IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

FRIDAY, APRIL 18, 1997

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

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2154, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Sessions and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher and John Hynes, professional staff members; Andrea Miller, clerk; and David McMillan and Mark Stephenson, minority professional staff members.

Mr. HORN. The Subcommittee on Government Management will come to order.

Nearly 1 year ago, Congress passed and the President signed into law the Debt Collection Improvement Act of 1996. This important law was sponsored by myself and Mrs. Maloney, the ranking Democrat on the subcommittee. It changed the rules of the game for debt collection. By providing agencies with new tools and incentives to increase collections, Congress hoped to improve the Federal Government's dismal debt collection performance.

What are the results so far? Currently, the total of delinquent non-tax debts is $51 billion. The Treasury Department's Financial Management Service has spent $20 million implementing the Debt Collection Improvement Act, coordinating with Federal agencies, conducting awareness campaigns, drafting contracting documents and regulations, and working with agencies to refer their debts to Treasury. Unfortunately, the Financial Management Service has only collected about $300,000 from these efforts.

I realize that implementation does not happen overnight, but I feel this committee has a responsibility to ensure that the record improves quickly. How could we have spent $20 million to collect $300,000? I have two principal concerns about the implementation of the Debt Collection Improvement Act. First, the initial year of implementation has given us reason to fear that the Financial Management Service debt collection function does not have the political support it needs, either in the Department of the Treasury or the Office of Management and Budget. Second, agencies appear to be balking at implementing the Debt Collection Improvement Act. Let me elaborate on each of these concerns.

Political support is critical. Success stories resulting from the Debt Collection Improvement Act of 1996 illustrate this point. The child support enforcement provisions are working well. The Financial Management Service is working with the Office of Child Support Enforcement at the Department of Health and Human Services to successfully implement the child support enforcement provisions along with the responsibilities added by the President's Executive Order 13019, last September 28, 1996. Of course, that Executive order was issued 5 weeks before the Presidential election.

We are delighted that the direct deposit provisions are spurring improvements in electronic payments at a number of agencies and that the Treasury Department is on track to meet its timetable. Each of those programs involves administrative complexities equal to or exceeding those in the debt collection program. They involve working with 50 different State governments and 100 million payees. Why are these programs succeeding where the debt collection operation is failing? The answer is simple: a lack of political support.

The President made his child support enforcement announcement in a weekly radio address. He clearly demonstrated his commitment to achieving the aggressive goals his advisors have laid out for him. Similarly, the Treasury Department has aggressively moved forward to implement the electronic payment legislation, with strong backing from the President's Office of Management and Budget as well as agencies with large beneficiary groups such as the Social Security Administration.

In order for the Debt Collection Improvement Act to be a success, it will need the strong backing of the President and the Office of Management and Budget, as well as the best efforts of those in the creditor agencies. Talking about reinventing government is frankly not enough. It is time for some follow-through.

Second, agencies appear to be balking at some aspects of the Debt Collection Improvement Act. According to a draft report of the General Accounting Office, "some agencies have expressed reluctance" about transferring delinquent debt to the Financial Management Service. Congress worked long and hard on this new law, and we will work just as long and just as hard to see that it is properly implemented. The massive sum of uncollected non-tax debt makes it clear that agencies cannot continue to operate as they have in the past.

The task of implementing the Debt Collection Improvement Act is complex. It requires cross-agency coordination. Everyone has a role: The Office of Management and Budget, the Treasury Department, and every Federal agency. Today, I hope we can hear how we are going to proceed with collecting debts, not with blaming each other. By my estimation, we have all failed to achieve our preliminary goals. We now look forward to the hearing and to future hearings on the Debt Collection Improvement Act, which I will state at this point will be scheduled every 6 months for the next several years.

We have a quorum present, and I would like to call on Mrs. Maloney, the ranking Democrat, who was very helpful in the enactment of this legislation, for her opening statement.

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

DAN BURTON, INDIANA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED FIFTH CONGRESS

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"Oversight of The Debt Collection Improvement Act of 1996"

OPENING STATEMENT
REPRESENTATIVE STEPHEN HORN (R-CA)

Nearly one year ago, Congress passed and the President signed into law the Debt Collection Improvement Act of 1996. This important law was sponsored by myself and Ms. Maloney, among others. It changed the rules of the game for debt collection. By providing agencies with new tools and incentives to increase collections, Congress hoped to improve the Federal Government's dismal debt collection performance.

What are the results so far? Currently, the total of delinquent non-tax debts is $51 billion. The Treasury Department's Financial Management Service has spent $20 million implementing the Debt Collection Improvement Act, coordinating with Federal agencies, conducting awareness campaigns, drafting contracting documents and regulations, and working with agencies to refer their debts to Treasury. Unfortunately, the Financial Management Service has only collected about $300,000 from these efforts.

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The task of implementing the Debt Collection Improvement Act is complex. It requires cross-agency coordination. Everyone has a role: the Office of Management and Budget, the Treasury Department, and every Federal agency. Today I would like to hear how we are going to proceed with collecting debts, not with blaming each other. By my estimation, we have all failed to achieve our preliminary goals. We now look forward to the hearing and to future hearings on the Debt Collection Improvement Act, which will be scheduled every six months.

Mrs. MALONEY. Thank you very much, Mr. Chairman. I am pleased that you are holding this anniversary hearing on our Debt Collection Improvement Act of 1996. As you know, I was very honored to play a major role in passing this bipartisan legislation last year, and I want to commend you, Mr. Chairman, on your leadership and your staff for all their hard work, and mine too for that matter. I would also like to thank the administration for their help and diligence which was instrumental in developing a comprehensive and effective new law. Since Mr. Summers is here from Treasury, I would like to note that Treasury was particularly helpful in their leadership on this legislation.

Two years ago, I became extremely concerned that Congress was cutting vital programs that benefit millions of Americans, like Medicare, Medicaid and school lunches. I wanted to offer something positive to the American people.

That's why I conducted a survey of 100 Federal Government agencies regarding their delinquent debt. These agencies responded that businesses and individuals owed more than $50 billion in nontax delinquent debt to the Federal Government and to the American taxpayers and that a mismatched hodgepodge of collection methods and procedures hindered the Government's ability to collect debt.

As a result, we designed the Debt Collection Improvement Act to fix these problems. Our bill will force the cheaters to pay up through common sense debt collection tools like administrative, salary and tax refund offsets, governmentwide cross-servicing, TIN access and gain sharing. I am very proud of what we developed, and I am hopeful that this new law will help collect up to $10 billion in additional revenue over 5 years; that's a lot of school lunches and that's a lot of police officers. To ensure that we reach our goals, I want to continue to monitor the administration's implementation of the new law. That's the purpose of our hearing today.

But we must do more.

Today, I would like to announce that I am drafting legislation that would collect even more delinquent debt, and I hope our distinguished chairman will join me so that we will have yet another successful piece of legislation out of this committee. My bill would improve communication between the Federal Government and State governments through a joint Federal-State partnership for the purposes of collecting delinquent debt from deadbeats. The legislation would prevent debtors from eluding the Government by allowing Federal agencies to match delinquent debtors with State employment information. Debtors would still have the same due process and hardship protections under current law.

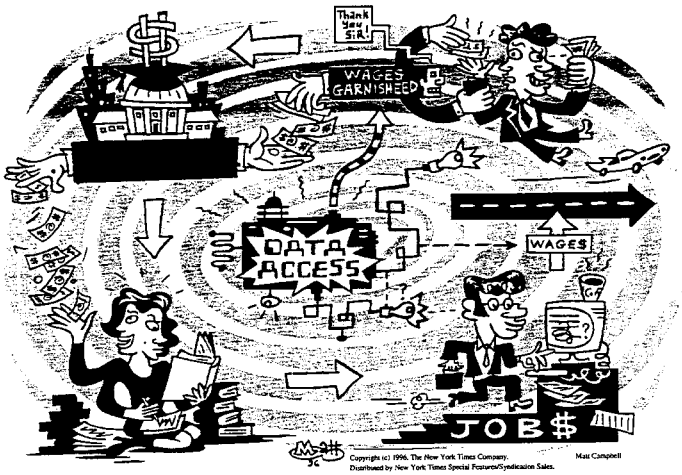
The need for this legislation was most eloquently described in a New York Times op-ed by the Massachusetts Commissioner of Revenue, Mitchell Adams, who is present here today and will be testifying later. Mr. Chairman, I would like to submit for the record the op-ed which he authored. Is that all right?

[The article referred to follows:]

The New York Times

SATURDAY, SEPTEMBER 21, 1996

OP-ED



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Matt Campbell

Payback Time on Student Loans

How to collect what's owed and save the program.

By Mitchell Adams and Nancy Sinsabaugh

BOSTON

In Chicago, President Clinton set the nation's sights high when he declared that "by the year 2000, the single most critical thing we can do is to give every single American who wants it the chance to go to college." To make that possible, it is essential that we take steps to preserve the integrity of the Federal student loan program, which has issued about 90 million loans since 1965.

The amount of federally guaranteed student loans in default has increased more than four times since 1986. In June, this sum reached $25.5 billion. Although the De- ent of Education and federally cha. agencies that collect the defaulted loans have made headway in recent years, collections still amounted to only $2.4 billion in fiscal 1995. More could be done, and officials would do well to look for guidance at state efforts to collect debt in another area: child-support obligations.

In 1993, the Massachusetts Department of Revenue pioneered a system of collecting child-support payments by garnisheeing the parent's wages. Our computers match lists of the parents who are legally obligated to pay this support with records showing where they work and their payroll figures. Automatically generated letters warn that payments will be deducted from their wages, while promising due process in the form of an administrative review and a hearing. This system is now responsible for more than half of all child-support collections in Massachusetts.

Other states have adopted this approach, and it was built into the Federal welfare law enacted in August. Such a system can be applied to defaulted student loans with equal results. More than half of the student borrowers listed in default by the Massachusetts student loan guarantee agency had jobs in the state and were earning enough money to pay their debts, according to a study done in May. Collections could increase by 25 percent, the study estimated, by garnisheeing wages. Pennsylvania and Illinois already have such a system.

If this approach were adopted nationally, collection costs would drop and payments could rise by $625 million annually, a 25 percent increase based on the experience of Pennsylvania and Illinois — enough for tuition for 100,000 more students yearly.

Most legal groundwork for a national program is in place. In 1991, the Education Department and the loan guarantee agencies won the right to garnishee wages directly, without court involvement. But the law does not permit states to gain access to the name and address of a borrower's employer. To protect privacy rights, such information cannot be obtained except to verify employment for Federal entitlement programs and to collect child support.

States could fix this problem by passing laws allowing the guarantee agencies access to the data. Massachusetts, Pennsylvania and Illinois are among the few that have done so. Or Congress could act. In April, it passed a bill aimed at aiding various Federal collection efforts. But provisions giving the Education Department and the agencies access to state records were not included because the value of the records wasn't understood. Congress should plug this hole. It's not fair that taxpayers have to pay for someone else's education. Restoring confidence in the loan program would go a long way toward making Mr. Clinton's vision a reality.

Mitchell Adams is Commissioner of Revenue of Massachusetts. Nancy Sinsabaugh is a former director of student financial services at Harvard.

Mrs. MALONEY. Let me give you an example of the problem the bill addresses. Under current law, if a person living in New York defaults on a Federal student loan from New York, the State and Federal Government can garnish the wages of that person to resolve the debt. However, if that person moves to work and live in another State, New York and the Federal Government can no longer garnish the student's wages or the employee's wages. That is because Federal law prevents it. My legislation would help the Government find that debtor.

Mr. Chairman, I invite you to cosponsor this as the lead Republican and hope that we will be working together. We have been talking to you and your staff about it.

This is an issue that I worked on for many years when I was a member of the city council. Every year I would do my survey of the debt that was owed the city of New York, and in fact authored a collections bill for the city of New York, and that bill never passed. So I don't know if that says it is easier to pass a bill in the U.S. Congress than in the city of New York.

But in any event I think it is a fine example of the administration and the Republican and the Democratic party working together to really make government work better, to help bring moneys into the Treasury and to help us on our other major goal this year, that of balancing the budget, of bringing these revenues in. Any amount will help us reach that goal.

I thank the chairman for his leadership in so many things and for this followup hearing today. Thank you.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

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April 17, 1997

REP. CAROLYN B. MALONEY -- OPENING STATEMENT

HEARING ON THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996

Thank you Mr. Chairman.

I am very pleased that you are holding this anniversary hearing on our Debt Collection Improvement Act of 1996 (DCIA). As you know, I was very honored to play a major role in passing this bipartisan legislation last year, and I want to commend you, Mr. Chairman, on your leadership, and your staff for all their hard work. I would also like to thank the administration for their help and diligence which was instrumental in developing a comprehensive and effective new law.

Two years ago, I became very concerned that Congress was cutting vital programs that benefit millions of Americans like Medicare, Medicaid and school lunches. I wanted to offer something positive to the American people.

That's why I conducted a survey of 100 Federal government agencies regarding their delinquent debt. These agencies responded that businesses and individuals owed more than $50 billion in non-tax delinquent debt and that a mismatched hodgepodge of collection methods and procedures hindered the government's ability to collect debt.

As a result, we designed the Debt Collection Improvement Act to fix these problems. Our bill will force the cheaters to pay up through common sense debt collection tools like administrative, salary and tax refund offsets, government wide cross-servicing, TIN access and gainsharing. I am very proud of what we developed, and I am hopeful that this new law will help collect up to $10 billion in additional revenue over five years. To ensure we reach our goals, I want to continue to monitor the administration's implementation of the new law. That's the purpose of our hearing today.

But we must do more.

Today, I would like to announce that I am drafting legislation that would collect even more delinquent debt. My bill would improve communication between the federal government and state governments through a joint Federal-State partnership for the purposes of collecting delinquent debt from deadbeats. The legislation would prevent debtors from eluding the government by allowing federal agencies to match delinquent debtors with state employment information. Debtors would still have the same due process and hardship protections under current law.

The need for this legislation was most eloquently described in a New York Times OP-ED by the Massachusetts Commissioner of Revenue, Mitchell Adams, who is present here today.

Mr. Chairman, I would like to submit the OP-ED for the record.

Let me give you an example of the problem this bill addresses. Under current law, if a person living in New York defaults on a federal student loan from New York, the state and federal government can garnish the wages of that person to resolve the debt. However, if that person moves to work and live in another state, New York and the federal government can no longer garnish the student's wages. That's because federal law prevents it. My legislation would help the government find that debtor.

Mr. Chairman, I invite you to be an original cosponsor to my legislation, and I hope you will consider holding a hearing to discuss its merits. Thank you.

Mr. HORN. Thank you very much. Now I am delighted to yield to the gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Good morning, Mr. Chairman. Mrs. Maloney, it is good to see you. I am delighted to be here.

I have somewhat of a background in debt collection. I was in charge of debt collection for Southwestern Bell Telephone Co., a 5-State region, for several years at the corporate headquarters level, and so I have some understanding, though some people would argue no expertise, in this area. But I am extremely interested and I am delighted to be here this morning, Mr. Chairman. Thank you.

Mr. HORN. I want to say that understanding is a lot better than expertise.

We are delighted to have you with us, Mr. Secretary. We have a tradition on this subcommittee and the full committee that all witnesses take the oath. So if you don't mind standing and raise your right hand.

[Witness sworn.]

Mr. HORN. The clerk will note the witness has affirmed and you may proceed in your own way. Obviously, we just saw your statement. We didn't have it before, so we are going to be looking at it very carefully as you speak. But feel free to take the time you need.

STATEMENT OF LAWRENCE SUMMERS, DEPUTY SECRETARY, DEPARTMENT OF TREASURY

Mr. SUMMERS. Thank you very much, Mr. Chairman, Congresswoman Maloney, distinguished members of this subcommittee. I am pleased to be here to talk with you about Treasury's plan to implement lasting solutions to difficulties the IRS has encountered. Later this morning, it is my understanding that Under Secretary Hawke and Assistant Secretary Murphy from the Treasury Department will testify along with Deputy Director Koskinen on the Department of the Treasury's actions to implement the Debt Collection Improvement Act of 1996. But let me say for my part that we in the Department regard this—the Debt Collection Act as a crucial initiative and one that we're working as hard as we can to be as constructive as possible in implementing. And I think that it is absolutely clear with the kind of cutbacks that Government is forced—Government in today's world—as we move to a balanced budget, to do everything that we possibly can to collect what is owed to us.

That is a point that has resonance in the debt collection area. Frankly, it has resonance with respect to the IRS because I believe improving the IRS is important not just to serve taxpayers better, but also because we have a large tax gap which represents money that could otherwise be available to the Government to support lower tax rates, to support more effective public services.

I would like to thank the chairman, the ranking minority member and other members of the committee for their leap in recognizing issues of information technology at the IRS and in particular, governmentwide, for highlighting, Mr. Chairman, the salience of the Y2K problem, which is something very critical that we are going to have to get through.

Let me be very clear, the difficulties with information technology management primarily manifested by the troubled tax system mod-

ernization program are not fully behind us. Other serious problems have come to light, such as recent incidents of IRS employees browsing through tax records outside their assigned work. These kinds of problems deserve the utmost seriousness because the American people deserve an IRS that is responsive, efficient, and totally respects privacy. As Commissioner Richardson has said, the IRS may not earn people's affection, but it should deserve their respect.

Today, I want to talk about some of the progress that the IRS has made under Treasury's oversight and in turn talk a bit about the administration's plan to provide the IRS with the framework for effective management. But before I do that, let me just highlight that this week we completed one of the rituals of our democracy, the annual filing season. The vast, vast majority of American citizens paid what they owed, and paid it in full. That voluntary compliance is a precious national asset for this country and one we must not squander.

I want to thank the 100,000 dedicated and local IRS employees who have helped to make this filing season a successful one for the American taxpayers. Seventy-six million returns have already been processed; electronically filed returns are up by 25 percent; 36 percent more taxpayers—not enough, let me be clear, but 36 percent more taxpayers have been served by IRS employees over the telephone and tax law questions are being answered with 93 percent accuracy, up from 90 percent last year. The IRS web site has received over 95 million hits in this fiscal year, and I guess it is appropriate to quote a poll. The Associated Press in a recent poll found that 7 out of 10 taxpayers—that is 3 too few—gave the IRS a positive rating on its ability to handle returns and inquiries. This is progress. But we need to build much more on this progress.

Last year, Secretary Rubin and I recognized in testimony before this committee and others that the modernization program was, as we put it at the time, off track. We called for a sharp turn and made clear our determination to energize Treasury's oversight to bring about change in the way IRS uses information technology and provides customer service. And there has been change. Specifically, we have appointed a new Associate Commissioner for Modernization and Chief Information Officer, Mr. Arthur Gross. Following his review of technology projects, we canceled or consolidated 26 programs into 9. Mr. Gross is sitting here beside me, and I want to acknowledge an exemplary job that he has done in getting hold of something that has been very—was very out of control for a very long time.

We will be submitting a draft Request for Proposal for Tax Systems Modernization prime contractor to the Congress and to industry on May 15th, 10 weeks ahead of the required due date. On May 15th of this year, we will submit to the Congress an architectural blueprint which will clearly describe what modernization would and would not include and how the pieces will fit coherently together. We are exploring in other areas the possibility of outsourcing.

Steps such as these are only the beginning. It will take time. Everyone involved in this process recognizes that problems at the IRS have developed over decades and will not be solved overnight or

even over a couple of filing seasons. But as we chart our course, we see our job at Treasury as ensuring that there is effective and vigilant oversight so as to make sure that the IRS performs as effectively as it possibly can.

Our approach to provide a framework for effective management at the IRS encompasses five critical areas. Let me say a word about each of them.

First, oversight. We will consolidate the success to date of the Modernization Management Board, which has supported Mr. Gross in his cancellation of projects that were not as effective as they needed to be, by making it permanent and extending its mandate to cover the broad range of strategic issues confronting the IRS. This will continue to operate like the board of a troubled company with an outside chairman located in the Treasury Department and senior officials from other parts of Government. This is a crucial executive branch responsibility, and we plan to carry it out. We will also establish a Blue Ribbon Advisory Committee to bring private sector expertise to bear on the management of the IRS.

Second, we look forward to working with the National Commission on IRS Restructuring, ably chaired by Senator Kerrey and Congressman Portman, as well as the Congress and the National Treasury Employees Union, to enhance and strengthen the IRS's ability to manage its operations, working in particular to improve management flexibility in personnel and procurement. No commissioner, no matter how capable, can do this job by him or herself. They need the flexibility necessary to make changes that can make the IRS a more effective organization. In return, we will hold senior management of the IRS, as in any well-managed business, accountable for results.

Third, we will work with Congress to help the IRS get the stable and predictable funding it needs to operate more effectively. Frankly, Mr. Chairman, we operate now in a low-trust, short-tether environment in which—in response to very real problems that there have been—Congress holds the IRS on a very short tether, changing the budget frequently in response to conditions. It is easy to understand that choice. But short-tether budgeting for capital projects combined with the inability to amortize expenses over time makes rational planning almost impossible. It is very difficult to operate in a budgetary environment where increased resources are treated as a cost but none of the cash-flows that come back as a consequence of increased customer service or increased enforcement come back as benefits.

Fourth, we will work to simplify the Tax Code that is now 9,451 pages long. Earlier this week, Secretary Rubin announced some 60 simplification measures that will save individuals and businesses millions of hours now spent filling out tax forms. No longer if you were a paper boy with a $100 bank account will you be required to file a tax return. Ninty-five percent of corporations will be entirely separate from the alternative minimum tax.

Finally, fifth, Mr. Chairman, leadership is crucial to performance. Commissioner Richardson has guided the IRS through some difficult times. As we move forward, though we are committed to appointing a new commissioner with a different type of experience than has been typical for IRS commissioners, a commissioner

whose experience in either the public or the private sector equips them to address the problems of organizational change, customer service improvement and information technology management, as well as change in the business culture that are the preeminent problems at IRS right now.

Mr. Chairman, I don't believe that for any of us involved in Government there is a more important challenge than making our national tax collection agency function effectively. Justice Holmes said that taxes are what we pay for civilization. Whatever our precise view of Government, whatever our politics are, we all, I think, agree that taxes need to be collected as efficiently, as nonintrusively, as fairly, and as fully as they possibility can.

Thank you very much.

[The prepared statement of Mr. Summers follows:]

DEPARTMENT OF THE TREASURY

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

Deputy Secretary Lawrence Summers

APRIL 18, 1997

INTRODUCTION

Mr. Chairman, Congresswoman Maloney, distinguished members of this Subcommittee. I am pleased to be here today to talk with you about Treasury's plan to implement lasting solutions to difficulties the IRS has encountered. Later this morning, it is my understanding that Under Secretary Hawke and Assistant Secretary Murphy will testify on the Department of the Treasury's actions to implement the Debt Collection Improvement Act of 1996. They will address progress in implementing that important piece of legislation and improving our system of debt collection.

Today, I would like to discuss another matter: the Department's oversight of the Internal Revenue Service. Before I begin I would like to thank the Chairman, the Ranking Minority Member and the other members of this Committee for their leadership on the matter of IRS reform. In addition, I hope you will join me in recognizing and thanking the more than 100,000 loyal and dedicated IRS employees who earlier this week

completed a successful filing season.

Management Reform

Mr. Chairman, recent announcements of problems in modernizing the computer systems of the IRS have focused attention on the shortfalls of the service and provoked an important debate about how best to improve the Internal Revenue Service.

Over the last year, the Treasury Department has focused intense efforts on improving the IRS. This Committee and others within the Congress have held extensive hearings on the matter. The National Commission on Restructuring the IRS, led by Senator Bob Kerrey and Congressman Rob Portman, has also made a significant contribution to the ongoing discussion. A consensus has emerged among a wide group of stakeholders, from business executives to Members of Congress to leaders of the National Treasury Employees Union. The message is clear: it is time for change

I believe that, in the next year or so, we have the opportunity and the obligation to bring about the most far-reaching changes in the way the IRS is managed and in the way it does its business in decades. It will be the task of management at the IRS to manage information technology better and to harness it toward the goal of better customer service.

What I would like to provide today is the Treasury Department's view of how to establish a framework within which the IRS can best get its mission accomplished. I use the phrase "get its mission accomplished" deliberately to underscore the fact that the IRS of the future will have to

contract out, outsource, partner with the private sector, and rely on outside vendors to a much greater extent than the IRS of the present.

Secretary Rubin and I recognized last year in testimony before the Appropriations Committees that the IRS's modernization program was, as we put it at the time, off track. We called for a "sharp turn" and made clear our determination to bring about change in the way the IRS uses information technology and provides customer service. And there has been change. Specifically:

- We have appointed a new Chief Information Officer at the IRS, Art Gross. Following his review of technology projects, we canceled or collapsed 26 programs into nine.
- The IRS has increased outsourcing. The percentage of contractors, as opposed to IRS staff, working on tax systems modernization has increased from 40 to 64 percent over the past two years. The number of IRS staff working on tax systems modernization has decreased from 524 to 156. And we expect to pursue a prime contractor for systems modernization and integration and to develop an outsourcing strategy for submissions processing.
- The IRS has made progress in eliminating paper. This year, we estimate that 19.2 million Americans will file electronically by telephone or computer, up from 11.8 million taxpayers in 1995.
- While there is a long way to go, the IRS has made progress in being able to respond to all incoming calls.

- The IRS has improved customer service by beginning to change the internal culture of the IRS. Last summer, President Clinton signed bi-partisan legislation enacting the Second Taxpayer Bill of Rights, which vastly increased our number of taxpayer advocates.
- We will be submitting a draft Request for Proposal for a Tax Systems Modernization prime contractor to Congress and to industry on May 15, ten weeks ahead of the required due date.
- On May 15 of this year, we will submit to Congress an architectural blueprint which will clearly describe what modernization would and would not include and how the pieces fit coherently together.

Steps such as these are obviously only the beginning. Everyone involved in this process at Treasury, the IRS, Congress, and the union has recognized that the problems at the IRS have developed over decades and will not be solved overnight or even over a couple of filing seasons. Only if we confront problems directly -- from protecting taxpayers' privacy to using technology to making sure the phones are answered -- will we build an IRS for the 21st century.

As we chart our new course, our focus will center on five critical areas to effect broad change: **(1)** oversight; **(2)** flexibility; **(3)** budgeting; **(4)** tax simplification; and **(5)** leadership. Let me address each of these in turn.

First, Treasury has strengthened and made proactive our **oversight** of the IRS. We will consolidate the success to date of the Modernization

Management Board (MMB) by making it permanent and extending its mandate to cover the broad range of strategic issues facing the IRS. We will also establish a Blue Ribbon Advisory Committee to bring private sector expertise to bear on the management of the IRS.

Oversight of the IRS by the Treasury department is the best way to ensure the IRS's accountability to the American people and to coordinate tax collection with tax policy. Through the Treasury, the IRS is able to bring concerns about the difficulty of administering tax changes to senior Administration officials; I raise these concerns frequently in tax policy discussions with policymakers in the White House and throughout the Administration. In addition, the IRS is able to draw upon Treasury resources for critical projects, as demonstrated by our current cooperation on the Year 2000 conversion.

Going forward, first, we have set up a Modernization Management Board comprised of senior officials from Treasury, the IRS, and other parts of the Administration. The Modernization Management Board is directed at overseeing the information technology programs and functions in many ways like a corporate board, approving major strategic decisions and investments.

We will also establish a blue ribbon Advisory Committee, reporting directly to the Secretary of the Treasury, to bring private sector expertise to bear on the management of the IRS. This committee, composed of senior business executives, experts in information technology, small business advocates, tax professionals, and others, will meet regularly to make recommendations on major strategic decisions facing the IRS.

Second, we will enhance and strengthen the IRS's ability to manage its operations, working with Congress and the union to improve management **flexibility** in personnel and procurement. In return, employees of the IRS, as in any well-managed business, will be held accountable for results. In addition, we will enhance and strengthen the IRS's ability to manage its operations. The IRS faces a multitude of restrictions -- restrictions that would be unacceptable in the private sector -- that hamper its ability to provide efficient service. For example:

- The IRS should be able to attract and retain the highest quality information technology specialists and other professionals.
- The IRS should not face rules that make restructuring the workforce needlessly difficult for employees and the employer.

To strengthen the Commissioner's ability to effect change, we at Treasury will work with Congress, the Commission, and the union to improve flexibility: to bring on people with specific skills more quickly... to pay them more competitively... and to give them the training they need. Many of these changes will require legislation, and we expect to propose this legislation to Congress later this year.

Let me add that in taking these steps, we are committed to maintaining the independence and freedom of the IRS from political influence.

And a crucial part of any strategy for improving flexibility has to be outsourcing. Just as private industry has found that outsourcing enables an organization to focus on what it does best and to rely on others for what they

do better, so government can benefit from outsourcing as well. Inevitably, resources hired from private companies will be more flexible than those that become part of the IRS's overhead. Where it is cost effective, but only where it is cost effective, we will pursue outsourcing strategies vigorously.

Third, we will work with Congress to help the IRS get the **stable and predictable funding** it needs to operate more effectively. To this end, the FY 1998 budget proposes multi-year investments for technology.

Today, the IRS operates in a low-trust, short-tether budgeting environment. This makes rational planning for capital projects such as information technology very difficult. As we re-establish trust and demonstrate that the IRS is investing resources wisely and prudently, we are examining longer term approaches to budgeting. This year we have proposed funding for the next two years for systems modernization, funding which can be used when needed. As evidence that we recognize our responsibility to Congress and the American people, we have committed not to spend these funds until and unless we demonstrate the clear benefits of our funding proposals.

Over time, the Administration and Congress will have to give careful consideration to the appropriate size of the IRS budget. The budget has declined by more than nine percent in real terms over the last two years. On the one hand, efficiency improvements are surely possible through information technology, which should enable us to reduce the budget. On the other hand, more customer service requires more people serving customers, and experience demonstrates that investments in improving compliance have pay-offs in extra revenues that far exceed their costs.

Fourth, we will work to **simplify** a tax code that covers 9,451 pages. Just yesterday, the Administration proposed a series of simplification proposals as part of our plan to improve IRS operations. These proposals represent a continuation of efforts to provide the IRS with a simpler tax code to administer. The proposals, which will save taxpayers millions of tax preparation hours, contain more than 60 legislative proposals that will simplify the tax code for individuals, families and businesses, reduce the complexities and paperwork burdens of the existing Internal Revenue Code and provide substantial new tax rights to the American taxpayer.

There are some who, based on the complexity of the tax code and on the problems at the IRS, argue for extreme measures such as a flat tax. I believe that such proposals would not only unfairly increase the tax burden on the middle class and hamper economic growth, they would **not** simplify the administration of the tax code.

Fifth, **leadership** is crucial to performance. Commissioner Richardson has guided the IRS through difficult times and has made progress in many areas. As we move forward, we are committed to appointing a new Commissioner who has experience with the challenges of organizational change, customer service improvement, and information technology management that the IRS faces.

These five steps -- institutionalizing oversight, increasing flexibility, obtaining predictable funding, simplifying taxes, and introducing new leadership -- provide a framework for the kind of tax administration system that American taxpayers deserve. Of course, there are other critical issues that we must address. But I believe that progress on these five fronts will

give the IRS a solid foundation on which we can build.

We have already moved quickly on the next steps to formulating detailed proposals around this management plan. I have directed the establishment of a series of short-term task forces to work with the new Commissioner, as well as OMB and Congress, to develop the full details of these proposals. Their final recommendations will be available soon.

In the coming months, the nation will engage in a discussion of how to reform and renew the IRS. As we evaluate and improve the way we administer our taxes, we, at Treasury and the IRS, want and need your suggestions and help.

Let me briefly touch on one specific topic -- the issue of unauthorized access by IRS employees of tax returns and taxpayer information. From the Department's perspective, total respect for the privacy of information provided by taxpayers is integral to high quality service and voluntary compliance -- the foundation of our system of taxation.

