OVERSIGHT OF THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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OVERSIGHT OF THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT

FRIDAY, JUNE 5, 1998

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

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Sununu, Kucinich, Lewis, and Maloney.

Staff present: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; Matthew Ebert, clerk; and Faith Weiss, minority counsel.

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

Over 2 years ago Congress passed, and the President signed into law, the Debt Collection Improvement Act of 1996. This law changed the rules of the game for debt collection. Currently, the total of delinquent nontax debts is $50 billion. By providing new collection tools to the agencies and incentives to increase collections and accountability, we would hope to increase the dismal performance of the Federal Government in collecting delinquent debts. That has not been how it has worked out. We are here today to see if we can impart a new sense of urgency and breathe some new life into this program.

First, let's review the facts. Let's look at the program costs. The Department of the Treasury's Financial Management Service has spent $40 million implementing the Debt Collection Improvement Act, but has collected only $4 million. We have collected peanuts, in brief, and that needs to change.

Let's look at the system failures. The Department of the Treasury hired a contractor to build a system that it now says it did not need. It spent $5 million doing this, but that did not allow us to intercept money from deadbeats who owe the money to the U.S. taxpayers, the stated purpose of the system. Now the Department is returning to its old system to improve that "interim system," to allow new payment streams to be included. Treasury estimates that they will collect almost $100 million per year once their old system is improved. That means that we have lost $100 million because of the year-long delay.

Let's look at the status of regulations. Even after Congress enacts a law, the executive branch must provide the guidance and regulations needed to fill out the details prescribed by the law. Several key authorities from the Debt Collection Improvement Act will continue to be unavailable to agencies until those regulations are finalized. This is the one ray of hope right now in the debt collection program. We are finally making progress on regulations that have been on the drawing board far too long.

Compare this to the Medicare Program, which I worked on as a member of the Senate staff 30 years ago. Civil servants worked to publish the Medicare regulations, the very day the law was signed by President Johnson. When I was assistant to the Secretary of Labor under President Eisenhower, we monitored every day the hearings on a new agency to look at the filings of labor unions. We had those regulations ready to go when the bill passed the Congress and even before the President signed it. Here we have waited 2 years after enactment, and some regulations are not yet effective.

Well, let's talk about leadership. This law was a National Performance Review priority. This effort accounts for two of the President's priority management objectives. After our last hearing, Representative Maloney, then the ranking Democrat, and I sent to President Clinton a letter emphasizing our concerns. The President raised the issue with the Treasury Secretary and we have since seen the departure of several levels of civil servants from the Department of the Treasury and the replacement by a new team which appears to be capable. We wish them luck and extend our hand in whatever capacity we can offer. However, we have had 2 years of shilly-shallying on this issue and the taxpayers deserve a little more rapid action than that.

It has been said that success has many fathers, while failure is an unclaimed orphan. The original Debt Collection Improvement Act had the input of the Congress, the input of the Chief Financial Officers Council, the President's Council on Integrity and Efficiency, the Federal Credit Policy Working Group, the Office of Management and Budget, and every credit agency. I still believe that working together we can accomplish our purpose to collect delinquent debts owed to the United States and its taxpayers. But every new problem should disappoint everyone involved in the enactment of the Debt Collection Improvement Act. Ultimately, success will be measured by dollars collected and accounts resolved.

With that said, we welcome the witnesses from several Federal agencies to discuss the implementation of the Debt Collection Improvement Act. Although agencies are at varying stages in implementation, it is fair to say that everyone in this room, and a few that are not, can certainly do a lot better, and we certainly expected that, and I think they did so when that became law 2 years ago.

Does the gentleman from New Hampshire have a statement?

Mr. SUNUNU. No; I do not.

Mr. HORN. My colleague from Ohio, the ranking Democrat, Mr. Kucinich, would you like to have an opening statement?

Mr. KUCINICH. Sure. Thank you, Mr. Chairman. I want to thank you for holding this hearing on debt collection and the status of the

Treasury Department's efforts to consolidate governmentwide debt collection.

In the interest of time, what I will do is submit the rest of my statement for the record.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Opening Statement of The Honorable Dennis J. Kucinich
GMIT Subcommittee: Implementation of the Debt Collection Improvement Act of 1996
June 5, 1998

Chairman Horn, I would like to thank you for holding this hearing on debt collection and the status of the Treasury Department's efforts to consolidate government-wide debt collection. This area is one in which both you and Representative Maloney have shown great initiative. I would also like to thank the witnesses here today from the Departments of the Treasury, Veterans' Affairs, and Defense, and from the General Accounting Office for their hard work.

The goal of the Debt Collection Improvement Act of 1996 is a good one. We should make every reasonable effort to collect debt that is owed to American taxpayers. Centralizing administrative offset and debt collection activities should cut costs and increase the efficiency and efficacy of collections.

It appears that debt consolidation represents a substantial challenge. Given the variety of debt and the different statutory requirements imposed on agencies, debt referral and collection is more complex than it seems. We will hear about some of these complications today.

The Treasury Department's Financial Management Services ("FMS")

is charged with implementing the DCIA. After our Subcommittee hearing last November, it was revealed that the FMS had serious troubles with the system it was designing for the administrative offset program. FMS also was making insufficient progress developing regulations required by the DCIA.

Under new management, the FMS can demonstrate substantial progress in both of these areas over the last six months. Currently, FMS is using a proven system for administrative offsets and plans to modify the system by adding on new capacity instead of developing an entirely new system. The agency has demonstrated a commitment to engaging other Federal agencies on debt collection. FMS has made good progress on its regulations in the last six months. While these are positive developments, there is a long road ahead before this law is implemented successfully.

Federal agencies are learning more about their debts, and through this process are determining which are collectible. Price Waterhouse recently estimated that Treasury could collect between $864 million and $1 billion each year in referable delinquent debt once all the payment streams are loaded into its system. ~~The chart we have blown up shows the percentage and source of collectible debt that could be referred to FMS. The solid areas indicate debt that is currently being collected through offsets~~. It is significant to note that almost 60% of the projected collectible debt is recouped through tax refund offsets. ~~The sections of the pie chart with cross hatching that look like they are "blown out" reflect collectible debt that FMS needs to add to its collection system~~.

Agencies are required by law to provide due process to persons that the agency believes owe money. Due process procedures cause delays in referring debt to FMS. I am encouraged, however, that agencies are taking due process concerns so seriously. Reasonable delays attributed to due process are a necessary cost of a democracy, and I for one will defend them.

Mr. HORN. Without objection, it will be placed in the record as if read.

We now will have the first panel of witnesses. If the following will come forward, Under Secretary Hawke; Commissioner of Financial Management Service Gregg; Acting Inspector General of the Treasury, Mr. Calahan; Associate Director, Accounting Information Management Division of GAO, Mr. Engel, and he will be accompanied by Keith Rhodes, the Technical Director in that division of GAO.

Please come forward. I think all you gentlemen know the routine here. After we introduce each of you, the statement you have brought will be automatically put in the record. We would like you to summarize it so we can have more time for questioning.

You also know we raise our right hands to accept the oath.

[Witnesses sworn.]

Mr. HORN. Mr. Calahan, who do you have with you?

Mr. CALAHAN. Today I have brought with me Barry Savill, who is the Director of one of our audit groups and was the supervisor on this assignment.

Mr. HORN. OK. Mr. Hawke, I believe, is not here yet; so, Mr. Gregg, would you like to begin?

Mr. GREGG. Yes, thank you, Mr. Chairman. Mr. Hawke will be with us presently.

I will submit my full statement for the record, and I have an abbreviated statement that I would like to make.

Mr. HORN. Sure.

STATEMENTS OF RICHARD GREGG, COMMISSIONER, FINANCIAL MANAGEMENT SERVICE; JOHN D. HAWKE, JR., UNDER SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY; RICHARD CALAHAN, ACTING INSPECTOR GENERAL, DEPARTMENT OF THE TREASURY, ACCOMPANIED BY BARRY SAVILL; GARY ENGEL, ASSOCIATE DIRECTOR, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY KEITH RHODES, TECHNICAL DIRECTOR, ACCOUNTING AND MANAGEMENT DIVISION, GENERAL ACCOUNTING OFFICE

Mr. GREGG. Mr. Chairman and distinguished members of the subcommittee, good morning. I am pleased to be here to report the progress the Financial Management Service has made in implementing the debt collection provisions of the Debt Collection Improvement Act of 1996.

First, I would like to thank the chairman, the ranking minority member, and other members of the subcommittee for your continued support and encouragement. I welcome this opportunity to provide an update on our progress in implementing the DCIA.

In order to strengthen the debt management program and provide renewed focus toward achieving program success in 1998, we have established a new management team responsible for implementing the DCIA. This team places strong emphasis on strengthening positive agency relationships in order to obtain compliance with provisions of the act, while working cooperatively with service partners to resolve implementation issues.

In support of this goal, FMS has shifted from an implementation approach that attempts to address all requirements at once to a phased approach that establishes priorities for goals and addresses them appropriately. This new approach allows key DCIA requirements to be pursued aggressively by ensuring that sufficient resources are available to meet commitments and implementation deadlines. FMS management has also consolidated reporting and agency liaison activities to ensure consistent and positive external communications.

