their annual report, the agency Inspectors General announced that they plan to increase their focus on financial management. We view this as a very positive sign, and we encourage the Subcommittee to support this endeavor.

Mr. Chairman, you may be assured that debt collection will remain a high priority for Treasury. This concludes my remarks. I would be happy to answer any questions you or the members of the Subcommittee might have.