A key problem is that unauthorized access or inspection is not itself a criminal offense. In our view, it should be. That is why we, at Treasury, as well as Commissioner Richardson, supported the anti-browsing legislation that was introduced by Senator Glenn in the Senate and Congressmen Archer in the House and was passed by both houses this week.

This new legislation will strengthen our hand in putting an end to unauthorized access. In addition, the IRS needs to strengthen its computer systems to detect and prevent unauthorized access before it occurs. Secretary Rubin and I have ordered the IRS to report within one month on

what it proposes to do both managerially and technically to better address this problem. As soon as that report is complete, we will convene a special meeting of the Modernization Management Board to agree on appropriate action.

With respect to browsing, Mr. Chairman, ***Our policy is simple:*** Willful unauthorized access will not be tolerated. ***Our goal is also simple:*** We want quick, appropriate and severe penalties for those who violate these rules.

Conclusion

This morning I have discussed the broad five point plan that we believe represents the best way to reform the management of the IRS.

But we must recognize that while the IRS needs to be more responsive to taxpayers, to use technology more effectively, and to be more efficient, it is likely that for the foreseeable future, the United States will have an income tax that taxes people based on their ability to pay. Given this, it is not possible to eliminate the IRS, and it is vital that we have an IRS that functions effectively. We must all work constructively toward this end. What we must not do is attack the IRS in order to promote other agendas.

While we have further to go, the filing season which has just been completed has been our most successful to date. Let me share with you three statistics which I believe demonstrate that IRS performance is on the upswing. To date:

- Electronically-filed returns are up 25% over last year, while 35% more taxpayers have been served by IRS employees over the

telephone;

- ➜ The IRS web site has received over 95 million hits this fiscal year, a 162% increase; and
- ➜ The accuracy rate for tax law questions continues its upward trend from 90% to 93%.

Reflecting the success of this past filing season, Americans are recognizing that the IRS has improved. A poll by the Associated Press released last week reported that 7 out of 10 taxpayers give the IRS a positive rating on its ability to handle returns and inquiries.

In conclusion, we are making progress. But we have a long way to go. I will now be happy to answer any questions the Committee may have.

Mr. HORN. We thank you, Mr. Secretary. We are going to have questioning 10 minutes per person, and I know you have to be out of here by about 10:30. Let me start in. How long have you been Deputy Secretary?

Mr. SUMMERS. I was sworn in as Deputy Secretary in August 1995.

Mr. HORN. Since August 1995, how many hours a week do you give to IRS management problems?

Mr. SUMMERS. I would say that in the early part of the time that I was deputy, that I was Deputy Secretary, I had not come to a full appreciation of the seriousness of these problems. But following a fairly close effort to understand the situation, I have appreciated its gravity, and I would say that in the last few months there has probably been no single issue—no single other issue in the Department—that has occupied more of my time than questions relating to management and governance of the IRS.

Mr. HORN. Well, since August 1995, are we saying 2 hours a week you have spent on it; 3 hours, 4?

Mr. SUMMERS. More. I would hesitate to give you an estimate, to give you a precise estimate, but I think as I say, in the last period, there hasn't been any other issue that I have spent more time on.

Mr. HORN. In the 103d Congress, which was my first Congress, I happened to serve on Mr. Spratt's Financial Institutions Subcommittee of this Oversight Committee. We had the IRS before it and, on a bipartisan basis, we were concerned in 1993 that they were a basket case then, well-known to most people in town. And I guess the classic remark was made by Mr. Cox, who had hoped to be here this morning, the vice chairman of the full committee, when he said if a corporation turned in financials to IRS such as you just turned into us, you would have gone and probably turned over the case to the U.S. Attorney.

Now, one of my concerns is your Assistant Secretary for Management that also ought to be involved in some of this—Mr. Muñoz is also the Chief Financial Officer of the Treasury. I think that a role of Chief Financial Officer ought to be a full-time job, especially when you probably have the Government's prize basket case, and the only exclusion from that would be the civilian sector of the Pentagon, which borders a prize basket case and which will probably not be able to submit to Congress, as the law requires, this September a balance sheet. There are two agencies, IRS and the Pentagon, that will not be able to meet the requirements of law that was put out years ago on a bipartisan basis.

So, are we going to get a chief financial officer that can pay attention to this or are we going to sort of put it off until the heat rises? We get a blue ribbon committee, they come into town. They are prestigious. They do a report, and the report gathers dust. We are down to crunch time. Are we going to straighten out that agency or not?

Recently I wrote the President and said let's quit getting bright CPAs and bright tax attorneys—and I didn't say the following, but the following is obvious, that they all get a nice living after they go to Gucci Gulch and become lobbyists and all the rest—when do we get a commissioner that knows something about managing a large complex organization?

I understand Secretary Rubin is concerned about that and that he has asked various leaders in the private sector to help advise him on a new commissioner. I think that is progress, and I hope we don't go the route of the tax attorney-CPA, no matter how much they like the job. You can get a million of those on the staff. What are we going to do about this focus of the Chief Financial Officer and the focus of being serious about management?

Mr. SUMMERS. Mr. Chairman, I have just submitted to you in my testimony that it is our determination to hire an IRS commissioner whose background equips them to take on the fundamental management challenges that are involved in work at the IRS, precisely because we share exactly your recognition about the kind of person that is appropriate to lead the IRS forward. We are deeply troubled by the difficulty in producing a financial report, and as we move forward here in the President's second term, in Treasury's own management area, we are strengthening in a variety of ways our capacity to provide oversight to the IRS and to ensure that it works to meet the appropriate deadlines.

We share exactly the concerns that you are expressing, Mr. Chairman. That is why in my first testimony before the Congress after taking this responsibility, I recognized that the modernization program was way off track and indicated our intention to bring about change. I think the record of canceled projects, the record of meeting congressional mandates, the record of improved, though still flawed, service this year, bears out the fact that we are making progress on the sharp turn that we promised, though not as rapidly as any of us would like.

Mr. HORN. Given the problems the Treasury faces in terms of management of the national debt, major budget problems, one of the key advisors to the President of the United States, so forth, should we simply have an independent agency? Get them out of Treasury, get a first-rate commissioner in there, get them independent of any even perception of political influence, which occurred as you know in violation under the Nixon administration and probably has occurred given Filegates under this administration.

My query is, how much is the Treasury thinking about saying let's get this operation and start anew? Let's cut the corporate culture and the attitude there. Some are wonderful employees and, unfortunately, they aren't given a chance to be fully productive employees because of the lack of management and the lack of organization. Yet, there is also an attitude in that agency that maybe the customers are supposed to serve them instead of them serving the customers, and that bothers me.

I found a lot of fine people in IRS. I think you have a superb congressional relations staff at Laguna Niguel that my district office deals with and a lot of good people, but we are not doing the right thing by them having such a fouled up management operation. Now should it be independent? What does the Treasury think about that? Are you even exploring it?

Mr. SUMMERS. Mr. Chairman, this is something that Secretary Rubin and I have spent a great deal of time talking about. It would be very easy for us to shirk this challenge by suggesting that the IRS should be independent. It would be much easier. But I believe,

as I think Secretary Rubin does, that it would be a grave error for three reasons. First, the problem the IRS has had has been too little oversight, not too much. The IRS hasn't been held accountable. The IRS commissioner hasn't been called on to the carpet when there have been problems.

The task of the executive branch should have been pursued, and it has had to fall to Congress, which is not well-positioned to monitor management on a week-by-week basis. That is why we believe the answer lies in strengthened executive branch accountability, not weakened executive branch accountability. That is also why we have taken concrete steps to strengthen our own oversight of the IRS through the creation of a board modeled on the kind of board of directors that a troubled company has, with an outsider from the IRS—somebody who is in the administration but not a part of the IRS—as the chairman that has to approve major IRS strategic decisions. We believe taking on that accountability and assigning that accountability to some of the President's most senior appointments is the way to increase accountability. To isolate the IRS and make it independent would be to substantially undermine accountability and to make more serious the kinds of problems that we have. I believe it would be a grave error.

The second reason why it would be a grave error, in my view, is that tax policy and tax administration are consistently intertwined. Tax policy has to be informed by a judgment about what is administratively feasible. Tax administration has to reflect policy concerns. Tax administration, for example, now has a substantial voice in policy deliberations as we work through things like the administration's tax credit proposal. If the IRS were independent from the Treasury Department, you would not have that kind of voice as tax policy was designed. It is only a matter of the senior most levels. The officials at the legal level in the IRS work closely with the Department's tax policy staff, and there are close links also between the IRS and the Department's financial management officials.

Third, I believe that to invite a debate about IRS independence now would make it much more difficult to carry on the kind of progress that we are making. I believe that our oversight process has gained traction and is starting to bring about change. If we were to move to a discussion of what broad governance arrangements should be in the future, I believe that a period of limbo would inevitably result—the progress that we have made would be lost.

Mr. HORN. Let me ask one last question here in my time, and that is why couldn't the modernization problems in that computing operation be caught at the $4 million level or the $40 million level and not have to wait to what I gather from press reports is a $4 billion level?

Now having gone through this with the FAA, I wonder if there is a learning curve in the executive branch of the Federal Government? I mean, we went through this. We had the same problems with FAA. Everybody wanted their bells and Christmas tree ornaments and all of that on there when we ought to be trying to get a lot of this off, what corporations already do. And I can't believe the problems of IRS are that much more complicated than some of

the complicated American corporations. I just can't understand why we can't say get that equipment and get it going, even if it is—and we know all computer software and hardware is—out of date the day you buy it, but to constantly think we can solve this problem on our own I think boggles the mind.

I went through this as a university president. I determined one bright precedent: Do not be the alpha site. Be the beta site or buy down the road after people have taken the messes out of it.

Mr. SUMMERS. Mr. Chairman, we share your concerns. That is why we brought in Art Gross as Chief Information Officer, because he was from the outside and because he had a proven record of working with the private sector to accomplish outsourcing in his work in New York State. That's why we canceled or consolidated 26 projects that in many cases represented leaps that were beyond what we thought we were technologically capable of.

That is why we suspended major project development, so a clear architecture laying out our plans can be presented. That is why it has been made very clear to everyone who is involved with the TSM project that henceforth we will be proceeding in a modular way to measure progress step by step and see what is working and what is not working. We are not going to wait for people to spend billions of dollars and then see whether we have the Taj Mahal or not. You are absolutely right in your concerns, and those concerns have informed the management approach we have taken for the last year and a half.

Mr. HORN. I yield 10 minutes to Mrs. Maloney.

Mrs. MALONEY. I understand that Under Secretary Hawke and Assistant Secretary Murphy will testify for the Department today on the implementation of the Debt Collection Improvement Act. I will hold my questions until they are here. I just would like to convey to you my deep appreciation to the Treasury Department for how professionally and diligently you have worked to implement this act. They have truly worked hard. They have met every single timetable. They have come up with new ideas. Their paperwork is terrific, and you have a very strong group of professionals, and I have had the honor to work with them closely on this bill. I just want to publicly thank you. You may also know that the Secretary is from the great city of New York, I extend my regards. I will save my questioning for later witnesses.

Mr. HORN. We thank the gentlewoman. The gentleman from Texas, Mr. Sessions, 10 minutes.

Mr. SESSIONS. Thank you, Mr. Chairman. Mr. Summers, I am glad you are here and I am sure you did not anticipate this morning that you were going to get to come up here this morning and be beat up, but that is all right. So thank you for staying with us on these issues.

I would like to, if I could, go back to some of your comments about how much time you're spending in oversight. Can you take a few minutes with me and tell me what the management tools are in place that you have found within the IRS that allow you the ability to then judge their progress or their weekly reports, monthly reports, in the debt collection? The older a debt is, the colder it gets, the harder it is to get it. How are you focusing your attention

on the tools and the management tools and the report tools to where you then know in which direction to place your resources?

Mr. SUMMERS. Congressman, you have asked a very, very thoughtful question and I wish I had a better answer. Let me answer as honestly as I can. My role as Deputy Secretary is really to be the chairman of the board; as a kind of outside chairman of the board. In that capacity, at our monthly management board meetings, I do receive reports on progress the IRS is making in overall tax administration, the kinds of statistics that I had an opportunity to review briefly in my testimony; on the way in which the phones were being considered accuracy rates, extent of increases in electronic filing, progress with refunds and so forth. Also, I have an opportunity to review progress reports on the key projects in the TSM area, the development of the architecture moving to a prime contractor and so forth.

Reporting to me is the Assistant Secretary for Management and Chief Financial Officer of the Department, who receives periodic reports on the IRS's progress in debt collection and also receives periodic reports on the financial statement problem at the IRS' keeping posted on the progress in those areas. But I'm not, myself, directly involved in evaluating the status of different debts or retargeting resources.

I think the Department has been constructive in its oversight role with respect to that, although I think ultimately the responsibility in that area has to rest with the IRS Commissioner and the people the IRS Commissioner designates. I think the most effective approach we will have is getting a management-oriented commissioner, and then creating a kind of flexibility that will let that commissioner appoint the people on their team and then having them report to us periodically. But frankly, I don't think the responsibility of reallocating resources with respect to debt collection is one that we can sensibly undertake in the Department.

I have, working with Secretary Rubin as we have, thought about staffing the whole management area at Treasury for the President's second term. A number of the appointments that we intend to make and the approach we intend to take to hiring is really directed at being able to bring, frankly, a greater degree of sophistication and relevant experience in other parts of the public sector or in the private sector to bear on overseeing the functions of the IRS.

Mr. SESSIONS. Do you think that those people in the IRS are aware that you were today going to be up here talking about debt collection?

Mr. SUMMERS. In fairness, Mr. Chairman—Congressman, in fairness to them, while I'm aware that your overall hearing is on the subject of debt collection, the invitation that I received from the chairman was really to address some of the topics that I think you had also discussed on Monday, having to do with the overall IRS approach, so I was not asked to come to talk about debt collection.

Mr. SESSIONS. That was my fault then. I would like to direct my questions to a comment that you made about having proper resources available, and that would have come under the third point that you made.

Beginning in or about 1988, there was money that was allocated to the TSM project. I don't know if that's what it was called then, but the Congress has attempted to allocate resources, maybe some $4 billion. Can you talk with me in the limited scope that you have, because I know that you have only been there several years, about the realization of that problem, when you realized internally you were in trouble and how you were going to go about the TSM project?

From my perspective, I would say that that is throwing resources at an organization that they just did not effectively use, and I am very reticent—it is a regular discussion up on the Hill about giving people more money when they don't properly utilize it. In this case, let's face it. We know we are dealing with the Tax Code, which Congress created, so we are giving someone else our problem. But can you briefly discuss that allocation of resources as it relates to TSM? Give us an update when you knew you had internal problems.

Mr. SUMMERS. Congressman, let me first say that in speaking about the question of the budgetary environment, I was careful to say that we operated in a low-trust, short-tethered environment because the IRS hadn't earned trust. When I spoke about more resources and I spoke about resources for a longer term, I was speaking about the need for us to earn the trust that would make that kind of provision of resources possible. Because I share your concern and that of most people up here, that until there is demonstration that resources can be spent well, they shouldn't be appropriated and allocated and they will not be sought. That is also reflected in the fact that the administration cut the budget for TSM by more than 75 percent. It cut our request for this year precisely because, given all the problems, we weren't sure the money could be used well. So we do not want resources for the sake of having resources.

On the other hand, I think you can appreciate that even the best managers in the world, with their appropriation completed partway through the fiscal year, would have difficulty managing rationally. I think there has been an awareness for a long time in this town that there were problems with the TSM project and there were constantly statements that—well, there are problems but we are getting them fixed and that was this and now it's now and we have got to go into the future, and so forth.

Frankly, when I inherited this situation as Deputy Secretary, my predecessor told me that it was something that was going to require attention because there were problems. I don't think I fully appreciated for a few months the gravity of the problems, but when I came to appreciate the gravity, working with Secretary Rubin, we did what I think were the right things.

First, we testified that the thing was way off track; second, we indicated that we were determined to bring in outside help; third, we indicated that there was a need for a change in the strategic concept toward much more use of the private sector; and, fourth, we made clear that we wanted to plan before we build instead of building before we planned, and therefore, that it was crucial that an architecture be developed along the lines of GAO recommendations; and fifth, we indicated that the steps going forward had to

be modular in nature because we couldn't take the risk of sitting back and waiting for several years to see whether something worked or not, given how much money had been spent.

We also tried to account as accurately as we could for the money that had been spent. And I will say to you, Congressman, that I don't think I've minimized the problems here today, but I think that some of the reports that suggest that somehow $4 billion was wasted really do represent substantial exaggerations. We didn't get everything we wanted out of those expenditures and there were $4- or $500 million, which is $4- or $500 million too much, that went for projects that have been discontinued. However, it is also true that a lot of equipment was modernized, many capacities were obtained, and the fact is that 4.5 million Americans were able to file their tax returns without ever coming in contact with pencil and paper simply by pushing buttons on a telephone, was a factor of the TSM project. We are increasing the use of electronic filing by 35 percent. That too is a reflection of the TSM project. Phone inquiries are being handled in a better way. That too is a reflection of the TSM project.

So it is off track. It was not managed the way it should have been. There were a lot of mistakes made, but I think to call it a $4 billion waste is to exaggerate a problem that is serious enough that it doesn't have to be exaggerated to get people's attention.

Mr. SESSIONS. Well, let me just say this, that you are the first person that I have ever heard not characterize that as a $4 billion mistake, and I am using what is often well described as a $4 billion mistake. So this is not my characterization, and I'm interested that you disagree with that.

One last question: The Y2K project as chairman of the board, do you think your organization has a handle on that?

Mr. SUMMERS. I think we are—I couldn't tell you that we've got a total handle on it. What I can tell you is that we've recognized it. We are moving on it. We have dimensioned the problem in our core business and have put in place strategies for addressing it, and we are dimensioning the other parts of the problem outside of our core systems and making decisions. In some cases it may be better to abandon systems than to try to update them for the Y2K project outside of our core business systems. That's the judgment that is being made. But what I can assure you of is that this is recognized as a stay-in-business issue, and that the IRS is one business that has to stay in business.

So it's seriousness is fully appreciated and I am sure we look forward to, and I'm sure in any event we will be asked to, report periodically to Congress on the progress that we are making and on the extent to which this problem has been dimensioned. I will say to you that I think experience in the private sector and in the public sector is that the more you know about it, the more you know there is a problem here. And then I think I have made it very clear to the people who are involved, following Secretary Rubin's lead, that we need to be very, very careful about underestimating the magnitude of this problem and we need to be able to face up to it in full. There is a situation like when you are at the airport and the planes aren't flying and they change it from 8:30 to 9:30 and what

that really means is that for sure it won't go before 9:30 and maybe at 9:30 it will become 10:30 and at 10:30 it will become noon.

I think there are dangers of the Y2K problem taking on that kind of character, so we need to be very careful to qualify the estimates that we give, to recognize that other things will be discovered, and to recognize that, you know, there are a lot of deadlines that can slip in this town but January 1st is not one of them.

Mr. SESSIONS. But as chairman of the board of this organization, you feel like you have put your attention to it?

Mr. SUMMERS. Yes. Yes, absolutely.

Mr. SESSIONS. Thank you so much, Mr. Chairman.

Mr. HORN. I thank the gentleman from Texas for his fine questions. I have just two and then you will be free. In your thinking through of what a new IRS ought to be, to what extent have you thought about using private debt collectors to collect IRS debt? Now, the background on this, what started me in this whole endeavor 2 years ago, was when I looked at what there were of financials and saw that over $100 billion had been written off since 1990, started under the Bush administration, but greatly accelerated in 1993. And then I saw there was another $64 billion they thought was collectable.

When I talked to Commissioner Richardson in my office, I said what operation do you have to collect the 64, let alone the 100, which I think is a national scandal, and there was great reluctance to even think about private debt collectors. In our bill we have a role for private debt collectors. I heard a lot of nonsense about confidentiality, and so forth. It is nonsense. Give them the number and give them the address and tell them to go out and find it and work out something, and that is better than having $100 billion written off.

So what is the thinking of the leadership of the Treasury as to what should be done in either a joint partnership where IRS might have the first 30 days, but they simply aren't getting in the money, and the private collectors's role?

Mr. SUMMERS. Following the legislation, we have moved to create a private debt collection pilot project to evaluate this. It's being done at the IRS Service Center for the Western Region. It involves five contractors who were chosen last June. The IRS provides selected cases to the contractors for collection activity. Those are cases where the IRS has been unable to locate or contact taxpayers or where the IRS has been unable to secure payment through written notices and phone calls. To respect obvious sensitivities, the IRS has suspended cases where there has been taxpayer hardship, those were not given over to the collection agents.

The private collection agencies are paid a fixed price for each successful contact when they locate somebody and also performance fees when they are able to fully close or establish an installment agreement. The pilot project as I say, has been underway since June, and it was a 1-year pilot and we will, after a year, evaluate the results, make a judgment about what the consequences have been and be prepared to report to Congress.

Mr. HORN. Maybe I am misinformed, but someone told me that in that pilot project was a lot of 5-year-old debt to be collected; is that true?

Mr. SUMMERS. I don't know.

Mr. HORN. Well, 5-year-old debt, they have long since forgotten about it is my point. It seems to me that we should have a better balance of that.

Mr. SUMMERS. We certainly would be wrong to only refer to this project debt of a kind that was particularly difficult to collect and then compare performance with overall debt collection. That would certainly be wrong.

Mr. HORN. You get the point.

Mr. SUMMERS. The instructions——

Mr. HORN. It is made to fail.

Mr. SUMMERS. Clearly there were concerns about this project, but we have given a very strong instruction to the IRS and I will ask for a report that this pilot project be carried out in good faith and we all attempt to evaluate the results from it. And I would be very concerned if anything was being done that was undermining the objective of doing an honest pilot.

Mr. HORN. Last question. How much concern does the Secretary or the Deputy Secretary have about the fraud GAO has found in the earned income tax credit? Are you worried about that? This is one of the greater fraudulent programs of America. People are adding dependents that don't exist and all the rest of it. What are the plans of the Treasury to do something about it?

Mr. SUMMERS. This is a very serious problem. It is, I think, important to understand that it is a problem that parallels the broader problem we have of tax noncompliance, people claiming false deductions, people claiming losses that they didn't have, and it occurs also in the EITC area. I don't think the EITC area stands out uniquely. We are continually working and I expect—I am not able to do it this morning, but we will be in a position to describe measures we are taking to increase penalties and to increase detection of these incidents because clearly this is something that is very, very important for us to do everything we can to discourage.

I would highlight that the ratio of administrative costs to benefits delivered in the EITC is extremely low compared to that of many, many other Government programs, and it may well be necessary to take further steps to address this problem because I think it is a serious one.

Mr. HORN. Well, I appreciate that, and if you might work it out with our staff and your staff, maybe we can get a little elaboration in the record at this point.

Mr. Secretary, I appreciate you taking the time to come up here. I know you have a busy schedule.

Mr. SUMMERS. Thank you very much for the opportunity, Congressman.

Mr. HORN. You have done a fine job testifying and we wish you well.

Mr. SUMMERS. Thank you very much for the opportunity, Congressman.

Mr. HORN. Thank you.

We now have panel two, Commissioner Mitchell Adams of the Massachusetts Department of Revenue. Mr. Adams.

I don't know if you were in the room, Mr. Adams. The tradition is to swear in all witnesses, so if you would raise your right hand.

[Witness sworn.]

Mr. HORN. The clerk will note the witness has affirmed the oath.

It is a great pleasure to have you here. You were kind enough to call me, I think, when this act took effect and say I had made your day, so I am anxious to hear how I have made your year in the process, and I know you are doing a lot to collect, as I remember, for the dead beat dad department. You were on that issue long before the President or anybody else had talked about it, so we look toward to hearing your testimony and what progress has been made by you as a State that has set a real model in this area.

STATEMENT OF MITCHELL ADAMS, COMMISSIONER, MASSACHUSETTS DEPARTMENT OF REVENUE

Mr. ADAMS. Thank you, Chairman Horn and members of the subcommittee. It is a pleasure for me to be here this morning. I would like to talk a little bit about how we collect debts in Massachusetts and the experience in the Department of Revenue, and also make some comments about studies in work we have done in the area of defaulted student loans.

Massachusetts Department of Revenue has fully downsized 30 percent in the last 5 years. We have reduced the size of the institution from 2,100 people down to 1,500 people. While we have done this substantial downsizing, all of the performance measures at the Department of Revenue are up substantially, that is, collection of delinquent taxes is up significantly, assessments are up, refund turnaround time has been improved significantly, and the waiting time to reach a human being on our telephones, even at peak tax time, is now zero.

There are primarily two factors which contribute to this. First we have used information technology aggressively across the board essentially to convert the Department of Revenue from the paper factory that it has been into a center of digital technology to the point now where I am happy to tell you we have the reputation of being one of the most advanced tax agencies in the country, possibly in the world, in terms of information technology. The other factor is access to information. The Department of Revenue is the agency appointed under Federal law to collect quarterly employment data from all employers in the Commonwealth and so we are able to keep a data base, which is up to date and current, that has information with regard to all individuals who are on any payroll in the State.

Second, we have a program that we call "bank match," and I think it is maybe unique in the United States, whereby every financial institution and money market mutual fund has to report to the Department of Revenue quarterly with regard to all accounts that may relate to individuals who owe a tax obligation or child support debts.

Let me just make a comment—listening to Under Secretary Summers this morning, if I could, as a tax person, make the comment—that they are on the right track here. I think for the first time in a while we are seeing some progress here. They have a real CIO in Arthur Gross, whom I have met with. They have been to Massachusetts to see our imaging systems. They are on the right track in terms of outsourcing.

The only way for governments really to do a good job in obtaining computers is to get the private sector to put them in place. They have a blueprint for planning, and they have determined for the first time in a long, long time what they need to run the place is a manager.

Back to my point, just for a moment.

Let me give you an example of the standard way that collection has occurred in tax agencies in the past and child support enforcement operations. It is the standard one by one method of collecting a tax or a child support obligation where you have a collector who is after one individual, and that person, the collector, may determine that the person has—works at Acme Rug Co., or whatever it is down the road, they type up a wage attachment, put it in the U.S. mail and attach the person's wage in that fashion. We don't do it that way anymore.

We take a magnetic tape that has 100,000 child support obligors on it and we match it against our data base, which has 3 million listings of all the people employed in the Commonwealth, and wherever the computer finds a match, zap, it makes a wage attachment. It is automatic and it is done without human intervention, essentially.

To the point now—two-thirds of the $270 million a year we collect in child support comes from automated wage attachment, fully, two-thirds.

Let me turn now for a moment to a related but different subject, and that is the matter of defaulted student loans. I am referring to the Federal Government programs, the guaranteed student loan programs.

In Massachusetts, we did a study about a year ago in which we took the listing of defaulted student borrowers in the State, it was a listing of about 30,000, and we did this automatically. Of course, we had a magnetic tape and we matched it against a wage reporting data base in Massachusetts, that is the data base with 3 million employed individuals, and what we found was that 53 percent of them had paying jobs in Massachusetts. Further, our analysis indicated that if an automated wage attachment were undertaken with regard to those defaulted student borrowers, that would increase the annual amount of money collected from defaulted student loan borrowers by about 25 percent.

The study further looked at what else is going on in the United States, and we found that two States, and to my knowledge only two States, are doing this. Illinois and Pennsylvania have similar programs where they can do automated wage attachment programs, and 25 percent of their defaulted student—income from defaulted student loans comes from the automated program.

Nationally, our study indicated, and this is what the conclusion of the op-ed piece that Congresswoman Maloney was referring to, if this program were instituted nationally, it would increase collections from defaulted student borrowers to the extent of about $650 million a year. That would provide additional tuitions for about 100,000 students.

What is necessary to make this happen is the guarantee agencies in all of the States, and the Department of Education, must have access to the employment data that I referred to that is available

in Massachusetts, and what we need to do is create a Federal statute that will make that information available as quickly as it can be, because the sooner that is done, the sooner the system will have access to about $650 million of new money for student education.

Thank you very much, Mr. Chairman. I am happy to address any questions you may have.

Mr. HORN. Well, we thank you very much. You have had a splendid record before this law was passed, and I am glad to see you have used some of the things in the law and your record is still upward.

[The prepared statement of Mr. Adams follows:]

Mitchell Adams
Commissioner
Massachusetts Department of Revenue

Testimony before the
Subcommittee on Government Management, Information and Technology
of the
House Committee on Government Reform and Oversight

April 18, 1997

Chairman Horn and Subcommittee members, it is a pleasure for me to present this testimony as part of your hearings on the Debt Collection Improvement Act of 1996.

My testimony will center on the efforts of the Massachusetts Department of Revenue to collect delinquent amounts owed to it and on methods of collecting defaulted amounts owed on federally sponsored student loans in Massachusetts and in the United States.

Let me begin by giving you an overview of the Massachusetts Department of Revenue. The Department has become extremely lean and efficient over the last five years. It has down-sized almost 30 percent from over 2100 employees in 1991 to approximately 1500 at the present time. And over this period of time all the important performance measures are up significantly; audit assessments are up 37 percent; collection of delinquent taxes is up 34 percent; and refund turnaround time has improved 34 percent. In our Child Support Enforcement Division, within the Department of Revenue but separate and apart from statistics just cited, the performance has been similarly impressive. Overall collections are up 45 percent over this period, and the methods of operation and the statutory framework developed in Massachusetts have become a model for the nation.

Several factors are responsible for this performance, but two stand out. The first is that we have been aggressive in the deployment of new information technologies to transform the way work is done. We have made it our business to convert the Department of Revenue from a paper factory to a center of digital technology. We now have the reputation of being one of the most advanced tax agencies in the nation in terms of information technology. The second is ready access to critical information, in particular payroll data on all individuals employed in the state and information regarding financial assets. The Department of Revenue is the designated agency in Massachusetts, pursuant to 42 USC section 1320b-7, to collect and record quarterly reports from all employers in the state on wages paid every employee. In addition, in 1993 Massachusetts enacted a set of statutes which are considered to be the most comprehensive and toughest child support enforcement laws in the country, including provisions which require that all banks and money market mutual funds report to the Department of Revenue quarterly with regard to any accounts held by individuals with delinquent child support or tax obligations.

Our general approach to collecting debts can be best illustrated by the example of the process of wage garnishment we developed in our Child Support Enforcement Division in 1992. Prior to that time the conventional approach employed in Massachusetts and every other state was a time consuming, manual, one-on-one process in which a collector would discover the employment location of an individual owing child support, and then type up a wage levy notice and mail it or deliver it to the employer, thus attaching the debtor's pay check. The new process is very different. We compile a magnetic tape containing a listing of over 100,000 child support obligors and match it against a data base containing a listing of all 3 million individuals employed in the state, along with the name and address of the employer. Wherever the computer finds a match - zap! it dispatches a levy letter to the employer automatically garnishing the obligor's paycheck. The process is entirely automated.

The same approach is utilized in our bank levy program. In this process the computer matches the listing of obligors against our "bank match" data base which contains a listing of all bank accounts and money market mutual funds in the state. Wherever a match is found, a bank levy is automatically dispatched to the financial institution instantly, freezing that individual's account up to the amount of the tax or child support obligation.

The key to the effectiveness of these processes is the use of computers and not human beings to move mountains of data and the access to comprehensive, up-to-date data that is critical to the collection process. The results can be stunning. In child support enforcement, we collect over $250 million annually. Of this amount two thirds, or about $170 million is generated via computerized wage attachment. In addition $18 million in past due child support has been generated from automated bank levies since 1993.

I'd like to turn now to a different area of debt collection, the collection of defaulted student loans guaranteed by the federal government. Over the last decade the amount of defaulted student loans nationally has quadrupled and as of 1996 had reached approximately $25 billion. One year ago the Massachusetts Department of Revenue conducted a study into the feasibility of applying the techniques we had developed in computerized wage garnishment for child support collections in Massachusetts to the collection of defaulted student loans nationally. The core analysis of the study involved matching the list of approximately 30,000 individuals recorded as defaulters at the Massachusetts Student Loan Guarantee Agency (American Student Assistance Corporation) against the Department of Revenue's list of employment records for all wage earners in the state. The results were significant. 53 percent of listed defaulted borrowers had paying jobs in the state of Massachusetts. Further analysis demonstrated that automated wage garnishment would generate an annual increase in collections equal to about 25 percent of the amount presently received by the Massachusetts loan guarantee agency from defaulted borrowers.