While these changes are very recent, we believe good progress has been achieved since the last hearing and we welcome the opportunity to share that progress with you.

First, I would like to review the 1998 tax refund offset transition progress. As we reported in our November testimony, FMS and IRS originally planned to merge the tax refund offset and the Treasury offset programs in January 1998. In light of the magnitude of collections in the Tax Refund Offset Program, and the potential for serious problems and disruptions, the transitions were not completed smoothly. FMS and IRS jointly agreed to delay the merger of those two programs until January 1999.

Since that time, FMS and IRS have worked closely together to implement a transition process in 1998 that allowed FMS to streamline and improve its operations by providing a single mechanism for agencies to simultaneously refer debts for both the tax refund offset and administrative offset. This action was successful in ensuring that an estimated $2 billion in delinquent child support and Federal nontax debt collections was not jeopardized.

The joint 1998 process includes a significant change in workflow and provides many of the benefits that would have occurred through the merger of the two offset programs. By requiring agencies to submit their debt files through FMS, we have been able to significantly increase the Treasury Offset Program debt data base and to more fully prepare creditor agencies for the full program merger.

Since the last hearing, Federal nontax debt referrals for administrative offset have increased from $9.4 billion to $16.7 billion, and participation has increased from 17 to 36 agencies as a direct result of the information sharing between FMS and IRS. This year's Federal nontax debt collections for tax refund offset transition process total over $765 million as of May 15. That is compared to $541 million during that same period in 1997.

In addition, combined administrative offset collections for Federal nontax debt and child support total over $1 million from last November through May 15 of this year. This is largely due to the successful implementation of the 1998 transition process for administrative and tax refund offset.

Having accomplished the 1998 transition process, we immediately turned our attention to merging the two systems. FMS' administrative offset strategy over the next 8 months will focus primarily on the full merger of the Tax Refund Offset Program with centralized administrative offset in January 1999. To accomplish this objective, FMS is working closely with the San Francisco Federal Reserve Bank to upgrade the current Interim Treasury Offset Program system to handle larger volumes and more complex proc-

essing. FMS and the Federal Reserve Bank staff are meeting continuously to identify additional requirements and to make the enhancements necessary to support inclusion of tax refund offset into the administrative offset program.

Implementation of salary offset is also a high priority for Treasury. FMS has been working closely with the U.S. Department of Agriculture's National Finance Center to implement offset of the salary payments, which they issue. Inclusion of EFT salary payments issued by the National Finance Center represents approximately 35 percent of the total Treasury dispersed civilian payroll. These salary offsets are scheduled to begin in the summer of 1998.

Similarly, with benefit offsets, our approach is to use the phased approach. FMS currently is working with the affected agencies to develop a strategy for implementation, finalize requirements, and complete joint implementation plans. Our hope is to target calendar year 1999 for commencement.

Mr. Chairman, it is important to note that in scheduling additional payments to be used in the offset program, we in FMS are very mindful of the work going on throughout government to prepare automated systems for the new century; that is, the Y2K problem. For the balance of this year and all of 1999, we will have to carefully plan and schedule our debt collection work to minimize the impact on agency preparations for the century date change.

We are also working to collect child support. Voluntary State and territory participation in the administrative offset program to collect delinquent child support has increased from 8 to 15 entities since the last hearing. Most recently, in March, the State of Oklahoma submitted $141.7 million in child support debt, and the county of Los Angeles forwarded debts with a value of $1.45 billion. In April, Illinois followed with $957 million in delinquent child support debts. This brings the total debt load for child support in 1998 to 760,000 debts totaling over $6.8 billion.

Since November, child support collections through administrative offsets have more than doubled, to $328,000. These collections will continue to increase as additional payment types and additional States and territories are included in the offset program.

The progress in cross-servicing has been very encouraging over the last several months. Since the last hearing, referrals have increased from $460 million to almost $1.8 billion. In addition, cross-servicing collections have increased from $1.1 million as of the last hearing, to $5.5 million as of May 15. The most dramatic change is that repayment agreements have increased from $2 million to over $31 million during that same period.

Once debts are referred to Treasury for cross servicing, and prior to referral to a private collection agency, FMS' Birmingham debt collection center works all the debts for a period of 30 days, sending demand letters and attempting to locate and contact by phone delinquent debtors. If FMS succeeds in establishing a repayment agreement with the debtor, the account is managed in Birmingham until the debt is fully satisfied. Although we are not yet able to distinguish between collections as a direct result of demand letters and those due to other cross-servicing activities, creditor agencies have indicated a marked increase in collections from debtors who have received demand letters on Treasury letterhead.

FMS' use of private collection agencies has also begun to show positive results. In accordance with the DCIA, we are maximizing the use of private sector expertise in the collection of delinquent debts. Twelve contracts have been awarded and FMS is transferring delinquent debts to these private collection agencies. As of May 15, 6,822 cases, totaling over $255 million, have been referred to them. Private contractor collections to date total over $600,000, with an additional $543,000 in repayment agreements.

Publication of regulations continues to move forward as well. There are a substantial number of regulations that FMS and the department are issuing in order to implement or facilitate implementation of the debt collection provisions of the DCIA. We have made great strides by streamlining internal and departmental processes, establishing priorities, and closely monitoring the clearance process. Also, FMS is chairing an interagency committee established to facilitate information exchange and the expeditious coordination and approval of pending regulations.

Mr. Chairman, this concludes my remarks this morning. I appreciate the committee's continued interest in the success of this program. I am pleased to answer any questions that you or other Members of the subcommittee may have.

[The prepared statement of Mr. Gregg follows:]

Mr. Chairman and Distinguished Members of the Subcommittee:

Good morning. I am pleased to be here to report the progress the Financial Management Service has made in implementing the debt collection provisions of the Debt Collection Improvement Act of 1996 (DCIA).

First, I would like to thank the Chairman, the Ranking Minority Member and the other members of this Subcommittee for your continued support and encouragement. I welcome this opportunity to provide an update on our progress in implementing the DCIA. As Under Secretary Hawke has indicated in his testimony, Treasury and the Financial Management Service have made major changes to our implementation strategy and the management team assigned to implement the DCIA.

In order to strengthen the debt management program and provide renewed focus toward achieving program success in 1998, we have established a new management team responsible for implementing the DCIA. This team places strong emphasis on strengthening positive agency relationships in order to obtain compliance with provisions of the Act while working cooperatively with service

partners to resolve implementation issues. In support of this goal, FMS has shifted from an implementation approach that attempts to address all requirements at once to a phased approach that prioritizes goals and addresses them appropriately. This new approach allows key DCIA requirements to be pursued aggressively while insuring that sufficient resources are available to meet commitments and implementation deadlines. FMS management has also consolidated reporting and agency liaison activities to insure consistent and positive external communication.

While these changes are very recent, we believe that good progress has been achieved since the last hearing and we welcome the opportunity to share that progress with you. In particular, I would like to underscore the importance of Mr. Hawke's comments regarding our recent portfolio analysis. This analysis has provided a baseline -- a starting point, if you will -- for reviewing Treasury performance in the collection of delinquent non-tax debt and has assisted us in focusing our efforts and determining our priorities. We view this analysis as a crucial new tool to assist us in effectively implementing the debt collection

provisions of the DCIA. I would now like to take a few minutes to provide a status update on the major debt collection programs and initiatives that support DCIA implementation:

First, I would like to review the 1998 Tax Refund Offset Transition Process. As we reported in our November testimony, FMS and IRS originally planned to merge the tax refund offset and the Treasury offset programs in January 1998. In light of the magnitude of collections in the tax refund offset program and the potential for serious problems and disruptions if the transition were not completed smoothly, FMS and IRS jointly agreed to delay the merger of these two programs until January 1999.

Since that time, FMS and IRS have worked closely together to implement a transition process in 1998 that allowed FMS to streamline and improve its operations by providing a single mechanism for agencies to simultaneously refer debts for both tax refund offset and administrative offset. This action was successful in ensuring that an estimated $2 billion in delinquent child support and Federal non-tax debt collections was not jeopardized. The joint 1998 process

includes a significant change in work flow and provides many of the benefits that would have occurred through the merger of the two offset programs. By requiring agencies to submit their debt files through FMS, we have been able to significantly increase the Treasury Offset Program debt database and to more fully prepare creditor agencies for the full program merger. Since the last hearing, Federal non-tax debt referrals for administrative offset have increased from $9.4 billion to $16.7 billion (this represents 58% of all debt identified by Price Waterhouse as eligible for offset) and participation has increased from 17 to 36 agencies as a direct result of the information sharing between FMS and IRS. This year's Federal non-tax debt collections for the Tax Refund Offset transition process total over $765 million as of May 15th, compared to $541 million during the same period in 1997. In addition, combined administrative offset collections for Federal non-tax debt and child support total over $1 million from last November through May 15th of this year. This is largely due to the successful implementation of the 1998 transition process for administrative and tax refund offset.

