

FEDERAL DEBT COLLECTION: IS THE GOVERNMENT MAKING PROGRESS?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND
INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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FEDERAL DEBT COLLECTION: IS THE GOVERNMENT MAKING PROGRESS?

WEDNESDAY, NOVEMBER 13, 2002

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY, FINANCIAL
MANAGEMENT AND INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

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

Present: Representatives Horn, Schakowsky and Owens.

Staff present: Bonnie Heald, staff director; Henry Wray, senior counsel; Dan Daly, counsel; Dan Costello, professional staff member; Chris Barkley, clerk; Ursula Wojciechowski, staff assistant; Juliana French, intern; Dave McMillen, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. HORN. A quorum being present, the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations will come to order.

Our hearing today concerns a subject that has been one of the subcommittee's highest priorities over the years: improving debt collection in the Federal Government. The subcommittee developed legislation that was enacted as the Debt Collection Improvement Act of 1996. Since then, the subcommittee has held numerous hearings on how well the act has been implemented.

Today's hearing will focus on what the Department of Agriculture has done to improve its debt collection performance since we last heard from the agency in December 2001. The Department's performance is particularly important because more than one-third of all non-tax debt that is owed to the Federal Government is owed to the Department of Agriculture. Our hearing will also look at governmentwide progress in implementing the Debt Collection Improvement Act.

I'm pleased to note that the Agriculture Department has done much to improve its debt collection over the last year. Our witnesses will testify that the Department is giving much higher priority to debt collection than it had in the past and this heightened attention is paying off. However, the Department must sustain its attention to debt collection because many challenges remain.

Implementation of the act is also improving governmentwide. Federal agencies are now referring most of their eligible debts to the Treasury Department, as required by the act. And the Treasury Department's collection results are improving each year. For exam-

ple, Treasury has collected about \$15 billion in delinquent debt through its offset program. The Treasury Department also has collected over \$100 million through its contracts with private collection agencies. During fiscal year 2002 alone, collections by private contractors amounted to \$43 million. This represents more than a 60 percent increase over fiscal year 2001.

At the same time, we still have a long way to go before the Debt Collection Improvement Act will realize its full potential. Agencies should be referring all eligible debts to the Treasury Department, not just most of them. Agencies should greatly improve the timeliness of their referrals in order to meet the act's requirement that debts be referred once they have become more than 180 days delinquent. Finally, agencies should make much greater use of the full range of collection tools that the act provides.

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

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Opening Statement Chairman Stephen Horn, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations November 13, 2002

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Our hearing today concerns a subject that has been one of the subcommittee's highest priorities over the years: improving debt collection in the Federal Government. The subcommittee developed legislation that was enacted as the Debt Collection Improvement Act of 1996. Since then, the subcommittee has held numerous hearings on how well the Act has been implemented.

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I am very pleased to note that the Agriculture Department has done much to improve its debt collection over the last year. Our witnesses will testify that the department is giving much higher priority attention to debt collection than it had in the past, and this heightened attention is paying off. For example, the Rural Housing Service and the Farm Service Agency have corrected many of the problems that plagued their debt-collection efforts for years. However, the department must sustain its attention to debt collection because many challenges remain.

Implementation of the Act also is improving government-wide. Federal agencies are now referring almost all of their eligible debts to the Treasury Department, as required by the Act. And the Treasury Department's collection results are improving each year. For example, Treasury has collected about \$15 billion dollars in delinquent debt through its offset program. The Treasury Department also has collected over \$100 million dollars through its contracts with private collection agencies. During fiscal year 2002 alone, collections by private contractors

amounted to \$43 million dollars. This represents more than a 60 percent increase over fiscal year 2001.

At the same time, we still have a long way to go before the Debt Collection Improvement Act will realize its full potential. Agencies should be referring all eligible debts to the Treasury Department—not just most of them. Agencies should greatly improve the timeliness of their referrals in order to meet the Act's requirement that debts be referred once they become more than 180 days delinquent. Finally, agencies should make much greater use of the full range of collection tools that the Act provides. For example, they should move more quickly to implement the Act's provisions for administrative wage garnishment.

Our witnesses today are quite familiar to the subcommittee. I want to welcome each of you and commend you for your efforts.

When Deputy Secretary Moseley testified before us last December, he made a commitment to turn things around at the Agriculture Department. By all indications, he has lived up to that commitment. I congratulate you for this, Mr. Moseley, and I hope that we can count on you to sustain this commitment in the future.

Gary Engel and his colleagues at the General Accounting Office have provided invaluable assistance to the subcommittee and to the executive branch in terms of improving debt collection. I hope that the GAO will continue its vigorous oversight of Federal debt collection operations and its constructive recommendations for improvement.

Last, but certainly not least, Commissioner Richard Gregg and his staff at the Financial Management Service have done an excellent job of implementing the Treasury Department's centralized debt-collection responsibilities under the Debt Collection Improvement Act. I know that you and your colleagues will work hard to continue this important effort.

Mr. HORN. Our witnesses today are quite familiar to this subcommittee. I want to welcome each of you and commend you for your efforts.

We'll start with the Honorable James R. Moseley, Deputy Secretary, Department of Agriculture. He is accompanied by the Honorable Thomas C. Dorr, Under Secretary for Rural Development, U.S. Department of Agriculture; and Carolyn Cooksie, Deputy Administrator, Farm Loan Programs, Farm Service Agency, U.S. Department of Agriculture.

Gary T. Engel, Director, Financial Management and Assurance, U.S. General Accounting Office, and the person that has really put everything moving because of the secretaries of the Treasury and behind him.

And Richard L. Gregg has done a tremendous job. Commissioner, Financial Management Service, Department of the Treasury.

[Witnesses sworn.]

Mr. HORN. So let us start now with Mr. Moseley.

STATEMENTS OF JAMES R. MOSELEY, DEPUTY SECRETARY, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY THOMAS C. DORR, UNDER SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE, AND CAROLYN COOKSIE, DEPUTY ADMINISTRATOR, FARM LOAN PROGRAMS, FARM SERVICE AGENCY, U.S. DEPARTMENT OF AGRICULTURE; GARY T. ENGEL, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE; AND RICHARD L. GREGG, COMMISSIONER, FINANCIAL MANAGEMENT SERVICE, DEPARTMENT OF THE TREASURY

Mr. MOSELEY. Thank you, Mr. Chairman, and good morning.

We want to thank you for the opportunity to be here this morning. We're just pleased to be here, considering the circumstances that occurred at the Department this morning, having to clear a couple of buildings because of a bomb difficulty that we had. But it is a pleasure to be here.

We want to discuss the results of the Department's improvement in relation to implementing the Debt Collection Improvement Act since I testified before this subcommittee last December.

As was indicated, I have Tom Dorr with me here today who is our Under Secretary for Rural Development, a very important part of this; and I wanted to let you know that Tom has an intense interest in this issue, as I do.

I'd hoped to have Hunt Shipman, who is our Under Secretary for FFAS, but we had to change the hearing date and Hunt had to travel, so I have the very capable help of Carolyn Cooksie who has worked on these issues and understands the provisions in detail.

I also want to take just a second to recognize another person that I know that you're familiar with and that's Ted McPherson. Ted is our Department CFO; and, frankly, Ted is one who has made some significant steps forward within the Department in terms of the reconciling of the Department's accounting principles. Now I recognize that this hearing today isn't about the Department's accounting, but Ted has helped in a significant way to lead us to an understanding of the magnitude of our outstanding loan balances, and he's helped move the Department forward in terms of managing

our cash and the loan portion of the USDA portfolio. I'll tell you that it's been a very helpful inclusion of intellectual capital, and Ted is helping move this Department forward.

While we are making progress in debt collection from delinquent borrowers, we fully respect, and we're trying to honor, the principles and the actions delineated in the debt collection act. The primary principle, I believe, based on the testimony that I gave you last year, is coming from the agricultural farmer and watching the circumstances in the 1980's out there when there were some borrowers that walked away from their obligations. My belief as a result of that is that a loan is an obligation by the Federal Government to assist or to help an individual borrower. But with that commitment comes the expectation that the commitment that is made on behalf of the Federal Government will be paid back by the recipient.

Of course, it's that repayment that is in question in this hearing and for which we as a government entity have a responsibility to insure that borrowers meet their responsibility to the taxpayer. That is the important obligation that we at USDA are continuing to make, commitments to ensure borrower compliance.

I first want to give the subcommittee just kind of a brief profile of the components that make up our credit program, and then what I really want to do is focus on the actions that we continue to take to improve our performance in this area.

As you well know, Mr. Chairman, every day USDA's programs serve the Nation's farmers, ranchers, our rural communities and those needing food assistance. If you look at it, we finance a broad array of programs: water and waste management systems and housing, electric and telephone utilities, rural businesses, farm ownership and operations, and emergency disaster assistance and relief.

This is an extensive list. It's an extensive list of lending programs that makes USDA the Federal Government's single largest provider of direct credit. As of June 30, 2002, our \$103 billion in debt obligations represented 35 percent of the \$297 billion in non-tax debt owed to the Federal Government.

Our current outstanding delinquent obligation at USDA is \$6.1 billion, which does represent a decrease of about 30 percent from the \$8.8 billion that we reported in delinquencies in 1996. Of this \$6.1 billion, \$4.7 billion is precluded from these tools due to statutory or administrative requirements. In other words, these debts may involve bankruptcies or litigation, or a substantial portion is owed by foreign or sovereign entities from which collection is difficult and really requires other departments' assistance for us to recover loan losses. This leaves us then with about \$1.4 billion that we can legitimately collect via the prescribed mechanisms in DCIA.

In December 2001 I committed to this committee to making sure that USDA implemented the provisions of the Debt Collection Improvement Act and, more importantly, that we do it correctly. I pledged that we would be able to accomplish most of the then existing GAO recommendations by December 31, 2002. I also committed 60 percent of eligible USDA debt would be referred to the Treasury cross-servicing program by the end of fiscal year 2002. I also prom-

ised to monitor this progress and report back to you, and it's those commitments that I want to reflect on here today.

So that raises the question: Where are we currently? Well, first of all, we've made some realistic improvements, just as I committed on behalf of the Department to do so almost a year ago. I am pleased to report that USDA has made substantial progress in developing new processes and procedures to implement most of the GAO recommendations found lacking in their report to you in the year 2001 and again in March 2002.

For example, and perhaps most important, because it's a real measurable outcome, USDA's referral rate to the Treasury cross-servicing program was 58 percent through June 30, 2002, versus 14 percent in fiscal year 2001. We fully expect the referral rate will be over the commitment of 60 percent when we receive the final September 2000—September 30, 2002, year end report. This was something that I was expecting and hoped at that time would happen. But I have to confess I was trusting that the agencies would deliver it when I stated it.

As I will say, both FSA and Rural Development have made substantial progress since our hearing last December. I'm not going to go through each accomplishment in detail because it's in the written testimony, but I would like to take just a second and highlight a few key areas.

Both agencies have made commitments and then met them by implementing several changes as recommended by GAO. Let me give you a quick summary.

FSA began quarterly referral of all eligible judgment loans to the Treasury cost-servicing program. They identified co-debtors for all loan payments. I remember this was a serious issue a year ago and frankly it was one that I questioned why we weren't doing it.

FSA also revised their oversight procedures to guide field offices in timely routine updates to the program loan accounting system. This helped our field staff know more quickly when to get a problem loan moving, thus limiting the timeframe from delinquency to referral. They revised loan application forms for establishing all the guaranteed loan losses as Federal debt rather than just the percent of obligation heretofore loaned by the Federal partner at closing.

The Rural Housing Service discussed with Treasury the issue of report accelerated balances of delinquent single family housing direct loans, and they're going to comply with Treasury's decision to report the accelerated unpaid balance.

More broadly, across USDA we established an administrative wage garnishment work group; and we're moving forward in developing a department-wide implementation plan.

In short, I think substantial results have been achieved since last December, results that I hope indicate the interest of the Department to address these issues. But, as always, there's still more to accomplish. There's some remaining actions that require more detailed development and regulatory time lines.

In my discussions with USDA staff, I've learned that we need to finalize a rule on guaranteed loans for single family housing so we can proceed to refer that area of unpaid debt to Treasury. My understanding is that we're going to get that done in mid-2003. That reflects in part my desire to have Under Secretary Dorr here with

me today who has the lead for Rural Development. Just as Ted McPherson helped us as a result of his interest here last year, we have now have Tom appointed and he's one more member of the team who can help oversee this law and, most importantly, can get it done.

We also need to keep focused on monitoring about what we're doing, just keeping an eye on the progress. Questions arise about how are we doing on tracking delinquencies, are we current and, more important, are we accurate? Are the referrals to Treasury what they should be and are they on time?

It's a simple management concept, but I want to keep ourselves informed via our own monitoring about our improvement before we read about it in a GAO report. The bottom line is, though, that the Department has made a commitment to meeting the provisions of DCIA and moving to honoring that commitment in the past year. It seems we've improved, and it's been done with some important measurable outcomes. Yet, as I listen to others in the Department, I know that we have a few things that remain to be accomplished, and it's only logical that we need to stay focused and stay focused at the program level to get it done. We have the absolute commitment of the leadership. Now we need to make sure we turn that to the program level and accomplish it.

Again, we thank you for the opportunity to report good progress, and we continue to pledge to you as a part of the overall management improvement asked for by the President that this issue commands the priority and therefore the attention of the Department.

That concludes my remarks, Mr. Chairman; and we thank you for the opportunity.

Mr. HORN. Well, thank you, because you have had wonderful progress. We now will use your people for the questioning.

[The prepared statement of Mr. Moseley follows:]

**STATEMENT OF
JAMES R. MOSELEY
DEPUTY SECRETARY
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY,
FINANCIAL MANAGEMENT AND INTERGOVERNMENTAL RELATIONS
OF THE
HOUSE COMMITTEE ON GOVERNMENT REFORM**

**TESTIMONY ON
DEBT COLLECTION IMPROVEMENT ACT OF 1996**

November 13, 2002

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to discuss the results that the Department of Agriculture (USDA) has achieved in implementing the Debt Collection Improvement Act (DCIA) of 1996 since I testified before this Subcommittee last December. First, I want to give the Subcommittee a brief profile of the components that make up our credit program. Then, I would like to focus on the actions we took as well as our efforts to continue to improve our performance.

Every day USDA's programs serve our nation's farmers, ranchers, rural communities, and those needing food assistance, using a diverse array of tools (including credit initiatives) that finance:

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

This extensive list of lending programs makes USDA the Federal government's single largest provider of direct credit. As of June 30, 2002, our \$103 billion in receivables (approximately 1.4 million accounts) represents 35 percent of the \$297 billion in non-tax debt owed to the Federal government (See attached USDA Key Debt Indicators).

Our current \$6.1 billion delinquent receivables represent a decrease of about 30 percent from the \$8.8 billion in delinquencies reported for FY 1996. Of this \$6.1 billion, only \$1.4 billion is considered collectible through Treasury collection tools. About \$4.7 billion dollars is precluded from these tools due to statutory or administrative requirements. These debts may involve bankruptcies and litigation, or may be owed by foreign or sovereign entities.