Two states, Illinois and Pennsylvania, have already developed programs along this model. The student loan guarantee agencies in these states routinely conduct computer matches of their files listing defaulted borrowers against their state's data base containing comprehensive employment data. Automated systems then generate notices of wage garnishment to the work location of the defaulted borrowers. The experience in both states reflects the study we did in Massachusetts. In each the program of data matching and automated wage garnishment generates an increase in collections from defaulted student borrowers equal to approximately 25% of total collections from defaulted borrowers.

Our study estimated that if such a program were replicated nationally, the amount collected from defaulted student loan borrowers, approximately $2.5 billion annually, could increase by $625 million. These funds could be made available to meet the tuition needs of 100,000 more students each year.

Under existing federal law, the guarantee student loan agencies across the country and the Department of Education, which also collects amounts from defaulted borrowers, already have the ability to perform wage garnishment automatically, that is administratively without the action of a court. But there is a missing link. It's not possible to garnish the wages of a debtor if the collector doesn't know where the debtor works. Employment data indicating payroll information and work location, pursuant to 42 USC section 1320b-7, is housed in designated agencies in each state and, except in a handful of cases, for example Illinois, Pennsylvania and Massachusetts, cannot be shared with the guarantee agencies or the Department of Education for the purpose of collecting defaulted student loans. The missing link is a federal statute which would permit each of the guarantee agencies and the Department of Education access to the employment data kept in the state agencies.

Thank you for inviting me to testify before the Subcommittee. I would be happy to answer any questions you may have.

attachments

* Biography of Mitchell Adams
* New York Times OP-ED, September 21, 1996
* Massachusetts Department of Revenue Annual Report, FY 1996

MITCHELL ADAMS
Commissioner
Massachusetts Department of Revenue

In six years as Commissioner of the Massachusetts Department of Revenue, Mitchell Adams has significantly downsized tax administration operations while dramatically improving performance and productivity. He is responsible for implementing the award-winning tax processing programs, Imaging and Telefile.

Also during Adams' tenure, Massachusetts passed the toughest child support enforcement legislation in the country. As a result, Massachusetts serves as a model for the federal welfare reform plan.

Prior to his appointment as Commissioner of Revenue by Governor William Weld, Adams served in a variety of financial management and advisory positions in which he focused on developing systems and programs to maximize resources and revenues. As Vice Chancellor for Administration and Finance for the University of Massachusetts Medical Center in Worcester, he was the medical center's chief financial advisor. Before joining the medical center, he served four years as Dean of Finance and Business for Harvard Medical School. Commissioner Adams also served as the Budget Director for Boston's Beth Israel Hospital.

Adams, who is 52, graduated cum laude from Harvard College and received a master's degree from the Harvard Business School.

Commissioner Adams has served as President and Chairman of the Board of Boston's Handel and Haydn Society, and currently is the society's Vice President. He serves on the Board of Trustees at Pine Manor College. For 15 years he served as a member of the Harvard University Advisory Committee on the Performing Arts. He is a member of the Corporation of the Episcopal Chaplaincy at Harvard University, a member of the Boston Episcopal Charitable Society, and has served as a member of the Vestry of Saint Paul's Church in Dedham, where he lives.

1/30/97

Mr. HORN. Mrs. Maloney I know has some questions, and I yield 10 minutes to her.

Mrs. MALONEY. Thank you.

Congratulations on your pioneering successful efforts. You are familiar with our proposed legislation. If it becomes law, how will it help out the individual States?

Mr. ADAMS. With regard to defaulted student loans, I think it is very important that it happen, and it will mean that substantial funds will be generated by the Department of Education and the guarantee agencies that can be used to support educational programs.

Mrs. MALONEY. How do delinquent debtors hurt the Federal student loan program?

Mr. ADAMS. I think in a lot of ways. No. 1, substantial resources that could be made available are not made available. No. 2, it really does damage, I think, to the overall program because there is a perception—I mean, all of us know of people who default on their student loans, and it doesn't make taxpayers feel good when they know that others scoff laws and fail to meet their responsibilities. I think it dampens the enthusiasm of Congress to support the programs.

Mrs. MALONEY. You have estimated in your testimony that correcting the problem the bill we are working on addresses, would bring in $625 million annually in additional payments, enough for tuition for 100,000 more students yearly.

How did you come up with that calculation?

Mr. ADAMS. The calculation was essentially based on the evidence which indicated that, if you do an automated wage garnishment program, you will increase the annual amount that comes from—collections from defaulted student borrowers by about 25 percent. That is what the analysis showed in Massachusetts, and that is what the analysis showed in the State of Illinois and in the State of Pennsylvania as well. I believe they are the only States that have active programs going where they can have computerized wage garnishment.

They have access to the data we have talked about, and the reason they have access to it is a little bit of an anomaly. They have access because their State legislatures have passed laws saying that the State agency that collects the employment data may share it with the guarantee agency in that State, but only that guarantee agency; it is not available to other States.

Mrs. MALONEY. Did your study take into account the benefit of being able to track debtors across State lines?

Mr. ADAMS. No, it really didn't, and to that extent, I think the $625 million is conservative. I think there is more money there for that reason.

Mrs. MALONEY. And you note that 53 percent of defaulters had jobs in Massachusetts. If the law were changed, wouldn't you be able to find the other 47 percent, no matter where they lived?

Mr. ADAMS. A big portion, you are absolutely correct. Those people are working, many of them, in neighboring States.

Mrs. MALONEY. Now, Massachusetts is able to garnish the wages of everyone employed in the State through automated computer processing. How much does the State generally garnish and what

are the legal limits, and how long did it take you to develop the necessary technology to be able to support this process?

Mr. ADAMS. The technology at this point in time is not rocket science, it is not leading edge, it is pretty easy to do, and it is, as far as information technology, and as far as administrative burden, it is close to de minimis. It is pretty easy to do.

Mrs. MALONEY. Then why aren't other States doing it if it is so easy?

Mr. ADAMS. We have been kind of bold in Massachusetts in sort of going for it, and as near as I can tell, and I believe this is true in child support enforcement, we began to do this aggressively in 1993, and the limits you were asking about are prescribed by law, basically.

What you can do is garnish, I am forgetting how the rules work, but it is up to a certain percentage of the paycheck.

Mrs. MALONEY. And how much did it cost you to put into effect this program, and have you estimated how much collection costs could possibly drop or increase with this program?

Mr. ADAMS. I don't have numbers with me right now, and I certainly could get back to you with some analysis, but I don't have them right now.

But I would like to say that really what you are talking about here is so highly automated right now and we are so far beyond the point where computer systems don't talk to one another, that the administrative costs are not significant.

Essentially, what you are talking about is a tape match, and if you do a tape match and you find that in one data base there are matches with another data base, and then all you have to do is perform the software, create the software necessary to get the computer to dispatch the appropriate letters and due process and so forth, or wage attachment or whatever it is, it is not complicated nor is it expensive.

Mrs. MALONEY. Are you familiar with the Debt Collection Improvement Act, which the chairman and I worked on together and enacted into law with the administration last year?

Mr. ADAMS. I am generally familiar with it. However, it goes far beyond the area of my focus. I should know more about it.

Mrs. MALONEY. If you have any suggestions for improvement, we would be delighted to look at them.

And I just want to say, I want to congratulate you, Mr. Adams, on your pioneering effort and the significant progress Massachusetts is making in the area of debt collection. You are leading the Nation in your efforts and your expertise, and I applaud you.

I yield back the balance of my time.

Mr. HORN. I thank the gentlewoman.

Remember in our chat when this law was signed by the President, you were planning to match the tapes, I thought, outside the State of Massachusetts. Now do we not have the authority for you to do that in terms of matching the employment tapes or does that authority exist somewhere in the Federal Government?

Mr. ADAMS. No, that is the problem, it doesn't exist.

Mr. HORN. It doesn't exist.

Mr. ADAMS. We have the legal right to do that in Massachusetts.

Mr. HORN. Right. OK. When you did the garnishment, did you need additional authority from your own legislature or did you already have that as a basic existing authority in the Department of Revenue?

Mr. ADAMS. With regard to child support, it exists by virtue of Federal law. With regard to tax obligations, it exists by virtue of State law. In defaulted student loans, I believe, and I think people in the room here who might know better than I, that any guarantee agency, by virtue of Federal law since 1991, has the legal right to administratively garnish wages, that is, without the action of a court.

Mr. HORN. Are there any suggestions that you would make to the Secretary or the Deputy Secretary of the Treasury, and the IRS, as to management of the agency? Have you ever looked at their structure versus the Department of Revenue and Massachusetts, or other State tax agencies? What are the things that strike you between the two? I realize you have to get along with everybody here, so I know you have to be diplomatic, but I would like to know just what are your feelings as a professional as to how such an agency should be organized.

Mr. ADAMS. I was really taken with Deputy Secretary Summers' comments. Most of the initiatives that he is talking about taking and that they have taken are really a significant new start and they are on the right track.

Arthur Gross comes from the State of New York, as I think you may know, and is a first rate professional, and that really, I think, is the first time they have had someone at that level from outside of the agency to take a good look at how it really ought to be done, and he has not been shy in being very clear and public about where it has fouled up and how it has to be changed.

Their conclusion that they have to put significantly greater emphasis and outsourcing for information technology expertise is absolutely right on the point. They are doing a planning effort and blueprint, I understand. I guess it hasn't been released yet, but the understanding that you have to do the planning before you do the implementation is pretty basic. And then the leadership question of someone from a management background instead of a CPA or a tax lawyer is absolutely vital, and it is not a tax matter, it is a management matter.

Mr. HORN. All right. Well, thank you. I yield 10 minutes now to the gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Thank you, Mr. Chairman.

Mr. Adams, thank you for being here today. I have just a few questions. I found that your annual report is quite interesting and I would like to direct some of my comments to that annual report, if I could.

On page 18, you talk about offers in financial settlement. Can you please discuss with me, because it became—if you were here before when the discussion about how old these debts are that the Federal Government is working on, I note that you collected what would be about two-thirds of the money from these settlements that are listed here.

Can you discuss with me how old these are, what that process is?

Mr. ADAMS. Sure. Some of those are quite old. I don't have exact information. The process is one in which there is an agreement with the taxpayer to settle the obligation for less than the full amount, and it is a process which, No. 1, the attorney general of the Commonwealth has the right to void the proposed agreement within a 21-day period of time, and, No. 2, it has to be made public in that report. It is a low volume part of our operation. In other words, it is not a significant amount. The settlements are made because we conclude that it really is not feasible to get the full amount, and so it is an agreement for something else.

Mr. SESSIONS. How early in the process do your managers of the business make that evaluation? I guess what I am trying to get at is there anything I can learn from you—a two-thirds collection rate is probably pretty good and I know we are only talking about a handful of accounts, but do you make an evaluation into this process early on, a case manager, a financial manager, in order to get the money? I mean, the——

Mr. ADAMS. These settlements are really ad hoc and they are all kind of a one-on-one kind of situation, and the taxpayer comes to us and makes an offer, mainly.

Mr. SESSIONS. So these probably are old accounts.

Mr. ADAMS. They are old accounts, yes.

Mr. SESSIONS. All right. Sir, I sit on the Banking and Financial Services Committee, and several weeks ago, I had an opportunity to talk with Chairman Greenspan about bankruptcy matters in this country, and I am seeing a trend, not only in the amount of money in bankruptcy, but trying to make an evaluation of the process, in other words, when a person takes bankruptcy, Chapter 7, Chapter 11, Chapter 13.

Can you give me any feedback from your managerial experience in Massachusetts, is the Federal law and that bankruptcy process having an impact on you? And do you see a—I would like your overall evaluation of that because I think that at some point you are having to look at that with the money you collect.

Mr. ADAMS. I am really not able to be helpful right now. It is not a significant issue for us right now and I wish I could make a helpful comment, but, honestly, I can't.

Mr. SESSIONS. I applaud you for your efforts.

Mr. Chairman, that is the extent of my comments. And, sir, I apologize, but I have another appointment and I will be leaving.

Mr. HORN. OK. Thank you very much for your helpful questions.

Commissioner, let me just ask, do you report directly to the Governor?

Mr. ADAMS. I have a joint appointment between the Governor and the Secretary of Administration and Finance.

Mr. HORN. I see, because you heard my question, probably, should the IRS be an independent agency? Do you have any feelings as you look across the country at State commissioners of revenue, as to how is an effective way to set up such a revenue with collection and administration entity?

Mr. ADAMS. My belief is that all of them—none of them is a separate entity. I think I am right in that.

Mr. HORN. So they are all somewhere related to either the Governor, directly, as a separate entity, would also be related to the

President, just as the National Science Foundation, the National Aeronautics Space Administration. These are all independent agencies. They can't just do anything they want. They have to go to OMB for policy direction, management, so forth, budget examination.

But I am just wondering what the practices were, if we can pursue it at the staff level, and what your thoughts were on that.

Mr. ADAMS. Well, with regard to the States, I believe that all of them are simply a part of the executive.

Mr. HORN. Right, reporting to the Governor.

Mr. ADAMS. Yes, absolutely. That is my understanding.

Mr. HORN. In some States, they obviously could have a super cabinet Secretary.

Mr. ADAMS. Right.

Mr. HORN. Do you have any other advice for us as you listen to this discussion this morning?

Mr. ADAMS. I really don't.

Mr. HORN. Well, I will tell you, Commissioner, yours is the best report I have seen in any Government agency anywhere, State, local, national, in terms of easy readability, and I would like it to be in the record at this point, if we can reproduce these things, which is dubious in the Federal Government, but that is a marvelous report.

Did you win any awards from any State society? You should have.

Mr. ADAMS. Thank you.

[Note.—The Massachusetts Department of Revenue Annual Report may be found in subcommittee files.]

Mr. HORN. Well, we thank you very much for coming. Your testimony and your administration of the law, as it applies to the State, has been most helpful. We do hope the Ways and Means Committee will get a matching legislation, they say they want to, that relates to our bill. That is the one piece missing and it is the piece that got me going in this thing. Anyhow, we thank you for coming.

Mr. ADAMS. Thank you very much.

Mr. HORN. We now have panel three, and panel three, Mr. Koskinen, Mr. Hawke and Mr. Murphy.

As you know, gentlemen, maybe you want to move down. If you will raise your right hands, gentlemen.

Mr. HORN. Mr. Koskinen, I take it you affirmed that, too.

Mr. KOSKINEN. Yes.

[Witnesses sworn.]

Mr. HORN. The clerk will note all three witnesses have affirmed.

We will start with Mr. Koskinen, Deputy Director, Office of Management and Budget.

STATEMENT OF JOHN KOSKINEN, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. KOSKINEN. Thank you, Mr. Chairman, and distinguished members of the Subcommittee on Government Management, Information, and Technology. I am pleased to appear before you today with the Treasury Department, which is responsible for implementing many of the core provisions of the Debt Collection Improvement Act.

With your permission, I will summarize my prepared statement and submit my complete testimony for the record.

Mr. HORN. All of the statements are put in automatically.

Mr. KOSKINEN. Thank you.

I must apologize in advance, as I explained to your staff last night when we established this hearing, we scheduled my testimony at 9:30 and I must leave for another engagement at 11:45.

Mr. HORN. Don't worry, we will have plenty of time.

Mr. KOSKINEN. I have been here before and I know how long we go sometimes.

Mr. HORN. Right. I have to catch a plane at 3, so that is fine.

Mr. KOSKINEN. I am sure the next panel feels much better.

The Debt Collection Improvement Act was signed into law almost 1 year ago. It was a result of a bipartisan effort in Congress to reform the management of Federal nontax receivables. The administration appreciates the leadership and efforts of the chairman and the ranking member of this subcommittee in obtaining passage of this act. Your sponsorship was instrumental in giving agencies modern management tools for their credit programs and other nontax receivables.

The management of Federal credit programs is basically the responsibility of each agency. However, a major tenet of the act is that when agencies work together to prevent and collect delinquent debts, loan recipients and taxpayers will benefit, and public confidence in the Federal Government's management of cash and loan assets will increase. Since enactment, the Chief Financial Officers' Council and the Federal Credit Policy Working Group have been monitoring the implementation of the act. As chairman of these interagency groups, which were instrumental in developing the act, I think it is clear that the Treasury Department and the major debt collection agencies are making real progress in implementing the act.

The rate of implementation varies by agency, due to differences in program requirements and operational issues. However, there is no question agencies are committed to working together in using the authorities in the act.

Our experience—not unlike the private sector or the State of Massachusetts, from which you just heard—is that a debt that is delinquent for more than 1 year is uncollectible without the use of special collection tools such as offsets, referral to private collection agencies and litigation. In 1996, more than $3 billion was collected through offsets, private collection agencies, and litigation.

The act significantly improves the ability of the Departments of Treasury and Justice, along with loan making agencies, to maximize collection of delinquent debts by ensuring quick action, such as sharing payment and collection information between agencies when an account is over 180 days overdue. Also, agencies have a range of new tools for improving credit collection and performance. In the President's 1998 budget, several of these tools were highlighted as administration management priorities.

First, we need to obtain higher recoveries on delinquencies within enhanced payment offset. Next, we are focused on lowering the cost of program administration. The act encourages agencies to use the private sector to contact delinquent debtors as well as private

attorneys to support Justice Department litigation enforcement of past due claims. A new governmentwide contract to acquire private sector debt collection services is nearing completion by the Treasury Department.

We also need to take advantage of the authority for gainsharing for increased collections. The act allows agencies to keep up to 5 percent of any increase in their collections and to use the funds on improved credit management and debt collection. The Small Business Administration, the Environmental Protection Agency, the Department of Health and Human Services, and the Federal Emergency Management Agency are piloting this authority, and their requests are included in the President's 1998 budget.

Finally, we are focused on the need for coordinated and expedited asset sales. The act encourages agencies to sell loan assets when the Federal Government will benefit financially. Both performing and nonperforming loan assets have been sold successfully by Federal agencies. The Federal Credit Policy Working Group has formed a subcommittee to identify successful loan sales practices and to assist agencies that are considering asset sales.

The challenges to speedy implementation of the act include organizing and training personnel, revising procedures, issuing new regulations, notifying debtors, upgrading systems, and modifying reporting requirements. The need to upgrade and enhance systems is proving to be the most challenging obstacle, especially for interagency debt collection system requirements that must be synchronized to track and report on referred accounts.

Most agency systems will require some modification to identify debt to be referred to Treasury for offset. During the next year, the Office of Management and Budget, working closely with the Chief Financial Officers Council and the Federal Credit Policy Working Group, will continue to support interagency efforts to improve receivables management information systems.

In a time of fiscal constraint and tightly budgeted staff resources, Treasury and the major receivables management agencies face many operational and systems challenges. The development of the governmentwide approach to receivables management is a formidable task. We look forward to continuing to work with you and the Congress in meeting these challenges and implementing this significant legislation.

Mr. Chairman, that concludes my summary.

[The prepared statement of Mr. Koskinen follows:]

OFFICE OF MANAGEMENT AND BUDGET
STATEMENT OF JOHN KOSKINEN
DEPUTY DIRECTOR FOR MANAGEMENT
BEFORE THE
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY

APRIL 18, 1997

Mr. Chairman and distinguished members of the Subcommittee on Government Management, Information, and Technology, I am pleased to appear before you today with the Treasury Department which is responsible for implementing many of the core provisions in the Debt Collection Improvement Act (DCIA). The Department of Treasury has been working very closely with the Federal Credit Policy Working Group, the Chief Financial Officers, Department of Justice and the program agencies to implement the administrative offset and debt collection methods authorized by the Act. My colleagues from the Treasury Department will provide you many of the specifics on implementation.

The Debt Collection Improvement Act was signed into law almost one year ago. It was the result of a bipartisan effort in Congress to reform the management of Federal non-tax receivables. The Administration appreciates the leadership and efforts of the Chairman and the ranking member in obtaining passage of this Act. Your sponsorship was instrumental in giving agencies modern management tools for their credit programs and other non-tax receivables.

Interagency Cooperation

The management of Federal credit programs is basically the responsibility of each agency. However, a major tenet of the Act is that, when agencies work together to prevent and collect delinquent debt, loan recipients and taxpayers will benefit, and public confidence in the Federal government's management of cash and loan assets will increase. Since enactment, the Chief Financial Officers' Council and the Federal Credit Policy Working Group have been monitoring the implementation of the Act. As the chairman of these interagency groups which were instrumental in development of the Act, I think it is clear that Treasury and the major debt collection agencies are making real progress in implementing the Act.

The rate of implementation varies by agency due to differences in program requirements and operational issues. However, there is no question that agencies are committed to working together in using the authorities in the Act.

Overall Trends

Federal loan and cash assistance programs benefit tens of millions of Americans. At the end of Fiscal Year 1996, total non-tax receivables totaled $252 billion. Of the total, $204 billion are loan receivables. Receivables due for civil monetary penalties, grant overpayments, audit disallowances, royalties, and insurance premiums totaled $48 billion.

Of the total $252 billion in receivables, $51 billion was delinquent in Fiscal Year 1996. Compared to 1995, there was no growth in delinquencies in 1996. From 1990 through 1995, delinquent debt increased by over 10 percent. Delinquent receivables more than one year old totaled $42 billion, a slight decrease since 1995.

Our experience, not unlike the private sector, is that a debt that is delinquent for more than one year is uncollectible without the use of special collection tools such as offset and referral to private collection agencies and litigation. In 1996, more than $3 billion was collected through offset, private collection agencies, and litigation.

Priorities

The Act significantly improves the ability of the Departments of Treasury and Justice, along with loan making agencies, to maximize collection of delinquent debt by ensuring quick action, such as sharing payment and collection information between agencies when an account is over 180 days overdue. Also, agencies have a range of new tools for improving credit program and debt collection performance. In the President's 1998 Budget, several of these tools were highlighted as Administration management priorities:

- *Obtain higher recoveries on delinquencies with enhanced payment offset*: The Act requires that all disbursing agencies withhold and offset Federal payment to those who are delinquent on loans from the Federal Government. Implementation of this provision is a top priority for monitoring by the Chief Financial Officers' Council and the Federal Credit Policy Working Group.

- *Lower cost of program administration*: The Act encourages agencies to use the private sector to contact delinquent debtors as well as private attorneys to support Justice Department litigation enforcement of past due claims. A new government-wide contract to acquire private sector debt collection services is nearing completion by the Treasury Department.

- *Gainsharing for increased collections*: The Act allows agencies to keep up to 5 percent of any increase in their collections and to use the funds on improved credit management and debt collection. The Small Business Administration, the Environmental Protection Agency, the Department of Health and Human Services, and the Federal Emergency

Management Agency are piloting this authority and their requests are included in the President's 1998 Budget.

- *Coordinated and expedited asset sales*: The Act encourages agencies to sell loan assets when the Federal Government will benefit financially. Both performing and non-performing loan assets have been sold successfully by the Department of Housing and Urban Development, the Department of Veterans Affairs and the Federal Deposit Insurance Corporation which now houses the asset disposition staff transferred from the Resolution Trust Corporation. The Federal Credit Policy Working Group has formed a subcommittee to identify successful loan sales practices and to assist agencies that are considering asset sales. This subcommittee is currently offering assistance to the Small Business Administration which is planning the sale of approximately $1billion in loans in 1998.

Challenges

The challenges to speedy implementation of the Act include organizing and training personnel, revising procedures, issuing new regulations, notifying debtors, upgrading systems, and modifying reporting requirements. The need to upgrade and enhance systems is proving to be most challenging, especially for interagency debt collection system requirements which must be synchronized to track and report on referred accounts.

Most agency systems will require some modification to identify debt to be referred to Treasury for offset. Agencies that consider cross-servicing or designation as a debt collection center must be adept at using all the debt collection tools. In addition, a center must have the ability to report data on portfolio performance monthly. Specifically, a debt collection center must be able to track its portfolio, by program, age of debt, dollars, referrals, and collections on a monthly basis.

Timely and reliable information on the status of each account is critical for agency managers in dealing with loan customers, avoiding potential losses, and improving recovery rates. For policy makers and managers, timely information is critical for reviewing performance and as an early warning of impending problems.

The implementation of the Debt Collection Improvement Act is an opportunity to upgrade systems and to improve the quality of performance information. One of the goals of the Federal Credit Reform Act of 1990 is to measure the cost of credit programs so that managers and policy makers have the information needed to accurately budget for credit programs. "Recoveries of defaulted loans" is a critical factor in estimating the costs and budgeting for credit programs. A key element of the Government Performance and Results Act is to measure actual performance against long-term objectives. Taken together, these acts serve as a mandate to improve the information management of credit and debt collection programs.

A Task Force on Credit Program Performance Indicators was created by the Federal Credit Policy Working Group to review the information requirements of each act related to loan programs. The Task Force established a framework for agencies to integrate the requirements of these acts and to measure performance using a set of common performance indicators.

During the next year, the Office of Management and Budget working closely with the Chief Financial Officers' and the Federal Credit Policy Working Group will continue to support interagency efforts to improve their receivables management information systems.

Conclusion

In a time of fiscal constraint and tightly budgeted staff resources, Treasury and the major receivables management agencies face many operational and systems challenges. The development of a government-wide approach to receivables management is a formidable task. We look forward to continuing to work with you and the Congress in meeting these challenges and implementing this significant legislation.

Mr. Chairman, this concludes my statement. I'd be pleased to take any questions you may have.

Mr. HORN. I think I am going to, given your time situation, start in on the questioning with you and then we will hear the Treasury officials after that.

As I looked at the testimony, and I read a lot of it last night—I did not have your statement at the time—I am reminded of my favorite television show, which is "Yes, Minister and, Yes, Prime Minister," which hasn't been broadcast in this country much lately, but it stops the House of Commons whenever it is broadcast in England, and the leading civil servant in that great show is Humphrey Urbane, sophisticated and running circles around the political appointee. May I say, and I am sort of reminded here that everybody is saying we have done a wonderful job but we haven't collected very much, and Humphrey would say, Mr. Minister, we agree with this in principle, but nothing is happening.

Now, that is what worries me here. Let me read you a quote. It is passed anonymously to the committee:

> As the Financial Management Service provided technical assistance to agencies, the Office of Management and Budget took the lead to ensure implementation of the Debt Collection Act of 1982 in the follow-on measures, and we are of course one of the follow-on measures. OMB has little role in the Debt Collection Improvement Act and the Financial Management Service lacks implementation muscle due to its lack of budgetary authority.
>
> Federal agencies do not have an incentive for compliance with the Debt Collection Improvement Act. Most agencies will resist sending accounts to Treasury and the loss of the debt collection function, thus, defending their turf.
>
> OMB supports the Debt Collection Improvement Act but the program examiners who exercise the muscle in OMB are not involved. This neutralizes OMB in the face of strong agency resistance and sets Treasury up to squabble with agencies and get little accomplished.

What is your reaction to that?

Mr. KOSKINEN. Perhaps as Humphrey might say, I think your anonymous source is all wet. OMB is noted in that source as strongly supportive of this act. The agencies are strongly supportive of it. This is not an act imposed on the executive branch by the Congress.

As you will recall, this is an act that was generated by the agencies themselves working together as the Federal Credit Policy Working Group, and the CFO Council, along with the Inspectors General who had done studies beforehand. This was an act that the agencies were seeking to give them more authority to allow them to more effectively collect on their debt. So this act was received enthusiastically by the agencies when it was passed.

Mr. HORN. Well, it was received by the people who were concerned in finance and in budget, but has it soaked down through the system to the actual working program officer that, one, signed off on the loan and maybe doesn't want to really do much about collection? I think of the Department of Agriculture, and this is true of most agencies, true of many congressional authorized committees, that people in the Department of Agriculture—their mission is to help farmers, I understand that, I grew up on a farm, and tears come to my eyes when foreclosures occur on farms—so as this percolates down through the system, how are the program people implementing it? Do they really much care about collection that is hurting some of the friends, in some cases, in the same communities that they live?

Mr. KOSKINEN. First of all, the Federal Credit Policy Working Group is program officials of the departments, as well as their finance people. And they worked with this jointly from the start of this matter. Second, with regard to incentives, the Federal Credit Reform Act requires that subsidy rates take into account the actual performance of the credit program. So there is, built into the Credit Reform Act and the calculation of the subsidy rate, an incentive for agencies to collect on their loans and not have losses any greater than necessary.

Also, as noted, and you, Mr. Chairman, were a strong supporter of it, the agencies are provided incentives in the sense that they are allowed to keep up to 5 percent of increased collections to improve their collection efforts. Again, a provision that was strongly sought by the agencies and received with enthusiasm.

With regard to the OMB program examiners, we have a working group within OMB of program examiners, working on these matters. The meetings of the Federal Credit Policy Working Group are attended by the relevant programming examiners. The President's budget, as I noted, has improvement in debt—in collection and credit program management as its highest level. One of the directors, Director Frank Manes—management objectives for this year is to improve credit program management and debt collection. So I think there is no shortage of enthusiasm, but I will also say this is not an easy issue to implement overnight.

As noted, and you will hear from other agencies, a major obstacle is making sure the systems are able to provide data effectively, but as you will note in the Agriculture Department testimony, for instance, with reference to your note, they in fact already are referring debt to the Treasury Department. They have previously used many of the authorities available under the act, under special provisions, and no one has been more enthusiastic in working with us on this act than the Agriculture Department.

Mr. HORN. Well, that is good to hear.

By the way, Secretary Hawke, if you want to get in on this sometime.

Mr. KOSKINEN. That's right, you guys can chime in any time you like.

Mr. HORN. I am just trying to help John get out of here to his next commitment.

Mr. HAWKE. I think the Minister is doing fine.

Mr. HORN. I suspect you are correct on that.

In your capacity, Mr. Koskinen, chairman of the President's Council on Integrity and Efficiency, could you commit to making auditing for implementation of the Debt Collection Improvement Act a part of the next annual audit plan for agencies which have substantial delinquent debt?

Mr. KOSKINEN. You will be happy to know I cannot speak on behalf of the Inspectors General in terms of how they do their work. I do chair the committee and work closely with them, but each Inspector General has to set its own work plan. They are independent in that respect.

On the other hand, as I noted, this is an area that they have previously expressed interest. Their report on our debt collection activities in the agencies was a major resource for the Federal Credit

Policy Working Group, and I would expect in the major credit program agencies that these would continue to be monitored.

I would also note we have been working for the last 2 years, even before passage of the act, with the Federal Credit Policy Working Group on the development of performance measures for credit programs. The Government Performance and Results Act requires agencies generally, and departments, to have strategic plans which state not only their goals and objectives, but their performance measures. Again, in terms of incentives, I think as we get greater visibility about what is happening with these programs, we will have program managers and political officials, as well as ministers, interested in ensuring that the programs run effectively and efficiently.

Mr. HORN. Have any agencies referred to the Treasury, are there any debts for cross servicing since enactment of the Debt Collection Improvement Act?

Mr. KOSKINEN. I will let the detailed answer be provided by Mr. Murphy.

My understanding is a number of agencies have already begun to transfer debt to the Treasury, but I think Mr. Murphy can give you more details.

Mr. MURPHY. Yes, there are 12 agencies that have referred some cases to us already. The numbers are not staggering, but the system is just getting up and running and it is starting to happen. We have two agreements with other agencies, as to they are starting to refer debts to us, and we are still working with others as they try to overcome some of their system problems to get ready to do so.

Mr. HORN. That leads to my next question. Currently, as I understand the figures and correct me if this is in error, Federal agencies have transferred a mere $28.6 million, that is million with an "M," to the Financial Management Service for collection action out of the total of delinquent nontax debt of $51.3 billion, that is billion with a "B," or slightly better than $1 out of every $1,800 of delinquent debt owed the Federal Government.