Next, I would like to cover the assessment that we conducted of our two automated offset systems. As Mr. Hawke has indicated in his testimony, Treasury has determined that enhancement of the current ITOP system represents the most effective and least risky approach to implementing the offset provisions of the DCIA. In contrast, further development of the contractor-developed system, GTOP, presents significantly greater risks. Although the vendor delivered system software in November 1997, GTOP has not been placed into operation because a detailed description of how the system is intended to operate has not been developed, and until that is done, there is no way to test the system to determine if it will accurately and consistently meet out debt offset needs. In essence, the software is untested and its capability is unknown.

Documenting the detailed steps necessary for GTOP to perform the required offset functions, testing those functions and then modifying the software to correct deficiencies would take up to 18 additional months. Under this approach, the current system would be operated "as is" during that period of time, and would not be modified to offset additional types of payments. As a result, there would be between $8 and $14 million fewer debts collected and the planned merger of tax

refund offset and TOP would likely be further delayed. Also, in fiscal year 1998 and 1999, a decision to proceed with the development of GTOP would have cost $6 million more than operating and enhancing the existing administrative offset system. We have decided, therefore, to use the automated system - referred to as ITOP - that was developed for us by the San Francisco Federal Reserve Bank.

In enhancing ITOP, FMS has learned from the GTOP failure by: developing a detailed project plan; ensuring that the system developers and users work closely together in determining the user and system requirements; involving our operations personnel and information resources staff, including the Chief Information Officer, in the design of the system; and developing the new system enhancements in an incremental, modular approach. As a result, we are confident that ITOP can be successfully modified in the next year to handle an increased volume of debt referrals and the addition of new payment types. However, we also recognize that the GAO, in its recent review of the offset program, has raised some legitimate issues regarding the timing of when certain overarching or high-

level documentation and analysis should be completed. FMS agrees with the GAO and will take the necessary steps to complete these systems documents and analysis in a more expedited time frame than originally planned.

Having accomplished the 1998 transition process, we immediately turned our attention to merging the two systems. FMS' administrative offset strategy over the next 8 months will focus primarily on the full merger of the Tax Refund Offset Program with centralized administrative offset in January 1999. To accomplish this objective, FMS is working closely with the San Francisco Federal Reserve Bank to upgrade the current ITOP system to handle larger volumes and more complex processing. FMS and the Federal Reserve Bank staff are meeting continuously to identify additional requirements and make the enhancements necessary to support inclusion of tax refund offset into the administrative offset program.

Implementation of salary offset is also a very high priority for Treasury. FMS has been working closely with the U.S. Department of Agriculture's National Finance Center to implement offset of the salary payments which they issue. Inclusion of

EFT salary payments issued for the National Finance Center represents approximately 35% of the total Treasury-disbursed civilian payroll. These salary offsets are scheduled to begin in Summer 1998.

Similarly, with benefit offsets our approach is to use a phased approach. FMS currently is working with the affected agencies to develop a strategy for implementation, finalize requirements and to complete joint implementation plans. Our hope is to target calendar year 1999 for commencement.

Mr. Chairman, it is important to note that in scheduling additional payments to be used in the offset program, we in FMS are very mindful of the work going on throughout government to prepare automated systems for the new century. For the balance of this year and all of 1999, we will have to carefully plan and schedule our debt collection work to minimize the impact on agency preparations for the century date change.

We are also working to collect child support. Voluntary state and territory participation in the administrative offset program to collect delinquent child

support has increased from 8 to 15 entities since the last hearing. Most recently, in March, the State of Oklahoma submitted $141.7 million in child support debt, and the County of Los Angeles forwarded debts with a value of $1.45 billion. In April, Illinois followed with $957 million in delinquent child support debts. This brings the total debt load for Child Support in 1998 to 760,000 debts totaling over $6.8 billion.

Since November, child support collections have more than doubled to $328,000 in administrative offsets and these collections will continue to increase as additional payment types and additional states and territories are included in the offset program. FMS is working closely with the states, Health and Human Services (HHS) and the Federal Reserve Bank to address any technical, programmatic or systems issues in order to insure increased state and territory participation. To further encourage participation, Don Hammond, the Acting Fiscal Assistant Secretary, chairs a joint working committee between Treasury and Health & Human Services. This committee meets monthly to address any barriers to state participation.

The progress in cross-servicing has been very encouraging over the past several months. Agencies are required by the DCIA, with certain exceptions, to refer all delinquent debt over 180 days old to FMS for cross-servicing. FMS is working closely with agencies to obtain referral commitments and address any agency concerns regarding debt referral. Once debts are referred, they are analyzed and the appropriate collection tools are applied. This could include Treasury offset, referral to private collection agencies, demand letters and phone calls, or referral to a debt collection center. Since the last hearing, debt referrals have increased from $460 million to almost $1.8 billion. In addition, cross-servicing collections have increased from $1.1 million as of last November to $ 5.5 million as of May 15th. The most dramatic change is that repayment agreements have increased from $2 million to over $31 million during this same time period.

FMS is working closely on cross-servicing with the five largest creditor agencies (Housing and Urban Development (HUD), Education (Ed), Veteran's Affairs (VA), Small Business Administration (SBA) and Agriculture (USDA)) that hold 70% of all delinquent Federal non-tax debt over 180 days old. Of the approximately $33 billion held by these agencies, we have determined that $4.8

billion is eligible for cross-servicing. The remaining debt is subject to a DCIA exemption, legally unenforceable, or is being collected by a third party such as Education's guarantee agencies. Since we began meeting with agencies in January of this year, we have received $1.3 billion in additional referrals, primarily from SBA, HUD, and Education, bringing total cross-servicing referrals to approximately $1.8 billion, or 21% of debt identified by Price Waterhouse as referable to Treasury for cross-servicing.

Once debts are referred to Treasury for cross-servicing and prior to referral to a private collection agency, FMS' Birmingham Debt Collection Center works all debts for a 30 day period, sending demand letters and attempting to locate and contact delinquent debtors by phone. If FMS succeeds in establishing a repayment agreement with the debtor, the account is managed in Birmingham until the debt is fully satisfied. Although we are not yet able to distinguish between collections as a direct result of demand letters and those due to other cross-servicing activities, creditor agencies have indicated a marked increase in collections from debtors who have received demand letters on Treasury letterhead. In fact, there has been some expressed interest in having Treasury provide this

service to agencies with debts that are not otherwise required to be referred for cross-servicing.

FMS' use of private collection agencies has also begun to show positive results. In accordance with the DCIA, we are maximizing use of private sector expertise in the collection of delinquent debt. Twelve contracts have been awarded and FMS is transferring delinquent debt to these private collection agencies for collection. As of May 15th, 6,822 cases totaling over $255 million had been referred to them. Private contractor collections to date total over $600,000 with an additional $543,000 in repayment agreements.

Publication of regulations continues to move forward as well. There are a substantial number of regulations that FMS and the Department are issuing in order to implement or facilitate implementation of the debt collection provisions of the DCIA. We have made great strides by streamlining internal and Departmental processes, prioritizing efforts and closely monitoring the clearance

process. Also, FMS is chairing an inter-agency committee established to facilitate information exchange and the expeditious coordination and approval of pending regulations.

Since the last hearing, we have published both the proposed and final regulations for *Administrative Wage Garnishment,* proposed revisions to the *Federal Claims Collection standards* (jointly with the Department of Justice), the Interim Rules for *Transfer of Debt to Treasury for Collection* and *Salary Offset*, and proposed regulations for *Barring Delinquent Debtors.* A Federal Register policy statement requiring agencies to develop plans for including Taxpayer Identification Numbers on payment vouchers will be published shortly. In addition, proposed regulations for *Offset of Tax Refund Payments to Collect Federal Debt*, *Offset of Tax Refund Payments to Collect Child Support,* and *Benefits Offset* are currently in formal clearance. Once these are published as final rules, Treasury will have issued all regulations required for implementation of the mandatory provisions of the DCIA. FMS has also begun work on a supplemental regulation to provide agencies with comprehensive guidance on the administrative offset program. This *General Offset Rule* is targeted for publication in September 1998.

Mr. Chairman, this concludes my remarks this morning. I appreciate the Committee's continued interest in the success of the program and I would be pleased to address any questions that you or other Members of the Subcommittee may have regarding the implementation of this legislation or our debt collection efforts to date.

Mr. HORN. Well, we appreciate that statement. I see the Undersecretary got out of the traffic jam.

Thinking of you stuck on Pennsylvania Avenue reminded me that I will face the San Diego freeway this evening after I land at the airport. I don't know if it is bumper to bumper here, but it is bumper to bumper there, especially on Friday night. It goes on for 3 hours. I don't know how long Pennsylvania Avenue's lasts, Mr. Secretary.

Mr. HAWKE. Thank you, Mr. Chairman, I apologize for the tardiness.

Mr. HORN. You know the routine here. We have everybody here take the oath, so, if you will just stand.

[Witness sworn.]

Mr. HORN. The clerk will note that all six witnesses have affirmed the oath.

Please go ahead, Mr. Secretary.

Mr. HAWKE. Mr. Chairman, I will summarize my full written statement, and I appreciate the opportunity to appear this morning to discuss our progress in implementing the Debt Collection Improvement Act.

The continued interest of you, Mr. Chairman, and this committee in our efforts to carry out this important program have been of great value to us, and we really appreciate the interaction that we have been able to have with you.