USDA has long used many available tools to collect delinquent debt. During the first three quarters of fiscal year (FY) 2002, USDA agencies, through their own internal collection tools, collected \$503 million of delinquent debt. During the same time frame, another \$334 million in delinquent debt was collected using the Treasury Offset Program and other DCIA collection tools, which is 116 percent of the amount collected for all four quarters during FY 2001. Since 1996, annual collections of delinquent USDA debt using DCIA tools have increased over four hundred percent, from \$63 million to \$334 million.

In December 2001, I committed to making sure that USDA implemented the provisions of the Debt Collection Improvement Act and that we do it correctly. I pledged that we would be able to accomplish most of the General Accounting Office (GAO) recommendations by December 31, 2002, and estimated that close to 60 percent of eligible USDA debt should be referred to the Treasury cross-servicing program by the end of FY 2002. I also promised to monitor this progress and report back to you.

I will now provide a summary of what has been accomplished since the December hearing, what we intend to accomplish by the end of this year, and what remains to be accomplished in 2003. I am pleased to report that USDA has made substantial progress in developing new processes and procedures to implement most of the GAO recommendations.

USDA's referral rate to the Treasury Cross-Servicing program was 58 percent through June 30 of FY 2002, versus 14 percent in FY 2001. We anticipate the referral rate will be over the commitment of 60 percent when we receive the final September 30, 2002 year-end reports. We are confident that most of the eligible delinquent debts will be referred to Treasury by December 31, 2002.

Both the Farm Service Agency (FSA) and Rural Development (RD) made substantial progress since last December. FSA developed and implemented an enhancement to their Program Loan Accounting System (PLAS) to automatically flag judgment debts for referral to Treasury. In August 2002, FSA began quarterly referral of all eligible judgment loans to the Treasury cross-servicing program.

Also in August 2002, FSA developed and tested enhancements to PLAS to identify co-debtors for all loan programs and began the selection process for the quarterly referral of all eligible (non-judgment) direct loans to Treasury for offset and cross-servicing. Due process notification letters were sent out in September, and automated quarterly referrals of these loans will begin in December 2002.

FSA also revised their oversight procedures to guide field offices in timely, routine updates to the PLAS. These procedures will provide additional assurance that all debts eligible for referral to Treasury are accurately tracked and categorized in the loan accounting system, in order to maximize FSA's debt recoveries.

FSA revised loan application forms for establishing guaranteed loan losses as Federal debt effective July 2001. Final financial reporting and referral requirements for guaranteed loan losses were established in August 2002. Web-based input screens will be available by December 2002. Prior to that date, FSA will refer any eligible guaranteed loan loss manually.

Rural Housing Service (RHS) and Treasury discussed the issue of reporting accelerated balances of delinquent Single Family Housing direct loans. RHS will comply with Treasury's decision to report the accelerated unpaid principal balances on the Treasury Report on Receivables as of September 2002. The RHS is revising regulations to change the lender agreements to recognize losses on guaranteed Single Family Housing loans as federal debt and expects to publish a final rule during FY 2003. After publication, RHS will begin referring the eligible guaranteed loss debt to Treasury. Finally, RHS implemented software enhancements in April 2002 that allow automated identification of loans eligible for cross-servicing and monthly referral of that debt to Treasury.

USDA believes that Administrative Wage Garnishment (AWG) can be an effective tool to encourage debtors to repay their obligations to the Federal government. In order to move forward with the implementation of this tool, we established an Administrative Wage Garnishment (AWG) workgroup consisting of representatives from USDA agencies and chaired by staff from the Office of the Chief Financial Officer. The workgroup assisted in developing a department-wide AWG implementation plan. Additionally, each USDA agency will develop a detailed, specific AWG implementation plan to support the Department's goals. USDA agencies plan to use the Treasury cross-servicing program to perform the AWG process and the Department of Veterans Affairs for the hearing process. USDA agencies, where servicing requirements permit, will refer eligible debts to Treasury as early as possible prior to the 180-day requirement in order to maximize the effectiveness of the AWG tool to increase debt collections.

USDA completed a draft revision of Departmental Debt Management regulations, 7 CFR part 3, that includes AWG hearing procedures, incorporates the Federal Claims Collection Standards, and updates other debt management policies. The work plan for the draft regulation is with the Office of Management and Budget for designation of significance. We anticipate the proposed rule being published for a 60-day comment period by March 2003 and the final rule being published by June 2003.

In short, substantial tangible results have been achieved since last December. There are some remaining action items that require protracted developmental and regulatory timelines. We will continue to make progress on these items until achievement is realized during FY 2003. We will also work with Treasury, the Office of Management and Budget, and other parties to make sure we fully exercise all of our debt-collection tools.

This statement reflects the progress that USDA has made in collecting delinquencies. It also represents our pledge to you, Mr. Chairman, and to the Subcommittee that this issue commands the highest priority and attention at USDA.

USDA KEY DEBT INDICATORS

	FY 2000	FY 2001	FY 2002 As of 6/30/02
1. Total USDA Receivables	\$104.8 B	\$103.2 B	\$103.2 B
2. Total USDA Number of Receivables (number of debts or claims)	1.5 M	1.4 M	1.4 M
3. USDA Percent of Total Federal Receivables	37%	36%	35%
4. USDA Delinquent Debt	\$6.3 B	\$6.2 B	\$6.1 B
5. USDA Decrease in Delinquent Debt Since 1996	29%	29%	30%
6. USDA Delinquency Rate	6%	6%	6%
7. Governmentwide Delinquency Rate	22%	19%	21%
8. Governmentwide Delinquency Rate Excluding USDA	30%	27%	29%
9. Debts Eligible for Collection by DCIA Treasury Tools	\$1.3 B	\$1.6 B	\$1.4 B
10. Debts Not Eligible for Collection by DCIA Treasury Tools	\$5.0 B	\$4.6 B	\$4.7 B
i. Collections by Internal USDA Tools	\$661.7 M	\$583.1 M	\$503.1 M
ii. Collections by Treasury DCIA Tools	\$188.0 M	\$286.8 M	\$333.5 M
13. Total Collections as a Percent of Delinquent Debt	13%	14%	14%
14. DCIA Tool Increase in Collections Since 1996	197%	354%	428%
USDA Annual Collections by DCIA Tools 1996-1999			
15. FY 1999 - \$136.2 M			
16. FY 1998 - \$93.9 M			
17. FY 1997 - \$71.5 M			
18. FY 1996 - \$63.2 M			
19. USDA Treasury Offset Program Referral Rate	96%	97%	95%
20. USDA Treasury Cross-servicing Referral Rate	18%	14%	58%
21. Debt Written-Off	\$2.4 B	\$4.4 B*	\$1.0 B
22. Amount Reported to IRS on 1099-C	\$412.6 M	\$1.1 B	\$4.1 B*

* These amounts include two RD electric borrowers that were written off in FY 2001 and reported to the IRS in December 2001. The amount for the two borrowers totaled over \$3 B.

Mr. HORN. We'll now move to the General Accounting Office, Gary Engel, Director of Financial Management and Assurance. Mr. Engel.

Mr. ENGEL. Mr. Chairman, good morning. It's my pleasure to be here today to discuss progress that the Department of Agriculture has made addressing key challenges in its implementation of the Debt Collection Improvement Act of 1996. I will also describe the status of the Department of Treasury's use of a special financial incentive provision of the act to encourage agencies to improve their delinquent debt collection efforts.

Almost a year ago I testified before this subcommittee that the Department of Agriculture, primarily the Rural Housing Service and the Farm Service Agency, faced challenges in implementing key provisions of DCIA. I stressed that agency implementation would have to improve vastly if the debt collection benefits of the act were to be more fully realized.

Also during that hearing, Agriculture pledged to place a higher priority on delinquent debt collection and to implement the acts fully. After the hearing, GAO made recommendations to Agriculture to help the Department to implement the corrections that we had identified. My testimony today will provide an update on actions that Agriculture has taken to address these problems.

Agriculture's full implementation of the key provisions of DCIA is critical to overall Federal non-tax debt collection. As a major Federal lending agency, the Department continues to hold a substantial amount of delinquent Federal non-tax debt. As of September 30, 2001, Agriculture reported holding about \$6.2 billion of non-tax debt over 180 days delinquent, which is the very type of debt that the DCIA provides tools to collect. I am pleased to report today that recent actions taken by Agriculture demonstrate that, overall, the Department is placing a higher priority on DCIA implementation.

The Rural Housing Service has worked to address systems limitations that hampered it from referring eligible debts to Treasury for cross-servicing in the past and is now promptly referring all such debts. In addition, the Rural Housing Service will begin reporting the entire unpaid principal balances on accelerated debt as delinquent. The agency is also working on making regulatory changes needed for it to refer losses on guaranteed loans to Treasury's Offset Program. However, these changes are not expected to occur until August 2003.

The Farm Service Agency has developed an action plan to improve its process and controls for identifying and referring eligible debts to Treasury. Our review of documents related to the plan indicates that the agency has made progress toward implementing the improvements, but work will need to continue well into fiscal year 2002.

By December 2002, the Farm Service Agency also plans to begin reporting co-debtor information when referring delinquent debts for collection action, but a significant effort will be needed to refer all eligible co-debtors. Also by the end of this calendar year the Farm Service Agency expects to begin referring debts to Treasury's Offset Program on a quarterly rather than annual basis and to be able to refer eligible losses on guaranteed loans when such losses occur.

Experts have previously testified before this subcommittee that the administrative wage garnishment can potentially be an extremely powerful debt collection tool. We found that Agriculture has taken steps toward agency-wide implementation of administrative wage garnishment, including completing its written implementation plan. The Department, however, still needs to carry out various elements of the plan, including specifying the types of debts that will be subject to administrative wage garnishment and finalizing an agreement with the Department of Veterans Affairs to conduct related hearings on Agriculture's behalf. Agriculture has also drafted regulations necessary for implementing administrative wage garnishment which may not be published until May 2003.

Regarding the DCIA provision to refer agencies' financial incentives for collecting delinquent debt, Treasury established a debt collection improvement account and has twice requested appropriations authorizing expenditures from the account. Thus far, however, no expenditures have been authorized.

While we support in principle the DCIA incentives for effective debt collection, the overall success of DCIA has not depended nor should it upon the availability or use of a financial incentive. Debt collection is a fundamental aspect of administering credit programs and DCIA contains specific requirements for Federal agencies that were designed to improve the collection of delinquent non-tax debt.

As you know, debt collection has historically not been a high priority at some credit agencies. However, largely due to this subcommittee's effective oversight of agencies' DCIA implementation under your leadership, Mr. Chairman, the envisioned benefit of these requirements has begun to materialize.

In summary, through Congress—in summary—excuse me—through DCIA, Congress with key leadership from this subcommittee has provided agencies, including Agriculture, with a full array of tools to collect delinquent non-tax debt. It pleases me to testify today that Agriculture, an agency critical to collection of Federal non-tax debt, has recently taken and plans to continue to take steps that demonstrate a significantly increased commitment to implementation of DCIA. I must, however, emphasize that it will take a sustained commitment and priority by top management to fully address the remaining problems that we had identified.

Mr. Chairman, this concludes my summary remarks. I would be pleased to answer any questions that you or other members of the subcommittee may have.

Mr. HORN. I thank you on that presentation. I notice quite a few things here.

[The prepared statement of Mr. Engel follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency,
Financial Management and Intergovernmental Relations,
Committee on Government Reform, House of
Representatives

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DEBT COLLECTION

Agriculture Making Progress in Addressing Key Challenges

Statement of Gary T. Engel
Director, Financial Management and Assurance



November 13, 2002

DEBT COLLECTION

Agriculture Making Progress in Addressing Key Challenges



Highlights of GAO-03-202T, testimony before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, Committee on Government Reform, House of Representatives

Why GAO Did This Study

In December 2001, GAO testified at a hearing before the Subcommittee that the Department of Agriculture, primarily the Rural Housing Service (RHS) and the Farm Service Agency (FSA), faced challenges in implementing key provisions of the Debt Collection Improvement Act of 1996 (DCIA). The testimony focused on RHS's and FSA's progress in referring delinquent debt for administrative offset and cross-servicing and Agriculture's implementation of administrative wage garnishment (AWG).

During the hearing, Agriculture pledged to place a higher priority on delinquent debt collection and to substantially improve the department's implementation of DCIA by December 31, 2002. After the hearing, GAO made recommendations to Agriculture to help the department address the implementation problems GAO had identified.

It is with this backdrop that the Subcommittee requested GAO to review and provide an update on actions Agriculture has taken to resolve these problems. In addition, the Subcommittee requested GAO to report on the status of Treasury's implementation of a debt collection improvement account, a vehicle authorized by DCIA to give agencies financial incentives to improve their debt collection efforts.

www.gao.gov/cgi-bin/getrpt?GAO-03-202T.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gary T. Engel at (202) 512-3406 or engelg@gao.gov.

What GAO Found

Recent actions taken by Agriculture demonstrate increased commitment to DCIA implementation. However, it will take sustained commitment and priority by top management to fully address the problems we identified. GAO's findings include the following:

- RHS has worked to address systems limitations that hampered it from promptly referring debts to Treasury for cross-servicing and is now, according to Treasury, referring all reported eligible debt. The agency will begin reporting certain loans' entire unpaid principal balances on accelerated debt as delinquent, beginning with its report for the fourth quarter of fiscal year 2002. RHS is working on making regulatory changes needed for it to refer losses on guaranteed loans to Treasury's offset program, but the changes are not expected to be completed until about August 2003.
- FSA has developed an action plan to improve its process and controls for identifying and referring eligible debts to Treasury. GAO's review of documents related to the plan indicates that FSA has made progress toward implementing the improvements. In addition, by December 2002, the agency expects to be able to begin reporting information for some codebtors when referring delinquent debts for collection action; to begin referring debts quarterly, rather than annually; and to be able to refer eligible losses on guaranteed loans.
- Agriculture has taken steps toward departmentwide implementation of AWG. Agriculture has completed its AWG implementation plan but still needs to carry out certain elements of the plan, including obtaining from its component agencies specific information on the types of debt subject to AWG and finalizing an agreement with the Department of Veterans Affairs to conduct AWG hearings on Agriculture's behalf. Agriculture has also drafted regulations necessary for implementing AWG, which may not be published until May 2003.

Treasury has established a debt collection improvement account but, to date, it has not been activated because no amounts have been made available in Treasury's appropriations to fund the account. Agencies would be allowed to contribute a portion of their debt collections into the account, and amounts could be used to reimburse agencies for certain expenses related to credit management and debt collection and recovery. Because the account has not been activated, it is difficult to assess how effective it might be in improving federal debt collection beyond the debt collection improvements that have resulted directly from DCIA's major debt collection requirements for federal agencies.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Agriculture's (Agriculture's) actions and plans to resolve certain implementation problems involving the Debt Collection Improvement Act of 1996 (DCIA), and the status of the Department of the Treasury's (Treasury's) use of a special financial incentive provision of the act to encourage federal agencies to improve their delinquent debt collection efforts. During a hearing on Agriculture's implementation of DCIA, which was held before this Subcommittee on December 5, 2001, we stressed that the department's implementation of DCIA requirements would have to improve vastly if the debt collection benefits of DCIA were to be more fully realized. Also during that hearing, Agriculture officials pledged to give debt collection higher priority and to substantially improve the department's implementation of the act by December 31, 2002. Subsequent to the hearing, we made a number of recommendations to Agriculture to help it address specific DCIA implementation problems that we identified and discussed at the hearing.¹ It is with this backdrop that you asked us to review actions taken by Agriculture to resolve the specific DCIA implementation problems that we identified and discussed. In addition, given the fact that in recent hearings on DCIA implementation, little if any mention has been made of the act's financial incentive provision's merits, you wanted to know whether Treasury has established a fund or account to implement this provision, and if so, which federal agencies have received payments from the account and for what activities.