My query to the Deputy Director for Management is does OMB intend to do anything to increase referrals of delinquent debts to the Financial Management Service?

Mr. KOSKINEN. As Mr. Murphy, Mr. Hawke, and I noted in our testimony, we think the process is beginning. It is complicated. We do not detect any reluctance by the agencies to make the transfers. And we are working and continuing to oversee this. We are measuring the progress they are making. We fully expect that when the Treasury's offset program is up and running full scale in January, by that time, there will be several billion dollars referred to either the Treasury or other debt collection centers.

Mr. HORN. I might add that the General Accounting Office informs us that the agencies are very reluctant so they are getting one word and you are getting the words because people like to please you, and the question is, what are we going to do about it? And my next question has to do with the role of the budget examiners, are the budget examiners making this a major item in the things they ask when budgets come before them.

We also have a Government Performance and Results Act. Will this be the collection of debt, one of the things that the government across the board, with OMB direction? Is this a result to measure what kind of agency you are?

Mr. KOSKINEN. The short answer is yes, we are working across all those frontiers. We expect, that, in the major credit agencies, the performance of their credit programs will be a significant part of their strategic plans. The testimony you have or will receive from the Department of Education, IG's office, shows that the Education Department has put debt collection as part of its strategic plan. We expect that the Federal Credit Policy Working Group and CFO Council will continue to report on performance on debt collection as we go forward.

As I noted, this is a high priority in the President's budget. It is a management priority of the director, and the program examiners are participating actively with the agencies directly through the Federal Credit Policy Working Group.

Mr. HORN. OK. So the program director, I assume, is the budget examiner, in the old days?

Mr. KOSKINEN. In the old days; they are now program examiners.

Mr. HORN. Fine. But they are going to make this part of their review of all agency budgets?

Mr. KOSKINEN. Yes.

Mr. HORN. OK. In the agency's response to the subcommittee's inquiry to the largest Federal agencies, there was scant interest among the agencies in conducting an asset sales program. As the successful experience that HUD indicated, this can be an effective way to deal with agency receivables. Is there a way to build an incentive for agencies to manage their receivables in this manner?

Mr. KOSKINEN. Yes, it is an important initiative. In my more detailed statement, I reference the fact that we have had two substantial presentations at the Federal Credit Policy Working Group on this. There is now a support group working with the Small Business Administration which is for the first time going to be engaging in significant asset sales. They are going to draw upon the expertise, not only of HUD, but of the FDIC and other agencies, that have had asset sales. What we hope to do is develop a more effective and aggressive program over time.

There has been a pilot program called the government-owned real estate sales program run by GSA and the Treasury Department, which again has been a way of trying to pool asset sale expertise. We expect that this will improve and there will be significantly more sales over the next 12 to 24 months.

Mr. HORN. My understanding is that the agencies are also not very excited about selling delinquent debts, even after the agency has given up collection action, which they are required to do.

Do you have any thoughts on agency reluctance in this regard? What can OMB do about it?

Mr. KOSKINEN. The act provides after 180 days, unless the debtor actually meets some specific statutory exemptions, it has to be referred to a debt collection agency or the Treasury Department for active collection.

We expect there will be, as I noted, more loan sales. Ultimately, the incentive for the agencies is if a loan sale is financially more

beneficial to the Government than holding, which is often the case, that will result in a lower subsidy rate and more funds available for that program. So if we can get people to understand that connection, I think they will be increasingly supportive of the importance to the Government of maximizing a return from these assets.

Mr. HORN. One or two last questions and you are a free man this morning.

According to Mr. McNamara's testimony, which we will have later, a match was performed between the IRS income records and students' Pell Grant applications, over $100 million in grants went to individuals who had lied and understated their income. This, to me, is rather remarkable. If this is a problem in one program area, can we expect similar deceptions are incurring in the programs of other agencies? What are OMB's ideas to solve the problem?

Mr. KOSKINEN. We have been focused on this issue for some time. As you know, income verification is at the height of a wide range of Government programs, not just credit programs, but grant programs, and other issues as well. It is important for us to ensure that the limited Government resources are actually being applied and made available to people who qualify for them.

There are, on the other hand, obviously substantial interests and concerns about individual privacy in terms of what information is available. But in terms of my touting here, the Federal Credit Policy Working Group, at our recent meeting, there was a discussion by different agencies of what they do for income verification, and it was noted that you can, in fact, ask applicants to waive privacy of their Internal Revenue Service records. So that, in fact, it's possible for grant recipients and loan recipients to voluntarily waive, if they want to apply for a program, any access to IRS records, which would allow you to make that match. I also think it is an important initiative to ensure, as we go forward, that we are making loans to, in fact, qualified people.

Mr. HORN. Do we really need an amendment to the law to say that would automatically be done when you are up for a Federal loan? I assume this is the Buckley Act or what are we thinking of on the Privacy Act.

Mr. KOSKINEN. There is a privacy act issue there. At this point, I am not aware of the need for legislation. As I say, we are pursuing the level of—the need for this. We think it is an important initiative and if there is a need for legislation, we will certainly advise you of that.

Mr. HORN. Well, I just suggested to staff that we need to get this on the list of things to do because it is silly to sit in a student aid office and say, well, student, will you give me access to your income filing.

The Government is giving out taxpayers' money to people to get an education. If they are lying, we shouldn't have to find out 5 years down the line or something; we should find out right then and there who is conning whom and deal with it, I don't know why we have to have a lot of paper on people signing some Privacy Act, to, in essence, commit a crime, and that is what we are perpetuating right now. So I would think we need legislation on it, rather than go down the Privacy Act route, just do it.

Now are you prepared to have OMB say it or is there some great myth here that all students are honest?

Mr. KOSKINEN. And I don't think our experience is that. At this point, as I say, we are looking into it. We are not prepared at this time to state whether or not legislation is needed.

Mr. HORN. When will you be done looking into it?

Mr. KOSKINEN. We don't have a time line.

Mr. HORN. Yes, that does sound like Humphrey. Let's keep on it. We will expect a conclusion to be raised on this and we will raise the issue with you in a letter and exchange. Let's get an answer on it, because we ought to change that. This is crazy, to pour money down drains when we can check an income tax record. Maybe they are lying there, too, at which point we have other problems, and we will hope in the reorganization of IRS, it provides for that type of investigation.

OK. We have met your need to go somewhere else. We are glad to have you come, and we appreciate your support of this act. I hope in the 6-month hearing we will hold 6 months from now there will be substantial transfers of delinquent debt to one of my favorite agencies, which is the Financial Management Service. They seem to get things done in a very efficient, orderly way, but they can't do it if they don't have the agencies send them the base material with which to operate.

Mr. KOSKINEN. I appreciate your cooperation here this morning, Mr. Chairman. Let me conclude by saying that we have been extremely pleased with the efforts of the Treasury Department and the Financial Management Service in implementing this act. As Mr. Murphy's testimony notes, they have held training sessions, and they have worked very closely with the agencies on trying to improve the systems and facilitate the progress. I think that at this point we are confident that the program will work effectively under their leadership.

Mr. HORN. Well, we thank you very much.

And now Secretary Hawke, please. I am sorry for the delay in your testimony.

STATEMENT OF JOHN D. HAWKE, JR., UNDER SECRETARY, DEPARTMENT OF TREASURY

Mr. HAWKE. Thank you, Mr. Chairman.

Mr. HORN. I want to accommodate people when I can.

Mr. HAWKE. Thank you, Mr. Chairman. I am delighted to be here today and to have this opportunity to discuss the Department's actions to implement the Debt Collection Improvement Act.

First, I would like to thank you, Mr. Chairman, and the ranking minority member, Mrs. Maloney, for your strong support of this legislation and the work that you have put in to get it passed.

The DCIA, through the establishment of new and improved debt collection tools, has redefined how Federal agencies should collect their delinquent debts. The provisions of this act will make Government debt collection more efficient and effective, resulting in improved fiscal integrity of the United States while preserving the due process rights of our citizens and treating debtors fairly.

This legislation had strong support in Congress and the executive branch because improving Government processes, making gov-

ernment more efficient, and saving taxpayers money, make good sense. The development of the legislative language contained in the act, the enactment of law, and the implementation of its provisions represent Government at its best.

Above all, this legislation represents a Government commitment to those millions of citizens who pay debts to the government in a timely and responsible way. The message that we send to them is that we will respect their integrity and conscientiousness by making every reasonable effort to assure that others who owe money to the Government discharge their obligations as well. We owe it to all of our citizens to make clear that the Government will act prudently in assuring that it recovers amounts that are due to it. To do less would be to send a very unfortunate message to those that have financial obligations to the Government.

Mr. Chairman, we at the Treasury have supported this legislative initiative from its onset and we are committed to its success. We are hoping our testimony today will assure you of our commitment.

When the legislation was initially being considered by the Congress, more than $51 billion of the $245 billion of nontaxable receivables owed to various program agencies was delinquent. Most of this debt was related to direct loans, defaulted loan guarantees, and various other forms of accounts receivable from Government operations.

At the end of 1966, the nontax receivables owed to the Federal Government had increased to $252 billion, with $51.3 billion of that amount, that is 20 percent, or $1 in $5 owed to the Government being delinquent. I think it is interesting to note, Mr. Chairman, that this amount is almost half of last year's budget deficit of $107 billion.

Mr. HORN. Right.

Mr. HAWKE. Delinquent receivables over 1 year old constitute 83 percent of the total, indicating that $4 in every $5 of delinquent debt is old and may be difficult to collect. Debts of this age are typically collected at the rate of only 25 cents on the dollar in the private sector.

Without strong commitment and cooperation across Government, from the Federal agencies, the Office of Management and Budget, Treasury, and every congressional committee that has a hand in, in the process of authorizing funding and providing oversight of programs that create debt, the volume of delinquent debt is likely to grow. If we are to get the delinquencies to a level that is considered tolerable, we must fully implement the provisions of the act and we must use them in each and every program.

We are heavily invested in showing Treasury can make a difference in this process. After all, every dollar that is not collected is a dollar that we will be responsible for borrowing to finance the Federal Government.

Between April 1996 and September 1997, a 17-month period since the passage of the act, we will have invested a substantial amount of resources into the DCIA and laying the foundation for its future operations. This was made possible through close cooperation between OMB, Treasury, our congressional appropri-

ators, and through the ability of the Financial Management Service to find funds and resources in budgets that are already very tight.

In this short time, we have built a governmentwide delinquent debtor data base, and we have already begun offsetting payments, albeit not in great magnitude, as the chairman has pointed out. We also built a basic debt management work-flow system to cross-service and collect delinquent debt that is over 180 days old through collection at FMS or through private debt collectors.

Since the passage of the act last April, our efforts have been intense and they will continue unabated. Next year we will be able to report to you that all the Government's eligible payments are subject to being offset; that all accounts over 180 days delinquent are being properly serviced; that all agencies are using the debt collection contracts in situations where Treasury and the agencies agree that they should; and that all of the needed regulations are in place.

Mr. Chairman, that concludes my remarks. Jerry Murphy, our Fiscal Assistant Secretary, who is far better able than I am to discuss the details of the program will now discuss the FMS implementation of the active agreement.

Mr. HORN. Well, thank you very much.

[The prepared statement of Mr. Hawke follows:]

EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
April 18, 1997

Undersecretary for Domestic Finance
John D. Hawke, Jr.
House Government Reform and Oversight
Subcommittee on Government Management,
Information and Technology

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here today and to have this opportunity to discuss the Department of the Treasury's actions to implement the Debt Collection Improvement Act of 1996 (DCIA).

First, I would like to thank the Chairman, the Ranking Minority Member and the other members of this Subcommittee for their support of this legislation and their hard work for its passage.

The Debt Collection Improvement Act of 1996, through the establishment of new and improved debt collection tools, has redefined how Federal agencies should collect their delinquent debts. The provisions of the DCIA will make Government debt collection more efficient and effective, resulting in improved fiscal integrity of the United States, while preserving the due process rights of our citizens and treating debtors fairly.

This legislation had strong support in Congress and the Executive branch because improving Government processes, making Government more efficient, and saving taxpayers' money makes good sense. The development of the legislative language contained in the DCIA, the enactment of the law, and the implementation of its provisions represent Government at its best.

Above all, this legislation represents a Government commitment to those millions of our citizens who pay their debts to the Government in a timely and responsible way. The message

we send to them is that we will respect their integrity and conscientiousness by making every reasonable effort to assure that others who owe money to the Government discharge their obligations as well. We owe it to all of our citizens to make clear that the Government will act prudently in assuring that it recovers amounts that are due to it. To do less would be to send a very unfortunate message to those who have financial obligations to the Government.

Mr. Chairman, we at Treasury have supported this legislative initiative from its onset and are committed to its success. We hope that our testimony today on DCIA implementation will assure you of our commitment.

When the legislation was initially being considered by Congress, more than $51 billion of the $245 billion of non-tax receivables owed to various program agencies was delinquent. Most of this debt was related to direct loans, defaulted loan guarantees and various other forms of accounts receivable from Government operations.

At the end of 1996, the nontax receivables owed to the Federal Government had increased to $252 billion with $51.3 billion of that amount, that is 20 percent, or one in five dollars owed to the Federal Government being delinquent. The delinquency rate remains largely unchanged from the prior period. Delinquent receivables over one-year old constitute 83 percent of the total--indicating that four dollars in every five of delinquent debt is old and difficult to collect. Debts of this age are typically collected at the rate of only twenty five cents on the dollar in the private sector.

Without strong commitment and cooperation across Government, from the Federal agencies, the Office of Management and Budget, Treasury, and every Congressional Committee that has a hand in the process of authorizing, funding and providing oversight of programs that create debt, the volume of delinquent debt is likely to grow. If we are to get the delinquencies to a level that is considered tolerable, we must fully implement the provisions of the DCIA and we must use them in each and every program.

We at Treasury are heavily invested in showing that Treasury can make a difference in this process. After all, every dollar that is not collected is a dollar that we will be responsible for borrowing to finance the Federal Government.

Between April 1996 and September 1997, a seventeen-month period since the passage of the DCIA, we will have invested a substantial amount of resources in implementing the DCIA. This was made possible through close cooperation between the Office of Management and Budget, Treasury, and our Congressional appropriators, and through the ability of the Financial Management Service to find funds and resources in budgets that are already tight.

In this short time, we have built a governmentwide delinquent debtor database, and we have already begun offsetting payments. We have also built a basic debt management workflow system to cross-service and collect delinquent debt that is over 180 days old through collection at Treasury's Financial Management Service or through private debt collectors.

Mr. Chairman, since passage of the Act last April, our efforts have been intense and they

will continue unabated. Next year we will be able to report to you that:

- all the Government's eligible payments are subject to being offset;
- all accounts over 180 days delinquent are being properly serviced;
- all agencies are using the debt collection contracts in situations where Treasury and the agencies agree that they should; and
- all regulations needed are in place.

Mr. Chairman, that concludes my remarks. Jerry Murphy, our Fiscal Assistant Secretary, will now discuss the Financial Management Service's implementation of the DCIA in greater detail.

-30-

Mr. HORN. Secretary Murphy.

STATEMENT OF GERALD MURPHY, ASSISTANT FISCAL SECRETARY, DEPARTMENT OF TREASURY

Mr. MURPHY. Thank you, Mr. Chairman. I also have a longer statement for the record but I will just briefly summarize the accomplishments. I appreciate this opportunity to discuss our role in the implementation of the Debt Collection Improvement Act.

Within the Department of Treasury, the Fiscal Service, and, specifically, the Financial Management Service that you mentioned a while ago has the responsibility of the debt collection provisions of the act, and we embrace those responsibilities with enthusiasm because we are uniquely qualified to accomplish that mission, and we strongly believe in the purpose and the goals of the legislation.

I'll skip to some key results because I think there has been a lot that has been accomplished that is sometimes being overlooked by some of the numbers.

We are actually conducting disbursing official offsets right now. We have an interim system to do that, and it was built quite quickly. The act, of course, provides the disbursing officials of the United States, with the authority to conduct administrative offsets to collect delinquent debts that are over 180 days old. We have developed the operational computerized system to effectuate those offsets. It was operational back in September 1996, and we began offsetting payments at that time.

While the numbers on cross-servicing aren't too high, we have about 2 million cases referred to us for offset, and they represent close to $9 billion worth. We are also merging the two offset programs, the Internal Revenue Service tax refund offset program is going to be merged into the FMS offset program effective January 1, 1998. And while that may not sound like a big deal, it's a lot of work, believe me.

We are also going to be merging the salary offset program, which has existed for a number of years, into the Treasury offset system. Even though some of these things haven't happened yet, it doesn't mean that people aren't out there collecting debts because that salary offset system is out there and they are using it—collectors that they are using and tax refund that they are using. So money is coming in.

We are also, as I mentioned earlier, doing some cross-servicing of debt. Agencies that have debts of more than 180 days old are supposed to be taking appropriate action to collect those claims or to refer them to Treasury for appropriate action.

You mentioned the $51 billion in delinquent receivables. That's true. There are a number of exceptions in the law, as you know. If they're currently being referred to Justice for litigation or to a private collector they can be offset internally within 3 years, et cetera. There are a number of those $51 billion that will never be referred to Treasury or the debt collection center necessarily.

We have set up a debt collection center within the Financial Management Service in our Birmingham office, and we are open for business and we are working with agencies to get that business in. We understand that the agencies do have a number of things that have to be done before they can participate. We believe that

they are working on those so that schedules can be agreed to when debts will actually be transferred.

We have also done a lot to inform people, provide guidance, and train our employees. We held 17 conferences between August and December of last year around the country to get to as many people as we could, not only just in Washington but in the field offices around the country, where a lot of the real work is done.

We've visited virtually every agency individually to work with staff and provide them the information that they need. We established a home page on the Internet. We have a lot of debt collection information on there, and we are getting anywhere from 500 to 3,000 hits on the home page every month. People are interested in this. They want information. They're trying to get the job done.

We've also worked on drafting a host of regulations. Those regulations cover a wide range of provisions in the act, and the majority of those will be published for comment in May or June. We have a couple of others that will come along in July or August for comment. So we have a lot of regulations in the mill. We've had to work jointly with a number of agencies on those. We've worked with Justice Department, for example, and the Department of Education on the wage garnishment draft regs. We worked with Justice on the Federal claims collection standards. We've consulted with other agencies on the various regs as well.

We've also worked on the new governmentwide debt collection contract, and that's in the procurement process. The request for proposal went out in March, and we expect to get bids on that beginning the first of May.

We are developing a public awareness campaign to inform the public, at first in a general way, about the need to repay their debts, and later in a more specific way. But the first public service advertisements on that will start appearing on radio and TV sometime in June.

Finally, I would just briefly mention our efforts to improve the collection of delinquent child support. You will be hearing more on that later from HHS, who we have worked along with the States to implement the President's Executive Order 13019. And there, again, a cooperative effort between Treasury, HHS, and the various States in partnership have been working to resolve a host of due process issues, systems issues, regulatory issues and other operational issues.

Working together, we have succeeded in resolving many of those. We are still working on some. But we have four States and the District of Columbia who have already issued notices, and we will be offsetting beginning in May for those States. Other States have systems problems they will be coming on a little later. We would expect to have them all participating by January 1998.

And internally, I'll just close by mentioning that we've taken a number of steps organizationally to make sure that DCIA receives high priority. And these include reorganizing within the Financial Management Service, setting up a brand-new assistant commissioner area for debt management services. We established the debt collection center in our Birmingham office. We've increased staff from 17 to 65 and are still adding some, and we are committing

to providing the resources necessary to implement all provisions of the act. This past year, we made significant investments in DCIA.

You mentioned the $20 million. That is our upfront investment in systems. I believe it also is our estimate as to what we will spend between now and the end of September, so we haven't spent all of that quite yet. You also mentioned that we had only collected some $300,000. That's true. That's the offset amount we received the first 3 months we had the system up, reflecting the $2.8 million from all of our tools.

Those investments that we incurred this year, however, I really expect are going to be paying dividends in the coming year. In the coming year we're going to be adding more debts and more payments into the offset system. We will be providing training and guidance for agencies so that there's a seamless transition from the tax offset program to the Treasury offset program. We are going to continue to enhance our computerized debt collection management system. We expect to award the competitive debt collection contract this summer. And we'll have increased use, I think, of the collection contract and improved collection rates from that.

There are a number of regulations, as I mentioned, and those will also be published in the coming months, as well as a rollout of our public awareness campaign.

This is a big partnership arrangement, working with all the Federal agencies and working with the 50 States. But I think we are going to be showing some measurable results in the following year.

Mr. Chairman, that concludes my remarks, and I'd be pleased to address any questions that you might have.

[The prepared statement of Mr. Murphy follows:]

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April 18, 1997

Fiscal Assistant Secretary Gerald Murphy
House Government Reform and Oversight
Subcommittee on Government Management,
Information and Technology

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here and to have this opportunity to discuss the Department of the Treasury's role in the implementation of the debt collection provisions of the Debt Collection Improvement Act of 1996 (DCIA).

Within the Department of the Treasury, the Fiscal Service and, specifically, the Financial Management Service (FMS) has the responsibility for the implementation of the debt collection provisions of the DCIA. We have embraced these responsibilities with both willingness and enthusiasm because we are uniquely situated to accomplish this mission, and because we strongly believe in the purposes and goals of the legislation.

We have been involved in the development of governmentwide debt collection policies and procedures since 1986 when FMS was designated the lead agency in the Executive branch for credit administration and debt collection under a Memorandum of Understanding with the Office of Management and Budget. Accordingly, we in the Fiscal Service are thoroughly familiar with governmentwide debt collection procedures, standards and tools.

The DCIA strengthened existing delinquent debt collection tools and created new ones. For example, centralized administrative offset conducted by disbursing officials will assure that the Federal Government doesn't pay money to delinquent debtors which could be used to pay their delinquent debts owed to the Government. Under the cross-servicing provisions of the DCIA, Federal creditor agencies will be able to obtain debt collection services from other Federal agencies which expertly collect delinquent debts as part of their regular operations. Cross-servicing will assure that delinquent debts are serviced in an efficient and cost effective manner using all appropriate debt collection tools. In addition, the schedule of debt collection

contractors that is being developed in accordance with the provisions of the DCIA will result in prompt and effective referrals to and debt collection actions from private sector debt collectors. New delinquent debt collection tools such as administrative wage garnishment, debt sales and the publication of the identities of delinquent debtors provide new methods for increasing collections on delinquent debts owed to the Government and will result in improving the fiscal integrity of the United States.

The new and improved delinquent debt collection tools created by the DCIA are being implemented by Federal agencies on a governmentwide and cooperative basis, and through the use of interagency teams. Within that framework, we at Treasury have taken the central role under the DCIA in the implementation and development of these debt collection tools.

Mr. Chairman and members of the Subcommittee, we strongly believe in the purposes and goals of the DCIA, and we share the common goal of effectively implementing the provisions of the DCIA as quickly as possible.

I can say without hesitation or qualification that Treasury is taking aggressive action to implement the numerous provisions of DCIA. We have assumed responsibility where the DCIA has placed responsibility upon us, and we are moving forward in a logical and organized manner.

I would like to point out specific programmatic initiatives Treasury has taken to ensure implementation of the law:

Treasury Offset Program

- FMS has established an operational Treasury Offset Program (TOP) system that began executing offsets under the DCIA in September 1996. We would be remiss not to acknowledge the Federal Reserve Bank in San Francisco, our partner in the development of the system. Over $300,000 was collected in calendar year 1996, and currently 10 agencies have submitted debts into TOP for collection.

- Two Treasury bureaus, FMS and the Internal Revenue Service (IRS), entered into an agreement on August 30, 1996, to merge the tax refund offset program into TOP, creating a single offset program within Treasury for the collection of nontax debts owed to the Government. IRS and FMS personnel are currently working to make the merger operationally effective on January 1, 1998.

- FMS and IRS also are revising the tax refund offset regulations to make them consistent with the processes under the merged program. FMS and IRS have developed a draft interim rule, and the target date for publication of this draft rule is next month.

- FMS and HHS are developing procedures for the inclusion of past-due child support debts into TOP pursuant to the DCIA and the President's Executive Order No. 13019, dated September 28, 1996. This will result in the collection of past-due child support by

offsetting eligible Federal payments, in addition to tax refunds which currently are offset to collect past-due child support.

- FMS is working with the Office of Personnel Management to bring the existing Federal Salary Offset Program into TOP in late 1997.

- FMS issued standard operating procedures entitled "Delinquent Federal Debts into the Treasury Offset Program" (January 1997) and "Standards for Exemption of Federal Payments into the Treasury Offset Program" (January 1997). These standard operating procedures have been distributed to the Federal agencies and other interested parties.

Cross-servicing

- FMS has also established a baseline computerized debt collection workflow system that became operational in September 1996. FMS is using this system to perform its cross-servicing functions. The system identifies and prompts Federal debt collectors to take the next appropriate action in a timely manner to enforce recovery on a debt. Additional enhancements are being identified and developed.

- FMS developed a brief instruction letter detailing the procedures and the responsibilities of FMS and Federal creditor agencies for cross-servicing, and has provided this letter to creditor agencies. Currently, 15 agencies have signed letters agreeing to these terms, and 13 agencies have submitted debts to FMS for cross-servicing.

- FMS has collected $833 thousand as of March 31, 1997, through cross-servicing. FMS is using all appropriate debt collection tools including sending demand letters, using the General Services Administration (GSA) schedule of contractors for debt collection services, submitting debts into TOP, reporting debts to credit bureaus, and forwarding debts to Justice for litigation. FMS has had a 30 percent success rate in collecting delinquent pre-judgment debt.

To implement both TOP and cross-servicing, FMS has published in the Federal Register notices amending its Privacy Act systems of records to permit maintenance of information and disclosures contemplated under the DCIA. FMS has also developed a procedure for meeting the computer matching requirements under TOP, and has published a Notice of Matching Program which is necessary under the Computer Matching and Privacy Protection Act of 1988. We would also note that FMS has provided guidance to other agencies regarding Privacy Act and Computer Matching Act questions.

Treasury In Partnership with Other Federal Agencies

Treasury is a key partner in the Office of Management and Budget's Chief Financial Officer's Council and OMB's Federal Credit Policy Work Group, and has worked within these two organizations to further governmentwide implementation of the DCIA. Treasury has also been very active in establishing other partnerships with Federal agencies to implement the DCIA. Some of these other partnerships have been formalized by law, Memoranda of

Understanding and Executive Order, and others are less formally established. All of these partnerships have proven to be and will continue to be a key part of the strategy to fully implement the DCIA.

There are some partnerships which have no formal agreements or terms, but truly evidence the commitment by the Fiscal Service, FMS and its employees to implement the DCIA. These partnerships were established at the staff level with employees of different Federal agencies to cooperate in work efforts and achieve the best and most efficient results in implementation of the DCIA. We at the Fiscal Service are proud of our employees who participate in these partnerships and wish to publicly commend the employees of other Federal agencies who work with us and share the same spirit.

The following are some of our partnership activities and accomplishments:

Training and Communication

- Treasury has taken the lead in communicating to the agencies the existence of the DCIA, interpreting its provisions and informing agencies of their own responsibilities under the DCIA. Between August and December 1996, FMS conducted 17 conferences nationwide concerning content and implementation of the DCIA. FMS also prepared written responses to frequently asked questions concerning the DCIA and distributed this document at the conferences, and circulated a list of contacts within FMS available to answer specific questions concerning the DCIA. We would like to publicly acknowledge the assistance we received from the Department of Justice in this endeavor and thank their employees who served as speakers and disseminated additional debt collection information at our conferences.

- FMS visited almost every Federal agency directly to discuss the DCIA's requirements concerning administrative offset and cross-servicing; and how agencies operationally could meet the requirements of the DCIA concerning these two functions.

- FMS answered numerous other questions and concerns on a daily basis regarding implementation of the DCIA including Privacy Act issues, Computer Matching Act issues, and the interrelationship of agency specific laws and regulations with the DCIA.

- To provide electronic access to information concerning the DCIA, FMS established a home page on the Internet [at http://www.fms.treas.gov/debt/dms.html] and has made available to the public its publications and other relevant information concerning the DCIA.

TOP Implementation

- FMS has established interagency workgroups with Postal Service and the DoD to develop effective methods to share information and conduct offsets by all Government disbursing officials as contemplated under the DCIA.

- The DCIA provides authority to collect delinquent child support debts by administrative offset of Federal payments. On September 28, 1996, the President signed Executive Order 13019, "Supporting Families: Collecting Delinquent Child Support Obligations." The Executive Order tasked both the Treasury and the Department of Health and Human Services (HHS) to take prompt action to initiate administrative offset. Officials at Treasury, FMS and HHS, in partnership, have been working aggressively to implement the DCIA provisions and the President's directive.

- Treasury is working with the Office of Management and Budget and the large credit granting agencies to establish debt sales programs for appropriate debt portfolios.

- Treasury is developing regulations in consultation and in partnership with other affected Federal agencies. Our regulatory partnerships shall be discussed in greater detail under the regulatory agenda portion of this testimony.

Utilization of Private Sector Expertise

Treasury is tasked under the DCIA to establish and maintain a schedule of debt collection contractors. To accomplish this task, FMS published a Request for Proposal (RFP) on March 11, 1997. The RFP, which contains many new and unique terms designed to increase contractor competition and agency use, was developed by FMS staff based on the examination and analysis of current debt collection contracts in effect at GSA and the Department of Education. Further, before issuance of the RFP, FMS published a Request For Comment which generated over 450 comments and questions from the private sector. These comments were analyzed and answered, with appropriate changes being incorporated in the RFP. Contract award is anticipated to take place in August 1997. In the interim, Treasury is coordinating with GSA to assure that governmentwide debt collection services offered under the existing GSA contract remain in effect until the new contract is in effect.

To ensure that the public is fully informed of the Federal Government's debt collection policies and that debtors are aware of their financial obligations to repay amounts owed, FMS initiated development and implementation of a public awareness campaign to inform the public of the implications of the DCIA and encourage voluntary repayment of delinquent debts. FMS awarded the contract in September 1996 to develop and implement the campaign, and creative concepts are currently being considered. Advertisements under the campaign are scheduled to begin in June 1997.

Treasury's Role in Promulgating Regulations

FMS is in the process of developing all the major regulations needed to implement the DCIA. FMS has issued guidance documents where formal regulations are not specifically

needed. FMS is also developing regulations in consultation and partnership with affected agencies. Below we have detailed the current state of development of each of the major regulatory actions, and have provided targets for publication. It should be realized that all our target dates are aggressive, that is, to meet these targets we will have to work closely with the affected agencies, as well as the Office of Management and Budget through the clearance process.

Federal Claims Collection Standards

- The Federal Claims Collection Standards (FCCS) were last published in 1984 by the Department of Justice and the General Accounting Office. The FCCS provide guidance to Federal agencies in drafting their own debt collection regulations. Since 1991, efforts have been underway to revise these standards, so that at the time the DCIA was enacted there existed a draft revision of the standards with program personnel at the Department of Justice. The DCIA added Treasury as a co-promulgator of the FCCS and the GAO Reform Act (October 19, 1996) removed GAO as a co-promulgator. In partnership, FMS and Department of Justice officials have modified the draft revision of the FCCS to incorporate the changes to debt collection procedures resulting from the passage of the DCIA and a proposed rule is currently going through the clearance process within both agencies. We have a target for publication of the proposed rule of May 1997, with a target for publication of the final rule as August 1997.

Regulations for the Treasury Offset Program

- FMS officials analyzed the requirements contained in the DCIA. FMS considered that authority for conducting administrative offset existed prior to the passage of the DCIA, and Federal agencies should have had regulations covering administrative offset. FMS determined that, in general, regulations published in the Federal Register specifically for disbursing official administrative offset are not statutorily necessary except in specific cases. Accordingly, as previously mentioned, FMS issued standard operating procedures concerning debts into TOP and the exemption of payments into TOP.