Let me start by just saying a few words about our analysis of the debt portfolio itself, because during our reassessment of this program, it became clear that we needed a much better understanding of the composition of the $52 billion portfolio of delinquent debts owed to the Government. We have now established, through internal and independent external analysis, that only about 60 percent of that $52 billion is actually referable to the Treasury for collection, and that a significantly smaller amount is likely to be collectible by Treasury under the DCIA.

Price Waterhouse has provided us with an analysis—I believe members have copies of the analysis—of the composition of this debt and a walkdown from the $52 billion number to the amount that Treasury could ultimately expect to collect. Price Waterhouse calculated that, first of all, $47.2 billion of the $52 billion is older than 180 days and, thus, within the scope of the DCIA. Of that amount, $18.1 billion is ineligible for referral to Treasury for various reasons. For example, many of the debts are not legally enforceable, because the debtor has filed for bankruptcy protection or is otherwise legally entitled to temporary relief from collection action. Other debts are in dispute and the subject of pending litigation. In addition, foreign sovereign debt is excluded.

Of the remaining $29.1 billion that is eligible for referral to Treasury for offset, $8.5 billion is also eligible for cross-servicing. The remaining $20.6 billion is ineligible for cross-servicing due to a number of DCIA exemptions, such as those for debt that is in litigation and debt that has been referred to a private collection agency.

Taking into account these limits on cross-servicing and administrative offset, and after examining private sector experience in collecting debt with comparable age characteristics, Price Waterhouse

has estimated that Treasury can collect between $864 million and $1 billion annually, once all eligible debts are referred and the program is fully implemented. An estimated $661 million of this total will result from the ongoing collection activity of the Tax Refund Offset Program, while $117 million to $225 million will result from cross-servicing, and an additional $86 million to $142 million from administrative offset.

Let me now just turn briefly to the ITOP–GTOP system choice. Another critical decision we have confronted, relates to the choice of which automated system to use to accomplish administrative offsets. At the time of the last hearing, we discussed two systems, one which we identified as the Interim Treasury Offset Program, or ITOP, was developed for us by the Federal Reserve Bank of San Francisco. This system became operational in the spring of 1996 and remains in use today.

The other, which we have called the Grand Treasury Offset Program, or GTOP, was developed by a private sector vendor starting in December 1996 after FMS management decided that a new automated system was needed to meet the anticipated volume of offsets and to provide more efficient matching of payments and debt files. It was planned that once GTOP was developed and made operational it would replace ITOP.

One of the top priorities of the new management at FMS has been to evaluate these two systems to determine which can best move the debt collection program forward based on an assessment of the requirements and circumstances that exist today. After carefully assessing the technical data processing issues, as well as the merits from a business perspective, FMS management has concluded, and the department agrees, that the best approach is to use the ITOP system for the administrative offset program.

ITOP is a proven system and has been in operation for approximately 2 years. It has recently been successfully enhanced to accommodate the fiscal year 1998 modified Tax Refund Offset Program, and it can be further enhanced to handle greater volumes of debts and additional payment streams, and to accomplish all the functions required under DCIA in a manner that is faster, less uncertain, and at a lower cost than the other system.

FMS management believes that the ITOP system provides us the best opportunity to maximize the collection of delinquent debts for the foreseeable future. While our decision not to pursue GTOP means that approximately $5 million invested in that system will have been spent without benefit to the Government, that decision avoids the expenditure of even greater amounts, almost $8 million, that would be necessary to pursue GTOP further, and even then the outcome would still not be certain. I believe this was a sensible and responsible decision.

Commissioner Gregg has gone over various indicators of our progress in implementing the DCIA since the last hearing, and I will not repeat that. There is attached to my testimony a series of graphs that indicate the progress in various categories, and I think those exhibits speak for themselves, Mr. Chairman, so I will conclude my remarks at this point and be happy to answer questions.

[The prepared statement of Mr. Hawke follows:]

EMBARGOED UNTIL 9:30 A.M. EDT
Text as Prepared for Delivery
June 5, 1998

TREASURY UNDER SECRETARY FOR DOMESTIC FINANCE
JOHN D. HAWKE, JR.
HOUSE GOVERNMENT REFORM AND OVERSIGHT SUBCOMMITTEE
ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to discuss the Department of the Treasury's progress in implementing the Debt Collection Improvement Act of 1996 (DCIA). Your continued interest in our efforts to carry out this important program has been of great value to us, and I am pleased to report that we have made significant progress since the last of these oversight hearings. I want to assure you again that the Department places a high priority on the successful implementation of the DCIA.

There have been major changes in both our strategy and in the management team assigned to the debt collection program. During the past several months our approach has been to make the decisions that will best move the program forward -- even if that means reassessing our approach, refocusing priorities and acknowledging past mistakes.

Analysis of the Debt Portfolio

During our reassessment of the program, it became clear that we needed a much better understanding of the composition of the $52 billion portfolio of delinquent debts owed to the government. In order to avoid a possible perception that the entire $52 billion would actually be collectable, we determined that an analysis of the debt portfolios of the Federal agencies was necessary. We have now established through internal and independent external analysis that only about 60% of the $52 billion is referable to Treasury for collection and that a significantly smaller amount is likely to be collectable by Treasury under the DCIA.

RR-2491

Our approach in this endeavor was twofold. First, we met with the five major Federal agencies as well as all other Chief Financial Officer agencies to assist them in analyzing the composition and referability of their non-tax debt. These 24 agencies hold 92 percent of all delinquent Federal non-tax debt. We then contracted with Price Waterhouse to provide an analysis of the composition of this debt and a "walkdown" from the $52 billion to the amount that Treasury could ultimately expect to collect through its own efforts under the DCIA.

Price Waterhouse calculated that $47.2 billion of the $52 billion is older than 180 days, and thus within the scope of the DCIA. Of that amount, $18.1 billion is ineligible for referral to Treasury for various reasons. For example, many of the debts are not legally enforceable because the debtor has filed for bankruptcy protection or is otherwise legally entitled to temporary relief from collection action; other debts are in dispute and the subject of pending litigation. In addition, foreign sovereign debt is excluded. Of the remaining $29.1 billion that is eligible for referral to Treasury for offset, $8.5 billion is eligible for cross-servicing. The remaining $20.6 billion is ineligible for cross-servicing due to a number of DCIA exemptions, such as those for debt in litigation and debt that has been referred to a private collection agency.

Taking into account these limitations on cross-servicing and administrative offset, and after examining private sector experience in collecting debt with comparable age characteristics, Price Waterhouse has estimated that Treasury can collect between $864 million and $1 billion annually once all eligible debts are referred and the program is fully implemented. An estimated $661 million of this total will result from the ongoing collection activity of the tax refund offset program, while $117 million to $225 million will result from cross-servicing, and an additional $86 million to $142 million from administrative offset

The Price Waterhouse analysis not only provides Treasury with a better understanding of the composition and age of the body of debt owed the Federal government, but also provides a quantitative basis upon which to establish realistic program goals, including both agency referral and collection targets. The information allows us to verify which of the collection tools will be the most effective and to set our priorities accordingly.

The ITOP/GTOP System Choice

Another critical decision we have confronted relates to the choice of which automated system to use to accomplish administrative offsets. At the time of the last hearing we discussed two systems: One, which we identified as the Interim Treasury Offset Program (ITOP), was developed for us by the Federal Reserve Bank of San Francisco. This system became operational in the spring of 1996 and remains in use today. The other, which we have called the Grand Treasury Offset Program (GTOP), was developed by a private sector vendor starting in September 1996, after FMS management decided that a new automated system was needed to meet the anticipated volume of offsets and to provide more efficient matching of payment and debt files. It was planned that once GTOP was developed and made operational, it would replace ITOP.

One of the top priorities of the new management at FMS has been to evaluate these two systems to determine which can best move the debt collection program forward, based on an assessment of the requirements and circumstances that exist today. After carefully assessing the technical data processing issues, as well as the merits from a business perspective, FMS management has concluded, and the Department agrees, that the best approach is to use the ITOP system for the administrative offset program. ITOP is a proven system; it has been in operation for approximately two years; it has recently been successfully enhanced to accommodate the FY 1998 modified tax refund offset program; and it can be further enhanced to handle greater volumes of debts and additional payment streams, and to accomplish all the functions required under DCIA in a manner that is faster, less uncertain, and at a lower cost than the other system.

FMS management believes that the ITOP system provides us the best opportunity to maximize the collection of delinquent debts for the foreseeable future. While our decision not to pursue GTOP means that approximately $5 million invested in that system will have been spent without benefit to the Government, that decision avoids the expenditure of even greater amounts that would be necessary to pursue GTOP further – and even then the outcome would still not be certain. I believe this was a sensible and responsible decision.

DCIA Progress

I would like to turn now to Treasury's progress in implementing the DCIA.

- In the November hearing, we testified that more than 29,000 debts, having a dollar value in excess of $460 million, had been referred to FMS for cross-servicing. Over the last six months, total referrals have more than tripled, to over 97,000 debts, totaling $1.8 billion.