Agriculture's full implementation of certain key provisions of DCIA is critical to overall federal nontax debt collection. As a major federal lending agency, Agriculture continues to hold a substantial amount of delinquent federal nontax debt. As of September 30, 2001, Agriculture reported holding about \$6.2 billion of debt over 180 days delinquent. In DCIA, the Congress, with key leadership and support from this Subcommittee, provided agencies, including Agriculture, with a full array of tools to collect such delinquent debt. Among other things, DCIA provides (1) a requirement for federal agencies to notify Treasury of eligible debts delinquent over 180 days for purposes of centralized administrative offset, (2) a requirement for agencies to refer such debts to Treasury for centralized collection action

¹U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Department of Agriculture Faces Challenges Implementing Certain Key Provisions*, GAO-02-277T (Washington, D.C.: Dec. 5, 2001).

known as cross-servicing, and (3) authorization for agencies to administratively garnish the wages of delinquent debtors.

The primary emphasis of my testimony today is on corrective actions taken by two major Agriculture components—Rural Development's Rural Housing Service (RHS) and the Farm Service Agency (FSA)—to resolve problems associated with the identification and referral of eligible delinquent debts to Treasury for collection action since the December 2001 hearing. I will also provide an update of Agriculture's departmentwide implementation of administrative wage garnishment (AWG).² As you recall, we discussed Agriculture's actions and plans for implementing AWG in context with information dealing with the extent to which eight other large Chief Financial Officers (CFO) Act agencies and Treasury's Financial Management Service (FMS) used or planned to use AWG to collect delinquent federal nontax debt.

Summary

Today, I am pleased to report that recent actions taken by Agriculture demonstrate that, overall, it now places a higher priority on DCIA implementation. RHS and FSA have made progress in addressing the problems involving identification and referral of eligible debts to Treasury for collection action that we identified, discussed, and for which we made recommendations for corrective action. In addition, Agriculture is making progress in departmentwide implementation of AWG. However, for Agriculture and its agencies to fully address all of the DCIA implementation problems that we identified and discussed by December 2002, or within a reasonable period thereafter, it will take sustained commitment and priority by top management.

²DCIA authorizes both federal agencies that administer programs that give rise to delinquent nontax debts and federal agencies that pursue recovery of such debts, such as Treasury, to administratively garnish up to 15 percent of a debtor's disposable pay until the debt is fully recovered. Disposable pay means that part of the debtor's compensation (including, but not limited to, salary, bonuses, commissions, and vacation pay) from an employer remaining after the deduction of health insurance premiums and any amounts required by law to be withheld.

Regarding the DCIA provision to offer agencies financial incentives for collecting delinquent debt, Treasury established a debt collection improvement account and has twice requested appropriations authorizing expenditures from the fund. Thus far, no expenditures have been authorized. While we support, in principle, the idea of incentives for effective debt collection, the overall success of DCIA has not depended, nor should it, upon the availability or use of a financial incentive. Debt collection is a fundamental aspect of administering credit programs and DCIA contains specific requirements for federal agencies that were designed to improve the collection of the government's delinquent nontax debt. As you know, debt collection has historically not been a high priority at some credit agencies. However, largely due to this Subcommittee's oversight of agencies' DCIA implementation, the envisioned benefit of these requirements has begun to materialize. For example, between fiscal years 1998 and 2001, Treasury's offset program collected over \$10 billion, about 45 percent of which was federal nontax debt.³ In addition, according to recent Treasury reports, federal agencies governmentwide referred about 93 percent of their reported eligible debt as of fiscal year 2001 for cross-servicing compared to 71 percent for fiscal year 2000, which should bode well for future collections as Treasury has begun to incorporate AWG into its cross-servicing program.

Scope and Methodology

To respond to your request, we performed work primarily at RHS, FSA, and Agriculture's Office of the Chief Financial Officer. We also performed work at Treasury and conducted interviews with agency officials at RHS and FSA who are responsible for taking corrective actions to ensure that all eligible delinquent debt is promptly referred to Treasury for collection action. We conducted interviews with Agriculture's CFO and members of his staff regarding Agriculture's implementation of AWG. To corroborate information we obtained from interviews, we obtained and reviewed pertinent agency documents including action plans and implementation schedules. We did not verify the reliability of certain information that was provided to us by agencies such as delinquent debt referred to Treasury. We also did not assess the technical adequacy of the specific systems enhancements that have been deemed by the agencies as necessary for addressing the DCIA implementation problems that we identified and

³In addition to delinquent nontax federal debt, Treasury's offset program collects child support obligations and state income tax debt on behalf of states and tax levies for the Internal Revenue Service (IRS).

discussed. We conducted interviews with Treasury officials who were knowledgeable about the debt collection improvement account provision of DCIA and the status of the account at Treasury. We performed our work from July through September 2002 in accordance with U.S. generally accepted government auditing standards.

RHS Using Its Automated Systems to Make Cross-Servicing Referrals

In December 2001, we testified that, as of September 30, 2000, RHS reported it had referred to Treasury's offset program \$201 million of direct Single Family Housing (SFH) loans but had not referred any amounts to Treasury for cross-servicing, primarily due to RHS's systems limitations. RHS officials told us that since implementing a new automated centralized loan servicing system in fiscal year 1997, RHS had been unable to readily identify direct SFH loans that are eligible for referral to Treasury for cross-servicing. Essentially, the system did not contain sufficient data to differentiate loans eligible for cross-servicing from those that were not. For example, the system needed to be capable of determining the status of any collateral, because all collateral must be liquidated prior to a loan's referral to Treasury for cross-servicing. After the hearing, we recommended that the Secretary of Agriculture direct the Administrator of RHS to complete development of the software enhancements that will allow automated identification of loans eligible for cross-servicing and promptly refer all such loans to Treasury.⁴

RHS has completed and implemented the system enhancements necessary for automated identification of direct SFH loans eligible for cross-servicing and the prompt referral of such loans. In April 2002, RHS made its first automated referral of direct SFH loans to Treasury for cross-servicing. This referral involved about 10,900 loans totaling about \$165.6 million. RHS is currently using its enhanced system to identify loans eligible for cross-servicing and electronically refer them to Treasury on a monthly basis. According to RHS documents and Treasury officials, RHS has referred all of the loans that it has reported as eligible for cross-servicing. Moreover, an RHS document indicates and Treasury officials told us that there have been no significant problems regarding eligibility for cross-servicing for the loans that RHS has referred since April 2002.

⁴U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Department of Agriculture's Rural Housing Service Has Not Yet Fully Implemented Certain Key Provisions*, GAO-02-308 (Washington, D.C.: Feb. 28, 2002).

RHS Able to Provide Listing of Excluded Loans for Independent Verification

As we stated at the December 2001 hearing, when we attempted to independently verify specific debts that RHS had excluded from referral to Treasury's offset program as of September 30, 2000, we were told by RHS officials that the supporting documentation for the \$182 million of direct SFH loans excluded from referral had not been saved. We subsequently recommended that the Secretary of Agriculture direct the Administrator of RHS to maintain supporting documentation, in an appropriate level of detail that can be made readily available for independent verification, for all SFH debts reported and certified to Treasury as excluded from referral for collection action. At a minimum, the documentation should include, for each exclusion category, such as foreclosure, the total amount reported as excluded on the certified Treasury Report on Receivables Due from the Public (TROR) and a listing of the identities and dollar amounts of the specific loans excluded.⁵ Such documentation would facilitate an efficient independent review to determine whether RHS's exclusions meet relevant legislative and regulatory criteria. The Comptroller General's *Standards for Internal Control in the Federal Government* states that all transactions and other significant events need to be clearly documented and that the documentation should be readily available for examination.⁶

During our follow-up review, RHS provided us a detailed listing of specific direct SFH loans and the loans' corresponding dollar amounts that had been reported as excluded from referral to Treasury on the TROR as of September 30, 2001, the last period for which certified data were available. Although we were not requested to and did not test the specific loans excluded to determine whether they met relevant legislative and regulatory criteria, RHS's ability to provide such listings should facilitate future independent verifications of the validity of its reported exclusions, and is critical for the oversight of the agency's DCIA implementation.

⁵GAO-02-308.

⁶See U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999), p.15. This standard is critical for the oversight of agency DCIA implementation as the act permits debts to be excluded from referral to Treasury for offset and/or cross-servicing if they are under appeal, in forbearance, in litigation at the Department of Justice, in bankruptcy, or in foreclosure. In August 2000, we reported that agencies were excluding from referral the vast majority of debts reported delinquent more than 180 days under DCIA or Treasury exclusion criteria. We cautioned that the reliability of the amounts reported as excluded needed to be independently verified on a periodic basis. See U.S. General Accounting Office, *Debt Collection: Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative*, GAO/AIMD-00-234 (Washington, D.C. Aug. 4, 2000).

**Treasury Instructs
Rural Development to
Report Accelerated
Balances for RHS's
Direct SFH Loans**

Treasury is the sole operator of a governmentwide centralized debt collection center. As such, it is critical that Treasury obtain accurate information from federal agencies on the status of their nontax debt, particularly the debt over 180 days delinquent, for which DCIA was designed in large part to help agencies collect through centralized collection. During the December 2001 hearing, we stressed that RHS was only reporting the delinquent installment portion of its direct SFH loans as delinquent in its TROR. It was not reporting, as required by Treasury, the accelerated loan balance, which is the total debt due and payable. In the report we issued after our testimony,⁷ we stated that, as a result of such reporting, RHS may have underreported to Treasury direct SFH loan amounts delinquent over 180 days by about \$849 million and direct SFH loan amounts eligible for Treasury's offset program by about \$348 million as of September 30, 2000. We recommended that the Secretary of Agriculture direct the Administrator of RHS to work with Treasury to resolve any inconsistencies between RHS's reporting of delinquent debts on its TROR and Treasury's instructions for such reporting. In addition, we recommended that absent any modifications to Treasury's instructions for preparing the TROR, RHS report the entire accelerated balance of delinquent direct SFH loans to Treasury as delinquent debt and, absent any allowable exclusions, as debt eligible for referral to Treasury for collection action.⁸

After we made our recommendations, Agriculture and Treasury officials met to address the inconsistency that existed between RHS's reporting of delinquent direct SFH loans on the TROR and Treasury's instructions for such reporting. In a September 2002 letter, Treasury informed Rural Development that RHS should report the entire unpaid principal balances as delinquent on the TROR, and requested that such reporting begin with the TROR for the fourth quarter of fiscal year 2002. Treasury stated in the letter that once an acceleration notice is sent to the borrower, which has been RHS's ongoing practice, the entire debt is due and payable and should be reflected as such on the TROR. Treasury also stated that its decision was based on consultation with its legal counsel and recent discussions with Agriculture officials including its CFO. According to RHS officials, the agency will report the entire unpaid principal balances for its direct SFH

⁷GAO-02-308.

⁸GAO-02-308.

loans that have been accelerated beginning with the TROR for the fourth quarter of fiscal year 2002.

**Efforts Under Way, But
RHS Will Not Be Able
to Refer Guaranteed
Losses in the
Immediate Future**

At the December 2001 hearing, we stated that RHS had not referred losses on its guaranteed SFH loans to Treasury for collection action. RHS officials told us that the agency could not pursue recovery from the debtor or utilize DCIA debt collection tools because under the SFH guaranteed loan program, no contract existed between the debtor and RHS. Consequently, RHS did not recognize the losses that it paid to guaranteed lenders as federal debt and could not apply DCIA debt collection remedies to them. We were particularly concerned about DCIA debt collection remedies not being available for RHS's guaranteed SFH losses because, according to RHS, through September 30, 2000, such losses totaled about \$132 million.⁹ After the hearing, we recommended that the Secretary of Agriculture direct the Administrator of RHS to finalize and implement necessary regulatory changes and modifications to lender agreements so that losses on guaranteed SFH loans could be treated as federal debt and referred to Treasury for collection action.¹⁰

RHS is currently working on making the regulatory changes that are needed to refer losses on guaranteed SFH loans to Treasury's offset program; however, the agency will not be able to refer such losses until regulatory action is completed and guaranteed loan applications are modified. According to a RHS official, to expedite the regulatory recognition of losses on guaranteed SFH loans as federal debt, Agriculture is currently incorporating the regulatory changes that are needed into the draft final rule for the Section 502 Guaranteed Rural Housing Program. It is important to note, however, that the Office of Management and Budget (OMB) has determined that the final rule for this program will constitute a "significant regulatory action." As such, the rule will be subject to a more lengthy clearance process that will involve OMB review in the final

⁹RHS's guaranteed SFH losses have continued to increase to about \$258 million through the third quarter of fiscal year 2002.

¹⁰GAO-02-308.

rulemaking stages.¹¹ According to a schedule provided by Agriculture, which includes internal agency review as well as OMB review, publication of the final rule for the Section 502 Guaranteed Rural Housing Program is expected by about August 2003.

Given that the aforementioned regulation is not expected to be finalized for a considerable time, it is important to note that, as of our fieldwork completion date, RHS also had not modified the guaranteed loan applications for the SFH guaranteed loan program that are needed to establish a contractual relationship between the debtor and RHS so that losses stemming from SFH guaranteed loans can be recognized as federal debt and be subject to the debt collection provisions of DCIA. Initially, an RHS official stated that RHS planned to make changes to the applications when the final rule for the guaranteed loan program is issued. However, we pointed out that that approach could possibly delay RHS's ability to recognize guaranteed loan losses as federal debt, and we suggested that RHS change the guaranteed loan applications as soon as practicable so that once the rule goes into effect, it may be able to be applied retroactively to cover as many guaranteed loans as possible. As a result, according to an RHS official, RHS consulted with its Office of General Counsel and obtained approval for changing the guaranteed loan applications prior to the issuance of the final rule.¹² Currently, RHS is in the process of revising its guaranteed loan application form to include an acknowledgement that any claim paid by RHS on a guaranteed loan would be subject to provisions of the DCIA.

¹¹Under Executive Order 12866, which was adopted during the previous Administration, OMB reviews all significant regulatory actions to ensure consistency with the principle of good regulatory analysis and policy. At both the proposed and final stages of a major rulemaking, OMB is provided up to 90 days to review an agency's rulemaking package, including the draft rule, the cost-benefit analysis, and any other supporting materials. During the 90-day review period, professional analysts at OMB scrutinize the agency's work and often work with an agency to improve the analysis and/or draft rule. There are ultimately three possible outcomes of an OMB review: (1) clearance for publication in the *Federal Register*, (2) withdrawal by the agency for further consideration, or (3) return by OMB to the agency for reconsideration.

¹²As will be discussed later, FSA modified its guaranteed loan applications for guaranteed farm loans to establish a contractual relationship between FSA and the debtor approximately 1 year prior to finalizing its regulation for recognizing losses on such loans as federal debt. According to FSA officials, all losses on guaranteed loans made after the applications were modified are considered federal loans and subject to DCIA collection remedies.