- For collection of delinquent child support by administrative offset, FMS, in consultation with HHS, has developed a rule which is currently in the clearance process. We have aggressively targeted publication of this interim rule for May 1997, with publication of the final rule targeted for August 1997.

- FMS is currently developing a draft rule for offset of certain benefit payments, particularly Social Security, Railroad Retirement, and Black Lung. We anticipate completing the draft and will begin consultations with the Social Security Administration, Railroad Retirement Board and the Office of Management and Budget concerning the provisions of this draft in April 1997. We have aggressively targeted publication of a proposed rule for July 1997, and publication of a final rule in October

1997.

- o FMS is currently developing a draft rule concerning the DCIA requirement that agencies include the taxpayer identifying number on all payment certification requests. This rule will ensure that taxpayer ID numbers are available to facilitate offset.

Administrative Wage Garnishment

- o FMS, after consultations with the Department of Education and the Department of Justice, has drafted a proposed rule which it is finalizing for the clearance process. We have aggressively targeted publication of the proposed rule for June 1997, and a final rule for October 1997.

Other Non-Administrative Offset Regulations

- o FMS program staff have drafted a discussion draft containing provisions governing other aspects of the DCIA including cross-servicing, obtaining taxpayer identifying numbers for persons doing business with the Government, salary offset matching, barring delinquent debtors, public dissemination of debtor information, and debt sales. We note that while some of the topics covered in this discussion draft involve rules and requirements which were effective upon passage of the DCIA and do not require Federal Register publication, FMS believes it is advisable to publish this information in a clear and coherent manner for public consideration. We intend to circulate this draft to other members of the Federal Credit Policy Working Group to elicit their comments and we have aggressively targeted publication of the proposed rule for August 1997, and the final rule for October 1997.

Internal Treasury Actions to Assure Proper Implementation of the DCIA

Last in the list of key accomplishments in implementing the provisions of the DCIA, I would like to point out that Treasury has taken organizational steps to assure that implementation of the DCIA receives high priority.

- o We have approved and implemented a reorganization plan within the Financial Management Service, our lead agency for implementing the requirements of the DCIA, creating a new Assistant Commissioner, Debt Management Services (DMS). The primary goal of this new area is to increase and improve delinquent debt collection governmentwide.

- o FMS also established a "debt collection center" in its Birmingham Regional Finance Center. Employees in that center have been given extensive training in debt servicing and collection.

o We increased staffing at Debt Management Services. At the time the DCIA passed, staffing dedicated to the FMS office involved in debt collection activities was 17. Recruitment has brought the current level of staffing to 65, and additional recruitment is underway.

These structural changes to our organization are directly in response to the passage of the DCIA. While these changes put FMS in the position of meeting current needs, it is clear that additional resources will be needed as we continue to implement the requirements of the DCIA. We are committed to supplying such resources to assure prompt, continuous and effective action in implementing all the provisions of the DCIA.

Mr. Chairman, I have detailed a long list of accomplishments, and we, along with our partners have worked hard to achieve them. While we are proud of what we have accomplished to date, we know our work is not completed.

This past year we made significant investments to implement the DCIA by:

- informing Government personnel of the existence and requirements of the DCIA;
- developing an operational cross-servicing system, creating an operational debt collection center, setting standards for debt collection centers, training personnel, and conducting cross-servicing;
- developing an operational offset system, setting operating procedures for participation in the program, and beginning offsets; and
- drafting regulations.

These investments will provide dividends in the coming year. Our expectations of achievements for the coming year are as follows:

Administrative Offset

- We will continue to operate the administrative offset system and continue our efforts with our fellow agencies to assist them in incorporating their debts into the system;

- We will continue our partnership efforts to add Federal payments into the offset process;

- We will begin collecting child support debts by administrative offset;

- We will be publishing regulations concerning administrative offset to collect child support, movement of the operational responsibility of tax refund offset from IRS to FMS, and offset of certain benefit payments;

- We will conduct an inter-agency workshop and provide follow-up guidance for Federal agencies that are participating in tax refund offset to assure the seamless transition of the program to FMS effective January 1, 1998; and

- We will continue our partnerships with Department of Defense and Postal Service for the purpose of initiating offsets of their respective payments no later than January 1, 1998.

Cross-servicing

- We will continue to develop our basic computerized debt collection management system, making the necessary enhancements to implement all the provisions of the DCIA;
- We will continue to service and collect debts currently referred to us, and to help other agencies refer debts to FMS as required by law; and
- We will award a competitive debt collection contract which will result in increased use and improved collection rates over the current governmentwide debt collection contract in effect.

Wage Garnishment

- We will publish a regulation establishing requirements for conducting administrative wage garnishment; and
- We will develop procedures and processes to implement wage garnishment as a debt collection tool.

Other DCIA responsibilities

- We, in partnership with the Department of Justice, will publish the Federal Claims Collections Standards;
- We will publish a regulation covering DCIA topics other than offset and administrative wage garnishment;
- We will begin a comprehensive public awareness campaign and analyze its effectiveness; and
- We will revise and update Treasury publications and guides to reflect revisions to governmentwide debt collection procedures and processes resulting from the enactment and implementation of the DCIA

Finally, Mr. Chairman and distinguished members, while we have more than a full agenda of work, we will remain open and flexible to assist our fellow agencies in new debt collection initiatives and efficiencies which may arise in the upcoming year.

Thank you, Mr. Chairman This concludes my remarks this morning. I would be pleased to address any questions regarding the implementation of this legislation or our debt

collection efforts that you or other Members of the Subcommittee may have.

Mr. HORN. Well, thank you both for that very thorough testimony, I appreciate it. I did have a chance to read both of your statements last night.

Let me just note at this point I'd like to put in the record the letter from Secretary Rubin addressed to me dated April 14th, it is the summary of the major efforts made by Treasury to improve Federal debt collection and implement the Debts Collection Improvement Act. So this will be, without objection, part of the record.

[The letter referred to follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 14, 1997

The Honorable Stephen Horn
Chairman, Subcommittee on Government Management,
Information, and Technology
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, DC 20515-6143

Dear Mr. Chairman:

Thank you for your letter on Treasury's implementation of the Debt Collection Improvement Act of 1996 (DCIA).

Treasury helped initiate the proposal which became the DCIA in 1995 as one of Treasury's reinvention initiatives, and forwarded the original bill to Congress on June 23, 1995 for consideration. Treasury supported the bill through the legislative process, and Treasury officials testified in favor of the legislation's passage before your Subcommittee on September 8, 1995. Treasury's support for the DCIA and its intent to implement fully the law have not wavered.

Treasury will continue to take aggressive action, in partnership with other Federal agencies and the private sector, to implement fully the provisions of the DCIA.

Enclosed are some of the major efforts Treasury has made since the passage of the DCIA to improve governmentwide debt collection and implement the DCIA. Also enclosed are responses to the specific concerns you raised in your letter, and a listing of major implementation milestones. Thank you for your continued interest in this program.

Sincerely,

Bob R

Robert E. Rubin

Enclosure

Enclosure

PART I - Summary of the Major Efforts Made by Treasury to Improve Federal Debt Collection and Implement the DCIA

A. Treasury has committed resources to implement the DCIA. The Financial Management Service (FMS), a Treasury bureau, has the responsibility for implementation of the debt collection provisions of the DCIA. In order to effectively implement the requirements of the DCIA, FMS has established (with approval by the Treasury's Departmental Offices) an Assistant Commissioner area dedicated to Debt Management Services. Staffing for this area has increased from 17 at the time of passage of the DCIA, to its current level of 65 (exclusive of staff in the Birmingham Financial Center), and additional recruitment is underway.

B. As a direct result of the passage of the DCIA, on August 30, 1996, two Treasury bureaus, FMS and the Internal Revenue Service (IRS), reached agreement to transfer operation of the tax refund offset program from IRS to FMS for merger with the administrative offset program. The DCIA clarified that FMS could operate the tax refund offset program, and the merger furthers the underlying intent of the DCIA to centralize all types of offset. Officials at IRS and FMS have been working cooperatively to assure seamless transfer of the program on January 1, 1998.

C. FMS has established a "debt collection center" in its Birmingham Financial Center. FMS has also developed and put into operation a basic, efficient and effective debt collection management system, which became operational in September 1996. Currently, 10 non-Treasury agencies have submitted debts to FMS for cross-servicing, and our current collection rate on pre-judgment debt is 30 percent. Enhancements to the basic system are also under development.

D. FMS, in partnership with the Federal Reserve Bank in San Francisco, has established an operational administrative offset system which has executed offsets under the DCIA beginning September 1996. Enhancements to the system are under development. Over $300,000 was collected in calendar year 1996, and currently 6 non-Treasury agencies have submitted debts for collection in the Treasury Offset Program.

E. FMS has entered into an agreement with the Federal Communications Commission (FCC) to provide debt servicing on debts resulting from auctions of airwaves for wireless communications. Currently, FMS is providing such services for over 1000 debts totaling in excess of $8.7 billion.

F. FMS has provided extensive communications, in general, to Federal agencies concerning the enactment of the DCIA, interpretations of its provisions, and agency responsibilities under the DCIA. Such communications include (a) holding 17 conferences nationwide from August through December 1996 on the DCIA and its implications; (b) preparing written responses to frequently asked questions concerning the DCIA (July 1996) for distribution; and (c) establishing a home page on the Internet at http://www.fms.treas.gov/debt/dms.html, which contains policy, procedures, standards, the Debt Collection Services Solicitation, and other relevant documents.

G. FMS representatives have directly visited almost all Federal agencies to discuss (1) the requirements contained in the DCIA concerning referral of debts for administrative offset and cross-servicing, and (2) how agencies can operationally comply with the legislative requirements concerning cross-servicing and administrative offset.

H. The DCIA provides authority for collection of delinquent child support debts by administrative offset. On September 28, 1996, the President issued Executive Order 13019, "Supporting Families: Collecting Delinquent Child Support Obligations" (Executive Order). The Executive Order instructed Treasury and the Department of Health and Human Services (HHS) promptly to take action to collect such debts by administrative offset. Officials at HHS, our Departmental Offices, and FMS have been working tirelessly to implement this provision of the DCIA and the President's directive.

I. FMS is developing a Comprehensive Public Awareness Campaign to inform the public of the implications of the DCIA. FMS awarded the contract in September 1996, and broadcasting of advertisements under this campaign are scheduled to begin in June 1997.

PART II - Response to Concerns Regarding Implementation of the DCIA

A. Coordination, Across the Federal Government, of Sending Demand Letters

While the DCIA contains no specific responsibility on this matter, FMS has developed a sample letter which FMS uses in connection with cross-servicing for Federal agencies. This letter has resulted in a collection rate of 30 percent, in part because the letter is issued under Treasury letterhead. While FMS has provided guidance to other Federal agencies in drafting their demand letters, we wish to note that each agency should tailor their demand letters to agency specific regulations and agency specific debts.

B. Promulgating Regulations

FMS has developed a regulatory strategy, and is developing the necessary regulations to facilitate implementation of the DCIA. Below we have detailed the current status of development of each of the major regulatory actions.

Federal Claims Collection Standards -

These standards, formerly published jointly by the Department of Justice and the General Accounting Office, are now the responsibility of Treasury and Justice as a result of the DCIA and the GAO Act (October 19, 1996). These regulations are standards which agencies use in developing their own debt collection regulations. In cooperation with program staff of the Department of Justice, FMS personnel incorporated necessary changes resulting from the enactment of the DCIA to a draft revision of the FCCS which existed prior to DCIA. These amendments, which now incorporate provisions concerning administrative offset by disbursing officials and cross-servicing, are currently in the clearance process within Treasury and Justice. The target date for publication of the proposed amendment is May 1997, and the target date for the final rule is August 1997.

Non-Administrative Offset Regulations -

FMS program staff have written a discussion draft containing

non-Administrative Offset regulations. This draft contains regulations and standards for cross-servicing, obtaining taxpayer identifying numbers for persons doing business with the Government, salary offset matching, barring delinquent debtors, public dissemination of the identity of debtors, and debt sales. While some of the topics covered in this draft were effective upon the passage of the DCIA and can be implemented without regulations, FMS believes the publication of regulations would add clarity and would be prudent. FMS has targeted publication of the proposed rule for August 1997, and October 1997 for the final rule.

Administrative Offset Authority -

Authority to conduct administrative offset existed prior to the passage of the DCIA, and agencies have administrative offset regulations. FMS has issued the Standard Operating Procedures concerning Delinquent Federal Debts into the Treasury Offset Program (January 1997) and Standards for Exemption of Federal Payments into the Treasury Offset Program (January 1997). In addition, FMS is drafting regulations as necessary, or as may be prudent, to facilitate centralized, governmentwide offset under the DCIA.

For collection of child support, FMS, in cooperation with HHS, has developed a regulation currently in the clearance process within Treasury. The target date for publication of this interim rule is May 1997, with publication of the final rule targeted for late August 1997.

For the transfer of the tax refund offset program from IRS to FMS, a draft rule has been in development between IRS and FMS. Target dates for publication of this rule are (1) interim rule with request for comments, May 1997, and (2) final rule, August 1997.

FMS is currently developing a draft rule for offset of certain benefit payments, including Social Security, Railroad Retirement, and Black Lung benefits. These rules will be promulgated in consultation with the Social Security Administration, the Railroad Retirement Board, and the Office of Management and Budget. Our target dates for publication of these rules are (1) proposed rule, July 1997,

and (2) final rule, October 1997.

Cross-Servicing -

References to cross-servicing are contained in the proposed revisions to the Federal Claims Collection Standards, and FMS has issued standards for Federal Debt Collection Center Designation (December 1996) and disseminated this information to agencies. While cross-servicing can be implemented without regulations, FMS believes the publication of regulations would add clarity and would be prudent. A provision concerning cross-servicing will be published in the Federal Register as part of the Non-Administrative Offset Regulations as discussed above.

Wage Garnishment -

FMS has drafted a proposed rule which it intends to move forward for publication. Target dates are projected as June 1997 for the proposed rule and October 1997 for the final rule.

C. Guidance for Debt Sales

FMS has issued general guidance concerning Government debt sales prior to the passage of the DCIA as part of its "Managing Federal Receivables" publication. Treasury personnel will work with agencies and the Office of Management and Budget regarding any revisions to this guidance, if necessary. A provision on debt sales has been included in the draft regulations covering Non-Administrative Offset Regulations.

D. Issuance of Contracts for Collection Services

Under the DCIA, Treasury is required to maintain a schedule of debt collection contractors to provide debt collection services. FMS has acted aggressively to implement this requirement. Initially FMS program personnel examined current debt collection contracts, still in effect, at the General Services Administration and the Department of Education. In order to improve the collection rates, increase competition and contract use by Federal agencies, FMS developed a draft Request for Comment (RFC) containing

many new and unique terms and conditions and requested comment from the private sector in December 1996. This generated over 450 questions and comments from the private sector, which needed to be analyzed and answered. Appropriate changes were made as a result of the comments. FMS published a Request for Proposal on March 11, 1997, and held a pre-proposal conference on March 25th. Contract award is expected in August 1997.

E. Performance Indicators

FMS has developed the following performance indicators for debt management functions:

1. Percentage of current market share of Federal Program Agencies (FPAs) with debt servicing requirements which have referred their debts in compliance with the DCIA.

2. Increased Governmentwide delinquent nontax debt collections over FY 1995 baseline.

3. Amount of $ collected as a percentage of $ referred to FMS for collection.

PART III - List of Major Milestones

Activity	Milestone
A. TREASURY OFFSET PROGRAM	
Interim Operation	Underway since 4/96
Add debts to delinquent debtor database	Underway since 4/96; 6 non-Treasury agencies' debts in TOP as of 3/97; continuous efforts with agencies whose debts have not yet been submitted
Add currently ready payment streams to TOP	Some payments already in TOP; continuously adding payments to process

Standards for submitting delinquent debts to TOP	Published on the Internet 1/97
Standards for Requesting Exemptions of Payments in TOP	Published on the Internet 1/97
Publish regulations for child support	Publish as interim rule in 5/97
Publish regulations for merged tax refund offset program with TOP	Publish as interim rule in 5/97
Publish regulations for offset of certain benefit payments	Publish as proposed rule in 7/97
Establish consortium for inclusion of salary offset program into TOP	completed
Merge salary offset program into TOP	10/97
Merge tax refund offset program into TOP	Agreement concluded in 8/96; effective 1/1/98; workgroup of IRS and FMS engaged in merger process; governmentwide conference for all agencies 5/97
Full implementation of redesigned TOP to include all current requirements of DCIA	1/98
Include State debts other than child support into TOP	7/98
Include USPS and DoD payments into TOP	1/98; work underway with both agencies to accomplish this task.

Include payments of Government corporations into TOP	6/98
B. CROSS-SERVICING PROVISIONS OF DCIA	
Implement automated workflow system for debt collection	Completed
Publish Request for Proposals for debt collection services	Completed
Award contracts for debt collection services	8/97
Establish standards for federal debt collection centers	Completed
C. OTHER PROVISIONS OF DCIA	
Draft standard for barring delinquent debtors from federal credit	Completed
Publish final regulations on administrative wage garnishment	10/97
Publish final regulations on publication of delinquent debtors' identities	10/97
Begin comprehensive public awareness campaign	6/97
Conduct governmentwide debt collection conferences	Completed
Revise relevant Treasury publications	12/97

Mr. HORN. Simply one question comes from that, and that is, what steps has the Treasury not taken which will prevent the referral of debts for administrative offset or cross-servicing? Are there a few key things in this letter, and since I assume you prepared it and he signed it. Brooks Hayes, the great Congressman and raconteur, said that there are two types of people in this town, one who prepares letters that other people sign and one who signs letters that other people prepare. I am curious in those categories, administrative offset or cross servicing, what is missing? Anything?

Mr. MURPHY. Basically, I think we had a lot of provisions in the act to try and deal with, and we've been trying to deal with them all simultaneously, but we have set some priorities and our priorities were in the offset program, the cross-servicing and the debt collection contract. At this point, I don't think there are any things that we have done that have substantially hindered the process. In the offset area, we started a very small operation where we had just a few agencies and a few payment streams we were matching up. We are in the process now of adding vendors to the offset program, and we hope to have 15 million of them in that matching process by August.

The next step is to fold the salary offset program into the Treasury offset, but we'll keep the existing one going so it's available and being used until we get the new one up and incorporated. One area that you might characterize as something we haven't accomplished yet is we don't have the regulations out as yet to offset benefit payments. So benefit payments will not begin offseting for some time yet.

Mr. HORN. Could you give us an idea; 6 months; 3 months?

Mr. MURPHY. The benefit payment regulation is scheduled to be published for comment in July, and our target for getting a final regulation on the street would be October 1997. That would cover the offset of Social Security, railroad retirement and black lung, for example. And as you know, there are some limitations on those, where you don't conduct an offset unless the recipient is receiving at least $9,000 a year in benefits and then you only offset a reasonable amount from any excess. So those are going to be a little more complicated, but that's our general timeframe.

Mr. HORN. Very good.

Let me just ask you about the relationship with GSA. General Services Administration's purchase requisitions and travel cards will be accepted by millions of vendors, and we just sent through the House legislation to really require the travel card for most Federal employees unless certain exceptions are made by the administrator.

Would it be possible to incorporate an administrative offset feature if the Financial Management Service and the General Services Administration worked together on this area? Do you see any room there for that relationship?

Mr. MURPHY. Yes, sir, we are discussing that right now, as a matter of fact. We do want to move to the use of credit cards extensively in Government. We think it's going to be very cost beneficial. We have expressed some concerns about the ability to build in some kind of process whereby we could at least periodically determine whether vendors are escaping offset because they are accept-

ing credit cards which doesn't seem to be fair and proper. We are also working with the GSA to see what kind of solutions we might come up with that are reasonable and cost-effective.

Mr. HORN. Did you happen to hear Commissioner Adams' description of his automatic wage garnish system?

Mr. MURPHY. Yes, sir, I did.

Mr. HORN. Is Treasury planning to build a similar system?

Mr. MURPHY. I'm not sure whether it will be a similar system but basically in the wage garnishment area, the act gives the agencies the authority to use wage garnishment and I think they're very excited about the prospects of that being a very effective tool. Treasury is required to issue regulations, and our schedule for that is to try to get regulations out for comment in June. We have been working with the Department of Justice and the Department of Education on those. We are in favor of almost anything that collects more money, because we are the collectors.

Mr. HORN. Good attitude. Good attitude.

Mr. MURPHY. I will mention, though, that my understanding, and I think Mr. Adams' point, was that, in order to collect something by wage garnishment, you have to know who the employer is so that you can garnish.

Mr. HORN. Right.

Mr. MURPHY. And there are a number of data bases available that from a collector's point of view. It would be very nice if we could tap into that information so we can do matches.

Mr. HORN. Now, is there a problem in the law that you can't access Social Security tapes or Labor tapes, given various things, because if it is——

Mr. MURPHY. It's my understanding that there are a host of both Federal and State laws that restrict the availability of information, the Privacy Act. Certainly, IRS has its limitations. It is not allowed to disseminate that information for purposes other than tax collection. Social Security has some very explicit exceptions in their law as to who they can give out information to.

I believe that some of these employment records that are available out in the States are probably the States' tax records, and I believe Mr. Adams said that he thought those would be subject to State law. Obviously, some States are willing to disseminate information for certain purposes.

Mr. HORN. Well, as I remember in the Debt Collection Improvement Act, both Labor records and Health and Human Service's parent locator service were specifically authorized.

Mr. MURPHY. That's correct, sir.

Mr. HORN. So what's missing?

Mr. MURPHY. I believe the sources of information that Mr. Adams was referring to—I haven't been able to verify this, but my assumption has been that he's talking about State tax records. He's the State revenue collector. He has those records available to him in his State, and I believe he has indicated that a couple of the States have made them available.

Mr. HORN. Do we need a law that permits Treasury to access the State records in terms of employment? Because you get certain things on the State revenue and Federal revenue. We need to know—maybe you want to think that through and let us know, be-

cause the Ways and Means missing piece here hopefully will come in the next few months and we can work it into that bill.

Mr. MURPHY. We would be happy to do that. We are certainly interested in using the tools. I think what you'd have to weigh are some of the privacy rights as well.

Mr. HORN. Yes, and I think that ought to be in order when you owe money so the rest of us taxpayers do not pay more for the deadbeats. The Federal Government writes off between $8 billion and $18 billion in non-tax debts each and every year—and you have heard me on that subject a number of times—much of which has not been subjected to collection action. And I notice with interest, Secretary Hawke, you noted the role for private collectors there.

Does the Department of the Treasury believe these debts ought to be included in the administrative offset, and other collection activities? Are agencies referring such debts?

Mr. HAWKE. It seems to me, Mr. Chairman, that any debt that is collectable ought to be included in the offset program. I think the difficulty is determining at what point and under what standards you decide that the debt is no longer collectable and should be abandoned. But the fact that a debt is delinquent for a long period of time does not automatically mean that it shouldn't be included in the offset program.

Mr. MURPHY. Just to add to that, Mr. Chairman, in the cases where an agency writes off a debt and they actually close it out, they report it to IRS as income on a 1099—at that point we cease all collection efforts, offset, private collector, et cetera. But if it hasn't been closed out, it is still possible that, if it hasn't gone to a private collector before, we could send it to one.

Mr. HORN. I'm glad you mentioned the 1099. I noticed in the testimony it's labeled 1099C. Does that simply mean the third version of that form, or what is the "C" aspect?

Mr. HAWKE. I think the letters that are attached to 1099 indicate in general terms the source of the funds that are being repaid. "C" probably refers to cancellation of debt.

Mr. HORN. That certainly becomes income on which they pay taxes. And do we have any studies by GAO or the various Inspectors General of how effective that is once it's put on your tax bill? Well, staff tells me that after it goes over to IRS, it is a 20 percent collect—that's 2-year old data, but we need to get in the record at this point just how that system works. Is it effective or is it boats passing in the night? Because I think that certainly is one way to wake a few people up as to their obligations.

Anything else you want to say on that?

Mr. HAWKE. I might just add on that last point I had occasion recently to pay a visit not only to the FMS processing center in Philadelphia but the enormous IRS processing center, and they gave me a demonstration of exactly how the 1099s are cross-referenced in taxpayers' records, so that when returns are reviewed, if a 1099 is not reflected in the return, it should set off some lights.

Mr. HORN. Interesting. Where was that? In the Philadelphia center?

Mr. HAWKE. In the Philadelphia center.

Mr. HORN. Is that true in all centers?

Mr. HAWKE. I think that is part of the normal process.

Mr. HORN. I see. OK. Now, how will Treasury ensure systems compatibility when it is receiving debts from a number of Federal agencies? Is this going to be a problem? The compatibility in terms of systems, you're having other agency plug into your system, I assume, and it is like the year 2,000 bit that we are worried about when these connections are made, are they really submitting debt or submitting viruses? I'm not sure which, but does it work through the system and how are we working that out?

Mr. MURPHY. Basically, we have a debt collection computerized system, which we have the core of that system now, and so we still have some manual processes as well as automated, but we will be enhancing that as we buildup volume. And there are linkages that we envision giving agencies some options. Some can get on-line if they wish, while others might want to deliver data to us by magnetic tape. We will try to provide some options, but it will take a while to develop all of those linkages. But they are important, and that is what takes time in building systems.

Mr. HORN. For the record, when are you beginning the new enforcement programs in the areas of debt collection and child support enforcement, and what sort of public education campaign do you envision to get the word out?

Mr. MURPHY. As I mentioned, Mr. Chairman, we are working with the individual States to work when they're ready to be able to come in and via the offset system. We are hoping to do a public awareness campaign there, and we are looking under every stone for a few dollars to help finance that. We do want to get the word out to the public, and we will be implementing with individual States between now and probably January 1998.

Mr. HORN. Very good. Does that take extra authorization to wage a public campaign in this area or do you have that authority basically?

Mr. MURPHY. Well, I believe HHS has done some public awareness things and has had money appropriated to them for some of those purposes. We just want to get the word out. We can use public service announcements, free press, anything we can.

Mr. HORN. Have the States been fairly receptive to this?

Mr. MURPHY. The States have been quite interested. We've had a number of conference calls with all the States. And for each one of them, we have listed the concerns they have over systems and operational matters. But a number of them are anxious to get started as soon as possible. The basic factor is how their system works and whether they can provide frequent updates of the information.

Mr. HORN. Very good. Last night we received a letter from David J. Kerwin of Arthur Andersen's Chicago office, and we furnished that to your congressional liaison. It might be something that you want to put in the record. But what it boiled down to, as I understand it, is that they service a $6 billion student loan portfolio and Mr. Kerwin raised the concern with respect to the contracts with the collection firms that are under consideration by the Financial Management Service allowing private contractors to retain accounts in repayment unless they are terminated for cause. And as

I say, I have shared that with your staff. And ensure that the potential situation he described is avoided. Can we assure that?

The subcommittee staff apparently spoke with Financial Management Service staff and it appears to be the intent of the FMS, but some aren't too convinced. And the Treasury and the subcommittee staff work out if this is a baseless concern or is it a legitimate concern? So we are going to put it in the record without objection at this point, and what we would like is the Treasury answer to this?

Mr. MURPHY. Fine.

[The letter referred to follows:]

SSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

May 27, 1997

The Honorable Stephen Horn
Chairman
Subcommittee on Government Management,
Information and Technology
Committee on Government Reform and Oversight
U.S. House of Representatives
Washington, DC 20515-6143

Dear Chairman:

Thank you for your letter, dated May 5, 1997, as a follow-up to the hearings of April 18. We offer the following in response:

1. **Q.** As Treasury merges the Tax Refund Offset and the Treasury Offset Program (TOP or Administrative Offset), what steps does Treasury plan to take to make it easier for agencies to refer more debts for the consolidated offset program, with greater frequency and accuracy?

A. Merger of the Tax Refund Offset and the Treasury Offset Programs.

Agencies currently may enter their debts into the Treasury Offset Program (TOP) using either of two methods. 1) Using the online client software for TOP, they may enter debts at any time the debts become delinquent and increase and decrease debts at any time, using their direct access to the TOP database for their debts. This process works well now for agencies which do not have thousands of debts. 2) They may use the tax refund offset format for this year which means that the agency supplies to TOP those debts it provided to Internal Revenue Service (IRS). These debts are frozen as of January 1997 and may not be increased, nor may debts be added as they become delinquent throughout 1997. Agencies using this method did not or could not reprogram their systems for two separate Treasury offset programs.

With the consolidated program, all agencies will have the ability to submit debts any time they become delinquent and to update them at any time, one at a time, or in a large batch. They will be able to program their systems for only one program, TOP. In addition, agencies will be able to obtain addresses from IRS on a monthly basis in order to send due process notices at any time using a combined notice, rather than the current frozen annual process.

2. **Q.** Will all debts referred for Tax Refund Offset also be included in the match for the TOP, or will separate agency agreements be required?

A. Separate Agreements.

No separate agreement will be required with IRS or with Financial Management Service (FMS), only the certification of debts.

All debts will be submitted to FMS for inclusion into the TOP delinquent debtor database, against which all eligible payments will be matched. The agency submitting debts needs to certify to FMS that due process requirements have been met. FMS has provided to agencies a sample due process letter which combines the due process requirements for tax refund offset, Federal salary offset, and TOP so that once these requirements have been met, the debts are in the database and offsets take place when there is a match.

Tax refunds are but one payment stream. TOP will be matching tax refunds, Federal salary payments, Federal retirement payments, vendor payments, other FMS disbursed payments, United States Postal Service and Department of Defense payments, and other non-Treasury disbursing official payments against the delinquent debtor database.

3. **Q.** The DCIA allows agencies to send information regarding Forms 1099, and have FMS prepare those forms. Will FMS refer these accounts, which were written off by agencies, to private collection contractors prior to sending the Forms 1099 to the Internal Revenue Service?

A. Filing of Forms 1099-C for the Agencies.

At this time, we do not plan to take any collection action on written-off accounts sent by the agencies to FMS for FMS to send Forms 1099 to IRS. An agency may send written-off accounts to FMS for cross-servicing, in which case we would send them through all the collection tools prior to filing Forms 1099. Agencies should not write-off debts until all appropriate debt collection tools have been used.

4. **Q.** The DCIA requires that agencies sell debts after terminating collection action "if the Secretary of the Treasury determines the sale is in the best interest of the United States." This places an affirmative duty on the Department of Treasury to make a determination. Apparently, some agencies are awaiting guidance from

Treasury regarding the mandatory feature of the debt sales authority (i.e., after terminating collection action). It would be helpful for Treasury to establish some guidelines on which programs ought to require that debts arising under the program be sold. How do you plan to implement this section of the DCIA?

A. Debt Sales.

FMS is now examining the entire question of debt sales, including the need to define further "terminating collection action," develop cost/benefit analysis and determine the potential market for such sales. FMS plans on issuing guidelines on selling debts with its revisions to the Treasury Financial Manual Credit Supplement.

5. **Q.** The DCIA authorizes the Department of Treasury to designate debt collection centers (DCC) at other agencies. Such designation will allow an agency to retain delinquent debts which arise under its agency's programs, to be collected, along with the debt of other creditor agencies, in the agency DCC. It has been one year since the passage of the DCIA. How many agencies have applied for designation as a DCC?

A. Debt Collection Center Designation.

Two agencies have applied for designation as debt collection centers: the Department of Health and Human Services' Program Support Center and the Department of Veterans Affairs.

6. **Q.** At the hearing, several witnesses have indicated that their agencies have either applied, or are considering applying, for designation as a DCC. It is important that the DCC designation process not be used to delay responsible collection action. What is the Department of Treasury policy relating to agencies which are not complying with the 180-day referral requirement by delaying referral by way of "considering" an application as a DCC? Do you intend to establish a deadline for application for a DCC designation? How long can an agency delay referral to Treasury by considering an application for designation as a DCC?

A. Referral of Debt Pending Debt Collection Center Designation.

FMS has no plans for establishing a deadline for application because it does not believe "considering" an application exempts an agency from the requirement that it send debts to Treasury for cross-servicing.