  - We also testified that cumulative cross-servicing collections totaled $1.1 million, excluding private collection agencies, which were not active in November of 1997. This total has increased to almost $5.5 million, which includes collections by PCAs. In addition, repayment agreements, which are voluntary agreements by debtors to make scheduled installment payments, have increased from $2.7 million to $31.1 million. Much of this progress is attributable to our increased use of demand letters, on Treasury letterhead, to delinquent debtors. In addition, the successful implementation of the government-wide private collection agency (PCA) contract in January of this year is beginning to yield results. We have begun assigning a large percentage of cross-servicing referrals to 12 PCAs, and they have collected over $600,000 as of May 15th.

  - In November we testified that the Treasury Offset Program database contained 2.4 million referred debts totaling almost $16.7 billion in delinquent receivables. To date, the database has almost 4.5 million debts totaling approximately $23.5 billion. This represents an increase since our last hearing of 2.1 million referrals and an additional $6.8 billion in receivables.

- As of the last hearing, cumulative administrative offset collections totaled more than $936,000. Today, collections are almost $2 million.

Treasury has made significant progress in other areas as well:

- In January, FMS and IRS completed processing and loading agency debt files to the Treasury Offset Program and Tax Refund Offset Program databases for the 1998 transition year process, the precursor to complete merger of the two offset programs in January 1999. This increased the database of delinquent Federal non-tax debt available for administrative offset from $9.4 billion to $16.7 billion and represents an increase from 17 to 36 participating agencies. Tax refund offsets were higher this year than they were last year, increasing from $1.39 billion in May 1997 to $1.74 billion in May 1998. Commissioner Gregg will provide more details in his testimony of our work in this area.

- We are working closely with the National Finance Center to incorporate their Federal salary payments into the administrative offset program, and with the Social Security Administration to develop a joint implementation plan for inclusion of SSA benefit payments into the program.

- In compliance with the President's Executive Order mandating that Treasury support collection of delinquent child support debt through administrative offset, we are working with the Department of Health and Human Services and the States to bring more delinquent child support debts into the system for offset. The number of States and territories participating has increased from 8 to 15, with referrals totaling over $6.8 billion as of May 15th.

- In order to increase and strengthen agency compliance with DCIA referral requirements, FMS has implemented an outreach effort that focuses on the transfer of all eligible delinquent non-tax debt to FMS. Through this effort, we are working with approximately 50 agencies which carry the majority of delinquent debt receivables. FMS has worked out the terms for debt referral with the five major credit agencies (Department of Education, Department of Agriculture, Department of Veterans Affairs, Small Business Administration, and Department of Housing and Urban Development), which hold 70 percent of all delinquent Federal non-tax debt. We have also met with all 24 CFO agencies and have obtained commitments for debt referral. We plan to complete meetings with all remaining agencies and expect to have referral schedules in place by July 31, 1998.

  In this regard, I would like to thank you, Mr. Chairman, and Congresswoman Maloney, for your efforts to assure that agencies understand the importance of

referring debt. Your recommendation last November for a White House directive on this matter resulted in a communication from OMB Director Raines to all Departments and Credit Agencies to accelerate their compliance in referring delinquent debt.

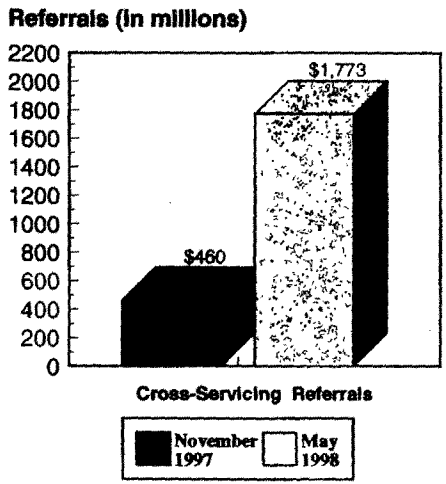
- Since our last hearing, we have published six regulations to implement the provisions of the DCIA. Commissioner Gregg will provide details on our progress in this area, but I want to point out that the critical regulations are in place.

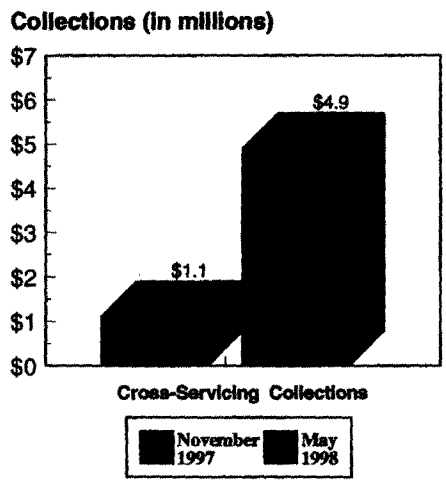
I would like to conclude by emphasizing that Treasury recognizes, despite recent progress, that there is still much work to be done. The Price Waterhouse analysis has provided us with a realistic target, and we are working diligently to achieve the projected potential collections.

Mr. Chairman, that concludes my testimony. I would now like to ask Commissioner Gregg to discuss FMS's implementation of the DCIA in greater detail.

-30-

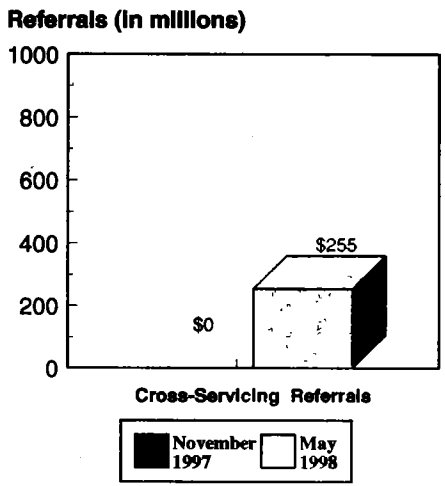
Cross Servicing Performance Summary

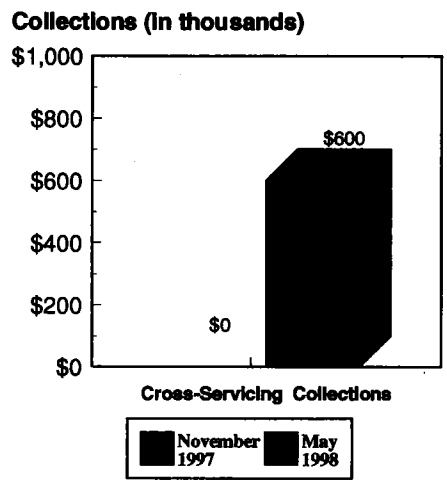




NOTE: Referral and collection figures are cumulative from the date of program inception.

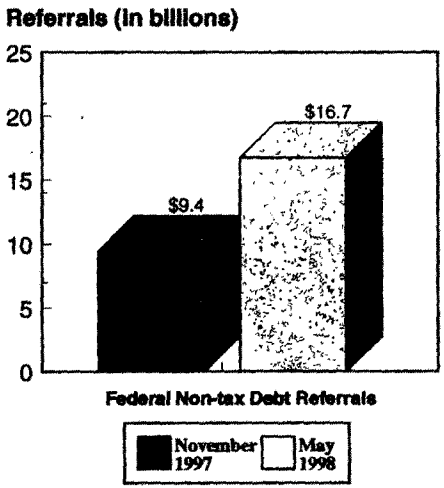
Private Collection Agencies (PCA) Performance Summary

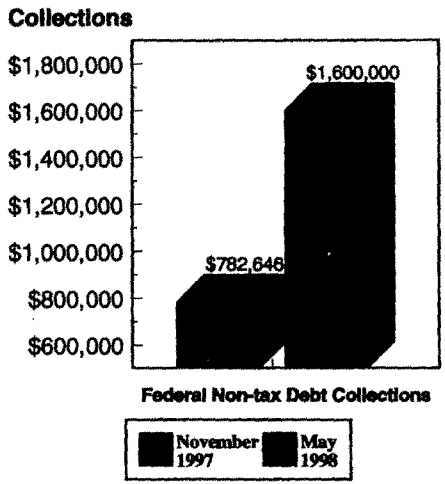




NOTE: Referral and collection figures are cumulative from the date of program inception.

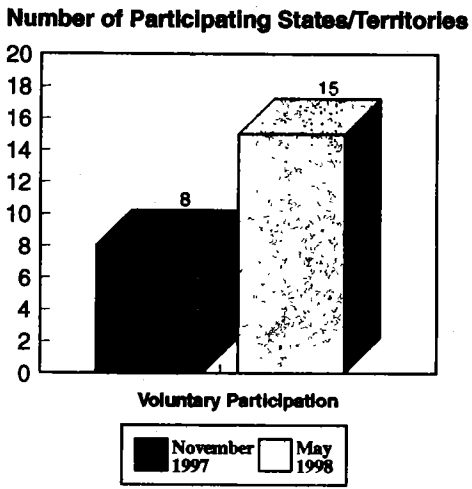
Treasury Offset Performance
Federal Non-tax Debt

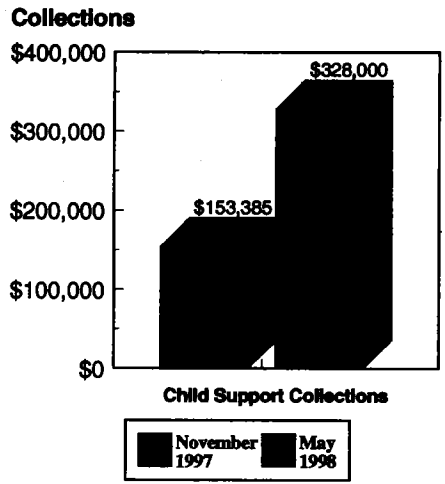




NOTE: Collection figures are cumulative from the date of program inception.