Once the regulations are finalized and RHS makes the necessary modifications to the guaranteed loan application, the agency will need to be able to promptly refer guaranteed losses to Treasury's offset program. Given the fact that the SFH guaranteed loan program continues to grow significantly, thereby increasing the number of loss claims being processed each year, automated tracking of guaranteed loan losses and referring them to Treasury will be critically important. RHS has initiated a project to automate the tracking of SFH loss claims from lenders and payments made to lenders to cover such claims, which it plans to complete in April 2003. It is important to note, however, that the project does not cover the process for the automated referral of guaranteed losses to Treasury. According to RHS officials, this automated referral process will not be covered until RHS initiates the second phase of the current project after April 2003, and which is estimated to take an additional 9 to 12 months to complete. However, RHS currently tracks guaranteed losses, and RHS officials stated that referrals to Treasury could be done manually if the automated enhancements needed to make such referrals are not complete.

FSA Has Initiated Actions to Improve Its Process and Controls for Identifying and Referring Debts

At the December 2001 hearing, we stated that FSA did not have a process or sufficient controls in place to adequately identify direct farm loans eligible for referral to Treasury. We emphasized that, as a result, amounts of direct farm loans FSA reported to Treasury as eligible for referral were not accurate and, for certain loans, not only distorted the TROR for debt management and credit policy purposes but also distorted key financial indicators such as receivables, total delinquencies, and loan loss data. Specifically, FSA automatically excluded from referral all judgment debts without any review to identify and refer deficiency judgments, which are eligible for Treasury's offset program and should be referred.¹³ We emphasized that, as of September 30, 2000, FSA's judgment debts totaled \$295 million, and our inquiries prompted the agency to initiate a manual process to identify deficiency judgments eligible for referral.¹⁴

¹³A judgment may represent a judicial declaration that a debtor is personally indebted to a creditor for a sum of money. Judgments may include (1) judgment liens, (2) foreclosures, and (3) foreclosures and deficiency judgments. Deficiency judgments require payment of a sum certain to the United States and are intended to cover the shortfall between the amount owed the United States and the proceeds from the foreclosed property securing the loan.

¹⁴According to FSA, the agency manually identified 280 judgment debts totaling over \$20 million through June 2002 that were eligible for referral to Treasury's offset program, and subsequently referred the debts to the program.

Moreover, FSA's Program Loan Accounting System did not contain current information from the detailed loan files located at the numerous FSA county field offices that would be key to determining a farm loan's eligibility for referral to Treasury. In addition, there were no monitoring or review procedures in place to help ensure that FSA personnel routinely updated the detailed loan files that are the source of such key information. The severity of this problem was reflected in the results of our statistical sample of loans that had been excluded by FSA in four large states.¹⁵ Based on our review of this sample, we estimated that about one-half of the excluded loans in the four states had been inappropriately placed in exclusion categories by FSA as of September 30, 2000.¹⁶ One of the most frequently identified inappropriate exclusions pertained to amounts that had been discharged in bankruptcy. Such exclusions involved debts that FSA should have written off and closed out, in many instances, several years prior to our test date. In addition, the written-off and closed-out amounts for such debts should have been reported to IRS as income to the debtor in accordance with the Federal Claims Collection Standards and OMB Circular A-129.¹⁷

After the hearing, to address these problems, we recommended that the Secretary of Agriculture direct the Administrator of FSA to develop and implement (1) automated system enhancements to make the Program Loan Accounting System capable of identifying all judgment debts eligible for referral to Treasury for collection action, (2) oversight procedures to ensure that FSA field offices timely and routinely update the Program Loan Accounting System to accurately reflect the status of delinquent debts, including whether the debts are eligible for referral to Treasury for

¹⁵Using statistical sampling, we selected and reviewed supporting documents to determine whether farm loans that selected FSA county field offices in California, Louisiana, Oklahoma, and Texas had excluded from referral to Treasury were consistent with established criteria dealing with bankruptcy, forbearance/appeals, foreclosure, and litigation. Field offices in these four states serviced about \$272 million, or about 39 percent, of the total debts FSA excluded from referral to Treasury as of September 30, 2000, for bankruptcy, forbearance/appeals, foreclosure, or litigation.

¹⁶We estimated that 48.5 percent \pm 15.7 percent of the population were inappropriately reported as exclusions from referral to Treasury's offset program. When projecting these errors to the population of 1,187 loans, we were 95 percent confident that the errors in the population were between 389 and 761 loans.

¹⁷Federal Claims Collection Standards and OMB Circular A-129 require agencies to report the discharge of the debts, also known as close out, to the IRS in accordance with the requirements of 26 U.S.C. 6050P and 26 CFR 1.6050P-1.

collection action, and (3) oversight procedures to ensure that all debts discharged through bankruptcy are promptly closed out and reported to the IRS as income to the debtor in accordance with the Federal Claims Collection Standards and OMB Circular A-129. We also recommended that FSA continue to manually identify deficiency judgments eligible for referral until the system enhancements for automated identification were completed and implemented.¹⁸

FSA has developed an action plan to improve its process and controls for identifying and referring eligible debts to Treasury and, based upon our review of documents provided by FSA, the agency has made progress toward implementing such improvements. As of our fieldwork completion date, FSA was using its Program Loan Accounting System and system-generated reports to better track the status of FSA's delinquent debts, including judgment debts, for the purpose of meeting the DCIA referral requirements. Specifically, FSA was generating an enhanced debt report to include various types of debts under FSA's farm loan programs, including judgment debts, to facilitate field office review of debts to determine eligibility for referral to Treasury. In September 2002, FSA provided its field offices the initial enhanced debt report and directed the field offices to review the debts for accuracy. FSA plans to routinely use the enhanced debt report in such field office reviews in the future.

In addition, actions are being taken to improve field office oversight for DCIA implementation. Beginning in August 2002, county field offices must provide their respective state offices with documentation for loans that they determine are ineligible for Treasury's offset program because of bankruptcy, foreclosure, or litigation.¹⁹ The state offices, in turn, are responsible for making the final decision regarding the loans' eligibility for referral and for actually excluding the loans from referral. In addition, FSA has amended its National Internal Review Guide to include specific procedures that are designed to help ensure that state offices, among other things, establish monitoring systems to accurately track borrowers in

¹⁸U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Department of Agriculture's Farm Service Agency Has Not Yet Fully Implemented Certain Key Provisions*, GAO-02-463 (Washington, D.C.: March 29, 2002).

¹⁹FSA maintains a state office in each state, usually in a state capital or near a state land-grant university. State offices, among other things, provide administrative support and oversight to county servicing offices, which are designed to be a single location where customers can access the services provided by FSA.

foreclosure, bankruptcy, and litigation. The procedures are intended to facilitate the timely and routine updating of information in the Program Loan Accounting System to accurately reflect the status of delinquent debts, including whether the debts are eligible for referral to Treasury for collection action, and that all debts discharged through bankruptcy are promptly closed out and reported to IRS. FSA's policy is to perform its national internal reviews at state offices not less than every 2 years, and the new procedures should improve FSA's implementation of DCIA's delinquent debt referral requirements. It is important to note, however, that specific actions in FSA's action plan that are needed to (1) ensure field offices are routinely reviewing accounts for Treasury's offset program and cross-servicing referral eligibility; (2) ensure that field offices routinely monitor the status of accounts and properly code them for foreclosure, bankruptcy, and litigation; and (3) ensure discharged bankruptcy accounts are promptly closed out, removed from the farm loan debt portfolio, and appropriately reported to the IRS as discharged debts, have target completion dates of September 2003.

Efforts Under Way at FSA to Begin Referring Codebtors to Treasury

We stated at the December 2001 hearing that even though FSA reported having referred \$934 million of direct farm loans to Treasury's offset program as of September 30, 2000, the agency has lost opportunities for maximizing collections on this debt because it does not refer codebtors. We emphasized that the vast majority of direct farm loans have codebtors and pointed out that FSA's Program Loan Accounting System did not have the capacity to record more than one debtor and that the necessary system modifications to record more than one taxpayer identification number had not been made. After the hearing, we recommended that the Secretary of Agriculture direct the Administrator of FSA to monitor planned system enhancements to the Program Loan Accounting System to ensure that capacity to record and use codebtor information is available and implemented by December 2002.²⁰

FSA has acknowledged the need to refer codebtors. Its action plan includes time frames for developing and testing the systems enhancements deemed necessary for recording and reviewing relevant information needed for referring debts to Treasury's offset program, including the codebtor's name, address, and taxpayer identification number. Based on our review of

²⁰GAO-02-463.

documents provided by FSA, the agency has established a code debtor code for its system and has begun to input code debtor information. According to FSA, as of our fieldwork completion date, 254 loans with code debtors totaling about \$8.3 million had been identified for initiating the due process required for referral to Treasury's offset program in December 2002. Given that the vast majority of the agency's direct farm loans have code debtors, FSA has a substantial challenge ahead to obtain the required information to refer all eligible debt for code debtors to Treasury's offset program.²¹

Quarterly Referrals to Treasury's Offset Program to Begin in December 2002

As we noted at the December 2001 hearing, data provided by FSA officials showed that about \$400 million of new delinquent debt became eligible for Treasury's offset program during calendar year 2000. Although FSA officials acknowledged that debts became eligible relatively evenly throughout the year, debts eligible for offset were being referred to Treasury only once annually, during December. As a result, a large portion of the \$400 million of debt likely was not promptly referred when it became eligible. FSA agreed that quarterly referrals could enhance possible collection of delinquent debts by getting them to Treasury earlier. After the hearing, we recommended that the Secretary of Agriculture direct the Administrator of FSA to monitor effective completion of the planned automated system modifications to refer eligible debt to Treasury's offset program on a quarterly, rather than annual, basis.²²

FSA plans to make quarterly referrals to Treasury's offset program and intends to make the first such referral in December 2002. In August 2002, FSA issued guidance to the field offices for review of eligible debts for the December 2002 referral.²³ In September 2002, FSA informed its field offices that quarterly referrals are now required, and the agency has determined that the same due process notification and referral process that has been used annually will be used quarterly, except under a shorter time frame.

²¹We noted during our fieldwork that FSA officials were unaware of the requirement to report discharged or closed-out debts to IRS as income for code debtors as required by 26 U.S.C. 6050P and 26 CFR 1.6050P-1. According to FSA officials, FSA's Office of General Counsel has agreed that reporting discharged debts for code debtors to IRS could be done, and FSA is currently researching its systems capability for such reporting.

²²GAO-02-463.

²³As of the completion date of our fieldwork, FSA documents indicated that the initial quarterly referral in December 2002 could potentially bring the total direct farm loans in Treasury's offset program to over 35,000 loans totaling about \$1.5 billion.

**Significant Actions
Taken by FSA to Be
Able to Refer
Guaranteed Losses to
Treasury's Offset
Program**

At the December 2001 hearing, we pointed out that FSA had paid out about \$293 million in losses for guaranteed farm loans since fiscal year 1996, but like RHS, FSA had missed opportunities to potentially collect millions of dollars related to guaranteed loan losses because they were not treated as federal debt. We also noted while performing work at FSA that the agency had revised its guaranteed loan application applicable to guaranteed loans made after July 20, 2001, to include a section specifying that amounts FSA pays to a lender as a result of a loss on a guaranteed loan constitute a federal debt. After the hearing, because FSA needed to make revisions to its Guaranteed Loan Accounting System to classify guaranteed farm loan losses as federal debt, we recommended that the Secretary of Agriculture direct the Administrator of FSA to monitor planned system enhancements to the Guaranteed Loan Accounting System to ensure that the software needed to implement the revisions to the lender agreement to establish guaranteed loan losses as federal debt is completed. In addition, we recommended that once FSA establishes guaranteed loan losses as federal debt and deems them to be eligible for referral to Treasury, FSA timely refer such debt to Treasury for collection action in accordance with DCIA.²⁴

FSA has issued the final regulations for recognizing claims paid on guaranteed farm loans as federal debt and is currently making needed systems modifications to refer such losses to Treasury's offset program. According to FSA officials, the July 2002 regulations apply to guaranteed farm loans made after July 20, 2001, the date of the revised guaranteed loan application. FSA has established December 2002 as the milestone date for completing the automated systems capability to refer eligible losses to Treasury's offset program and, according to FSA officials, the agency is on schedule. According to FSA officials, as of our fieldwork completion date, the agency has not paid any loss claims associated with guaranteed farm loans made under the July 20, 2001, revision of the guaranteed loan application, and does not expect to experience such losses in the near future because the loans are relatively new.²⁵ However, it is important to note that if FSA experiences such losses, it has procedures for the manual referral of guaranteed loan loss debt to Treasury's offset program.

²⁴GAO-02-463.

²⁵According to FSA, as of July 24, 2002, \$2.3 billion of guaranteed farm loans had been made under the revised guaranteed loan application.

Agriculture Is Working toward Departmentwide Implementation of AWG

At the December 2001 hearing, we stated that Agriculture and eight other agencies we surveyed still had not utilized AWG as authorized by DCIA to collect delinquent nontax debt even though experts had previously testified before this Subcommittee that AWG could potentially be an extremely powerful debt collection tool. We noted that the agencies, including Agriculture, needed to develop the required regulations to implement AWG. In addition, we emphasized that Agriculture had not established specific dates for implementing AWG and was among five surveyed agencies that said they intended to implement AWG in the future but had no written implementation plan for doing so. After the hearing, we recommended, among other things, that the Secretary of Agriculture direct the CFO to complete and finalize regulations for conducting AWG and prepare a comprehensive written implementation plan that clearly defines, at a minimum, the types of debt that will be subject to AWG, the policies and procedures for administering AWG, and the process for conducting hearings, which are required by Treasury. We also recommended that, when practicable, (1) AWG be used in conjunction with other debt collection tools and (2) debts be referred to Treasury prior to 180 days delinquent when relying on Treasury to perform AWG.²⁶

Agriculture agrees that AWG has the potential to be a powerful tool for collecting delinquent federal debts and has taken actions to develop needed regulations and has completed a departmentwide AWG implementation plan. As of our fieldwork completion date, Agriculture had drafted AWG regulations and incorporated them into the overall debt collection regulations for the department, which are currently being revised.²⁷ Agriculture also plans to work with OMB to determine whether Agriculture's regulatory revisions for debt collection should be considered a "significant regulatory action." According to Agriculture's implementation plan, if the regulatory revisions are determined to be a "significant regulatory action," they will require a more lengthy review process resulting in a target date of May 2003 for final publication.

²⁶U.S. General Accounting Office, *Debt Collection Improvement Act of 1996: Status of Selected Agencies' Implementation of Administrative Wage Garnishment*, GAO-02-313 (Washington D.C.: Feb. 28, 2002).

²⁷Agriculture is currently revising its debt collection regulations, which are contained in 7 CFR part 3, in order to ensure that they reflect implementation of all aspects of DCIA, including AWG, and are consistent with the Federal Claims Collection Standards, issued by Treasury and the Department of Justice in November 2000.

In addition, Agriculture's implementation plan contains other milestone dates that need to be met and key elements that are needed to implement AWG. In accordance with the implementation plan, the CFO's office has obtained from component agencies their best estimates of the number of AWG cases they are likely to have each year for loans and administrative debt along with a corresponding estimate for the number of requests for hearings. Agriculture plans to have the Department of Veterans Affairs conduct AWG hearings on Agriculture's behalf and has had discussions with Veterans Affairs regarding such services.