FMS believes that, consistent with the DCIA, only agencies which have actually received designations are exempt from referring the debts being worked by the center; such designated centers also have one year to work referred debts before they must be transferred to FMS for collection. FMS is continuing to work with agencies on implementing the cross-servicing requirement.

7. **Q.** Once centers are designated, will Treasury establish the basis for comparison of DCC performance relative to other DCCs and the FMS contractors through random referrals of like kinds of debts?

A. Comparing Performance of Debt Collection Centers.

Comparisons between and among debt collection centers and FMS contractors would depend, to some extent, on whether a center is designated to handle one particular type of debt or various types of debts. We would expect all eligible debts to be referred to collection agencies, regardless of whether FMS or a debt collection center is working the debts.

I hope you will find these answers helpful. Thank you for your continued interest in this program.

Sincerely,

Gerald Murphy
Fiscal Assistant Secretary

Mr. HORN. Moving right along, we are all set. And let me just look up a few more things in my annotated notes from midnight. Well, I've asked the question, but let me ask you, Secretary Hawke, I have been concerned about the IRS putting 5-year-old debt in the test pilot that private collectors are trying to get. And I guess my question is, isn't that uncollectable?

Mr. HAWKE. I would hesitate to generalize about the collectability of 5-year-old debt, Mr. Chairman. I think it depends very much on the circumstances. Certainly, if rigorous collection efforts have been pursued and debt remains delinquent after 5 years, that gives you a pretty dim view of collectability.

Mr. HORN. I noticed in your sort of penultimate paragraph on page 2, you note that you are going to collect delinquent debt that is over 180 days old through collection and Treasury's Financial Management Service or through private debt collectors. I am also curious what the policy is with regard to private debt collectors; what the thinking is, even if it isn't a policy yet. Do you see a role there for that vast apparatus around the country, be it tax attorneys or private debt collectors, in helping us get the debt?

Mr. HAWKE. Oh, very much so, Mr. Chairman. I think they are very much a part of the process.

Mr. HORN. OK. Now, Mr. Murphy, I think I scrawled a few things on several of your pages. Let me flip by. I would hate to have you leave the room and say why didn't I ask that question.

Yes, on page 5 of your statement, in the second bullet at the top it says, Treasury is working with the Office of Management and Budget and the large credit granting agencies to establish debt sales programs for appropriate debt portfolios. I'd just like to know sort of where are we now on those?

Mr. MURPHY. The Federal Credit Policy Working Group has been looking at that, and they have an interagency team which is looking at best practices and what's been successful in the past. And they have come up with recommendations as to the strategy that ought to be used.

OMB has the lead role in that area and would be consulting with Treasury on sales, and there are some agencies that are actively considering asset sales.

Mr. HORN. Very good. On the advertisements which I'd mentioned earlier? If you could give us a few examples. We'd like to look at them and put them in the record if we can. We are never sure what GPO can print and not print, but we will test them, and if we can't get it in we at least would like to look at it. And we thank you both for coming. It has been excellent, solid, professional testimony, and I deeply appreciate it. Thank you very much.

Mr. HAWKE. Thank you, Mr. Chairman.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. HORN. All right, we are making progress slowly. And that is my fault. And we are on panel 4.

Mr. Strader is not here?

[Witnesses sworn.]

Mr. HORN. All five witnesses have sworn. We will go down the line in the order in which you are seated. Ted David is the Chief Financial Officer of the Department of Agriculture. Welcome. We will begin with you.

STATEMENT OF TED DAVID, CHIEF FINANCIAL OFFICER, DEPARTMENT OF AGRICULTURE

Mr. DAVID. Thank you, Mr. Chairman. As you mentioned, I am Irwin Ted David, the acting Chief Financial Officer of the Department of Agriculture, and I very much appreciate the opportunity to share with you the progress that USDA has made in implementing the Debt Collection Improvement Act of 1996.

With me is Mr. Richard Guyer, director of our Fiscal Policy Division in the office of the Chief Financial Officer. He is responsible for overall debt management policy in USDA.

As I know you are very well aware, USDA programs touch every American every day. If it is not in the clothes we wear, then it is in the food we eat, the water we drink, the houses we live in, the lunches our children eat in the schools, or the recreation that we enjoy in our national forests. One of the major USDA strategic goals is to expand economic and trade opportunities for farmers and other rural residents. Fulfilling this goal will provide stable agricultural earnings and a productive rural economy, which will improve the quality of life for rural America and for all Americans.

USDA fulfills its responsibilities to farmers and other rural residents through a number of programs, guided by statutory requirements, legislative mandates, and administration initiatives. Meeting the needs of rural families and communities is accomplished in part through a number of farm and rural credit programs which provide financing for water and wastewater systems, financing for decent affordable housing, financing for electric and telephone utilities and rural businesses, and financing of farm ownership and operations, and emergency disaster assistance and relief.

These loan programs are designed to support our strategic goal to improve the life in rural America. Thus, several of the programs are targeted to low income individuals so that USDA is often the lender of last resort. USDA also holds a large number of noncredit, noncollateralized domestic debt. This debt arises from food stamp overissuances, timber operations and crop insurance overpayments, among others.

In this category we have a large number of debtors and a relatively small debt load. On an overall basis as of September 30, 1996, USDA was owed a total of approximately $108 billion in 4.4 million accounts. This is down from $115 billion in 1992.

Of this total, approximately $104 billion resulted from a variety of our loan programs. USDA as of September 30, 1996 had 3.3 million delinquent accounts, which total approximately $8.8 billion, which is 8 percent of outstanding balances, which is down from the 11 percent that existed in 1992. Of these outstanding loan accounts nearly 3 million are due to food stamp overpayments.

During fiscal 1996, USDA wrote off approximately $1.8 billion of delinquent loans, which is also down from 1992. USDA programs, as you know, are among the biggest direct lenders of Federal credit, with 53 percent of loans and 33 percent of total debt owed to the Federal Government. In addition, we guarantee loans valued at approximately $18 billion.

In fulfilling our responsibilities, we believe that each and every debt should be repaid in accordance with the requirements and regulations under which the loan was made or the debt incurred, in-

cluding the proper exercise of repayment and servicing provisions specified by the enabling legislation that created the programs.

The Debt Collection Improvement Act of 1996 provides new and expanded tools to assist us in pursuing the collection processes. In fact, USDA had implemented several of the techniques incorporated in DCIA as early as 1985. We have made significant progress in implementing or expanding the provisions of the act, including establishing processes and procedures for implementing Treasury's administrative offset program; implementing the provisions of collecting taxpayer identification numbers; reporting write-offs to IRS; revising USDA's process for routinely adjusting civil monetary penalties; reporting current and delinquent debt to credit bureaus, and referring delinquent debt to collection agencies for collection.

We believe that Treasury's administrative offset program promises to be an excellent collection tool, which when fully implemented will increase opportunities for collection. However, we at USDA have experienced two barriers in implementing this provision. First, we have to make changes in our computer systems to enable us to transmit timely and accurate information to Treasury. We also have to publish new regulations or modify existing regulations of agencies' systems of records to meet the requirements of the Privacy Act.

We do plan to start referring debts to Treasury for administrative offset by July 1997, and we estimate that we may be able to refer as much as $7 billion by the end of the year. Until we are able to implement Treasury's administrative offset program, we will continue to collect delinquent debt through income tax refund and salary offset programs. During fiscal 1996, we collected $43 million through the income refund offset program and our collections are even better in fiscal 1997. Since 1986, we have collected over $267 million through this program.

USDA also collects taxpayer identification numbers from our vendors, our borrowers, our clients, and our debtors. In February 1997, we issued a new departmental regulation requiring USDA agencies to provide TIN numbers on all requests for payments and discharges of indebtedness. One issue we have encountered is in the verification of those TIN numbers. USDA agencies have been reporting write-offs to the Internal Revenue Service for inclusion in the debtor's taxable income since 1990. Our agency has reported over $714 million in 1995 write-offs to IRS using the IRS form 1099C. USDA has also developed a final rule to adjust civil monetary penalties imposed by USDA agencies to incorporate inflation adjustments. This final rule should be published in the Federal Register within the next 2 months.

USDA also plans to use Treasury's debt collection center and private collection contracts and will continue to refer delinquent debts to Justice for litigation where appropriate. In addition, three USDA agencies have expressed interest in becoming debt collection centers. They are in various stages of making their proposals to Treasury to become such centers.

Mr. HORN. Would you mind putting them in the record at this point? What are the three areas?

Mr. DAVID. I believe they are our office, the Office of the Chief Financial Officer; the Farm Service Agency; and the Rural Development Agency.

Mr. HORN. Fine. Go ahead. We are running short of time here.

Mr. DAVID. Since 1985, USDA has routinely referred delinquent consumer and commercial accounts to credit bureaus. The total referred to date is $60 billion. In addition, as Mr. Koskinen referred to before, all USDA credit granting agencies plan to incorporate debt collection performance measures into agency strategic and performance plans under the Government Performance and Result Act.

Such measures are in addition to the program-related performance measures. I cited in my formal statement some of the measures; I won't go through those right now.

In conclusion, USDA provides many programs, including credit programs to assist the agricultural community and rural America in improving the quality of life, improving their economy, and maintaining a stable farm economy. We believe that each and every debt should be repaid in accordance with the conditions under which the loan was established, and the program guidelines under which the debt was incurred.

USDA intends to use all the tools available to us to reduce the number and amount of delinquent debt. The Debt Collection Improvement Act provides a number of new tools which will assist us in pursuing the collection processes.

We look forward to working with the Office of Management and Budget, Treasury, and the other Federal departments and agencies through the Federal Credit Policy Working Group along with the Chief Financial Officers Council, to develop the mechanisms to collect delinquent debt owed to the Federal Government.

That concludes my prepared remarks, Mr. Chairman. I am pleased to answer your questions at the appropriate time.

[The prepared statement of Mr. David follows:]

STATEMENT OF
IRWIN T. DAVID
ACTING CHIEF FINANCIAL OFFICER
U.S. DEPARTMENT OF AGRICULTURE

BEFORE THE
HOUSE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION AND TECHNOLOGY

TESTIMONY ON THE DEBT COLLECTION
IMPROVEMENT ACT OF 1996

April 18, 1997

Mr. Chairman and Members of the Committee, thank you for the opportunity to share with you the progress that we have made in implementing the Debt Collection Improvement Act (DCIA) of 1996.

As I am sure you are all aware, the Department of Agriculture (USDA) in some form touches every American every day. If it is not in the clothes we wear, it is the food we eat, the water we drink, the houses that we live in, the school lunches our children participate in, or the recreation that we may enjoy in our national forests. It is, therefore, critical that we maintain a healthy stable economy for our farmers and ranchers and throughout rural America. Prosperity in the agricultural community and in rural America depends on residents having a wide range of economic opportunities. Thus, a major strategic goal of USDA is to "Expand Economic and Trade Opportunities for Farmers and Other Rural Residents." Fulfilling this goal will provide a stable agricultural and rural economy and assist in improving the quality of life in rural America.

USDA fulfills its responsibilities to farmers and other rural residents through a number of programs, guided by statutory requirements, legislative mandates and Administration initiatives.

For example. USDA helps American Agriculture with domestic and export programs and risk management programs that provide significant help in maintaining economic stability of rural America. Several of these programs offer favorable terms to assist those who need the help the most.

Important elements of USDA's programs for the farm and rural communities are achieved through a series of large complex credit programs, including:

- Financing water and waste water systems,
- Financing decent, affordable housing,
- Financing electric and telephone utilities and rural businesses,
- Financing farm ownership and operations, and
- Providing emergency disaster assistance and relief.

One can easily see that the use of credit is critical to ensuring the stability and continuity of an ample supply of food and fiber at reasonable prices for all Americans.

Each and every credit program has been designed for specific needs of rural America. In several cases, special emphasis has been given to designing programs that will stimulate and promote private investment. Consequently, each of the credit programs varies significantly in the types of loans, payment schedules, interest rates, pay-back provisions and servicing of loans that may become delinquent.

There is also a large number of non-credit, non-collateralized domestic debt owed USDA Such debt arises from food stamp over-issuances, timber operations, and crop insurance over-payments. In this category we have a large number of debtors but a relatively small total debt load. Specifically, non-credit related debt is owed by 3.2 million debtors, with $1.7 billion of debt. The Food and Consumer Service (FCS) holds the majority of this debt. FCS has made significant progress in recovering much of this debt through States' collection processes and the

Internal Revenue Service's Tax Refund Offset Program. In fact, since 1993, FCS has recovered over $112 million of the $267 million collected by the Department through the Tax Refund Offset Program. The remaining $155 million was recovered by a combination of agencies that includes the Risk Management Agency, Farm Service Agency, Rural Housing Service, and USDA agencies serviced by the National Finance Center.

To give you a better appreciation of the size and magnitude of USDA's outstanding debt, note the following statistics as of September 30, 1996:

- USDA is owed $107.5 billion, in 4.4 million accounts. (This is down from $114.9 billion in 1992.) Of this debt, $104.3 billion is from 1.1 million loan program accounts,

- USDA has 3.3 million delinquent accounts, amounting to $8.8 billion. This is 8% of outstanding balances, down from 11% in 1992. (Nearly 3 million of these delinquencies are with the Food and Consumer Service), and

- During Fiscal Year 1996, USDA had $1.8 billion of write-offs of delinquent loans. This compares to $2.5 billion in 1992.

USDA programs are the biggest user of Federal credit (comprising 53.4% of loans and 33.4% of the total debt owed to the Federal Government). In fulfilling our responsibilities to our constituents and the American taxpayer, we believe that each and every debt should be repaid in accordance with the requirements under which the loan was made, including proper exercise of the repayment and servicing provisions specified by the enabling legislation that created specific programs. Thus, USDA intends to use all the available tools to reduce the quantity and amount of delinquent debts.

Other lending activities include the guaranteed loan program. USDA currently has approximately 138 thousand guaranteed loans in our portfolio amounting to $17.8 billion. In the

past, USDA's guaranteed loan program has been extremely small compared to our direct loan program. However, in the past several years, this program has grown significantly considering that in 1992 USDA had 59 thousand guaranteed loans that amounted to $7.3 billion.

The DCIA of 1996 provides a number of new tools to assist us in pursuing the collection processes. Along with other agencies, USDA was active in urging passage of the Act so that we could improve our ability to pursue collections. Specifically, we believe that tools such as the Treasury's Administrative Offset Program, use of private collection agencies, debarring delinquent debtors from obtaining future loans, and reporting delinquent consumer accounts to credit bureaus will significantly reduce the delinquent debt owed the Federal Government.

In developing and implementing the DCIA, we in USDA have found it to be a pleasure to work with representatives from the Department of Treasury (Treasury), the Office of Management and Budget, and other Federal departments and agencies as part of the Federal Credit Policy Working Group and the CFO Council. The cooperation, assistance, and sharing of information among and between Federal agencies has been extremely helpful in the implementing process.

We are pleased to report that USDA implemented several of the provisions of the DCIA as far back as 1985, including: referral of delinquent debt for income tax refund offset, reporting of delinquent debts and commercial current debts to credit bureaus, and reporting write-offs to IRS for inclusion in debtors' taxable income. Since then, USDA has made significant progress in implementing or expanding other provisions of the Act including: establishing processes and procedures to implement Treasury's Administrative Offset Program; implementing provisions for collecting the Taxpayer Identification Numbers (TIN); reporting of write-offs to the IRS; revising USDA's process for routinely adjusting Civil Monetary Penalties and reporting current and delinquent debt to credit bureaus.

In implementing DCIA, two major barriers have delayed USDA's delinquent debt to Treasury for the cross-servicing of delinquent debt and initiating Treasury's Administrative Offset Program. Those barriers are:

1) the computer system changes required in order to transmit timely and accurate information to Treasury; and

2) the publication of new regulations and modification of agencies' System of Records necessary to meet the requirements of the Privacy Act.

In the past, USDA had established computer systems and reporting cycles that would handle the annual IRS Income Refund Offset Program activities. With the implementation of the Treasury Offset Program that will include all payments made by the Federal Government, system modifications are needed to ensure that the information transmitted to Treasury is current.

Nearly all USDA agencies had published System of Records for the IRS Income Refund Offset Program. However, this System of Records is very specific and does not allow for the sharing of the records necessary to implement the Treasury's Offset Program. Therefore, each agency is in the process of publishing their new System of Records that includes Treasury's Offset Program. Even so, we are making significant progress in implementing the DCIA, as summarized below for the major provisions of the Act.

Administrative Offset

We believe that Treasury's Administrative Offset Program promises to be an excellent collection tool, which when fully implemented will greatly increase opportunities for collection. Some delays in transferring debts to Treasury are due to special loan servicing requirements created by the legislation which established specific programs. For example, loans under the farm credit program of the Consolidated Farm and Rural Development Act require specific loan

servicing requirements. They include loan rescheduling procedures, write-down procedures, and loan restructuring. These procedures can take up to 3 years after deficiency to complete. Therefore, USDA will continue to service these loans until these requirements are fulfilled.

Even with all these delays, USDA plans to start referring one agency's accounts to Treasury for the Administrative Offset Program in July 1997 and the remainder will follow by the end of the year.

We should note that USDA continues to collect delinquent debt through the Income Tax Refund and Salary Offset Programs. During Fiscal Year 1996 alone, we collected $43.1 million in our Income Tax Refund Offset Program. Since 1986, we have collected over $267 million through this program.

Computer Matching

Eliminating Treasury's Administrative Offset Program and other Federal debt collection initiatives from requirements of the Computer Matching Act (CMA) of 1985 has eased implementation of these programs. We certainly support Congress' goal of protecting individual privacy; however, the provisions of the Computer Matching Act have, at times, delayed and impeded collection of delinquent debt. Treasury's ability to waive certain requirements of the Computer Matching Act of 1988 has eased the burdens on implementing these programs. To ensure protection of individual privacy, however, the DCIA limits the applicability of the Computer Matching Act waiver provisions.

Taxpayer Identification Number

USDA collects TINs from our vendors, borrowers, clients, and debtors. In February 1997, USDA issued a Departmental Regulation requiring USDA agencies to provide TINs on all requests for payments and discharges of indebtedness.

We believe that this initiative should increase collections of delinquent debts using Treasury's administrative offset initiative to assure that all required discharges of indebtedness are reported to IRS and assist IRS in assuring that vendors report all income in their tax returns.

The one problem USDA is encountering, as are other Federal agencies, is TINs verification. Establishing a cooperative agreement with the IRS will not only help each Federal agency but assist the IRS in their debt collection process.

Reporting of Write-Offs to IRS on 1099-C

USDA agencies have been reporting write-offs to the IRS for inclusion in debtors' taxable income since 1990. USDA agencies reported over $714 million of 1995 write-offs to IRS using Form 1099-C.

USDA agencies sent out Forms 1099-C for the 1996 taxable year in January and February of 1997. The amounts reported will be available in late April 1997 when the agencies submit their "Report(s) on Receivables Due from the Public" to Treasury.

USDA agencies will expand the reporting of write-offs to IRS in 1997. We recently revised our regulations on reporting write-offs to IRS to incorporate recent IRS revisions (e.g., commercial bankruptcies are now to be reported to IRS).

Civil Monetary Penalties

USDA has developed a final rule to adjust civil monetary penalties imposed by USDA agencies to incorporate inflation adjustments. The final rule is in clearance and should be published in the *Federal Register* within the next two months.

Cross-Servicing of Delinquent Debt

USDA plans to use Treasury's debt collection center and private collection contracts, and will continue to refer delinquent debts to the Department of Justice for litigation where appropriate. For example, the Forest Service is about to enter into an agreement with Treasury to provide cross-servicing of their delinquent debts which are over 60 days old. In addition, we are pleased to report that three USDA agencies have expressed interest in becoming debt collection centers. They are in various stages of making their proposals to Treasury.

Report to Credit Bureaus

USDA has referred individuals delinquent on consumer accounts to credit bureaus since 1990. We have also referred both delinquent and current commercial accounts since 1985. We have found this to be extremely helpful to identify the existing status of indebtedness that potential borrowers may have. Since 1985, USDA has referred over $60 billion of delinquent debt.

Asset Sales

USDA generally disposes of delinquent loans through one or more servicing actions including working with delinquent debtors to restructure, foreclose, or accept voluntary conveyance. It has been USDA's experience that there is generally no market for delinquent loans because of the financial condition of borrowers that we serve. The only successful assets sales we have had were on performing loans.

Use of Private Collection Agencies

The expanded option to use private collection agencies is a valuable tool in debt collection. While some Federal agencies have long shied away from using collection agencies,

they can be important to ensure that we are using every available option before we consider writing off debts. For a number of years, USDA's Appropriation legislation prohibited the use of private collection agencies. Starting in FY 1996, this provision was lifted and since then the Farm Service Agency and Rural Development Mission Area have started referring accounts to private collection contractors. We will expand the use of private collection contractors when Treasury's new collection contracts are awarded. These agencies will continue to refer delinquent debts to the Department of Justice for litigation when appropriate. Currently, the Department of Justice is handling $2.4 billion in agency debt while over $285 thousand of delinquent debt is being handled by private collection agencies.

Performance Standards

USDA agencies have used performance standards for collection activities for several years. All agencies with major debt-related activities plan to incorporate information about debt collection results into agency performance measurements under the Government Performance and Results Act. In addition to the program mission performance indicators (i.e., outcome measures), the following are examples of credit management performance indicators that USDA agencies have chosen to use when measuring the success of credit management in USDA:

- Delinquency rules for first-year direct loans
- Delinquency rate for other than first-year direct loans
- Delinquency rate for guaranteed loans
- Rate of transfer of borrowers to private credit
- Ratio of the number of borrowers delinquent to total outstanding borrowers
- Ratio of the amount of principal and interest delinquent to total outstanding principal.

Barring Delinquent Debtors

USDA supports the provision to bar delinquent debtors from obtaining additional (non-essential) Federal loans or loan insurance guarantees. The provision does not bar delinquent debtors from receiving essential Federal benefits (such as food stamps), but will prevent problem debtors from incurring new Federal debt. This provision will provide an incentive for delinquent debtors to resolve their current debt and decrease future delinquencies.

Conclusion

USDA administers many programs, including credit programs, to assist the agricultural community and rural America in improving rural quality of life, improving rural economy, and maintaining a stable farm economy. USDA administered credit programs vary significantly in their objectives and goals. As a result, they differ in the type of credit, payment schedules, interest rates, pay-back provisions, and servicing of delinquent loans. As the biggest user of Federal credit, USDA believes that each and every debt should be repaid in accordance with the conditions under which the loan was made and established program guidelines under which the debt was incurred.

USDA intends to use all the tools available to us to reduce the quantity and amount of delinquent debt. The DCIA of 1996 provides a number of new tools to assist us in pursuing the collection processes. We look forward to working with the Office of Management and Budget, Treasury, and other Federal Departments and agencies through the Federal Credit Policy Working Group and other mechanisms to reduce the delinquent debt owed the Federal Government.

Mr. HORN. Steven McNamara is the Assistant Inspector General for Audit, U.S. Department of Education.

STATEMENT OF STEVEN McNAMARA, ASSISTANT INSPECTOR GENERAL FOR AUDIT, DEPARTMENT OF EDUCATION

Mr. MCNAMARA. Thank you, Mr. Chairman, for this opportunity to testify on the implementation of the Debt Collection Improvement Act. Like everyone else, I'll try to be brief and submit my comments for the record.

I'm in a somewhat unique position, being the only member of the IG community on this panel, so my perspective may be a little bit different from some of the others that you have heard today. Although we have not audited the Department's response to your subcommittee and to the ranking member, we have conducted a fair amount of work in the general area of debt collection, and our review of the Department's response and our knowledge based on the work that we have performed leads us to conclude that the Department of Education is making pretty good progress in implementing the Debt Collection Improvement Act. In fact, Education was employing a number of the mechanisms now under the act under previous statutory authority, such as tax refund offsets, wage garnishment and a number of matching agreements with other Federal agencies.

It occurs to me that, to take it to the next level, it is going to call for the guidance and direction from the Department of the Treasury, whom you heard from earlier, particularly in the area of developing systems so that a lot of information can be shared between and among the various agencies in a cost-effective and efficient manner.

Mr. Chairman, I'd like to mention one specific audit we've done. There are others listed in my testimony and you spoke of them earlier. It was the match that we did with the IRS, where we compared the income reported by students on their applications for student aid with what they reported to the IRS. As you mentioned, we found that over $100 million was overawarded to individuals who were applying for Pell Grants, and I might add that our approach was very conservative. We didn't consider parents' income and we didn't take into consideration a number of other sources. So the amount may be far higher than the $100 million.

In some of these instances we had over 300 of these individuals who reported making zero income when they applied for student aid, when they made over $100,000 according to what they reported to the IRS. One individual reported to the IRS they made $1.3 million, but claimed zero income when they applied for student aid.

These are areas, I think, Mr. Chairman, where we have recommended that there is going to have to be legislation to enable a match to be conducted. The IRS so far in dealing with the Department is not willing to set up a match short of having this legislation, and it needs to be on the front end where as a prerequisite for receiving financial aid from the Federal Government you would agree to allow us to match your income so that we can verify what you say.

Mr. HORN. Well, you are absolutely correct, and we will followup. Staff will sit down with Ways and Means staff and see if we can't get it in their bill if it is moving. If it isn't moving, we will do it ourselves.

Mr. MCNAMARA. We appreciate your support and if there is anything we can do or any briefings, we would be happy to provide that.

Mr. HORN. Since you raised the subject, let me put in the record at this point the Wall Street Journal article of March 11, 1997, pages A–1 and A–15, entitled "Cheat Sheets: Student applications for financial aid give lots of false answers. Tax returns often conflict, but colleges don't try very hard to stop fraud. Pell grants for the well off."

[The information referred to follows:]

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Cheat Sheets

Student Applications For Financial Aid Give Lots of False Answers

Tax Returns Often Conflict, But Colleges Don't Try Very Hard to Stop Fraud

Pell Grants for the Well-Off

By STEVE STECKLOW
Staff Reporter of THE WALL STREET JOURNAL

When Nicholas Bissell III applied for financial aid at Western Connecticut State University, he was rejected. He attended for one semester, then transferred to Catholic University of America in Washington. There he received $4,400 in grants and $9,912 in federal loans over three years.

What changed? Mr. Bissell's mother, Jean, lied the second time around. She submitted phony tax returns to Catholic University that indicated she had no savings, when, in fact, she had $80,000.

Although Mrs. Bissell described the scheme at length last year in testimony in open court, Catholic University has never sought to recover the grant money from her or her son, say people familiar with the matter.

Federal investigators say cases of financial-aid fraud like this are growing. "That's something that, unfortunately, we're seeing more and more of," says Gary Mathison, an investigator for the Department of Education. Jim Briggs, a former Internal Revenue Service agent who has trained aid officers at Harvard and other universities, adds: "The higher the cost of the institution, the more pervasive it is."

Sluggish Response

Yet little of it is caught. Administrators say they almost never try to verify that tax documents submitted in support of students' aid applications are authentic, nor do they aggressively pursue families they suspect of cheating.

"Colleges don't do anything because they're all afraid that they're going to look bad to the public," says Paul Patelunas, a former aid administrator at Catholic University and Johns Hopkins University. Some also fear lawsuits and the loss of top student prospects, other aid officials say.

When they do find a case of cheating, some say, they usually don't bother to tell the Education Department, although they are supposed to do so when a federal program is involved. Many aid officials believe the department won't pursue cases of just a few thousand dollars anyway. The upshot is that when a family is caught lying on an aid application, usually the worst that can happen is that it won't get the aid or will be asked to return aid given in an earlier year.

Somebody Loses

Yet it is by no means a victimless crime. Since aid money is limited, the losers when applicants cheat are the needy families who complete the applications honestly. As Mr. Patelunas testified in the Bissell case, "If a student receives a Catholic University grant and they're not eligible for it . . . , that means for some needy student they may very well not be going to school that year."

The Education Department has audited 2.3 million 1995-96 recipients of Pell grants, a program in which the U.S. gives tuition money to undergraduate students. Auditors asked the Internal Revenue Service to compare family income as stated on the aid applications with income as reported to the IRS. About 4.4% of the families had understated their income.

Some cases were egregious. One of the Pell grants – meant solely for low-income families – went to a student who reported income to the IRS of $1.3 million for the year. The audit found more than 300 grant recipients who had understated their family income by more than $100,000. Auditors estimated that $176 million in undeserved federal Pell grants were awarded for the school year.

Gaming the System

Other families, while not resorting to falsification, are pushing the envelope, helped by financial experts who provide aggressive advice on how to extract maximum college aid. In "The Princeton Review Student Advantage Guide to Paying for College," consultant Kalman A. Chany boasts of a $4,000 tuition grant to the daughter of a client "who owned a $1 million apartment in New York City and a stock portfolio with a value in excess of $2 million." The family wasn't doing anything illegal, merely taking advantage of a loophole in the eligibility test for the aid plan, New York state's Tuition Assistance Program, which doesn't inquire about assets. "It's like taxes," Mr. Chany observes. "There's a difference between tax avoidance and tax evasion. Tax avoidance is perfectly legal and tax evasion is fraud."

About half of U.S. undergraduate students get some form of financial aid, a total of $50 billion a year in loans and grants. The widespread availability has affected parents' attitudes toward financial aid and its administrators.

"There's this idea that there's just this inherent right to financial aid," says Richard Dent, aid director at Reed College in Portland, Ore. "That just drives me up the wall."

Don Saleh, dean of admissions and financial aid at Cornell University, says, "Many people approach the financial-aid office as . . . a group of people whose job it

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False Student-Aid Applications Multiply

Continued From First Page

is to withhold as much money as possible. Some of the discussions can be very antagonistic."

Colleges' aid directors often contend that fraud is rare. "The vast majority of our families do a very fine job in giving us the best information that they possibly can," says Joseph Russo, director of financial aid at Notre Dame. But the Education Department audit suggests that colleges either are being duped a lot or they choose to look the other way.

Of 102,000 families found to have reported lower incomes on aid applications than on their tax returns, 22,000 had supplied tax returns to the colleges. Yet in virtually all of these cases, the colleges told the government that the tax returns had verified the family income. Thus, either parents were submitting phony tax returns to the colleges, or the colleges weren't telling the federal government the truth.

Many aid directors say privately that fraud is a serious problem. In an e-mail sent two years ago to aid administrators at other colleges, Charles W. Pruett, an aid assistant at George Washington University, wrote, "Lately we have been receiving information from families which on its face appears to be fantasy at best." He described a California couple who managed to pay a $3,500-a-month mortgage and send a child to private school yet reported their income as less than $3,500 a month.

One aid consultant says that colleges don't want parents to realize how easy it is to cheat and how little risk they run in submitting a false application.

Bissell Case

Mr. Bissell wasn't barred from attending Western Connecticut State in Danbury over his suspicious aid application -- he merely didn't receive aid. His application said he and his mother had no savings, according to testimony by the college aid director in federal court in Newark, N.J. But when Mrs. Bissell submitted tax returns for verification, a red flag went up: $11,850 in interest income, clearly reflecting substantial savings.

When Mr. Bissell later applied at Catholic University, Mrs. Bissell herself testified, the family sent in falsified tax returns showing no interest income. The school didn't question them. The scheme came to light during the investigation of her ex-husband, former Somerset County, N.J., prosecutor Nicholas Bissell Jr., who was convicted of fraud last year and, in a case that drew national attention, fled before his sentencing and later killed himself in a Laughlin, Nev., hotel room.

Mrs. Bissell and her son, neither of whom has been accused of any crime, decline through her attorney to comment. Craig W. Parker, Catholic University's general counsel, won't discuss the case. He says that, in general, whether to try to recover ill-gotten financial aid is "an economic decision."

Increasingly, private colleges are asking all students who apply for aid to supply tax returns. How much scrutiny they get is another matter. Mr. Briggs, the former IRS agent, says aid offices are under enormous pressure, and often have to review hundreds or thousands of applications in a few weeks. "All they want to do is come to a reasonable decision about the parents, put a stamp on it and be done with it," he says.