Treasury Offset Performance
Child Support

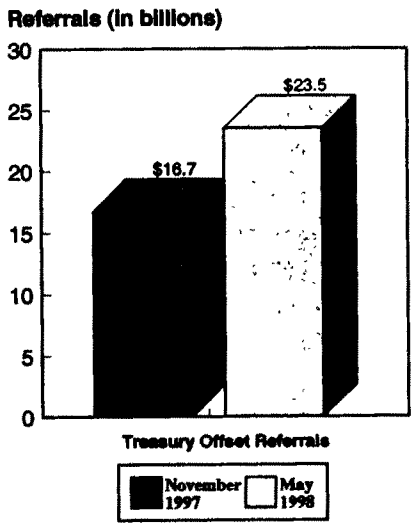


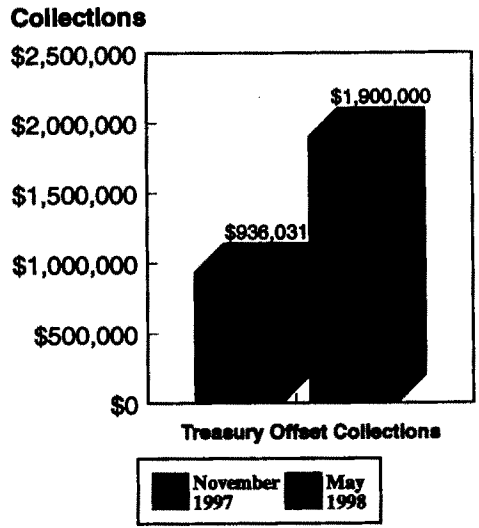


NOTE: Collection figures are cumulative from the date of program inception.

Treasury Offset Performance Summary

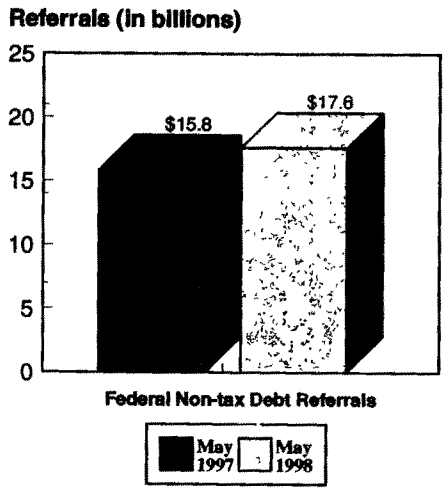
(Federal Non-tax Debt & Child Support)

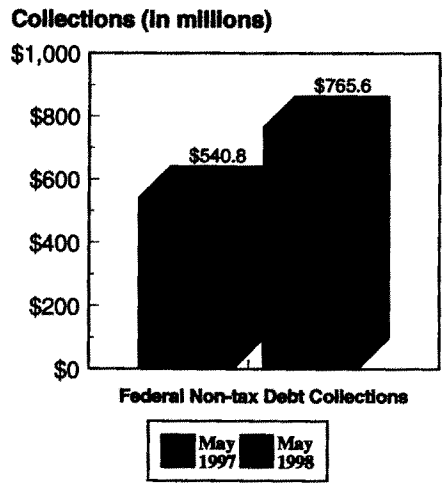




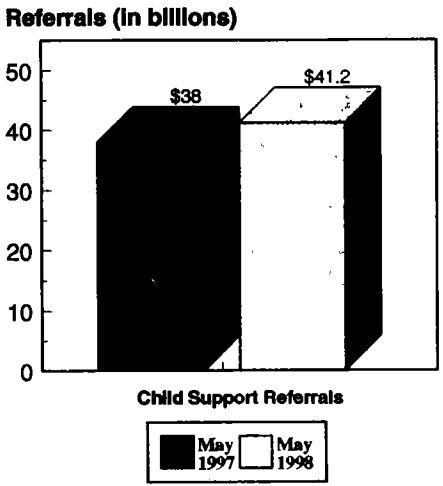
NOTE: Collection figures are cumulative from the date of program inception.

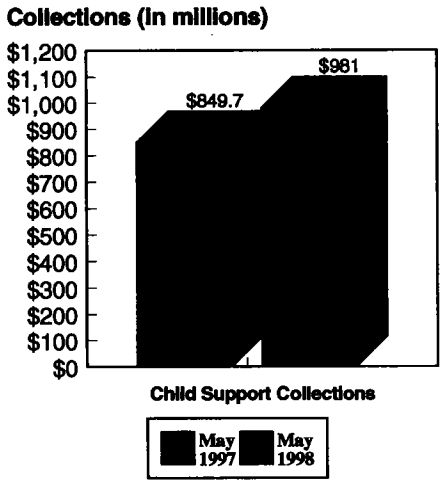
Tax Refund Offset Performance
Federal Non-tax Debt





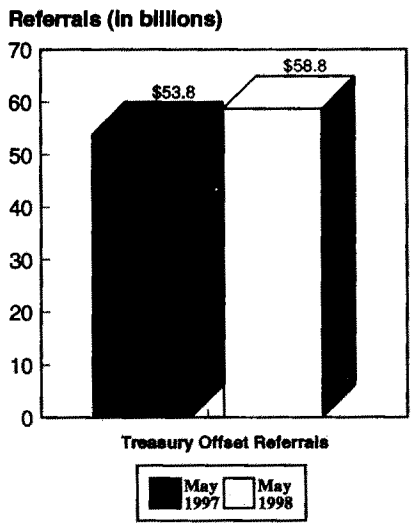
Tax Refund Offset Performance
Child Support

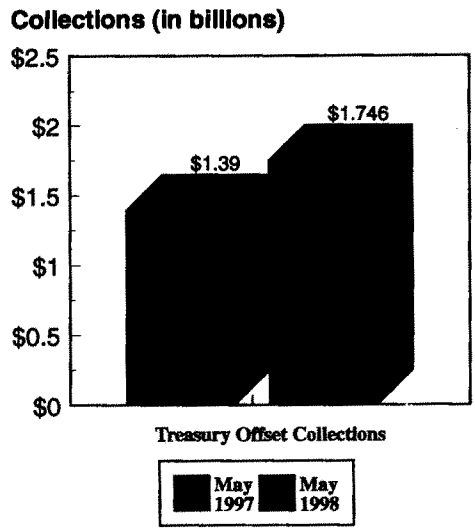




Tax Refund Offset Performance Summary

(Federal Non-tax Debt & Child Support)





Mr. HORN. Thank you. We are going to have everybody get their statement in and then we will question the whole panel.

Our next presenter is Mr. Richard Calahan, the Acting Inspector General of the Department of the Treasury. Mr. Calahan.

Mr. CALAHAN. Thank you. Mr. Chairman, members of the committee, we appreciate the opportunity to be here to discuss the Financial Management Service's efforts to implement aspects of the Debt Collection Improvement Act of 1996.

We recently issued a draft audit report to FMS, which focused on their efforts to develop a new automated information system, the Grand Treasury Offset Program, otherwise referred to as GTOP. Our conclusion was that, overall, this development effort was not well planned or well managed.

I would like to briefly summarize for you the findings of our report. Before I do this, I want to preface my remarks by pointing out that about the time we concluded our audit field work, there were significant changes in the executive management at FMS, including the appointment of a new commissioner. So much of the work that we performed and we are reporting on today applies to former management.

We provided the results of our work to FMS in February, and since February we have met with FMS several times and they have indicated concurrence with the recommendations in our report.

In our report we express concern that despite recent steps, FMS' strategy was to split their efforts between the development of GTOP, while enhancing ITOP without the benefit of adequate functional requirements. It is our understanding that FMS has terminated further development of GTOP and plans to focus their efforts on enhancing the existing system, ITOP. However, considering the number of problems we identified in FMS' development of GTOP, it is essential that they exercise strong management control over the current effort to develop an automated system and effectively execute sound system life cycle planning requirements, as outlined in the Clinger-Cohen Act and OMB guidance.

Among the more significant weaknesses that we found were:

FMS did not adequately define its business requirements for implementation of the Debt Collection Act provisions and had not developed a sound business case for the development of GTOP. Without this, FMS did not have the analysis needed to assure that GTOP would provide the added benefit to justify the development cost for the system.

FMS also had not developed an adequate project management plan to effectively monitor the development of GTOP. Key issues were not addressed, such as who would maintain the system once completed, and what contingency plans would be implemented in the event of delays. Also, FMS did not timely develop an acceptance testing plan. When the contractor developed the GTOP application software in October 1997, FMS was not prepared to perform acceptance testing.

Three, FMS did not determine the overall cost to acquire, develop, and maintain GTOP, or establish a process to capture actual costs. For one key component, the development of the GTOP software application, the cost more than doubled from $3 million to

$6.1 million when additional requirements were identified and added.