To actually perform AWG, Agriculture plans to rely upon Treasury's cross-servicing program for the vast majority of its debt types for specific debts of \$100 or more.²⁸ Agriculture believes that Treasury's private collection agency contractors already have the knowledge, expertise, and resources to seek out debtors, verify employment sources, and pursue debt collection through AWG. Because of Agriculture's reliance upon Treasury to perform AWG as part of cross-servicing, the CFO's office plans to incorporate into Agriculture's due process notifications to delinquent debtors, which are mailed prior to debt referrals to Treasury, the potential use of AWG as part of cross-servicing. In addition, the CFO's office plans to work with Agriculture's component agencies to refer debts for cross-servicing prior to the 180-day threshold, when practicable. These steps could serve to accelerate collections of delinquent debt.

Although Agriculture has completed its departmentwide AWG implementation plan, components of the plan still need to be carried out. For example, the CFO plans to obtain individual AWG implementation plans from Agriculture's agencies that include each agency's timetable for implementation, written policies and procedures, and types of debt subject to AWG. In addition, Agriculture still needs to work with its agencies to provide Treasury with authorization to use AWG as part of cross-servicing and to complete the agreement with Veterans Affairs to conduct AWG hearings on Agriculture's behalf.

²⁸According to Agriculture, certain agency debts are exempt from cross-servicing. For example, Food Stamp Program debts are held by the states, which Agriculture considers to be third parties. These debts are serviced and/or collected by third parties, and thus are exempt from the requirement to transfer to Treasury for cross-servicing by 31 CFR 285.12. Agriculture plans to analyze these debts to see if the AWG process is doable and feasible economically as many such debts involve very low dollar amounts. Agriculture intends to determine the feasibility of using AWG to collect Food Stamp Program debt by December 2002. Currently, Agriculture is surveying its component agencies to identify other types of debt that may be exempt from cross-servicing.

**Treasury's Debt
Collection
Improvement Account
Has Not Been
Activated**

DCIA includes a voluntary "gainsharing" provision that allows agencies to deposit a limited and defined portion of their debt collections into a special fund account maintained and managed by Treasury. The law provides that deposits into the special fund are available to the Secretary of the Treasury for gainsharing purposes only in amounts provided in advance in appropriations acts.²⁹ The Secretary may make payments from amounts appropriated to agencies for purposes related to credit management, debt collection, and debt recovery.³⁰ However, because collections are routinely deposited into the general fund of the Treasury, appropriations would be required in order to implement this incentive provision.

Treasury has established a debt collection improvement account that can be activated if its appropriations authorize the expenditure.³¹ To date, only the Small Business Administration (SBA) has requested funding for gainsharing through Treasury's debt collection improvement account. Based on SBA's requests, Treasury's appropriation requests for fiscal years 1998 and 1999 included language for funding the debt collection improvement account for up to \$384,000 and \$3 million, respectively. However, the Congress made no amounts available in Treasury's appropriations to fund the account.

According to Treasury, because the debt collection improvement account has never been utilized, it is difficult to assess how effective the account

²⁹Agencies may contribute amounts equal to 5 percent of their collections in a fiscal year less their baselines, which are generally 5 percent of their collections in the previous year or 5 percent of their average annual amounts collected in the previous 4 years, whichever is greater. OMB in consultation with Treasury may adjust an agency's contribution amount to reflect the level of effort in credit management by the agency. An indicator of this effort is based on two factors: (1) the number of days between a debt being delinquent and referral to Treasury for collection (or an exemption from referral obtained) and (2) the ratio of delinquent debts to total receivables for a given program and the change in the ratio over a period of time. The amounts agencies transfer to Treasury's debt collection improvement account would be available to reimburse the agencies only to the extent and in amounts provided in advance by Treasury's appropriations.

³⁰Credit management, debt collection, and debt recovery expenses cover activities such as account servicing, data processing equipment, delinquent debt collection, measures to minimize delinquent debt, sales of delinquent debt, asset disposition, and training of personnel involved in credit and debt management.

³¹The account is the Gainsharing Receipts Debt Collection Improvement Account, which is a receipt account that has been established by Treasury in accordance with OMB procedures. Treasury's FMS would monitor and manage the account for administrative purposes and record the gainsharing funds for each agency.

could be in enhancing federal agencies' debt collection or what changes, if any, should be made in the financial incentive area to improve debt collection governmentwide.

Although the effectiveness of DCIA's gainsharing provision cannot be fairly assessed at this time, it is important that the provision be kept in proper perspective relative to the overall effectiveness of DCIA in improving the federal government's debt collection efforts. DCIA contains specific requirements for federal agencies to improve collection of their nontax debts, namely referral of certain delinquent debts to Treasury for centralized collection. While the pace of implementation has been slow, and collection opportunities have been lost, progress is being made.

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

Mr. HORN. Let's go to Commissioner Gregg, and then we'll go to questions.

Mr. GREGG. Thank you, Mr. Chairman, members of the subcommittee. With your permission I'll submit my entire statement for the record and summarize it.

Thank you for inviting me to testify this morning to provide an update on the Financial Management Service's implementation of the Debt Collection Improvement Act of 1996. As always, the subcommittee's and your strong personal support has helped Treasury Department in implementing a remarkably successful government-wide debt collection program. It is a program that provides exceptional leadership across government, has significantly increased the collection of delinquent debts, and has greatly improved the government's ability to accurately report outstanding delinquent debt.

Mr. Chairman, I understand that you're retiring at the end of this Congress; and I would like to take this opportunity to state that it has truly been a pleasure to work with you and your staff. I believe that you leave behind an important legacy in greatly improving the Government's debt collection, and I'd like to wish you all the best in the coming years.

Mr. HORN. Well, thank you. And I hope you can get the tax crowd to do what you have done with the non-tax. They're in Treasury, and I gather they think we have a law. I don't know why. Just keep going. And I was very impressed by the private collection. Go ahead.

Mr. GREGG. It is now apparent that Treasury's debt collection program is a fully mature one, and it's developed into an integral component of Federal financial management. You may be interested to know that the Treasury program has become a benchmark model. The United Kingdom and an Australian state government are both studying our policies and procedures as they develop their centralized debt collection programs.

Today, Mr. Chairman, I will discuss our near-term and future program plans as well as update you on the overall progress. Before I discuss these two issues, I'd like to give you a brief report on the USDA's participation in the program, as well as share my views on the initiative commonly referred to as "gainsharing." And, Mr. Chairman, I'd also like to submit for the record a report on the progress FMS made during fiscal 2002 in the debt collection program.

I am pleased to report a substantial increase in the number of delinquent debt referrals from the USDA; and, specifically, I would single out the Rural Housing Service, from which we received approximately \$231 million in cross-servicing referrals in fiscal 2002. Through 2001, we had received only \$8.5 million. The Farm Service Agency has also taken some recent positive steps in transferring debts to FMS. This fiscal year we received \$130 million and last year we had only received \$10 million—this fiscal year being 2002 compared to 2001.

The Food and Nutrition Service, I would add, continues to excel in their participation; and you may be assured that Treasury remains committed to working with USDA to eliminate any barriers to program participation.

As you know, Mr. Chairman, DCIA also includes a provision designed to provide an incentive known as gainsharing for agencies to increase collections of delinquent debt by reimbursing them for certain expenses related to collection. Although no funds have actually been appropriated for gainsharing accounts for reimbursement purposes, Treasury has developed procedures that would enable us to activate the program if and when funds do become available.

As you pointed out, since enactment of the DCIA, FMS has collected about \$15 billion in delinquent debts; and since FMS was given responsibility for centralized collection of debt we have sharply increased collections through program changes, adding numerous payment streams and categories of debt and have actively worked with agencies to overcome obstacles. In fiscal 2002 alone, Treasury collected \$2.8 billion in delinquent debt, including \$1.47 billion in past-due child support, \$1.2 billion in Federal non-tax debt, and almost \$180 million in State and Federal tax debt.

Treasury has also worked hard to have agencies refer eligible debt in a timely manner. Last fall, at your suggestion, Secretary O'Neill wrote to the heads of all departments and agencies on the importance of debt referral. In the last year, FMS made improvements to the Treasury Report on Receivables which enables us to more actively monitor and evaluate agency referral and collection performance by generating computerized 5-year trend analysis reports. Also in the last year, more than 1,100 agency participants attended various FMS sessions on debt collection throughout the country.

These actions have produced outstanding results. For both the Treasury Offset Program and cross-servicing, currently 93 percent of debt identified as eligible has been referred. To put this in perspective, at the end of fiscal 99, agencies had referred to Treasury only 43 percent of their eligible delinquent cross-servicing debt.

Mr. Chairman, I'd like at this time to give the subcommittee a progress report on some of Treasury's collection initiatives.

With the cooperation of the Social Security Administration, the offset of benefit payments, which is an extraordinarily complex undertaking, continues to go smoothly. In fact, for fiscal 2002, FMS collected approximately \$55 million in Federal non-tax debt through this program.

As you know, Mr. Chairman, the House version of the welfare reform legislation includes a provision to authorize offsets of Federal payments including SSA payments to improve the collection of delinquent child support debt. FMS and HHS are working with the Senate in an effort to include a similar provision in the Senate version of the bill. An estimated \$50 to \$100 million annually in lost child support collections are at stake. This provision would enable us to aggressively target the collection of these funds.

With the good support of the IRS, implementation of the continuous Federal tax levy initiative continues to go smoothly. Of all the payments being levied, Social Security benefit payments account for most of the levies. For fiscal 2002, approximately \$60 million was collected.

FMS implemented the program to collect delinquent State tax debt in 2000; and for fiscal 2002, \$119 million was collected. Cur-

rently, 25 of the 41 States that collect State income tax and the District of Columbia are participating.

Further, FMS has issued regulations to enable Federal program agencies to garnish private sector wages. FMS views administrative wage garnishment as a powerful collection tool with enormous potential. So that agencies can take full advantage of FMS's centralized processes and established safeguards, we strongly encourage them to use administrative wage garnishment through Treasury's cross-servicing program.

As you're aware, Mr. Chairman, the present contract with private collection agencies went into effect October 1, 2001. We reduced the number of collectors from eleven to five and have seen solid improvement in performance and service. Since the inception of this program in early 1998, the PCAs have collected \$109 million; and for fiscal 2002, PCAs collected \$43 million, which is up from \$27 million in fiscal 2001.

In 2001, FMS began phasing in Federal salary payment offsets. Of the five major salary paying agencies, the USDA's, National Finance Center and the Department of Interior, both of which process payroll for numerous Federal agencies, now participate. The U.S. Postal Service and Department of Defense have committed to participate by the end of this calendar year. In addition to collecting Federal non-tax debt, we have also begun to collect tax debt by levying Federal salaries. We collected \$1.9 million for fiscal 2002.

I am pleased to tell you of yet another element of our debt collection program that is close to fruition. FMS has completed system testing of the new offset of non-Treasury disbursed payments, and we're currently working with the Department of Defense and the U.S. Postal Service to test the transfer of data files between our respective systems. Debts in the FMS data base will be compared to DOD and Postal Service vendor payments, and when there is a match, DOD and the Postal Service will offset the payment. This will also be done for debts under continuous tax levy. We believe this initiative holds great promise and will significantly enhance debt collection, and we plan to implement the program next month.

Barring delinquent debtors from obtaining Federal loans and loan guarantees is a high priority for FMS and for those Federal agencies with loan authority. FMS has been developing a system we call "Debt Check" that will allow lending agencies to access information from the FMS delinquent debtor data base so that government loans are not made to previously identified delinquent debtors. Debt Check is scheduled to be implemented as a Web-based initiative with agencies being phased in gradually.

Mr. Chairman, in summary, Treasury's debt program is one that is both robust and effective and one that has consistently met or exceeded its performance measures.

This concludes my remarks. I'll be happy to answer any questions that you or the subcommittee may have.

Mr. HORN. Sure. Thank you.

[The prepared statement of Mr. Gregg follows:]



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

**Testimony of
Commissioner Richard L. Gregg
Financial Management Service – U.S. Department of the Treasury
before the
Subcommittee on Government Efficiency, Financial Management
and Intergovernmental Relations
House Committee on Government Reform
November 13, 2002
Federal Debt Collection: Significant Progress Made During the Past Year**

Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to testify this morning to provide an update on the Financial Management Service's (FMS) implementation of the Debt Collection Improvement Act of 1996 (DCIA). As always, the Subcommittee's and your strong personal support has helped the Treasury Department in implementing a remarkably successful government-wide debt collection program that provides exceptional leadership across government, has significantly increased the collection of delinquent debt, and has greatly improved the government's ability to accurately report outstanding delinquent debt.

Mr. Chairman, I understand you are retiring at the end of this Congress. I would like to take this opportunity to state that it has truly been a pleasure to work with you and your staff. I believe you leave behind an important legacy in greatly improving the government's debt collection. I would like to wish you all the best in the coming years.

It is now apparent that Treasury's debt collection program is a fully mature one, and it has developed into an integral component of federal financial management. You may be interested to know that the Treasury program has become a benchmark model. The United Kingdom and an Australian state government are both studying our policies and procedures as they develop their centralized debt collection programs.

Today, Mr. Chairman, I will discuss our future/near-term program plans as well as update you on our overall progress. Before I discuss these two issues, I would like to begin by giving you a brief program report on the U.S. Department of Agriculture's (USDA) participation in the program, as well as share my views on the initiative commonly referred to as "gainsharing". Mr. Chairman, I would also like to submit for the record a report on the progress FMS made during FY02 in the debt collection program.

I am pleased to report a substantial increase in the number of delinquent debt referrals from the USDA. Specifically I would single out the Rural Housing Service, from which we received approximately \$231 million in cross-servicing referrals in FY02. Through FY01, we had received only \$8.5 million. The Farm Service Agency has also taken some recent positive steps in transferring debts to FMS. The Food and Nutrition Service, I would add, continued to excel in its participation. You may be assured that Treasury remains committed to working with USDA to eliminate any barriers to program participation.

As you know, Mr. Chairman, the DCIA also includes a provision designed to provide an incentive known as gainsharing for agencies to increase collections of delinquent debt by reimbursing them for certain expenses related to collection. Although no funds have actually been appropriated for gainsharing accounts for reimbursement purposes, Treasury has developed procedures that would enable us to activate the program if and when funds do become available.

Program Accomplishments

Since enactment of the DCIA, FMS has collected about \$15 billion in delinquent debt. Since FMS was given responsibility for centralized collection of debt, we have

sharply increased collections through program changes, adding numerous payment streams and categories of debt, and have actively worked with agencies to overcome obstacles. In FY02 alone, Treasury collected over \$2.8 billion in delinquent debt, including \$1.47 billion in past due child support; \$1.2 billion in federal non-tax debt; and almost \$180 million in state and federal tax debt. FY02 collections exceeded the amount collected in FY01 by \$144 million.