Scant Expertise

Jim Patton, director of student financial assistance at the University of Southern Indiana, laughs when asked if any members of his staff are accountants. "If you saw the wages we paid, you'd think we were lucky to get anyone good to work here," he says, citing starting pay for aid counselors of as little as $18,500 a year.

His office has stopped requiring all applicants to submit tax returns, he says. With 6,600 applications to process each year, it didn't have time to study them.

Sometimes administrators feel pressured to give aid to certain students without questioning the veracity of the application. Mr. Dent at Reed says, "I get calls from admissions: 'Are you working with X student? We really want this student. Do everything you can.'" He says he doesn't let such calls influence him, but adds: "A great pressure can be brought by the institution, especially if the numbers are down and you need a class."

Mr. Patelunas found that aid officers at Catholic University were less aggressive in challenging applications than those at Johns Hopkins, which has an easier time attracting top students. "Catholic has enrollment problems, so you didn't want to make it too difficult for people to get aid," the former administrator says. Catholic's current acting director of financial aid doesn't dispute this assessment.

Some colleges do take active steps to combat fraud. Cornell asks a sampling of parents to sign a waiver so the university can get their tax returns directly from the IRS. Duke requires all applicants to furnish copies of W-2 forms. Massachusetts Institute of Technology, Harvard and Columbia recently hired Mr. Briggs to teach staffers how to examine tax returns for signs of hidden income or assets.

Sued by the Student

But some aid officers worry that if they pursue a suspicious case too vigorously, they may end up in court. Robert Bode, a former aid official at the University of Puget Sound School of Law, described a "nightmare" case in an e-mail to other

administrators last September. College officials confronted a law student who appeared to have "underreported her income and failed to report substantial assets," he wrote. Asked to provide supporting documents, the student gave "evasive and deliberately confusing answers" and "stonewalled," Mr. Bode wrote. At one point, he added, she demanded to know the ramifications "if she had indeed lied on her application."

The law school reported the case to the Education Department and to its own student-conduct review board. The board concluded that the law student, Anna Prata, had falsified her records.

But she sued the board, Mr. Bode, his boss and the university, arguing that she was learning-disabled and the college should have helped her "resolve discrepancies" in the form. She also said Mr. Bode had caused her "severe emotional distress" that resulted in "cardiac disorders."

The suit, filed in federal court in Tacoma, Wash., in 1993, later was dropped. Ms. Prata, who had ceased seeking financial aid, graduated from the law school in 1993. The school referred the matter to the Education Department but didn't itself try to recover past aid from her, it's lawyer says. Ms. Prata didn't respond to a message relayed by her lawyer.

Mr. Bode's e-mail advised other aid administrators to "resist referring these cases to internal conduct review or honor code review boards. You may be on shaky ground vis-a-vis the Privacy Act."

Few Federal Referrals

Federal law requires referral to the Education Department inspector general of any case in which a family seeking federal aid "may have engaged in fraud or other criminal misconduct," including "false statements of income." But some aid administrators say they don't make a referral so long as they can resolve a case internally.

Mr. Dent says that about a half-dozen times in the past three years, Reed College has cut aid or asked a student to repay some because of "information in which I was misled." He didn't report any of the cases to the Education Department, he says – and, in fact, has never referred one in his 27 years in the business.

Some aid administrators say they don't bother because the cases won't be pursued anyway. "It's pointless," says Mr. Patton at Southern Indiana. He says he has spoken to Education Department employees and found they lost interest upon learning that only a few thousand dollars were at stake.

Federal investigators concede they rarely pursue individual students, usually focusing only on widespread fraud. But "if it's a good case, we'll work it," says Gary Pawlak, an investigator for the Education Department in Chicago.

The department's audit makes a series of recommendations, including a "data matching agreement with the Internal Revenue Service to verify the reported adjusted gross income on student aid applicants." The department is negotiating with the IRS for such an arrangement.

Prosecutors' workloads also matter, Mr. Pawlak says. He says federal prosecutors aren't interested in fraud cases below a certain monetary threshold, which he says is about $20,000 in Chicago.

Phony Tax Returns

In one case he was involved in, several calls from colleges prompted a probe of two Detroit-area student-aid consultants, Mack Walker and his sister, Ethel Durr. Between 1987 and 1992, they charged hundreds of clients up to $350 each for phony tax returns showing family income low enough to qualify for Pell grants. The federal government was taken for more than $20 million this way, Mr. Pawlak says. According to an investigative report by the Education Department's Office of Inspector General, obtained through the Freedom of Information Act: "Walker stated that he had students lined up outside his doors, and they were usually there in the morning before the doors were opened."

He and Ms. Durr pleaded guilty to fraud in federal court in Detroit. Mr. Walker drew two years in prison and a $50,000 fine, and his sister three months and a $2,000 fine. More than 100 families have paid restitution, and authorities are pursuing other parents who were Walker-Durr clients.

The parents included airline pilots, lawyers and auto workers. "These were not poor kids," Mr. Pawlak says. "Most of them, they wouldn't have gotten a penny if they had told the truth."

FelCor Suite Boosts Credit Line

IRVING, Texas – FelCor Suite Hotels Inc. said it increased its unsecured revolving line of credit from a group of banks to $400 million from $250 million in order to finance acquisition programs.

The credit line was arranged by Chase Manhattan Bank and Wells Fargo Bank, the real estate investment trust said.

Mr. HORN. Having been a college administrator that took a great deal of pride in a very efficient financial aid office, I'm obviously unhappy when 10 years later I see that sort of a headline. We need to do something about it. You have got the suggestions, and I commend the Department of Education for what it's done over the last few years. It's really quite significant. You are tracking down the delinquent debt.

Mr. MCNAMARA. In closing, Mr. Chairman, I'd just like to point out that any assessment of Ed's progress in implementing the act has to take into account the nature of student loans. They're inherently risky. There is no requirement for collateral or creditworthiness. Students move around a lot. It can make it difficult to locate them and collect. So Education has to balance the social goals of providing access to education and encouraging higher education with those of the more strict business-like approach of the Debt Collection Act. That concludes my summary statement.

[The prepared statement of Mr. McNamara follows:]

Statement by Steven A. McNamara
Assistant Inspector General for Audit
U.S. Department of Education

before the

Subcommittee on Government Management, Information, and Technology
Committee on Government Reform and Oversight

relating to

The Debt Collection Improvement Act of 1996

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here on behalf of the Department of Education's Office of Inspector General (OIG) to discuss the Debt Collection Improvement Act of 1996 (the Act) and share with you information we have gathered on the Department's progress in implementing the Act. While our office has not done audit work addressed specifically to the implementation of the Act, I will summarize audit work we have performed and which is on-going related to debt collection generally in the Department's student loan programs under the Higher Education Act (HEA). I will also provide some observations based upon our work about aspects of the student loan programs reflecting social policy that complicate the process of achieving the full potential of the Act to maximize collections of delinquent debt and minimize collection costs.

Student loans in the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program (FDLP) make up the lion's share of the Department's delinquent receivables. Data previously provided to the ranking member of this Subcommittee by the Department indicate some favorable trends in terms of collections and defaults. For example, collections of delinquent debt by the Department have increased from $143.8 million in FY 1992 to over $1 billion in FY 1996. Guaranty agencies have also fared well with FFELP collections, which increased from $640 million in FY 1992 to $1.3 billion in FY 1996. Meanwhile, new delinquent debt varied substantially from FY 1992 to FY 1996; the Department reported new delinquencies of $3.7 billion in FY 1992, $6.4 billion in FY 1994, $8.5 billion in FY 1995, and $1.2 billion in FY 1996.

Our review of the Department's responses to this Subcommittee's and its ranking member's written questions about implementation of the Act and our general knowledge of Departmental operations leads us to believe that the Department is making good progress in implementing the Act (although we have not audited those responses). In fact, by virtue of pre-existing statutory authorities, the Department had already implemented for student loan defaulters a number of the debt collection mechanisms provided for in the Act, for example tax refund offsets, wage garnishment, and a number of matching agreements with other federal agencies. The Department has used private debt collection agencies for some time to collect student loans, which

the Act encourages.

On the other hand, student loans and grants are exempt from the administrative offset provisions of the Act, so that loan and grant payments may not be offset to recover delinquent debts that are owed to other agencies. Persons with delinquent debts owed to other agencies are currently not barred from obtaining student loans, despite a provision in the Act to the contrary, and the Department is still formulating its position on whether the Secretary of Education should waive this provision. Student loans are also not required under the Act to be referred to the Treasury for collection, since they meet two exemptions in the Act.

The Department has matching agreements with eight Federal agencies. These agreements have proved to be particularly helpful. For example, the Department has realized a net benefit of about $5.4 million for the three years ending FY 1996 through its matching agreement with the Department of Housing and Urban Development (HUD). This agreement provides for the matching of records using HUD's Credit Alert Interactive Voice Response System (CAIVRS).

The Department has been successful in using a number of the involuntary collection mechanisms, which are a centerpiece of the Act. The Department's Debt Collection Service reported recoveries of $535 million through federal tax refund offsets during FY 1996. For the same period, recoveries through administrative

wage garnishments were $14.1 million, resulting from 173,642 garnishments. This is up from a total of 36,753 garnishments of $2.9 million for FY's 1994 and 1995 together. The success the Department has had with wage garnishment leads us to believe that favorable consideration should be given to expanding the Department's access to employment data.

In addition, the Department represents that it is complying with the Act in the following key respects:

- Referring delinquent institutional debts to Treasury and referring delinquent student loans to collection agencies;
- Referring its institutional and student loan delinquent debt to Treasury for administrative offset against payments by other agencies;
- Obtaining taxpayer identification numbers in all cases;
- Incorporating debt collection information into agency performance measurements under the Government Performance and Results Act;
- Matching delinquent student loan records with Federal employment records;
- Reporting all of its delinquent student loan and institutional debt to credit reporting agencies.

However, the Department reports that it has not taken other actions authorized by the Act, including:

- Selling any debt that is owed to the Department, because the Department believes it has better resources to track and collect the debt;
- Barring delinquent federal debtors from obtaining student loans, because the data on whether student loan applicants are delinquent are not now easily available from a central database, and the Secretary of Education has not decided whether to waive this provision of the Act;
- Participating in the Debt Collection Improvement Account this year, because the Department believes it has adequate debt collection resources;
- Completing 1099-C's for student loans, since Congress lifted the statute of limitations on these debts and the Department believes it can recover more in the long run rather than writing off the debt;
- Filing any 1099-C forms in 1996 for institutional debt, since none required this notice;
- Adjusting civil monetary penalties for inflation, since the Department has not found this to be necessary in light of other obstacles to collecting fines from schools participating in the student loan and grant programs to the full extent of existing statutory authority.

Further improvement in debt collection envisioned by the Act will require substantial assistance and guidance from the Department of the Treasury, particularly in the area of systems development. For example, the Department must be able to interface with Treasury's database for the purpose of conducting administrative offsets

on a regular basis. (Currently, due to systems shortcomings, the Department updates the default data it sends to Treasury only once annually.) In order to implement the Act's provision on withholding student loans from persons who are delinquent on debts to other agencies, the Department must be able to access the delinquency information expeditiously from a Treasury central database, which is not now available. The Department will require lead time after Treasury acts to make in-house system programming changes and to coordinate those changes with guaranty agencies and contractors. The Department has indicated that it is continuing to work with the Treasury on these and other related issues such as contracting for debt collection agencies.

OIG WORK RELATED TO DEBT COLLECTION

A number of OIG audit and other work products, while not specifically dealing with the implementation of the Act, have reviewed and analyzed aspects of the Department's debt collection operation and made recommendations for improvement. Our reports have also analyzed the student loan programs and made recommendations for reforms that would further the intent of the Act.

IRS Match

The Act seeks to reduce loss to the federal government by promoting proper screening of borrowers and data matches between federal agencies. A recent OIG audit that has received substantial attention bears on both these matters. We conducted a match of income data reported by applicants for student loans and grants with IRS reported income data, and we found that about 4.4% of applicants for student financial assistance under-reported their income. We determined that this resulted in their receipt of over $100 million of Pell Grants to which they were not entitled. We did not determine the effect on the loan programs, but we believe that these individuals may have improperly obtained subsidized loans as well. We recommended the Department seek a statutory change to allow it to perform a match with the IRS prior to the award of student grants and loans.

Consolidation of Defaulted FFELP Loans into FDLP Loans and Income Contingent Repayment

In 1995 the Department began consolidating defaulted loans held by the Department into new FDLP loans eligible for the Income Contingent Repayment option (ICR option). Our January 1996 audit of this process concluded that it was not cost effective. The manner in which the process was carried out by the Department was not consistent with the purposes of the Act, for the following reasons:

- There were high up-front costs largely from collection agency and servicer fees that we believed would not be recouped, because defaulted borrowers who consolidate into new FDLP loans and repay their new loans under the ICR option may not be required to make sufficient payments;
- Revenues from involuntary collection methods such as tax refund offsets and wage garnishment were lost;
- The prospect of repayment of the new FDLP loans was low and the likelihood of re-default was high;
- Defaulted borrowers who consolidated became eligible for additional student loans and grants.

In the consolidation of a defaulted loan, the old loan is considered collected or paid-in-full. In reality, the loan is not paid off. Rather, a new loan has been substituted for the old loan. Because the Department reports consolidations as collections, a misleading impression may be created. Moreover, the collection fee paid to the collection contractor to release the defaulted loan is added to the loan balance, which is an additional burden for the borrower and reduces the prospect for full satisfaction of the loan.

The Department solicited for consolidation 823,278 borrowers whose defaulted loans were held by its own collection service, DCS. The demographics of the targeted

borrowers indicated that they had been in default for approximately 8.4 years, and only 16 percent of these borrowers had made any payments while their debt had been held by DCS. Our audit recommended that the Department stop actively pursuing such consolidations pending a study to demonstrate the cost effectiveness of this process. We also questioned the need to consolidate the DCS loans into the FDLP to take advantage of the ICR option, because the ICR option was provided for by statute for loans held by the Department. In fact, the HEA mandated that 10% of the Department's defaulted loans be offered the ICR option.

In July of 1996 the Department did an analysis of 29,431 DCS borrowers who consolidated into the FDLP between March 14, 1995 and June 10, 1996. The study corroborated our conclusion that consolidation was not cost effective. The study revealed that the Department paid on average $778.77 per loan to collect on average $8.53 monthly per loan less than it was collecting when the loan was at DCS:

Group	Average Loan Balance	Average Cost to Consolidate	Average Months at DCS Before Consolidation	Average DCS Net Monthly Collections	Average Required FDLCP Payments	Average Monthly Payment
All Borrowers	$5,296.91	$778.77	39	$29.90	$37.35	$21.37

Early statistics indicate that these borrowers tend to default at a higher rate than non-defaulted borrowers. Once again in default, these FDLP borrowers will be required to

pay another collection fee in order to pay off the defaulted consolidation loan.

The Department represented that it has stopped the active pursuit of DCS loans for consolidation into FDLP program. However, if requested by the defaulted borrowers, the HEA provides for consolidating their loans into FDLP and for the ICR option.

PLUS Loans

The HEA Amendments of 1992 removed the $4,000 academic year and $20,000 aggregate limit for parent loans, known as "PLUS loans." Currently, the only dollar limit is that individual loans cannot exceed the estimated cost of attendance minus other estimated financial assistance for the enrollment period. We analyzed the effect of this change. Our analysis revealed that during the two years after the loan limit was eliminated, about 300,000 PLUS loans exceeding the old limit were disbursed, totaling $2.4 billion. While the average loan was about $8,000, there were 17,132 individual loans in excess of $15,000. About 1,200 of those loans were in excess of $25,000.

The HEA also does not require an analysis of the parent borrower's ability to repay, such as age and income. We believe this will negatively impact future collections. Accordingly, we recommended that the Department propose legislative changes to reinstate fixed dollar limits and require an analysis of future ability to repay as an

eligibility condition for PLUS loans.

The Department's Collection Process

We issued three audits in 1995 and 1996 of the effectiveness and efficiency of the DCS, the Department's unit responsible for collecting student loans. Overall, we concluded that DCS operated effectively. We made a number of recommendations for further improvement, which the Department accepted.

In the first of these audits, we observed that the opportunity to further improve customer service and generate about $16 to $17 million for each additional $1 million invested toward the DCS in-house collection activities could be realized by ensuring that the Office of Postsecondary Education maintains a consistent focus on the Department's long-term debt collection policy. The Department agreed with our recommendation to execute a memorandum of understanding between the program office and the Office of the Chief Financial Officer and to provide DCS with more control over its computer systems. In February of this year, the Office of the Chief Financial Officer concluded that these recommendations had been implemented. We also found that DCS's computer systems needed improvement to make them operate more efficiently. We recommended a number of changes which DCS reported have been implemented.

In the second of our DCS audits, we focused on the use of collection agencies in DCS operations, which the Act seeks to promote. By using collection agencies, DCS had more people collecting on accounts and only incurred costs when results were successful. Our review found that DCS could increase net revenue by enhancing the role of collection agencies. In March of this year, the Office of the Chief Financial Officer concluded that our recommendations had been implemented.

The third audit found that DCS could better achieve its mission in the future by strengthening processes for tracking mail, recovering administrative costs, identifying accounts with incorrect addresses, transferring accounts with incorrect addresses to collection agencies, tracking account characteristics and experimenting with transfer criteria. DCS generally agreed with the conclusions in the report, and its management has indicated that it has implemented the recommendation to track account characteristics. DCS has also established a research and development office for collections. Other corrective actions are in the process of being implemented.

Screening for Prior Defaulters

The Act bars delinquent debtors on federal obligations from obtaining additional federal loans or loan insurance guarantees from other agencies. The HEA is consistent with this provision in that it makes student loan defaulters ineligible for

additional student loans (and Pell Grants). However, the process for ensuring that prior defaulters do not get additional student loans is not fully effective. As a result of our 1992 audit report identifying weakness in the screening of student applications for SFA program funds, the Department implemented an edit check for prior defaulters which flags for transmission to school financial aid administrators those applications by prior defaulters. We estimated that this edit procedure could save the Department and the taxpayers $800,000 a day in funds being awarded improperly.

However, these savings depend on the financial aid administrators taking appropriate action with respect to the flagged applications. Our preliminary results in an on-going audit reflect that some financial aid administrators are ignoring the default flag and awarding aid to prior student loan defaulters, thus circumventing the control. The aggregate amount of the resulting awards to ineligible persons could be very significant. We will be performing additional audit work to determine the extent of the problem and make recommendations for corrective action.

FDLP Collection Practices

In our on-going audit of collection practices by contractors in the FDLP, we are identifying and evaluating the adequacy of the policies and practices presently used for loan collections. In addition, the audit will assess the impact that the ICR option and .

consolidations have on collections.

FFELP Collection Practices

In an effort to minimize defaults and increase collections in the FFELP, lenders and guaranty agencies are required to perform specific, time-sensitive due diligence activities in the collection of delinquent and defaulted student loans. They are compensated based upon their performance of these due diligence procedures, and not based upon their success in collecting. In a number of OIG investigations, we have found a pattern of lenders who fail to conduct the mandated due diligence activities and then falsify documentation to reflect that they have met the due diligence requirements. In just two such cases, the fraudulent claims for reinsurance amounted to almost $40 million. In an on-going audit, OIG will seek to identify measures that would result in improved collection of student loans.

BALANCING SOCIAL AND CREDIT MANAGEMENT GOALS

Any assessment of the Department's implementation of the Act in collecting student loans must take into account the nature of the loan programs and the student loan portfolio, which in many respects complicates the process of achieving the Act's goal of

maximizing collections.

Student loans are inherently risky and reflect social policy that loans should be made available to borrowers who may otherwise not be able to obtain credit in the private sector, in order to promote the pursuit of higher education and vocational training. Credit-worthiness is not a prerequisite to eligibility for a student loan. The loans are unsecured, which leaves the government and private lenders with no collateral. Student loan borrowers frequently relocate after attending school which sometimes makes it difficult to locate them. All these factors make education loans difficult to collect.

The student loan programs involve a large number of entities that must coordinate in order to ensure a high rate of collections. GAO includes the FFELP in its list of high risk programs, in part because the overall process is complex and involves multiple parties including the lenders, guaranty agencies, servicers, collectors and others. GAO also considers the FDLP to be a high-risk program based primarily on management. While it is not as complicated as the FFELP, the program still involves multiple parties, including the schools and contractors to originate, process and service direct loans.

As I have discussed above with respect to consolidation of defaulted loans, PLUS loans, and the ICR option, there are many aspects of the student loan programs that

reflect the social goal of encouraging the pursuit of higher education rather than the strictly business-like approach to debt collection reflected in the Act. Other examples include:

- Authorized deferments permitting the periodic cessation of payments;
- Forbearance of payments to prevent default;
- Discharge of loans due to death, total and permanent disability, bankruptcy, attendance at a school that closes, and false certification by a school of a borrower's eligibility.

We believe that the ICR option will have the greatest impact on debt collection in the student loan programs. The 1992 HEA Amendments introduced the ICR option for direct loan borrowers. Under the ICR option, borrowers' loan repayments are based on their ability to repay, which can result in no payments, and the loan will be written off after 25 years. Accrued interest added to the loan balance will be capped at 10% of the loan balance, resulting in increased interest expense to the Department. FFELP borrowers may also take advantage of the ICR option by consolidating their loans into the FDLP, and defaulted FFELP loans held by the Department may be repaid under the ICR option without consolidation. Although the ICR option will make repayments more manageable for some borrowers, we believe that overall it is likely to reduce collections and increase the cost to the Department.

Mr. Chairman, this concludes my remarks. I will be happy to answer any questions you or the members of the Subcommittee may have.

Mr. HORN. We thank you for that fine statement and now we have D. Mark Catlett, Assistant Secretary for Management and Chief Financial Officer, Department of Veterans Affairs.

STATEMENT OF D. MARK CATLETT, ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF VETERANS AFFAIRS

Mr. CATLETT. Good morning, Mr. Chairman. It is my pleasure to testify on behalf of the Department of Veterans Affairs on our implementation of the Debt Collection Improvement Act, DCIA. As VA Chief Financial Officer, I am working closely with the Veterans Benefits Administration and the Veterans Health Administration, within the Department, to take the steps necessary to ensure our compliance with the requirements of DCIA.

I believe the VA has long been a leader in the Federal debt management community. Since 1991, the Veterans Benefits Administration has operated a debt management center in Saint Paul, MN, which controls and maintains an automated collections system that has been in existence since 1975. The debt management center utilizes every collection tool available to Federal agencies in an operation that emphasizes both the prevention and collection of debt.

Over the past year we have been moving closer to our goal of consolidating all significant VA debt programs into one centralized automated collection system. We have now made significant progress toward automating the billing and payment process of the first party medical receivables at centralized sites, and we have laid the groundwork for consolidating the management of these debts under the debt management center.

Enactment of DCIA provides Federal collection officials with some new collection tools, and it also imposes on these officials some new requirements. Let me expand briefly on some of our responses to the earlier written inquiry by this subcommittee.

Concerning administrative offsets and cross-servicing, VA is preparing an initial referral from our debt management center to Treasury of certain debts delinquent more than 180 days. We have released notification to the referral candidates in March, and we will make the actual referrals to the Treasury during this month of April. About 39,000 notices were released, representing debts valued at $201 million.

Our debt management center is working with OMB and Treasury to explore the possibility of becoming a cross-server of government debt under the DCIA. In regards to this objective, our debt management center will be submitting a debt collection business plan to OMB, and on April 8, last week, we submitted a cross-servicing application to the Department of Treasury. These documents will serve as the basis for our upcoming discussions with OMB and Treasury.

The debt management center has been successful in collecting its own delinquent claims, using all appropriate collection tools, such as Federal salary offset, tax refund offset, and the use of credit reporting agencies and private collection agencies.

The debt management center also has an extensive management reporting system, all of which indicates, in my belief, the debt management center's ability to collect the debts of other agencies and

to provide incremental servicing of any collection function as necessary.

On debt sales, VA has a highly efficient process for selling loans and generally executes three loan sales a year. In the three sales for fiscal year 1996 plus the first sale in this fiscal year, VA sold a total of 24,248 loans with a balance of almost $1.7 billion.

On the tax identification number, in January 1997, the VA notified commercial vendors who did not have TIN information on file with us that they must supply such information in order to receive payment. Of the more than 260,000 vendors with which we conduct business, there were 46,000 for which we did not have TIN information in January. Today, we have reduced that number to less than 5,000.

VA currently maintains Social Security information for the vast majority of our benefit payment recipients. In addition, new applicants for VA benefits are now requested to provide their Social Security numbers.

Again, in closing, I would like to thank you for the opportunity to present our progress in the implementation of the DCIA.

[The prepared statement of Mr. Catlett follows:]

STATEMENT BY
THE HONORABLE D. MARK CATLETT
ASSISTANT SECRETARY FOR MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

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

APRIL 18, 1997

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 am working closely with our Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA.

VA DEBT COLLECTION

VA has long been regarded as a leader in the Federal debt management community. Historically, the management of VA's major debt programs was divided into two categories -- medical care cost recovery (MCCR) and the recovery of VA

benefit debts. The Veterans Benefits Administration (VBA) has operated and maintained an automated collection system since 1975 for debts resulting from participation in VA benefit programs. The VBA Debt Management Center (DMC) in St. Paul, Minnesota, assumed control of these centralized benefit debts in 1991. The DMC oversees a centralized, automated collection system that utilizes every collection tool available to Federal agencies in an efficient operation that emphasizes both the prevention and collection of debt. Delinquent debts currently subject to collection by DMC fall into two categories. The first category involves overpayments of monthly benefits, such as compensation, pension, and education allowances. The second category contains deficiencies established after foreclosure on mortgage loans guaranteed or made directly by VA.

Over the past year, we have been moving closer to our goal of consolidating all significant VA debt programs into one centralized, automated collection system. We have now made significant progress toward automating the billing and payment processing of first-party medical receivables, and we have laid the groundwork for consolidating the management of these debts under the DMC.

The results of our efforts will be felt throughout 1997 when the generation and collection of medical bills will be completely automated at centralized sites. Also in 1997,

first-party medical care debts that are more than 90 days delinquent will be referred to the DMC for collection management activity. This referral will implement a recommendation by the National Performance Review and is consistent with the Department's strategy of achieving maximum consolidation of debt. During 1997 and part of 1998, we plan to develop and modify the systems that will allow for the DMC to manage all first-party medical care receivables, including nondelinquent receivables. Through our consolidation of these medical debts, we should increase the collection rate, while significantly lowering the cost of collection, since the centralized operations will be more efficient than spreading the operations out among the individual medical centers.

DEBT COLLECTION IMPROVEMENT ACT (DCIA) OF 1996

The enactment of the DCIA legislated the most sweeping changes for Federal debt collection management since the Debt Collection Act of 1982. This legislation provides Federal collection officials with some new collection tools, and it also imposes upon these officials some new requirements.

Let me expand on some of our responses to the earlier written inquiry of this Subcommittee.

ADMINISTRATIVE OFFSET AND CROSS-SERVICING

VA is preparing an initial referral from our DMC to Treasury of certain debts delinquent for more than 180 days. The DMC released notification to the referral candidates in March and will make actual referrals during this month of those debtors not responding to the notice. About 39,000 notices were released, representing debts valued at $201 million.

The DMC is working with OMB and Treasury to explore the possibility of becoming a cross-servicer of government debt under the DCIA. In regard to this objective, the DMC will be submitting a debt collection business plan to OMB and on April 8, 1997, submitted a cross-servicing application to Treasury. These documents will serve as the basis for upcoming discussions between the DMC, OMB, and Treasury.

One of the major requirements that a debt center applicant must meet is to have successfully collected its own delinquent claims using all appropriate tools available. Since 1991, the DMC has established $3.7 billion in new delinquent debt while collecting over $1.8 billion. It should be noted that this collection rate would in fact exceed 70% if we excluded defaulted home loan debts from the calculation. These debts are extremely difficult to collect, not only because of the financial status of the veteran, but also because section 3726 of title 38 of the

U.S. Code prohibits these debts from being offset from any Federal payment, except VA benefit payments, unless the veteran agrees in writing to such offset or the debt was established through a judicial proceeding to which the veteran was a party. During the same period, portfolio balances of delinquent debt have been reduced by $700 million and are expected to continue to decline.

The DMC has been quite successful in collection of VA debts because of the extensive use of available tools for collection. Demand letters are automatically generated in 30-day intervals on all newly established claims. Each letter includes a recitation of the debtor's rights and obligations, as well as a toll-free telephone number for inquiries. The letters also include payment remittance stubs barcoded with the appropriate account information.

Should a debtor not respond to the initial collection process, the automated program either selects the next appropriate tool of collection or alerts a DMC clerk that the account must be reviewed for the next action. Among the alternatives used extensively by the DMC are administrative offset from current and future VA benefit payments, Federal salary offset, and referral to IRS for tax refund offset. In addition, VA has been reporting delinquent benefit debts to credit reporting agencies since 1986, and we have routinely used private collection agencies since 1987, when

the first contract was issued. In addition, the DMC reports uncooperative, delinquent debtors to the Credit Alert Interactive Voice Response System (CAIVRS), a HUD sponsored credit-screening service for Government agencies. Finally, as a last resort for collection, the DMC continues to refer debts to both the Department of Justice and our own Regional Counsels for litigation.

The DMC has an extensive management reporting system. Appropriate indicators and data are also available to measure performance in collecting VA debt, as well as other agencies' debts, which is a requirement that must be met in order to be designated as a collection center. Statistics are available on all major DMC collection initiatives, including IRS offset, Federal salary offset, private collection agency referrals, and administrative offset, all of which indicate the DMC's success and ability in using these collection tools.

All of the above is a strong indication of the DMC's demonstrated willingness and ability to collect the debts of other agencies or to provide incremental servicing of any collection function when the creditor agency itself performs a portion of the function. In addition, the DMC and VA Austin Automation Center recently completed programming that enlarged the capacity of the centralized automation system to accept debts from other agencies.

Finally, the DMC is capable of reporting necessary information to Treasury to allow monitoring of the debt collection performance on referred claims. This includes the ability to track and report on the status of receivables at any point in the collection process. The DMC can also develop necessary financial files in coordination with a creditor agency.

COMPUTER MATCHING

In conjunction with our efforts to comply with the administrative offset and cross-servicing provisions of the DCIA, it should be noted that the DMC continues to participate in various computer matches on a semi-annual basis, where DMC debt records are matched against employment records of other Federal agencies to identify indebted Federal employees. We are looking forward to working with Treasury on any new computer matching initiatives under the DCIA.

DEBT SALES

VA has a highly efficient process for selling loans. In 1992, legislation was enacted (Public Law 102-291) which authorized VA to directly guarantee securities issued in connection with vendee loan sales. Previously, VA could

guarantee payment on the loans but not the securities which were issued and sold to investors. A new issuing vehicle named "Vendee Mortgage Trust" was created and features which have become standard for Agency mortgage securities were introduced. The program itself was nicknamed "Vinnie Mac." The securities are issued as Real Estate Mortgage Investment Conduits (REMICs) using multi-class structures. These "Vinnie Mac" securities were the first REMIC securities directly guaranteed by the United States of America.

VA executes three loan sales each year. In the three FY 1996 sales, plus the first sale of FY 1997, VA sold a total of 24,248 loans with a balance of almost $1.7 billion. Costs of the sale have been lowered to less than 25 basis points (0.25%)and the net proceeds of the sales were just 43 basis points (0.43%) below the amount sold.

While VA has not yet implemented a program of debt sales under authority of the DCIA, we look forward to working with Treasury to ensure implementation of this portion of the DCIA.