Four, FMS either did not always provide the contractor with needed requirements and specifications or provided specifications that were too vague. FMS relied on the contractor to develop the business requirements for GTOP. Consequently, the contractor was left to its own resources to develop a system to process payment and debt data coming from many different agencies. This increased the risk that GTOP would not operate as intended.

And five, last, FMS did not adequately ensure that the contractor would develop a system that would meet customer agency needs.

All this points to a systems development effort that was not well planned or managed. In another review we currently have ongoing, we are taking a look at broader FMS' overall strategic process. What we are finding is that difficulties in the implementation of the Debt Collection Improvement Act are symptomatic of fundamental weaknesses in the overall strategic planning process. These fundamental weaknesses will need to be corrected if FMS is to be successful as they move forward to fully implement the act.

We intend to conduct additional audit work over the next several years on various aspects of the Debt Collection Improvement Act that will assess the effectiveness of FMS' continuing implementation efforts.

This concludes my prepared statement.

[The prepared statement of Mr. Calahan follows:]

Mr. Chairman and Distinguished Members of the Subcommittee:

Mr. Chairman, members of the Subcommittee, I am pleased to appear before you today to discuss the Financial Management Service's (FMS) efforts to implement aspects of the Debt Collection Improvement Act of 1996 (DCIA).

The overall purpose of the DCIA was to strengthen the Federal government's ability to collect delinquent debt. Some of the tools provided by the Act to enable the Government to achieve better debt collection successes include: centralizing certain Federal non-tax debt operations within the Department of the Treasury (Treasury); mandating the use of electronic funds transfer; and creating a Treasury offset program. As you know, Congress intended Treasury to act as the coordinator of Government-wide debt collection activities. As the coordinator, Treasury would provide a mechanism for effective administrative offset and act as a clearinghouse to assure that Federal debts are collected in a timely and efficient manner. Treasury delegated primary responsibility for implementation of the DCIA provisions to FMS.

We recently issued a draft audit report to FMS which focused on their efforts to develop a new automated information system, the Grand Treasury Offset Program, otherwise referred to as GTOP. Our conclusion was that overall this development effort was not well planned or well managed. While FMS has not had sufficient time to formally respond to our report, recent events at FMS would appear to support our report's conclusions.

Let me briefly summarize for you the findings from our report. Before I do this, I want to preface my remarks by pointing out that after we concluded our audit field work there were significant changes to the executive management at FMS, including the appointment of a new Commissioner, Richard L. Gregg. As stated previously, we only issued our formal draft to Mr. Gregg three days ago; so FMS has not had the opportunity to provide us with their corrective actions. We did however, provide the results of our audit in February. Since February, we have met with FMS, and they have indicated concurrence with our recommendations.

We also noted that shortly after the changes in management, we found a number of positive steps have been taken to overcome the problems that caused delays in getting GTOP operational. In our report we expressed concern that despite these positive steps, FMS' strategy was to split their efforts between the development of GTOP while enhancing ITOP (Interim Treasury Offset Program) without the benefit of adequate functional requirements. It is our understanding that after a cost of over $7 million, FMS has terminated further development of GTOP and plans to focus their efforts on enhancing the existing system ITOP. With this decision, it would appear that at least one recommendation in our report has been acted on. However, considering the number of problems we identified in FMS' development of GTOP, it is essential that they exercise strong management control over the current effort to develop an automated system and effectively execute sound system life cycle planning

requirements as outlined in the Clinger-Cohen Act and OMB guidance. Among the more significant weaknesses we found in our audit were:

- FMS did not adequately define its business requirements for implementation of the DCIA provisions and had not developed a sound business case for the development of GTOP. Without this, FMS did not have the analysis needed to assure that GTOP would provide the added benefit to justify the cost, and would address all the requirements for successfully carrying out the DCIA provisions, especially as it related to offset of federal payments.
- FMS had not developed an adequate project management plan to effectively monitor the development of GTOP. Project management also suffered from a lack of continuity. Since development of GTOP began, FMS assigned three project managers. Key issues were not addressed, such as who would maintain the system, what contingency plans would be implemented in the event of delays, and how would agency participation be phased in. Also, FMS did not timely develop an acceptance testing plan. When the contractor delivered the GTOP application software in October 1997, FMS was not prepared to perform acceptance testing.
- FMS did not determine the overall costs to acquire, develop, and maintain GTOP or establish a process to capture actual cost, such as in-house labor. For one key component, the development of the GTOP software application.

the cost more than doubled from $3 million to $6.1 million when additional requirements were identified and added.

- FMS either did not always provide the contractor with needed requirements and specifications or provided specifications that were too vague. FMS relied on the contractor to develop the business requirements for GTOP. Consequently, the contractor was left to its own resources to develop a system to process payment and debt data coming from many different agencies. This increased the risk that GTOP would not operate as intended.
- Lastly, FMS did not adequately ensure that the contractor would develop a system that would meet customer agency needs. For example, the initial task order required the contractor to develop a fully tested and operational interface with approximately four non-Treasury Disbursing Offices. Instead, the contractor delivered one standard payment interface and a reversal process to which these agencies must adhere.

All of this points to a systems development effort that was not well planned or managed. In another review we currently have on-going, we are taking a broader look at FMS' overall strategic planning process. What we are finding is that FMS' difficulties with implementation of DCIA are symptomatic of fundamental weaknesses in their strategic planning process. These fundamental weaknesses will need to be corrected if FMS is to be successful as they move forward to fully implement the DCIA.

In conclusion, the DCIA is an important legislative tool to help the Government improve its track record on the management and collection of delinquent debt. At the same time, implementation is a very complex and difficult task requiring close coordination, both within and outside Treasury. There are numerous issues to be addressed and obstacles to overcome. FMS has recently taken a number of steps to get the implementation effort back on track. We intend to conduct additional audits over the next several years on various aspects of the DCIA that will assess the effectiveness of FMS' implementation efforts.

Mr. HORN. Thank you very much. We will get back and explore some of the things you have raised there.

Mr. Gary Engel is the Associate Director for the Accounting and Information Management Division of the General Accounting Office, and he is accompanied by Mr. Keith Rhodes, the Technical Director, Accounting Information and Management Division, General Accounting Office. Welcome.

Mr. ENGEL. Thank you. Mr. Chairman, members of the subcommittee, thank you for the opportunity to be here today to report to the subcommittee on our review of Treasury's efforts to collect delinquent nontax debts through its administrative offset program. This program is intended to carry out provisions of the Debt Collection Improvement Act of 1996, which was developed under this subcommittee's leadership.

With me today is Keith Rhodes, Technical Director, as you stated, with our office of the Chief Economist. I would like to summarize my statement that I have submitted formally.

Last November, the subcommittee held an oversight hearing on the act's implementation. At that time, Treasury reported that agencies had referred $9.4 billion of delinquent debt for offset. Since then, these referrals have increased to $16.7 billion. This progress is attributable to Treasury working more closely with the 24 CFO act agencies in recent months to: No. 1, identify the debts that can be referred and, No. 2, bring the debt that agencies submitted for the IRS Tax Refund Offset Program into Treasury's administrative offset data base.

However, as Mr. Hawke has stated previously, there remains a significant amount of nontax debt over 180 days delinquent that has not yet been referred, for the various reasons he identified. Also, billions of dollars of delinquent nontax debt have not been referred, primarily because agencies have not yet completed certain actions. These actions include: No. 1, ensuring due process, a necessary step before debts can be referred for offset; and, No. 2, determining whether loan workout procedures have been established with debtors, which precludes referral for offset.

As the Treasury Acting IG has just highlighted, Treasury has experienced significant problems developing an administrative offset program system. These problems have seriously affected Treasury's implementation of two important aspects of the administrative offset program. First, systems development problems have hampered Treasury's ability to attempt to bring additional payments into the program. Currently, payments that are available for administrative offset are limited. They include only vendor payments disbursed by Treasury and retirement payments made by the Office of Personnel Management. These payments comprised about 5 percent of the total number of disbursements made, and 21 percent of the total dollars paid, by the Department of Treasury's disbursing offices during fiscal year 1997. Further, Treasury does not yet know the total number of Federal payments that may be available for administrative offset. Nor has it fully determined the extent to which payments will be exempt from administrative offset.

Second, Treasury's consolidation of the administrative tax refund and Federal salary offset programs, as envisioned by the act, is also impeded by these systems problems. Thus, any debt collection

efficiencies envisioned by such a consolidation have not yet been realized.

Treasury's new management team, responsible for implementing the act, has begun to address systems development problems and plans to comply with Treasury's systems development guidance. While we are encouraged by the positive steps Treasury is taking in this direction, we have identified several areas where additional actions are needed. I would like to highlight three of these for the subcommittee.

First, Treasury has not yet developed and documented an overall concept of operations. This is critical because it provides a high-level description of the information systems, their interrelationships and information flows. It also describes the operations that must be performed, who must perform them, and how those operations will be performed. In short, it is the primary building block on which a major system development effort is based.

Second, overall functional requirements for the system are not yet available. These are based on the concept of operations and are essential because they form the foundation that guides the system development process.

Third, Treasury has not yet completed a risk management plan. This step is integral because it provides management and others with the information necessary to focus efforts on the areas that pose the greatest risks. It also outlines the actions that will be taken to mitigate the risks identified.