Treasury has also worked hard to have agencies refer eligible debt in a timely manner. Last fall, at your suggestion, Secretary O'Neill wrote to the heads of all departments and agencies on the importance of debt referral. In the last year, FMS made important enhancements to the Treasury Report on Receivables Due from the Public (TROR) which enables us to more thoroughly monitor and evaluate agency referral and collection performance by generating computerized five-year trend analysis reports. Also, in the last year, more than 1,100 agency participants attended FMS workshops, conferences, symposia, and seminars on debt collection throughout the country. FMS also conducts meetings with agency Chief Financial Officers (CFO) and finance offices on debt referral and other debt collection developments.

These actions have produced outstanding results. For both the Treasury Offset Program and cross-servicing, currently 93 percent of debt identified as eligible has been referred. To put this in perspective, at the end of FY99, agencies had referred to Treasury only 43 percent of their eligible delinquent cross-servicing debt. During the first four years of the program – 1997 through 2000 – agencies referred roughly \$4.3 billion for cross-servicing. In the two years since then, agencies have referred an additional \$6 billion.

Mr. Chairman, I would like at this time to give the Subcommittee a progress report on some of Treasury's collection initiatives.

Benefit Payment Offset

With the cooperation of the Social Security Administration (SSA), the offset of benefit payments, an extraordinarily complex undertaking, continues to go smoothly. In fact, for FY02, FMS collected approximately \$55 million in federal non-tax debts through this program.

And as you know, Mr. Chairman, the House version of the welfare reform legislation includes a provision to authorize offset of federal payments including SSA payments to improve collection of delinquent child support debt. FMS and the Department of Health and Human Services (HHS) are working with the Senate in an effort to include a similar provision in the Senate version of the bill. An estimated \$50 to \$100 million annually in lost child support collections are at stake. This provision would enable us to aggressively target the collection of these funds.

Continuous Federal Tax Levy

With the good support of the IRS, implementation of the continuous federal tax levy initiative continues to go smoothly. Of all the payments being levied, Social Security benefit payments account for most of the levies. For FY02, approximately \$60 million was collected, primarily as a result of the SSA benefit levy, which accounts for \$43 million of the total.

State Income Tax Debt Collection

FMS implemented the program to collect delinquent state tax debt in 2000. For FY02, \$119 million was collected. Currently, 25 of 41 states that collect state income tax and the District of Columbia are participating. Next year, six additional states are

expected to begin. FMS is actively encouraging the remaining states to participate. For example, FMS has entered into discussions with the State of California, and as a result, FMS intends to visit with state officials shortly to discuss the program.

Administrative Wage Garnishment

FMS has issued regulations to enable federal program agencies to garnish private sector wages. FMS views Administrative Wage Garnishment (AWG) as a powerful collection tool with enormous potential. So that agencies can take full advantage of FMS' centralized processes and established safeguards, we strongly encourage them to use administrative wage garnishment through Treasury's cross-servicing program.

Some agencies are currently using this debt collection tool through FMS, including the Department of Housing and Urban Development. Another agency, HHS, has recently published regulations and several others are preparing to publish regulations which will allow them to participate. FMS is also working closely with the Department of Veterans Affairs and the Department of Defense to help facilitate their participation.

Contract for the Services of Private Collection Agencies

As you are aware, Mr. Chairman, the present contract with private collection agencies went into effect October 1, 2001. We reduced the number of collectors from eleven to five, and have seen solid improvements in performance and service. Since the inception of this program in early 1998, PCAs have collected \$109 million. For FY02, PCAs collected \$43 million, up from \$27 million for FY01.

Future/Near-Term Plans

Centralized Federal Salary Offset

In 2001, FMS began phasing in federal salary payment offsets. Of the five major salary paying agencies, USDA's National Finance Center and the Department of the

Interior, both of which process payroll for numerous federal agencies, now participate. The U.S. Postal Service and the Department of Defense have committed to participate by the end of this calendar year. In addition to collecting federal non-tax debt, we have also begun to collect tax debt by levying federal salaries. We collected \$1.9 million for FY02.

Offset of Non-Treasury Disbursed Vendor Payments

I am pleased to tell you that another new element of our debt collection program is close to fruition. FMS has completed systems testing of the new offset of non-Treasury disbursed payments. We are currently working with the Department of Defense and the U.S. Postal Service to test the transfer of data files between our respective systems. Debts in the FMS debtor database will be compared to Department of Defense and U.S. Postal Service vendor payments. When there is a match, DOD and USPS will offset the payment. This will also be done for debts under continuous tax levy. We believe this initiative holds great promise and will significantly enhance debt collection, and we plan to implement the program next month.

Delinquent Debtor Database Information Sharing

Barring delinquent debtors from obtaining federal loans and loan guarantees is a high priority for both FMS and for those federal agencies with loan authority. FMS has been developing a system we call "Debt Check" that will allow lending agencies to access information from the FMS delinquent debtor database so that government loans are not made to previously identified delinquent debtors. The database is designed to complement existing sources of information available to agencies – to provide an additional tool to bar delinquent debtors from obtaining federal loan assistance. Debt Check is scheduled to be implemented as a Web-based initiative with agencies being phased in gradually.

Conclusion

Mr. Chairman, in summary, Treasury's debt program is one that is both robust and effective, one that has consistently met or exceeded its performance measures. This concludes my remarks. I would be happy to answer any questions you or the members of the Subcommittee might have.

**U.S. Department of the Treasury
Delinquent Debt Collection
Fiscal Year 2002**

MAJOR ACCOMPLISHMENTS

The Debt Collection Improvement Act of 1996 and other statutes provide the tools for administering a centralized program for the collection of delinquent tax and non-tax debts. The Financial Management Service, a bureau of the Department of the Treasury, is charged with implementing the government's delinquent debt program and does so through two main components: the Treasury Offset Program (TOP) and the Cross-Servicing Program. Today, the FMS debt program is a central tool for sound financial management at the federal level. Through the debt program, FMS provides an extremely valuable government-wide service, assisting with the collection of federal debt, much of which would not be collected otherwise. The debt program has had a tangible impact on agency fiscal operations, the economical stewardship of taxpayer dollars, the integrity of important federal programs, such as student loan programs, and efforts to collect delinquent child support debt. This report highlights the progress made in the program for FY 02.

Critical to the success of collection efforts is the role of the federal program agencies – that of referring eligible debts. At the close of FY 02, 93 percent (\$31.02 billion) of the eligible federal non-tax debts had been referred to the TOP for collection. For the same time period, 96 percent (\$7.9 billion) of the eligible debts had been referred to the Cross-Servicing Program for collection, up from 43 percent at the end of FY 1999. Worthy of particular mention are the referral activities in FY 02, at the Department of Health and Human Services Centers for Medicare and Medicaid (\$1.4 billion) and the Department of Agriculture Rural Housing Service (\$231 million). Referring the eligible debts at the earliest possible time greatly enhances collection efforts, and Treasury continues to work with agencies toward that end. For FY 02, 30 percent of the eligible debts referred to the TOP (excluding those referred through the Cross-Servicing Program) were received within the first six months of the date of delinquency. Upon receiving the referrals from the federal program agencies, Treasury initiates the collection of the delinquent debts using all the tools at its disposal. Through TOP, total collections were over \$2.7 billion for FY 02. Additionally, the more than \$86 million collected through the Cross-Servicing Program is a stunning 85 percent increase over FY 01.

Providing high quality customer service throughout the collection process and implementing new initiatives to aid in preventing delinquencies were Treasury priorities throughout FY 02. Doubling the capacity of the interactive voice response system in use at the TOP Customer Assistance Center significantly reduced waiting times for callers. During the 2002 tax season, 63 percent of callers utilized the system, a 7 percent increase over 2001. Treasury is also implementing a Web-based delinquent debtor database information-sharing program. The program ("Debt Check") will allow agencies with lending authority to screen loan applicants to avoid lending to previously identified delinquent debtors and encourage repayment of their delinquent debts.

Treasury is actively engaged in its duty and responsibility to collect delinquent debts owed to the government. Collecting a total of \$15.1 billion since mid-1996 is strong evidence to support that statement. In partnership with federal program agencies, Treasury will continue its strong commitment in the years to come.

PROGRAM OVERVIEW

Treasury Offset Program

Description

TOP is a debt collection program that encompasses both "offsets" and "continuous levies."

Offset

- Offset is a program whereby Federal payments are reduced or "offset" to satisfy a person's overdue Federal debt, child support obligation, or state income tax debt. A payee's name and taxpayer identification number are matched against a Treasury/FMS database of delinquent debtors for automatic offset of funds. Offset funds are then used to satisfy payment of the delinquent debt to the extent allowed by law.
- For FY 2002, payment types subject to offset include Office of Personnel Management retirement payments, Internal Revenue Service tax refunds, vendor payments, Federal employee travel payments, some Federal salary payments, and Social Security benefit payments.
- *Offset of Federal salary payments*, through TOP, has been implemented in partnership with U.S. Department of Agriculture's National Finance Center and the Department of Interior, which are salary paying agencies, and is intended to provide a more efficient process than the non-centralized salary offset process currently used by Federal agencies. Other salary paying agencies (such as Department of Defense, U. S. Postal Service and the Department of Veterans Affairs) will be incorporated into the process over the next few years.
- *Offset of Social Security benefits payments*, which began in May 2001, was implemented in stages to ensure that payment recipients receive appropriate notices of potential offsets, as well as the opportunity to take action to avoid offsets. This specific offset program was fully implemented in 2002.

Offset of Federal Tax Refunds

- In January 2000, FMS began collecting state income tax debts by offsetting Federal income tax refunds, as authorized by the 1998 Internal Revenue Service Restructuring and Reform Act. In FY 2002, the number of states and territories participating was 25, and the District of Columbia participated as well.

Continuous Tax Levy

- Continuous Tax Levy was initiated by FMS in July 2000. Under Continuous Tax Levy, delinquent Federal income tax debts are collected by levying nontax

payments until the debt is satisfied, as authorized by the 1997 Taxpayer Relief Act. The Continuous Tax Levy program includes levy of vendor, Federal employee salaries, Office of Personnel Management Retirement and Social Security benefit payments. Continuous Tax Levy is accomplished through a process almost identical to that of offset, that is, matching of delinquent debtor data with payment record data and automated collection of the debt at the time of payment, after the delinquent taxpayer has been afforded due process.

FY2002 TOP Referrals as of September 30, 2002

- As of September 30, 2002, the TOP database contained \$186.65 billion in delinquent receivables. The largest component of TOP's delinquent debtor database was the \$81.16 billion in Federal income tax debts submitted for continuous tax levy.
- Regarding Federal nontax debts, \$31.02 billion (93 percent) of the amount of debt eligible for referral were referred by the end of FY 2002. Of that total, 60 percent (\$18.5 billion) are debts referred by the Department of Education.
- Efforts by states, HHS' Office of Child Support Enforcement (OCSE), and FMS to refer more delinquent child support obligations to TOP have resulted in referrals of \$71.2 billion as of September 30, 2002.
- Referrals of state income tax debts rose to \$3.2 billion, an increase of \$840 million (35 percent) from the end of FY 2001.

FY2002 TOP Collections as of September 30, 2002

- Total collections through TOP were \$2.77 billion in FY 2002. Since enactment of the DCIA in April 1996, \$14.9 billion has been collected through TOP.
- Total collections through TOP increased in FY 2002 by \$128 million over total collections in FY 2001 (excluding offsets of the advance tax refund payments, which totaled \$471 million in FY 2001).
- In FY 2002, administrative offset collections were \$84 million, a 229 percent increase over FY 2001 collections. FY 2002 was the first full year that included offsets of Social Security payments to collect Federal nontax debt, a process that was incorporated into TOP in FY 2001 beginning May 2001.
- Total tax refund offset collections (not including tax rebates) for child support debts, Federal nontax debts and state income tax debts have remained relatively constant over the last four fiscal years at \$2.6 billion. Child support collection totaled \$1.47 billion, which was an increase of \$70 million over FY01 collection.
- Total collections of state income tax debts by offsetting Federal tax refunds increased by almost \$25 million over the \$94.5 million collected in FY 2001 (FY 2001 included offsets of tax rebates).

- Collections under Continuous Tax Levy, totaled \$60 million in FY 2002, a 264 percent increase from the \$16.5 million collected in FY 2001. The Internal Revenue Service (IRS) maintains control over which Federal tax debts can be collected through the levy process.

Cross-Servicing

Description

Cross-servicing is the process whereby agencies refer Federal nontax debts more than 180 days delinquent to FMS for collection. Treasury applies a variety of collection tools once agencies refer their debts. Collection tools include: Treasury demand letters; telephone calls to debtors; and referral of debts to TOP, credit bureaus, one or more of the private collection agencies (PCA) on Treasury's contract, and DOJ for litigation.

In FY 2001, FMS added administrative wage garnishment (AWG) as a debt collection tool available to Federal agencies through cross-servicing. AWG has great potential for increasing collections, and FMS has been encouraging Federal agencies to authorize the use of this debt collection tool through cross-servicing.

FY2002 Cross-Servicing Referrals as of September 30, 2002

- The calculation of the amount of debts eligible for referral is based on information provided by the agencies in the Treasury Report on Receivables at the end of the last fiscal year. For FY 2002, debts calculated to be eligible for referral to cross-servicing totaled \$8.2 billion.
- As of September 30, 2002, cross-servicing referrals were \$7.9 billion, or 96 percent of the eligible debts.
- Referral rates of eligible debt have continually increased over the last three fiscal years from 43 percent at the end of FY 1999 to the current 96 percent.
- Referrals from the Department of Agriculture's Rural Housing Service were \$231 million in FY2002, compared to \$8.5 million in the previous fiscal year.
- Referrals from the Department of Health and Human Service's Centers for Medicare and Medicaid Services totaled \$1.4 billion for FY2002.

FY2002 Cross-Servicing Collections as of September 30, 2002

- Since the inception of the cross-servicing program, FMS and the PCAs have brought in \$215.6 million in collections.
- In FY 2002, FMS and its PCAs collected more than \$86 million, an increase of \$39.6 million (85 percent) over FY 2001 collections, which totaled \$46.4 million.

- In each of the three categories of collections (referrals to TOP, collections by PCAs and collections at FMS' Birmingham Debt Operations center) there were increases in FY 2002 over the previous fiscal year. TOP collections through cross-servicing rose by 78 percent to \$18.5 million, PCA collections increased by 55 percent to \$42.9 million, and collections at the Birmingham Debt Operations Center rose by 30 percent to \$24.2 million.

Mr. HORN. I'm now going to yield time for Mrs. Schakowsky, the ranking person for this subcommittee; and I'd like her to start—she hasn't had a chance to get some overlook of her own, and we'd then like her to have at least 5 minutes, and then we'll go back and forth between us.

Ms. SCHAKOWSKY. Thank you. I thank you, Mr. Chairman. The work that you've done, along with my good friend Congresswoman Carolyn Maloney, on debt collection since the 104th Congress is really showing results; and I congratulate you and all of us on that.

The testimony from Treasury indicates that 93 percent of the debt that should be referred for collection is being referred, a dramatic increase from the 43 percent referral in 1999. In fiscal year 2002, Treasury collected over \$2.8 billion in delinquent debt; and a total of \$15 billion has been collected since the law was passed. That is a significant accomplishment.

Today we also heard that the situation at the Department of Agriculture has improved dramatically. The programs that last year were identified as troubled today are complying with the law. Both the Rural Housing Service and the Farm Service Agency have made major strides toward compliance. Both agencies still have significant room for improvement that will require, as noted by the GAO, "sustained commitment by top management."