TAX IDENTIFICATION NUMBERS (TIN)

The VA Finance Center in Austin, Texas, reviewed its vendor files containing information on commercial, Federal, and foreign vendors. It determined that 45,889 commercial

vendors, out of a total of 262,629 vendors, had no TIN or Social Security Administration numbers (SSN) on file with VA. In January 1997, the VA Finance Center notified these 45,889 commercial vendors they must supply TIN/SSN information in order to receive payment. To date, we have obtained TIN/SSN information on 32,148 of these 45,889 commercial vendors. Of the remaining 13,471 commercial vendors on which VA has no TIN/SSN information, we have subsequently determined that only 4,600 are still considered to be active vendors. We continue to pursue information from these remaining commercial vendors and are receiving an average of about 100 responses daily.

VA currently maintains SSN information for the majority of persons in receipt of, or entitled to receive, payments related to our various benefit payment programs. For example, of the 3.3 million VA compensation and pension beneficiaries in FY 1996, only 54,824 were found not to have provided SSN information, and 30,222 of these were children. We continue to pursue information from remaining beneficiaries. In addition, new applicants for VA benefits are now requested to provide SSN information. TIN/SSN information will continue to be integrated into the payment system modernization projects for the various program areas. As the projects are completed, TIN/SSN information will be transferred to Treasury in the Treasury selected format.

CIVIL MONETARY PENALTIES (CMP)

On November 1, 1996, VA published final regulations in the Federal Register, which adjusted civil monetary penalty amounts for inflation as required by the DCIA.

I thank you for this opportunity to present our progress in implementing the Debt Collection Improvement Act of 1996.

Mr. HORN. Well, I appreciate that testimony. We will have a number of things to discuss later on all of these. Thank you for summarizing.

Anne Donovan is from the Office of Child Support Enforcement, Department of Health and Human Services, and I believe you were going to be accompanied by Mr. Strader. I don't know if he's here or not; is that correct?

Ms. DONOVAN. I was unaware I was being accompanied by him until I saw your list, so I don't know. I am sorry.

Mr. HORN. Is he here at all?

Ms. DONOVAN. He's not here.

Mr. HORN. Go ahead.

STATEMENT OF ANNE DONOVAN, OFFICE OF CHILD SUPPORT ENFORCEMENT, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. DONOVAN. Thank you. Good morning Mr. Chairman and members of the subcommittee who are here. I am pleased to appear before you today to testify on implementation of the Debt Collection Improvement Act of 1996. My testimony will focus on the use of the act to collect child support owed on behalf of millions of our Nation's children.

The goal of the child support enforcement program is to ensure that children are financially supported by both their parents. Today, when high divorce rates translate into a host of social problems, it is more important than ever to reaffirm that both parents have a responsibility to support their children.

As you have noted, Mr. Chairman, President Clinton has made improving child support enforcement and increasing child support collections a top priority. The Debt Collection Improvement Act contains provisions that will significantly assist States' efforts to that end and will complement the enforcement tools included in the new welfare reform law, and we thank you and Congresswoman Maloney and this committee for that.

To ensure that the full force and effect of the Debt Collection Improvement Act are brought to bear on parents that refuse to support their children, the President issued Executive Order 13019 on September 28, 1996, mandating Executive agencies to take specific actions to implement the law. The order requires all Federal departments and agencies to take necessary and legal steps to deny Government loans, such as small business loans, farm loans and home loans, to nonsupporting parents. The order also calls for collection of past due support through an administrative offset program which can identify people who receive Federal payments and who owe child support. This would allow support debts to be deducted, for example, from fees paid to Government consultants and vendors; funds that could otherwise be paid to families.

Since tax refunds and Federal salary payments have been available for attachment to pay child support debts for many years, we anticipate that the category of "vendor miscellaneous payments," where an individual payee can be identified, will result in the bulk of child support offsets under this program. An estimated 16,152,000 annual vendor miscellaneous payments are scheduled to be in the system, and Treasury estimates a significant amount of

these payments have potential for administrative offset for child support enforcement purposes.

The Office of Child Support Enforcement has been working closely with the Department of Treasury and has convened a joint work group to identify and resolve potential implementation problems. We have taken the initiative to ensure that all State CSE agencies are fully apprised of the potential for administrative offset, and we have worked hard to promote the new program for all States which have the current systems capability to utilize it.

We contacted all child support enforcement programs to discuss implementation capability, a critical issue given States' focus now on their new responsibilities under welfare reform. States fell into categories: those which could begin implementation immediately or within a few months, and those which require significant systems modifications or needed enabling legislation, signaling the need for a phased-in approach.

However, we anticipate that all States would be able to participate in the Treasury offset program by January 1998, when the tax refund offset program will be merged with Treasury's offset program at Treasury's Financial Management Services. Federal tax refunds will then become one of the many Federal payments offset in the Treasury offset program.

As a result of our activities, we have already begun to identify cases which are eligible for administrative offset. During the week of April 7th, as you heard, we issued pre-offset notices for three States, Arizona, Kansas and South Dakota, and offsets are scheduled to begin on May 12th.

This week pre-offset notices were sent out for Connecticut and the District of Columbia, and offsets on behalf of those cases should begin also in mid-May. Today, we received notice from California that they were certifying half a million cases, almost triple what we had received so far. Notices for them will go out next week and offsets will begin in mid-May. A number of other States will join the administrative offset this year.

We will continue to work closely with the remaining States to resolve the issues impeding their participation. The Office of Child Support Enforcement was the first agency to participate in the tax refund offset program for past due child support collections, and to date we have collected over $7.4 billion. Last year the States submitted over 5.3 million cases through the Office of Child Support Enforcement to the Internal Revenue Service for offset, resulting in record breaking collections totaling over $1.02 billion.

Given this experience, we are very excited about participating with Treasury in this new program, and we want to ensure that it's carefully planned and implemented with maximum participation by the State child support agencies. We believe that this collaborative partnership is essential to guarantee that the program succeeds.

In conclusion, Mr. Chairman, this administration is fully committed to utilizing the resources provided by the Debt Collection Improvement Act for the enforcement of child support. The Office of Child Support Enforcement will continue to work closely with the Department of Treasury and our State partners to ensure the full implementation of Executive Order 13019, which will certainly

result in enhancing the collection of desperately needed child support for the children of America.

Thank you again, and to your subcommittee, for the opportunity to testify, and I would be happy to answer any questions.

[The prepared statement of Ms. Donovan follows:]

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to testify on implementation of the Debt Collection Improvement Act of 1996. My testimony will focus on the use of the Act to collect child support owed on behalf of millions of our Nation's children. We consider this to be an extremely promising enforcement mechanism, and I want to thank you for giving me the opportunity to testify on our early progress in implementing the law.

The goal of the child support enforcement program is to ensure that children are financially supported by both their parents. The program was established in 1975 as a joint undertaking involving Federal, State and local cooperative efforts. At the Federal level, the Department provides technical assistance and funding to States through the Office of Child Support Enforcement. Today, when high divorce rates translate into a host of social problems, it is more important than ever to reaffirm that both parents have a responsibility to support their children.

President Clinton has made improving child support enforcement and increasing child support collections a top priority and the results are telling. In fiscal year 1996, the program was responsible for the collection of $11.8 billion from non-custodial parents, an increase of $4 billion, or nearly 50

percent, since 1992. Despite this progress, much more needs to be done. Currently, only about one-half of custodial parents due child support receive full payment. About twenty-five percent receive partial payment and twenty-five percent receive nothing.

The Debt Collection Improvement Act contains provisions that will significantly assist States' efforts to collect past-due child support obligations and will complement the enforcement tools included in the new welfare reform law. Specifically, the Act allows for administrative offset, by the Department of Treasury, of a variety of federal payments. The implications of this legislation are enormous. We have worked closely with Treasury's Internal Revenue Service on collecting delinquent child support through the interception of Federal Tax Refund payments and we welcome the opportunity for this new collaboration to greatly expand the offset program. The Act will facilitate moving from a once-a-year, single revenue offset process to a continuous process involving offset of Federal payments.

Executive Order 13019

To ensure that the full force and effect of the Debt Collection Improvement Act are brought to bear on parents that refuse to support their children, the President issued Executive Order 13019 on September 28, 1996, mandating executive agencies to take specific actions to implement the law. The President has pointed

out that, "if all parents in this country paid the child support they owe, we could move 800,000 women and children off the welfare rolls tomorrow....If you owe child support, you shouldn't get the support of the national government."

First, the Order requires all federal Departments and agencies to take necessary and legal steps to deny government loans -- such as small business loans, farm loans, home loans -- to non-supporting parents. Second, and the specific focus of my testimony today, the Order calls for the collection of past due support through an administrative offset program which can identify people who receive federal payments and who owe child support. This would allow support debts to be deducted, for example, from fees paid to government consultants and vendors -- funds that could otherwise be paid to families.

President Clinton directed the Secretary of the Treasury, in consultation with the Secretary of Health and Human Services, to develop and implement procedures necessary to collect delinquent child support debts by administrative offset. HHS was in turn directed to provide the Secretary of Treasury with information on past-due child support claims which have been referred by States.

In response, the Office of Child Support Enforcement has been working closely with the Department of Treasury and has convened a joint work group, which also includes State child support

enforcement officials, to identify and resolve potential problems and to develop an implementation plan.

Since tax refunds and Federal salary payments have been available for attachment to pay child support debts for many years, we anticipate that the category of "Vendor/Miscellaneous Payments" where an individual payee can be identified will result in the bulk of child support offsets under this program. An estimated 16,152,000 annual vendor/miscellaneous payments are scheduled to be in the system and Treasury estimates a significant amount of these payments have potential for administrative offset for child support enforcement purposes.

We have taken the initiative to ensure that all State CSE agencies are fully apprised of the potential for administrative offset, and we have worked hard to promote the new program for all States which have the current systems capacity to utilize it. We contacted all 50 States and four jurisdictions that operate child support enforcement programs. During these initial contacts, discussion centered on implementation capability, a critical issue given States focus on new responsibilities under welfare reform. States fell into two categories: those which could begin implementation immediately or within a few months, and those which required significant systems' modifications or needed enabling legislation.

We anticipate that all States will be able to participate in the Treasury Offset Program by January 1998 when the Tax Refund Offset Program will be merged with the Treasury Offset Program at Treasury's Financial Management Service. Federal Tax Refunds will then become one of the many federal payments offset in the Treasury Offset Program.

On February 25 and 26, 1997, the Office of Child Support Enforcement hosted a Task Force meeting, which included the HHS/Treasury Work Group, Administration for Children and Families' Regional staff specialists and State Child Support Enforcement officials to identify and discuss common State implementation issues. This meeting was extremely useful in helping us to focus on specific problems which could be resolved, and in alleviating States' concerns about the new program.

The HHS/Treasury Work Group then hosted a conference call on March 11, 1997, to discuss a specific implementation plan with those States that had tentatively committed to begin certifying cases immediately. We followed that call with another series of contacts with the remaining "flow-in" States, i.e. those jurisdictions which would submit cases as soon as systems' problems or legal impediments were resolved. A phased-in approach is necessary at this time to accommodate various States' limitations based upon systems' processing capabilities and legal constraints under their existing statutory authority. In

particular, some States have to modify their automated processing and distribution systems in order to handle collections of delinquent child support obligations through the Treasury Offset Program.

As a result of these activities, we have already begun to identify cases which are eligible for administrative offset. During the week of April 7, 1997, we issued pre-offset notices for three States: Arizona, Kansas and South Dakota. These States represent 112,500 cases and offsets are scheduled to begin on May 12.

Within a week, we expect pre-offset notices for Connecticut and the District of Columbia, totaling 66,500 cases to be mailed. Offsets on behalf of these cases should begin mid-May. Other States that will join the administrative offset this year include: Alaska (April), Massachusetts (April/May), Oklahoma (May), Hawaii (June), Rhode Island (June/July), Vermont (July), Idaho (July) and New York (August).

We will continue to work closely with the States to resolve the issues impeding their participation. For example, OCSE will conduct workshops on the Debt Collection Improvement Act of 1996 and Executive Order 13019 in at least 3 major Child Support Enforcement conferences this year.

The Office of Child Support Enforcement was the first agency to participate in the Tax Refund Offset Program and has collected over $7.4 billion since its inception. Last year, States submitted over 5.3 million cases through the Office of Child Support Enforcement to the Internal Revenue Service for offset, resulting in record-breaking collections totalling over $1.02 billion. Given this experience, we are very excited about participating with Treasury in this new program, and want to ensure that it is carefully planned and implemented with maximum participation by the State CSE agencies. We believe that this collaborative partnership is essential to guarantee that the Program succeeds.

Conclusion

In conclusion, Mr. Chairman, this Administration is fully committed to utilizing the resources provided by the Debt Collection Improvement Act for the enforcement of child support. The Office of Child Support Enforcement will continue to work closely with the Department of Treasury and our State partners to ensure full implementation of Executive Order 13019, which will certainly result in enhancing the collection of desperately needed child support for the children of America.

I want to again thank the Subcommittee for this opportunity to testify. I would be happy to answer your questions.

Mr. HORN. Well, we thank you very much for coming. I am going to pursue a few questions with each of you, and then in the interest of time we will submit the rest to you and, if you don't mind, file the answers for the record. We will put them in at this point.

Let's start with you, Mr. McNamara, on education. Many of the delinquencies in education are as a result of fly by-night trade schools or fly by-night correspondence schools. Can the Department implement performance measurements for trade schools and correspondence schools which measure their success in graduating and employing students and use that information as a basis for cutting off schools that are abusing the process?

Mr. MCNAMARA. Mr. Chairman, we think that would be an excellent approach that would prevent many of these defaults and would also prevent many of these students from becoming victimized by the types of trade schools that you just mentioned. We think that it is absolutely imperative. Our Inspector General Tom Bloom always says what you measure you get. If the Department, I think, started measuring performance by these trade schools, you would see a significant increase. This is going to take a change right now, and I think it is something we are pushing for in reauthorization. We have not yet seen what the Department's approach is going to be.

Mr. HORN. As I remember, you have got an 85/15 formula in this area, don't you?

Mr. MCNAMARA. Yes, sir.

Mr. HORN. Has that been of any help?

Mr. MCNAMARA. We are looking into that right now. I think GAO is doing some work. It is a little bit too early to tell. I don't think we have seen much result from what we know now of schools being kicked out as a result of failing the 85/15. I don't know how effective it is working.

Mr. HORN. I didn't even know about it. As a university president, I didn't know anything about it. I was walking across the floor one day and Maxine Waters was on the floor taking on the Education Committee, and what she said made sense to me. So I joined her in taking on the Education Committee. Mr. Ford was then the chairman and we forced a vote in the 103d—the Democratic Congress—and we lost. Guess why? I mean there is a lot of PAC money floating around somewhere from trade schools and others, and it is pretty disgusting.

So we will try to deal with that, and hopefully you will get the authorization committee to deal with it and we will take a look at it. That needs its own investigation, I think.

Mr. MCNAMARA. During reauthorization, Mr. Chairman, there are other areas that I have mentioned in my testimony in which we think changes would also be of benefit to the Debt Collection Improvement Act, the plus loan limits and some of the others. The ICR contingent repayment has some possibility of being costly as well, so these might all be issues that should be looked into.

Mr. HORN. That's a good point. One other item that I was interested in—apparently your office's audit work indicates that the Government is losing $800,000 per day by giving out loans to individuals who have defaulted on prior loans. Is that correct?

Mr. MCNAMARA. That is correct, Mr. Chairman, but we had done an audit several years ago and we found that the lack of an edit allowed that much money to be hemorrhaging. And it was about $300 million a year, our estimate, and that turned out to be conservative. The Department took prompt action to put the edit in, and it started kicking out a lot of these individuals.

What we found in recent work is that the student aid report, the document that goes to the college for the financial aid administrator to make the award, is flagged, saying this person has a previous default. What we are finding is that there is a disturbing number of cases where these financial aid administrators are awarding over top of this flag and people who have previous defaults that haven't been taken care of are receiving additional aid.

Mr. HORN. What do you suggest is the solution to that problem? Can the Department under its administrative authority just start cutting off aid or lowering it based on incompetence among some financial aid administrators?

Mr. MCNAMARA. We think the easiest way to fix it would be if it hit the default match that a valid SAR not be issued, and just come and say that Joe is default and no aid can be issued——

Mr. HORN. When you say a SAR, translate that. What is it?

Mr. MCNAMARA. A student aid report. This is the document that comes to the college that shows how much student aid the student is eligible for. And what we believe is there should not be a valid student aid report issued if you're in default. You should have to clear it up. There is some concern that this would be an inconvenience to the student borrower, but our position is that if you are in default you probably should bear a little inconvenience.

Mr. HORN. Good attitude. Thank you very much for your comments on that, and the rest we will just file with you, if you would be good enough to answer them for the record.

Mr. Catlett, on the Veterans Administration, I have one question which I always ask a person in your position. You are not only the Chief Financial Officer, you are the Assistant Secretary for Management. How much time do you spend being Chief Financial Officer?

Mr. CATLETT. Being Chief Financial Officer?

Mr. HORN. Yes, how much time in the 8-hour day do you spend on Chief Financial Officer duties?

Mr. CATLETT. Well, as you know, I'm CIO as well as the CFO, and all of my time is spent on those two responsibilities. I'd have trouble—I can do it for the record if you would like, splitting between the two. But I don't know the distinction that you are trying to make between the Assistant Secretary for Management and the CFO.

Mr. HORN. Well, you are Assistant Secretary for Management.

Mr. CATLETT. Yes, sir.

Mr. HORN. And you are Chief Financial Officer; is that right?

Mr. CATLETT. Yes, sir.

Mr. HORN. And you are Chief Information Officer?

Mr. CATLETT. Yes, sir.

Mr. HORN. How many hours do you spend on each function every day?

Mr. CATLETT. I split those functions equally, as I look at it, between the financial office responsibilities and the information office responsibilities.

Mr. HORN. So you are doing the work of three people?

Mr. CATLETT. Well, I view my job as the Assistant Secretary for Management to be doing those two things, primarily.

Mr. HORN. Well, the reason I ask the question, I haven't had to really deal with VA much, although I am going to hold a joint hearing in the next few months, I might as well warn you, on your computer situation, because we had some discussions with the veterans' committee on that.

My frustration, and the same goes with the Treasury Assistant Secretary CFO, I don't know if he is the CIO, too, is that we are not getting the job done. There is no way one person can do those three jobs and I don't understand why cabinet officers permit that, and so you have got my bias right up front.

Mr. CATLETT. Yes, sir.

Mr. HORN. And the reason IRS is the basket case of the administration is because Treasury has never spent the time to focus in on their financial thing. They will not be able to submit this Congress, which, under the law, 5 years ago, said, by September 1997 you have to be able to get a balance sheet. They don't have one. Guess why. Nobody is riding them on it. Will the VA have a balance sheet by September?

Mr. CATLETT. Yes, sir.

[The information referred to follows:]

DEPARTMENT OF VETERANS AFFAIRS
TESTIMONY CLARIFICATION
PAGE 135

This is in further response to your question about whether the VA will have a balance sheet by September. The VA Inspector General provided an unqualified audit opinion on the September 30, 1996, year-end balances contained in VA's FY 1996 Annual Accountability Report. Please direct your attention to page 53, for the Statement of Financial Position. The Department has been providing such statements since 1986.

Statement of Financial Position
As of September 30, 1996 and 1995
(In Millions)

	1996	1995
Assets		
Fund Balances with Treasury	$ 13,143	$ 11,641
Investments (Note 7)	14,548	14,484
Receivables (Note 8)	4,224	3,993
Merchandise and Supply Inventories	68	65
Advances and Prepayments (Note 8)	308	177
Property, Plant and Equipment, Net (Note 9)	11,140	11,478
Total Assets	**$ 43,431**	$ 41,838
Liabilities		
Funded Liabilities		
Accounts Payable and Accrued Liabilities	$ 3,650	$ 1,973
Liabilities for Loan Guarantees (Note 5)	4,221	3,658
Deferred Revenues and Other Liabilities	268	248
Dividends on Credit or Deposit	1,174	1,087
Insurance Policy Reserves (Note 6)	12,933	12,972
Dividends Payable	858	889
Intragovernmental - Debt from Borrowing Authority	1,783	1,584
Total Funded Liabilities	**24,887**	22,411
Unfunded Liabilities		
Accrued Leave	856	783
Insurance Policy Reserves (Note 6)	556	558
Reserve for Future Losses on Guaranteed Loans (Note 5)	293	747
Liability for Federal Employees Compensation Act	1,699	1,544
Liability for Veterans' Comp. and Pen. Benefits (Note 4)	239,954	252,717
Total Unfunded Liabilities	243,358	256,349
Total Liabilities	**$ 268,245**	$ 278,760
Net Position		
Fund Balances		
Unexpended Appropriations	$ 4,561	$ 3,999
Invested Capital	11,209	11,543
Cumulative Results of Operations	2,497	3,677
Equity in Overpayment Receivables and Other	277	208
Total Fund Balances	18,544	19,427
Less Future Funding Requirements	243,358	256,349
Net Position (Deficit)	**(224,814)**	(236,922)
Total Liabilities and Net Position	**$ 43,431**	$ 41,838

The accompanying notes are an integral part of these statements.

Mr. HORN. OK. Well, great. We will take a look at it. Anyhow, that whole conflict there of three officers that the Congress has separately established just does not set well with me. To me, one of those jobs is 18 hours a day, and three of them, we don't have that many hours to worry about.

OK. The Veterans Health Administration, third party medical debts, were they ever referred in the General Services Administration contract for private collection agencies?

Mr. CATLETT. No, sir, I don't believe so. And, again, as you understand, we have an interesting situation. They are not delinquent debt, even though we have a definition question there. It is a receivable, and it is a contractual relationship we have with that third party. We obviously have the complication at the VA of having to bill our per diem rate and receiving a payment less than that rate because of the adjustments they make for Medicare adjustments and other things that we do not and cannot collect. So, we will use private collection agencies, but I don't believe we use the GSA collection contract.

Mr. HORN. Do you intend to refer them to the Treasury, Financial Management Service?

Mr. CATLETT. The third party specifically we will not. All of our other debts were referred there. If we have a disagreement on the third party with our insurers, we will generally refer that to our district counsel, and if it is large enough, we refer it to the Department of Justice for action.

Mr. HORN. We will followup on that with you. There are perhaps a few more questions we need to ask there.

Is the Veterans Health Administration, VHA, reluctant to refer debts to private collection agencies? What is your understanding of the Veterans Health Administration policy, within the VA?

Mr. CATLETT. Well, again, I think that would apply to what I call our first party debt, the debt of the veterans themselves, and in most cases, many of those are very, very small. Our average is just for the co-payment for prescriptions, which is in the range, sometimes, of less than $10. The average is less than $10. So, I don't think would be very beneficial. For larger debts, yes, we will consider that, and I would provide you for the record our action there, but in large part, the debt of the individual veterans in our health care is very, very small.

[The information referred to follows:]

The GSA contract under which VA refers debt to private collection agencies specifies that only debts of $100 or more may be referred. This threshold effectively eliminates most of VA's first-party portfolio from consideration for referral to a private collection agency. Once VA has consolidated the management of first-party debt at our Debt Management Center, we can refer to private collection agencies that small percentage of debts that are over $100 and that VA is unable to collect in house. Since private collection agencies have historically been able to collect only about one and one half percent of VA benefit debts that VA could not collect in house, we do not expect that these referrals will generate a dramatic increase in collections.

Mr. HORN. What is the cutoff mark on when you decide to collect the debt and when you don't? I mean, what level are we talking of debt that you would deal with in referring for collection?

Mr. CATLETT. I will have to provide that for the record. In terms of a collection agency, we will pursue the debt no matter how small it is and we do that with the tools we have.

[The information referred to follows:]

As stated above, the GSA contract under which VA refers debts to private collection agencies specifies that only debts totaling at least $100 may be referred.

Mr. HORN. Well, I guess our curiosity when the staff reviewed this is why has the Veterans Health Administration not referred the debts to their own agency's debt management center before, and the question obviously arose, is it because the debt management center is in the Veterans Benefit Administration, rather than the Veterans Health Administration? Do we have a little turf problem there?

Mr. CATLETT. We have been addressing that, Mr. Chairman. We began referring that debt this year. We have a pilot under way, and I will provide for the record the schedule for when we will refer all of our first party debt to the debt management center.

That process has begun. I would not agree with your statement, but recognize your position that there has been an issue of folks pursuing their efforts and their activities, and our coordinating that, and the need to do that a little better. We have recognized that and have begun that process, and the referrals have begun. We have done a pilot in Pennsylvania and we will expand that throughout this next year, and we will provide for the record our schedule for referring all first party debt to our debt management center.

Mr. HORN. Thank you. We will followup on that with various questions.

[The information referred to follows:]

We are currently developing programming to refer first-party medical receivables that are at least 90 days old to our Debt Management Center. We are currently testing referrals from our medical center in Altoona, Pennsylvania.

We are currently developing a model for a new debt collection database system in order to evaluate the feasibility of centralized management of all VA first-party debt. We plan to have the data model and process model for this system completed by October 1997. We will perform a cost benefit analysis to determine if we should proceed with developing this system. If the analysis is positive, we will then formulate a time table for Department-wide implementation.

**RESPONSE OF THE
DEPARTMENT OF VETERANS AFFAIRS
TO FOLLOW-UP QUESTIONS FROM
THE HONORABLE STEPHEN HORN
CHAIRMAN, SUBCOMMITTEE ON GOVERNMENT
MANAGEMENT, INFORMATION AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES**

1. Secretary Brown's letter dated April 2 indicates that an initial segment of $201 million of Department of Veterans Affairs (DVA) debt will soon be referred to FMS. When will this be accomplished?

The Veterans Benefits Administration's (VBA) Debt Management Center referred over $182 million in delinquent debt to Treasury FMS at the end of April. The initial estimate provided to the Subcommittee of $201 million was the dollar value of those accounts notified in March of pending referral to Treasury. As a result of the notification, many debtors contacted VA and the dollar value of eligible referrals was reduced to $182 million.

2. This letter also indicates that delinquent first-party debts will be referred from DVA medical centers to the DVA Debt Management Center. How have these debts been collected previously, if they have not been referred to the DVA's own center?

VA medical centers collect most of the debts. Some are also collected by VA Regional Counsels. If debts are not collected, they are submitted to the VBA Debt Management Center as part of the IRS offset referral each year.

3. A 1990 GAO report faulted DVA for not collecting eligible amounts from insurance companies which cover veterans--to the tune of $223 million per year. Who collects these third-party debts for DVA? Does DVA have a program for such collection in every medical center?

At the time of the GAO report, VA's efforts to collect from third-party insurers were not adequate. In November 1990, the VA established the Medical Care Cost Recovery Office (MCCR) to bill and collect from third-party insurers. As a result of the creation of the MCCR Office, third-party collections have greatly increased from $138 million in 1990 to over $522.8 million in FY 1995 with a slight decline in FY 1996 to $495.2 million. Initially, each medical center had its own MCCR unit that billed and collected from third-party insurers. In our continuous effort to enhance collection from third-party insurers, there has been some consolidation of functions so that not all of our medical centers do their own billing and

collecting. However, each medical center continues to identify patients with insurance and to perform certain utilization review functions.

4. Were Veterans Health Administration third-party medical debts referred to private collection agencies with whom GSA had contracted for governmentwide debt collection services? Did DVA refer third-party medical debts under the GSA contract established specifically for that purpose? Does DVA intend to refer them to the Treasury Department?

As to the first two parts of your question, third-party medical debts have never been referred to private collection agencies under any GSA contract.

Concerning your question about Treasury referral, VA has no plans at this time to refer third-party medical claims to Treasury for collection. Under current procedures, VA bills the insurer for the reasonable cost of care/service provided, and the insurer, in turn, adjudicates the amount of its liability under its health-plan contract. Should the insurer deny liability, in whole or in part, VA must determine whether a debt exists which merits administrative collection action. Unlike the establishment of other types of debt, a final agency adjudication of the existence and amount of an insurer's liability does not flow from an objectively manifest standard. Instead, it entails a complex VA adjudication of the health-plan contract coverage applicable to the medical care and services provided, resolution of pertinent legal questions, and, frequently, negotiation with insurers to resolve issues subject to the judgment of medical experts. In some cases, the process cannot produce a final administrative adjudication; rather, the claim must be adjudicated through the courts. Consequently, these claims do not lend themselves effectively to the conventional referral process under the Debt Collection Improvement Act.

5. Did DVA ever issue its own contract to collect third-party medical claims? If yes, what dollar volumes were referred? If not, why not?

Yes. MCCR has piloted a fixed fee contract per claim with Transworld not to exceed $20,000 and 3000 claims. Transworld works with receivables from the Dallas VA Medical Center and the Houston VA Medical Center. A total of $2.5 million in receivables has been forwarded to Transworld for collection under this fixed fee contract. The contractor keeps the receivables for 120 days. If after 120 days there are no collections, they return the receivables to the medical centers for further action. All collections come directly to the medical centers, not through the contractor. Thus far, the Dallas VA Medical Center has collected $31,485 as a result of the contract. The Houston VA Medical Center has collected $144,485.

Mr. HORN. Now we are going to talk a little bit about agriculture. The General Accounting Office, Mr. David, has reported that certain agencies, including the Farmers Home Administration and some State guarantee agencies in the student loan program are not counting as delinquent some accounts for which the Government has not received payment for years. These billions of dollars in delinquencies would make the dismal debt picture even worse. Are these delinquencies still unreported? Is the U.S. Department of Agriculture complying with OMB guidance on this issue?

Mr. DAVID. To the best of my knowledge, we are complying with all OMB guidance, but I would like to get additional information on the specific referral and we will provide a more detailed response for the record.

Mr. HORN. OK.

Then we have, Ms. Donovan. Commissioner Adams noted his success in Massachusetts in collecting child support using wage garnishment. Over two-thirds of Massachusetts' total child support collections are collected in this matter. Is this a tool we ought to have at the Federal level to collect child support?

Ms. DONOVAN. We do have it, Mr. Chairman. We have mandatory wage withholding in all cases.

Mr. HORN. I'm sorry, I didn't hear that.

Ms. DONOVAN. We have mandatory wage withholding now in all cases, all States.

Mr. HORN. And you have no problem getting access to where these people are?

Ms. DONOVAN. No, we don't.

Mr. HORN. So you would say in your case, you don't need any additional law to use other agency records; is that right?

Ms. DONOVAN. With this expanded Federal parent locator system that we are building, the national directory of new hire information will be in there as well as information from all of the State central registries of orders. We will have quarterly wage data in the system. We will have unemployment insurance information. So we will have plenty of information in that data base. It still, as you know, is very difficult to find people across State lines. Thirty percent of our case load are interstate cases but these tools will help us enormously.

Mr. HORN. Well, we thank you very much. We might have a few other questions to send you and we will put them in the record at this point.

With that, I wonder if Commissioner Morris—you have been sitting there quietly taking a few notes now and then. Would you like to add anything for the record?

Mr. MORRIS. No, thank you, Mr. Chairman. I believe my boss, Mr. Murphy, has covered the subject pretty well.

Mr. HORN. Such a wise decision. That is why I like your agency.

I want to thank each of the witnesses for sharing with us your experience. I wish you well. We are going to hold another hearing just like this in 6 months and I hope we have a lot more delinquent debt that is moved over and various varieties of collection are being effectively run to get that in.

I now want to thank the following people on the staff, both majority and the minority, for establishing this hearing. J. Russell

George, the staff director of the Subcommittee on Government Management, Information, and Technology, does a tremendous job. The gentleman on my left, Mark Brasher, professional staff member, who is responsible for both the original measure in getting it through at a staff level, and also for the various hearings we have held. And John Hynes, professional staff member, who I don't see here, but he has worked to get this hearing suitably publicized, and Andrea Miller, our hard working clerk over there in the corner.

And on the minority side, we have David McMillian, professional staff member; Mark Stephenson, professional staff member; and we have our faithful court reporters, Joe Strickland and Katrina Wright. We thank you all. Thank you very much, ladies and gentlemen.

We are adjourned.

[Whereupon, at 12:37 p.m., the subcommittee was adjourned.]

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