The results of this legislation are even more important today than when it was passed. The Bush administration is running the government by spending more than is coming in. Congress has not passed the appropriations bills necessary to fund the Government in part because the Bush tax cut has left us with no way to fund those bills without running up the deficit.

This challenge will be even greater in the next Congress. It's clear that the recession that began shortly after President Bush took office still has the economy in its grips. Most experts predict that the last quarter of 2002 will show little if any growth in the economy. Public confidence in the economy is at a 9 year low. Consumer spending that has kept the economy from slipping into a double dip recession appears to be slowing. Car sales, despite all the zero interest loans, dropped dramatically in October to the lowest level since April 1998.

To make matters worse, jobs are disappearing left and right. Net private sector jobs fell by 29,000 in October, 17,000 in September. Layoffs rose from 70,000 in September to 176,000 in October. The length of unemployment is increasing, and the average number of hours worked is falling. Economists tell us that the most optimistic prediction is that we will repeat the jobless recovery of 1991 and 1992. Others are predicting another recession. In short, it's likely to be a difficult winter for many Americans.

Debt collection is one tool to fill the Government coffers, though it's no substitute for sound economic policy. Debt collection which shrinks a family's income into poverty or which puts a firm out of business is counterproductive. Debt collection that unrelentingly pursues those who can't pay is wasteful and misguided.

I appreciate the testimony that we've heard, and I want to thank the witnesses for taking the time to appear before us.

[The prepared statement of Hon. Janice D. Schakowsky follows:]

**STATEMENT OF THE HONORABLE JAN SCHAKOWSKY
AT THE HEARING ON
DEBT COLLECTION**

NOVEMBER 13, 2002

Thank you Mr. Chairman. The work that you and my good friend Congresswoman Maloney have done on debt collection since the 104th Congress is beginning to show results. The testimony from Treasury indicates that 93% of the debt that should be referred for collection is being referred – a dramatic increase from the 43% referral in 1999. In fiscal year 2002, Treasury collected over \$2.8 billion in delinquent debt, and a total of \$15 billion has been collected since the law was passed. That is a significant accomplishment.

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Debt collection is one tool to fill the government coffers, but it is no substitute for sound economic policy. Debt collection which shrinks a family's income into poverty, or which puts a firm out of business, is counter productive. Debt collection that unrelentingly pursues those who can't pay is wasteful and misguided.

I look forward to hearing today's testimony, and I thank the witnesses for taking the time to appear before us.

Ms. SCHAKOWSKY. I do have one question regarding the issue of child support. Would you explain—in Illinois, where I served in the State legislature, I saw child support as the collection—as the business of State government. I know Illinois ranks near the bottom, unfortunately. Hopefully, we'll—with the new Governor we're going to see some changes, but it's been a persistent problem.

I understand how it would benefit the Federal Treasury if we do a better job of collecting child support. But what role does the Federal Government play in child support—in collecting child support?

Mr. GREGG. We really work very closely with HHS and the States to collect child support to offset payments that we make. For example, for tax refunds, when we get referrals in from the States through HHS for delinquent child support we may—in fact, do—reduce the amount of the tax refunds that otherwise would have been made. So we're not the only source, but we are an important source. I think for fiscal 2002 we collected \$1.4 billion in delinquent child support, and that's been pretty consistent for the last several years. So it's another tool that really helps the States in their role.

Ms. SCHAKOWSKY. And is that the—are we maximizing our opportunities there, or do you see room for growth there as well?

Mr. GREGG. Well, I think one thing that we would support would be to also provide to allow us to offset child support payments through the Social Security—for Social Security benefit payments, because there are some fairly significant amounts that could be collected—which sounds a little strange on the surface, but it nonetheless is the case. We could actually collect somewhere between \$50 and \$100 million additional if we had the authority to offset the Social Security payments.

Ms. SCHAKOWSKY. And are you—in considering what the benefit is to the Treasury, do you look at things like food stamps or WIC or all of those that may not be needed to be paid out if the child support is collected? Is that part of the calculation?

Mr. GREGG. Well, no. We basically rely on the referral from the States through the HHS that there's a delinquent child support debt. And if we have a payment that matches that, we offset it. Now if there's an issue on, you know, someone claiming that they can't afford to pay that, we really refer that back to HHS and the State.

Ms. SCHAKOWSKY. OK. Thank you. That's all I have.

Mr. HORN. I might add the day that the debt collection bill became law, when the President put his signature on it, I got a call from Commissioner Adams of Massachusetts. He said, you've made my day. And that's in line with Ms. Schakowsky, to make sure to track the deadbeat dads. This has been a side thing, but it's very important.

Mr. GREGG. I might add, Mr. Chairman, that we have some of our staff here from our debt management service, and you know they're all very dedicated. But the fact is that it's one thing to collect Federal debt. It's another thing for them to see what they've done in the child support area. It really reinforces to them the importance of what they do.

Mr. HORN. Well, let's go down the line a little. I'm sorry. Oh, Mr. Owens. I didn't see you. Yeah. Welcome.

Mr. OWENS. Thank you. Thank you, Mr. Chairman.

Again, I want to salute you for your pursuit of this problem over the years. For more than half of my career in Congress I have been fascinated by this problem of debt collection, particularly within the Agriculture Department. I really want to salute you as a profile in courage, a profile in integrity, a profile of continuity. You've stuck with it, as you have with many other knotty problems of this kind. But I certainly am fascinated by the fact that such large amounts of money can be outstanding. You can fund whole categories of people. The welfare mothers in most of the States could be greatly helped if we just collect the debts from the Agriculture Department.

The Agriculture Department does fascinate me because it seems to be the most recalcitrant and stubborn in terms of moving. Now there's a movement.

I just want to clarify what I'm seeing here. When I first was introduced to the problem the outstanding debt was about \$14 billion. The chart that appears at the end of your testimony, Secretary Moseley, do I read it correctly? We are now down from \$14 billion to \$6.1 billion. Is that—when you look at all these numbers, is that correct?

Mr. MOSELEY. That is correct.

Mr. OWENS. What's really outstanding now is \$6.1 billion.

Mr. MOSELEY. That is correct.

Mr. OWENS. I think I was introduced to this problem about 10 years ago. So in 10 years we've gone from \$14 billion down to \$6.1 billion. How does this occur? I mean, do people get put in prison after a certain period of time and they haven't paid their debts? Does any action other than trying to coerce them to pay the debt take place? And how do some loans get written off? You wrote off about \$1 billion I see here, written off. What does "written off" mean? It just sat there so long you got tired of trying to collect it and that person goes scot free? Or did they have to go bankrupt before it was written off? What happened?

There's two questions there.

Mr. MOSELEY. Well, we—first of all, I probably will have to turn to, from a historical perspective, someone who's been around the Department for a long period of time. But I think it's obvious what we try to do is pursue the individual to make sure that the obligation is paid. If it's in litigation, if it's in bankruptcy, there's a—then we are prohibited under the guidance of this act to pursue during that timeframe. But once that's cleared up and it's free to refer it to Treasury, then it's based upon their pursuit to collect those funds. If there's nothing to collect, then that money has to be written off.

Mr. OWENS. If there's nothing to collect, the money is written off; and the individual is scot free, though. There's no penalty. Nobody goes to prison for having defrauded the government.

Mr. MOSELEY. I'm going to turn this over.

Ms. COOKSIE. I don't know that anybody goes to prison for being delinquent on a debt or not paying it, but there certainly are things that happen. There are even at—first of all, we don't write down and write off debt until we know for sure there are no assets left to collect it. And that's a long process. At that point, if we write down the debt, if there is any future availability for that borrower

to have any income or anything else, then we do do things like we set judgments against them and we do collection efforts that are ongoing. And DCIA has certainly made that easier for us to do that.

But, you know, there is—the fact of life is that the law that governs farm loan programs is under the Con act. There's a statutory provision for write-off for farmers in certain conditions. So we have to follow those laws for write-off. So there are certainly some farmers whose loans are written off at the end of the day when we determine there are no assets left to collect it.

Mr. OWENS. What's always fascinated me is the large amounts of money we're talking about. You're not talking about chicken feed here. We're talking about millions of dollars, \$1 billion written off. And in many cases when I was first introduced to this there were some farmers who had loans outstanding which were in the millions of dollars. So to hear that if they just hang out there long enough the whole thing is just written off is very disturbing.

But the question is, the practices that led to this were often very strange, too. There were committees, committees made up of people who had the power to recommend these loans, credit committees or farm loans, I forget the exact name. And on some of these same committees some of the people who had the biggest debts were sitting there on the committees long after the debt had been sitting there for a while.

Have steps been taken to end that kind of legal racketeering? Because it was not illegal for them to be there. The rules said that—no rules said they couldn't be there. So you had a person who is able to seem to me log roll and in terms of other people—and while his debts are there, you know, safely couched away. Are the rules now clear so that a person who is delinquent is at least not kept in a responsible, decisionmaking position in this program? I'd hope that anyone in the Federal Government or in the private sector, anybody with \$1 million worth of debt not being paid would also be tagged for what he is. But let's just start with the Department of Agriculture.

Ms. COOKSIE. In FSA and farm loan programs we do—well, in FSA in General we do have county committees that you're aware—they're elected committees in each county. There is this notion that is wrong, that county committees do feasibility and eligibility determinations for farm loans. That is not true. They do for some of the CCC programs on the program side of the house. But for farm loan programs county committees don't have any authority or say-so in eligibility or determinations for our farmers.

So even if you're on the county committee you really—and with the farm bill that just passed, all of the other things that the county committees did under farm loans is basically gone now. So the relationship with farm loans and county committees is very little, the way the laws are written now.

Mr. OWENS. They used to be called farmers home loan mortgages. Does that no longer exist? And that includes this statute here?

Ms. COOKSIE. In 1995—

Mr. OWENS. Who's sat on the mortgage committees? You know—

Ms. COOKSIE. Farmers Home Administration disappeared in 1995 with the reorganization bill.

Mr. OWENS. Yeah. I've been here since 1983, so—

Ms. COOKSIE. 1995.

Mr. OWENS. OK.

Ms. COOKSIE. The farm loan portion of it went to what is now Farm Service Agency. The housing portion of it went to what is now Rural Development.

Mr. OWENS. Under the old arrangement were the committees from the farmers home loan mortgages different from the county committees?

Ms. COOKSIE. Absolutely. They were not elected committees. They were appointed. In Farmers Home Administration the county committee system was quite different from the way it is established in FSA. They were not elected committees, committee members. They were appointed committee members, absolutely.

Mr. OWENS. They were appointed committee members and there were no rules that said if you have big debts you can't sit there, right?

Ms. COOKSIE. There are no rules, and even in the farm bill law that just passed it's clear that Congress expected that county committee members would be able to get loans from the government. We even now have extended it to Federal employees. So there is no rule that says if you're on a county committee you cannot participate in the program. But there is a division in farm loans because they don't really have any say-so in the farm loan programs now.

Mr. OWENS. Thank you.

The awesome power of the farm lobby in this country is more than just fascinating. Less than 2 percent of the population, they have the biggest bureaucracy second only to the Pentagon here in Washington. And they walk away with—what's the present authorization of—legislation is \$600 billion in farm subsidies, the highest amount. The cap that was put on is less than—is about \$250,000 that can be received by one farmer, one unit, whatever they call it, quota, whatever. It's awesome how much the American people shell out to the farm industry, and they continue really not to move at a very fast pace in terms of dismantling some of what I call almost legal racketeering practices that have existed there.

Thank you, Mr. Chairman.

Mr. HORN. Thank you.

Let me go back to Mr. Gregg a minute. You said that your office remains committed to working with the Department of Agriculture to eliminate any barriers to its participation in your debt collection programs. What barriers do you see in this regard and how will you help eliminate them?

Mr. GREGG. I think given the commitment that we heard last December and still today, assuming that continues, I really don't see many barriers. And I think that's true across Government. If we had the kind of top-level commitment that we've had in Agriculture last year, many of the issues would go away. Because when it gets right down to it you have some funding issues and priorities and computer systems, but unless you have the commitment, the rest really doesn't matter very much.

Beyond that, I think we stand ready and I think we've done some consulting with them on the administrative wage garnishment regulations. We have not only program people but attorneys that are very knowledgeable about the program, and I think they have helped other agencies in Agriculture. If issues come up and questions of whether or not a debt should be referred to us or not, then we look at it, you know, as really a cooperative effort to try to figure that out; and that's the kind of thing that we stand ready to do.

Mr. HORN. What do you see as the remaining barriers to ensuring that all agencies make maximum use of the Debt Collection Improvement Act and how will you help agencies overcome them?

Mr. GREGG. Well, I think when you launched this program, and not surprisingly so, agencies saw or thought that they saw that they were losing something, and they were concerned about their programs and their constituents. I think over time that most of that has gone away and they're taking a broader perspective that what they're trying to do is still administer their programs but also collect these debts.

Again, I think that the kind of commitment we've seen from Agriculture is really what's needed, and probably a periodic hearing on agencies that are still not quite there would probably be a good idea going forward.

Mr. HORN. I notice you grew up in South Dakota so you know what a farm looks like. I must say I get a tear when I see the sheriff on TV and he goes to shout, just knock off the barn and everything else. I don't know how that's equity that has changed, and I don't know if you just have a feeling on that—because I wouldn't want somebody—I'd make sure that before they face them with putting them out and not being able to plow their land or get it to farm and market and so forth.

Moving on here, how concerned are you that the act's gainsharing provision has yet to be used and what can be done to encourage its use?

Mr. GREGG. I think that gainsharing could have been quite useful in 1997 and probably 1998. I think where we are today, I'm actually not very concerned that it hasn't been used. I think the agencies, over time, have shifted priorities and have made it work so the progress that we've made in the last couple of years, I would say that I'm not very concerned that gainsharing hasn't been authorized through appropriations.

Mr. HORN. How would you rate the effectiveness and responsibility of the private collection agencies that you've worked with at the Treasury Department?

Mr. GREGG. They've been a very important tool for us, and I think it's even gotten better in the last couple of years as we've reduced the number of PCAs from eleven to five and have worked very effectively with them. Like anything else, it kind of depends on the nature of the debt and where they fit into the process. But they've been very effective.

Like anything else, you need to manage it. It's not that we just have a contract with them and turn them loose. They're managed. We monitor the complaints we might get in from debtors on wheth-

er or not they were treated appropriately. Overall, it's been extremely effective for us.

Mr. HORN. In your role as Commissioner to the Treasury's Financial Management Service, if the IRS is finally getting its act together in terms of the pots they've had over the years, that—starting with back when we got for doing something about it, and that was \$60 billion sitting around and then \$100 billion, would that come into your agency and manage it for IRS?

Mr. GREGG. Well, we wouldn't manage it, but we have been working with IRS for the last, I don't know, I guess it's been a year and a half. They refer to us now tax debt and that's going quite well. There's still more potential there, but we've collected a fair amount in the last couple of years, and I think that will continue to grow. The working relationship between us and IRS is very good, and that's an important element of the program, even though it's not specifically under DCIA.

Mr. HORN. The private collectors, how much of that is used on IRS liabilities? What can you say about that? Because in the past they wouldn't do it. About, oh, 8 years ago they gave us a phony presentation of when this would be moved, and it was already 5-year old debt, and that didn't hit anybody. This is before Commissioner Rossotti, but it was in that—going between commissioners. Do we have any problem like that right now?

Mr. GREGG. The tax debt that we collect is all collected through levies. It is not subject to the cross-servicing program. I know that IRS and the Department of the Treasury are looking at the issue of whether or not to have IRS use PCAs, and I don't know how they are going to come out on that. But they are considering that.

Mr. HORN. That is good, because there must easily be \$20 billion somewhere with a decent operation. You have an excellent operation, and they ought to be able to get out and get that \$20 billion when everybody is saying, gee, look, we are doing this, we might do something with Social Security—which we won't, any more than anyone else does—and to see if you can get that \$20 billion would be helpful.

What do you think? Do you think it is at the \$20 billion mark or the \$50 billion mark on the IRS? Or is that not in—I don't mean to put the thing on the—

Mr. GREGG. I think you have seen that with Charles Rossotti and his deputy, Bob Wenzel, have certainly had increased focus on this. And I think through, their work, we were able to overcome some fairly tricky things on getting the tax debt referred to us for offset.

You know, this past year, fiscal year 2002, we collected \$60 million. I realize that is a small piece relative to what is outstanding, but I see that continuing to grow.

Mr. HORN. We have, I believe, a figure that it is \$100 billion to be collected if you really go after it. And now they all say, well, we just can't do it and so forth. With you already doing it, I don't know why we can't push in that area; and that will be good for you. So—

Mr. GREGG. Thank you.

Mr. HORN. Well, you are such a good administrator. My gosh, here they are fiddling around over there and have been—when the word private collector drives them nuts. But to—we ought to try

with it. You have seen that you get results. So we shouldn't—when we have got a good situation going right under everybody's noses, why we ought to try and see if we can do something.

You say that four or five major Federal salary-paying agencies are participating or have committed to participate in the salary offset. What is the fifth agency, and why is it not participating?

Mr. GREGG. The fifth one would be Veterans Affairs, and we have been working with them. I am not sure I can really say why it has taken that long, but I think one of the issues that they have been struggling with a bit are systems issues.

But, as you may know, there is also a look, governmentwide, to consolidate the number of organizations that do the salary work. So I think maybe part of it is that they are kind of looking over their shoulder to see what is going to happen with that.

Mr. HORN. Have you performed any reviews of the Treasury Department's cross-servicing program in order to determine whether it is cost-effective?

Mr. GREGG. I think the cross-servicing program, if you look at it in the context of all of the work that we do in the debt collection area, is a very important part.

Since we began cross-servicing, we have collected about \$218 million. In addition to that, the amount of debt information that has been improved has been considerable, because, through that process, in some cases we go back to agencies and say, the documentation isn't there. You either have got to get the documentation or you have got to recognize that this debt isn't collectible.

That whole process has taken place through our cross-servicing office. If you look longer term, that is going to continue to improve the quality of the debt information that is being reported by us and by the agencies. So I think it is an extremely important facet of our overall program.

Mr. HORN. Let's move to the General Accounting Office. Mr. Engel, how responsive has the Department of Agriculture been to your recommendations for improving its debt collection?

Mr. ENGEL. Mr. Chairman, all of the recommendations that we made in our recent reports issued last year have been addressed at some level. In some circumstances the recommendation has been fully implemented and in others there is a ways to go. Overall, I think we are pleased with the response that we received. But, as I had said in my testimony, it will really require a sustained commitment and priority by management to follow through on those remaining problems that still have actions to be done.

Mr. HORN. What do you see as the major remaining challenges to fully implement the Debt Collection Improvement Act at Agriculture?

Mr. ENGEL. I would say there is still several major challenges. A lot of the recommendations that I had just mentioned have not been completed, need to be followed through. Some of the major areas would be in the codebtor, referring the codebtor information over on the direct farm loans. While progress is being made on those and many of the loans have been identified as to who the codebtor is, there is still a significant dollar amount of debts that have codebtors that would need to be identified and referred over.

The Farm Service Agency, when we had performed our work last year, we had found problems with their processes for identifying the accuracy of information being reported over through their referrals. Efforts are under way in that area, but there are still several things that need to be accomplished.

In the administrative wage garnishment area, as I had mentioned in my testimony, the agency has developed a written implementation plan. It has developed draft regulations, but there are still other procedures, working out arrangements with Veterans Affairs and things that we will need to get completed.

But I really think that will be an effective tool. It is one that priorities should be put on to get those problems issued.

Mr. HORN. What is the situation with—is it the computing—whatever—for VA? What is the problem there?

Mr. ENGEL. For VA? Veterans Affairs is going to assist them in holding the hearings. Under administrative wage garnishment, the debtor could ask for a hearing; and Veterans Affairs is someone that the Department of Agriculture is looking to have perform some of those hearings for them.

Mr. HORN. So it is a human situation in terms of—is there a particular percentage that one has in benefits and they are sort of working away at that—because that sort or rings a lot of bells—and would hear a lot of Members of Congress worried about that?

Mr. ENGEL. For administrative wage garnishment, the way it would work is that the 15 percent of disposable pay can be taken from the employer's—or the employee's pay until the full debt is collected. Now, the disposable pay takes into account taxes and some of the sensitive things, health insurance, would come out before you would come down to what disposable pay is.

Mr. HORN. Is there a problem that you see between benefits? Some are under HHS? Some are the States? And so what is the problem in trying to get into those things and see if it is overpayments or underpayments or what?

Mr. ENGEL. As far as the debts that are—what is causing the results?

Mr. HORN. Right.

Mr. ENGEL. In some cases, the debts may be overpayments that were made as part of the program. That just—they went through and made the payment, and it wouldn't be until later that they discovered that those were errors in payments.

In some cases, I think you actually could have fraud involved in some of the erroneous payments that are being made. There are efforts out at the agencies, at HHS, I know, that are taking place to try to identify and gauge the magnitude of what those erroneous payments are.

Mr. HORN. Is this with regard to large groups, HMOs, and so forth, or is it the poor individual one?

Mr. ENGEL. Well, I do know some of the payments are in regards to Medicare. You know, Medicare providers and payments such as those. I am not that familiar with exactly what all the erroneous payments are.

Mr. HORN. I think there has been a lot of misuse. Has GAO ever looked at that?

Mr. ENGEL. I have not myself. But, yes, GAO has done some work in what is called the erroneous payments, improper payments area. I believe we have issued a report in the last year on that subject.

Mr. HORN. Yes. We had a bill on the floor yesterday, and it passed. It will go to the President. And, hopefully, the various agencies will have to come in with what type of—the part of—which I think was—we sought two different types, OMB, GAO, so forth. And it sort of—we are trying to sort it out. But that will be in the law, and hopefully GAO will be able to give us the best shot going to that.

Mr. ENGEL. Yes, sir. We can do that.

Mr. HORN. OK. Do you have a program working on that in GAO?

Mr. ENGEL. I do know there have been individuals that have worked in that area. I could get back to you on the specifics.

Mr. HORN. OK. Fine.

What do you think of Treasury's progress in implementing the cross-servicing program?

Mr. ENGEL. The cross-servicing program is one—has been one that has had a lot of success. Back in 1999 Treasury was able to merge their tax refund program along with their tax offset program; and that has resulted, along with some subsequent enhancement to the program, in significant increases in the amount of collections resulting from tax refund offsets.

In the offset area as well, there has been successful—as Mr. Gregg has said, Social Security payments are now being offset, and there has been a significant amount of collections resulting from those.

The area in which I think Mr. Gregg had touched on that still needs to be followed through on is in the Federal salary offsets. There are still some agencies that we need to follow through and get all of those Federal salary offsets. I believe I heard him say today in the non-Treasury disbursing office payments, with the Department of Defense and the Postal Service, those are major payment streams that still need to come in and be incorporated into the Treasury offset program, which I believe I heard within the next month or so, which will be a positive sign.

Mr. HORN. Why do you think the act's gain-sharing provision has yet to be used, and what can be done to encourage its use as ceded from the General Accounting Office?

Mr. ENGEL. It is unclear why the act has not been used. However, I believe there may be some reasons for that. One could be that the knowledge out there of the agencies as to the provision itself and how the account would work, I am not sure how much is known out there. Also, the requirement for there to be appropriations through Treasury to fund the expenditure out of the account has not helped. As we know, SBA has requested twice to get funding; and both times that authorization was not provided.

Another thing may be that other agencies have seen that SBA's attempts were unsuccessful and they have not made attempts themselves.

I concur, I think, partially with Mr. Gregg. I don't see the incentive as something that at this point is maybe quite as critical. We do support the concept of an incentive, but I think the act itself has

enough provisions that if the agencies would take a higher priority and fully implement all of the provisions that we would probably see more success.

But one thing that could be done to try to get a better feel in the gain-sharing area is to have FMS or someone reach out to these agencies and see why it is they have not used it. I don't know if that has been done yet. But that is one way to find out exactly. Is it because they are not aware of it? Is it because of other reasons?

Mr. HORN. If I remember the law when it was put in, there was an incentive for the agencies which would help them get new computing—new systems, whatever. How has that been going, and is it a percent we had on there?

Mr. ENGEL. Yes, it is a percent.

The way it works—and again no one has used it yet, because the two attempts have been unsuccessful. But the way it works is that there is a baseline which is typically 5 percent of the collections in the previous year or 5 percent of the collection the previous 4 years, whichever is greater, and then an agency's collections for the current year. Five percent of that is taken and subtracted from that baseline. That would be the amount that they would be subject to requesting to have funding for.

The funding can be used for different types of expenditures—some of which you mentioned, Mr. Chairman—to improve EDP systems, to be used for the debt collection. It can be used for asset sales as part of debt collection, to train individuals on credit management and debt collection.

Mr. HORN. Yes. I think that is a very important point, that people work on these things, and it is a good idea to keep management systems going of people to get at the top of this. And it seems to me we ought to—

How do you feel, Commissioner, about this?

Mr. GREGG. I generally like the idea of incentives. As I said, I think that maybe the—it is certainly not as important today as it was a few years ago.

I think the issue, at least as I understand it, has been how the dollars would be scored. And I think in the case of the SBA they could have gotten some money, but it was going to come out of another one of their pockets, so they didn't see the great value in that.

So it really gets down to that there has to be a separate appropriation made; and, you know, whether that is new money or whether that comes from within the agency's overall cap has been the underlying issue.

Mr. HORN. Let us go back to Mr. Moseley. I was very pleased with your—what you have done with it, and I commend you and the Department of Agriculture with improved debt collection.

What do you see as the most significant remaining challenges facing the Department in this area, and how will you deal with them?

Mr. MOSELEY. Well, as I indicated in my oral remarks, we know that we have some work to do yet. We are partway there, we think we are a significant way there, but we have still have some work to do.

As was pointed out by our colleagues here at the table, we still have this area of rulemaking for guaranteed loan losses, for single-family dwellings. We are in the process of trying to get that completed. We can't refer that debt until that is completed. As soon as that is done, then there should be an additional, fairly sizable portion of debt that gets referred.

We also, as was pointed out, have to work on this issue of administrative wage garnishment. We have put together a working group within USDA. We have consulted across departments, agencies, and we are getting there. But we have to now push the ball over the line and try to get that completed. We still continue to see that as a fairly significant area that will help us in this whole thing.

I think the final thing that I would comment on is, it is kind of broadly across the Department, but we have made some significant commitments in the area of technology in the last year. And as—it just appears to me, as we continue to move down this road, the technology is going to ease our ability to track and monitor and to accomplish this task. And so we have done a lot in terms of technology here. But if you start to visit with the CIO in the Department, he is pretty encouraging about some things that we can continue to do.

So those are areas that we are going to continue to work on here in the next year; and, hopefully, a year from now, we will be able to make even a more complete report.

Mr. HORN. The General Accounting Office notes that the Department of Agriculture needs to sustain its increased commitment to debt collection. How will you ensure that this happens?

Mr. MOSELEY. Well, the first thing that you have to do is, quite frankly, you have leadership that says this is important. And I think we have demonstrated to you by the folks sitting here at the table and what we have accomplished in the last year that is an important value and that we are pursuing that.

You have to also establish accountability. Someone has got to take responsibility for this.

And then, once responsibility is accepted, you have got to make sure that the job gets done. So we have established some USDA-wide performance measures in this area.

Then, once you get that done, you have got to turn those department-wide performance measures into program-level measures. And actually it gets down to the point where individuals have to be held accountable for what they are doing within the Department. So that becomes part of their performance evaluation.

So you start at the top and you work it all of the way down to the individuals who are assigned this task.

Mr. HORN. We have a little vote on the floor. But we will get there. You state that only \$1.4 billion of the Department's \$6.1 billion in delinquent debt is eligible for referral to the Treasury Department. So what are you doing to verify that no eligible debt is being excluded from referral to Treasury? How about it, Secretary?

Ms. COOKSIE. We have had to do a litany of things to make sure that is happening. The No. 1 thing we have had to do is train our field staffs in what DCI is and when to take off debts and when they don't.

We have changed a whole litany of our directives in the regulations in our handbooks. And then we put some automation tools in place. Because, as the Deputy says, ultimately, that is going to be the best tool for us to track these accounts that need to be referred.

The other thing that we have done in farm loan programs is that we have a bi-yearly review of every State and we have added the Debt Collection Act to that program review. So when we go out every other year to each State we see where they are physically, not just through the automation. So I think we have put some good measures in place to follow it through.

Mr. MOSELEY. If I can also followup on that for a second, we have also asked the Office of Inspector General to monitor and to help us in this regard, and they have made that commitment. So not only are we at the program level trying to get it done, we also have our Inspector General that is looking at it to make sure that we are getting it done.

Mr. HORN. Thank you.

Well, I want to thank our witnesses today. When Deputy Secretary Moseley testified before us last December he made a commitment to turn things around at the Agriculture Department. By all indications, he has lived up to that commitment. I congratulate you for that, Mr. Moseley. We know that deputy secretaries run everything, so you have done a good job; and I hope that we can count on you to sustain that commitment in the future.

Gary Engel and his colleagues at the General Accounting Office have provided invaluable assistance to the subcommittee and to the executive branch in terms of improving debt collection. I hope that the General Accounting Office will continue its vigorous oversight of Federal debt collection operations and its constructive recommendations for improvement.

Last but not least, Commissioner Richard Gregg and his staff at the Financial Management Service has done an excellent job of implementing the Treasury Department's centralized debt collection responsibilities under the Debt Collection Improvement Act. I know that you and your colleagues will continue working hard on this effort.

I might add that the Commissioner and I chatted about 2 weeks ago that there would be an A-plus in some things, and he said I will take a look at it. I now take a look at him, and you are an A-plus. So, Commissioner, you have done a great job under that law. All of you have. So thank you very much.

I want to note and thank the people that put this hearing together. Bonnie Heald is the staff director for the subcommittee, to my left here and your right. Henry Wray is senior counsel. And then a little further down the line, Dan Daly, counsel, and Dan Costello of the professional staff.

Chris Barkley is our majority clerk, and Ursula Wojciechowski—is she here? Yeah. She is working too hard—and Juliana French.

Then the minority staff is Dave McMillen, professional staff, and

Jean Gosa. She is also an expert on communications and technicians.

Court reporters Tina Smith and Mark Stuart.

Thank you very much.

With that, we are adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