We have discussed these issues with Treasury officials. They have agreed to take corrective actions and establish timeframes for completing them. But, it will be important for Treasury's top management to ensure that planned corrective actions are effective and completed on schedule. Otherwise, Treasury runs the risk of costly modifications and additional delays in developing an administrative offset system.

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

[The prepared statement of Mr. Engel follows:]

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on the Department of the Treasury's implementation of the administrative offset provision of the Debt Collection Improvement Act of 1996 (DCIA). The act, developed under the leadership of this Subcommittee, among other things, requires that agencies notify the Treasury of all legally enforceable[1] nontax debts over 180 days delinquent for the purpose of offsetting federal payments, including tax refunds, and provides authority for disbursing officials to conduct payment offsets.

As you requested, our testimony today describes (1) the status of referrals by agencies of delinquent nontax debts to Treasury for administrative offset, (2) actions Treasury has taken and plans to take to include all eligible federal payments in the administrative offset program, and (3) actions Treasury has taken, or plans to take, to consolidate the administrative, tax refund, and federal salary offset programs.

SUMMARY

Treasury has recently made progress in getting the 24 agencies covered by the Chief Financial Officers (CFO) Act of 1990[2] to refer nontax debt over 180 days delinquent for administrative offset. As of April 1998, the CFO Act agencies had referred to Treasury about $16.7 billion in nontax debt over 180 days delinquent, and Treasury has entered these delinquencies into its debtor database. This is a substantial increase over the $9.4 billion that had been referred to Treasury about 7 months earlier, at about the time the Subcommittee held DCIA oversight hearings in November 1997.

Also, as of April 1998, about $26.4 billion of reported nontax debt over 180 days delinquent had not been referred to Treasury and is unlikely to be referred in the near future. These delinquencies involve about (1) $12.3 billion of debts involved in bankruptcies, foreclosures, and forbearance and formal appeals actions, (2) $3.6 billion of foreign debt, (3) $3 billion[3] of debts referred to the Department of Justice (DOJ) for litigation, and (4) $525 million of debts owed to the Department of Housing and Urban

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[1]Treasury generally considers a debt legally enforceable when the final agency determination regarding the debt is made or any legal bar to further collection is removed.

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

[3]According to Treasury reports, agencies have referred about $3.5 billion of delinquent debt to DOJ for litigation, and DOJ has referred about $500 million of this debt to Treasury for administrative offset.

Development (HUD), much of which will be scheduled for sale. Approximately $7 billion of nontax debt over 180 days delinquent has not been referred primarily because agencies have not yet completed actions such as (1) ensuring due process, which is necessary before debts can be referred for offset, and (2) determining whether loan workout procedures have been established with debtors, which precludes referral for offset.

On the payment side, because of systems development problems, Treasury does not yet have a system capable of matching all federal payments against the delinquent debtor database. As of April 1998, 2 years after DCIA's enactment, Treasury had collected about $1.2 million of delinquent nontax federal debt through its administrative offset program. Currently, payments subject to offset through the administrative offset program are limited to those made by Treasury to vendors and to federal retirees, representing about 5 percent of the total number of payments made, and about 21 percent of the total dollars paid, by Treasury disbursing offices in fiscal year 1997. Also, Treasury has made little progress in fully determining the extent to which federal payments, such as those made by the Department of Defense (DOD), can be made available for offset.

Further, Treasury has not yet consolidated the administrative, tax refund, and federal salary offset programs. Treasury's systems development problems have also caused delay in consolidating these programs and thus, any debt collection efficiencies envisioned by such a consolidation have not yet been realized.

In developing an administrative offset system, Treasury did not apply a disciplined systems development process, including the development of an overall concept of operations and functional requirements. The resulting system, which was planned for implementation in January 1998, was not placed into operation, and a subsequent systems development effort is underway.

In current efforts to develop an administrative offset system, Treasury has recently taken several actions to address systems development issues. We identified and discussed with Treasury several areas where additional actions are needed, including giving a higher priority to developing a concept of operations, the functional requirements, and a risk management plan for the entire system. We are encouraged by Treasury's commitment to address these issues. But it will be important for Treasury's top management to ensure that the planned corrective actions are effectively and expeditiously completed prior to making any significant investment in the development of an administrative offset system. Otherwise, Treasury is significantly exposed to risks that it may experience costly modifications and additional delays in developing a system for implementing the administrative offset provision of DCIA.

RECENT PROGRESS TO IDENTIFY AND REFER DELINQUENT NONTAX DEBT FOR OFFSET

The Subcommittee's November 1997 oversight hearing on DCIA's implementation underscored the need for progress in referring delinquent nontax debts to Treasury for offset At about the time of the hearing, agencies had referred $9.4 billion of nontax debt over 180 days delinquent to Treasury for administrative offset.

Initially, agencies had been slow to refer delinquent nontax debt for administrative offset under DCIA largely because of uncertainty as to the delinquent nontax debt that should be referred. Also, Treasury had not made a concerted effort to identify delinquent nontax debt that could be offset or to develop time frames for agencies to refer the debt for offset.

In January 1998, Treasury began actively working with agencies to reach agreement on the outstanding nontax debts over 180 days delinquent that can be referred for administrative offset and to obtain commitments from the agencies on referral of those debts. Treasury initially met with the five major credit agencies–the Departments of Agriculture, Education, Housing and Urban Development, and Veterans Affairs (VA) and the Small Business Administration. Later, Treasury expanded its work to include the other CFO Act agencies.

As of April 1998, the CFO Act agencies had referred about $16.7 billion of delinquent nontax debt to Treasury for administrative offset–a 78 percent increase over about 7 months. Most of this increase resulted from Treasury's work with the agencies to bring the nontax delinquent debts they submitted for the Internal Revenue Service's (IRS) tax refund offset program into Treasury's administrative offset database. Debts that agencies normally would have referred to IRS for tax refund offsets in calendar year 1998 were, instead, referred to Treasury's Financial Management Service. These debts were incorporated into the database Treasury uses for matching debts for administrative offset and then referred to IRS, which maintains a separate database.

In addition to the delinquent nontax debt that has been referred for offset, the CFO Act agencies also hold considerable delinquent nontax debt that has not been referred to Treasury. According to Treasury reports, in April 1998, these agencies held $43.1 billion[4] of nontax debt over 180 days delinquent, including the $16.7 billion of referred debt. Treasury and the CFO Act agencies have determined that $19.4 billion, or almost 75 percent, of the $26.4 billion in unreferred nontax delinquent debt would not be referred for administrative offset, at least not in the near term, for the following reasons:

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[4]These delinquencies comprise over 90 percent of the debt over 180 days delinquent reported for the entire federal government.

- about $12.3 billion relates to nontax delinquent debts that are involved with bankruptcies, foreclosures, statutory forbearance, or formal appeals. An automatic stay that generally prevents the government from pursuing collection against debtors in bankruptcy is provided by 11 U.S.C. Section 362. In addition, debts in foreclosure are governed by state laws that may preclude the government from pursuing foreclosure if collection is attempted through offset Further, debts subject to forbearance generally are not legally enforceable, thus precluding collection of the debt until the forbearance process is completed.[5] Also, agencies generally cannot certify debts under appeal as valid and legally enforceable until the appeal process is completed. Consequently, Treasury has agreed with agencies that these types of debts should be excluded from referral for offset.

- about $3.6 billion involves delinquent foreign debts. Treasury has stated that, for the most part, collecting these delinquent debts through administrative offsets is infeasible primarily due to foreign diplomacy considerations and affairs of state.

- about $3 billion of delinquent nontax debt has been referred by agencies to DOJ for litigation. (See footnote 3.) These debts are no longer under the control of the agencies and, therefore, Treasury does not hold the agencies responsible for referring such debt for administrative offset Rather, DOJ is to determine if, and when, such debt is referred for offset.

- about $525 million of delinquent nontax debt owed to HUD, much of which will be scheduled for sale, is not being required to be referred for administrative offset at this time.

In addition to these categories of unreferred debt, about $7 billion of outstanding nontax debt over 180 days delinquent remains. Most of this debt involves circumstances that may delay or preclude offset.

For example, the vast majority of the Department of Education's approximate $3.1 billion of unreferred nontax delinquent debt consists primarily of debts related to student loans, most of which were being serviced by state or private guaranty agencies. According to Education officials, although delinquent debt serviced by guaranty agencies is subject to referral for administrative offset, many referrals have not yet been made because the required due process for the debtors has not been completed.

Another example involves delinquent debts related to the Department of Agriculture's (USDA) state-administered food stamp program and farm loans. According to USDA officials, the food stamp program's delinquent debts, which totaled about $775 million,

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[5]Forbearance action taken by a creditor, generally, extends the time for payment of a debt or postpones, for a time, the enforcement of legal action on the debt.

must be further reviewed by the states to determine whether these debts are in repayment status or whether the debtors have been afforded due process. Also, according to USDA officials, statutory servicing rights normally require that the farm loan debtors be offered workout alternatives prior to collection by offset. As such, this debt, which totaled about $420 million, will not be made available for offset until this statutory process has been completed.

Finally, according to a DOD official, DOD delinquent debts totaling about $2 billion are primarily in protest or dispute. Accordingly, these debts have not yet been referred to Treasury for offset.

FEW PAYMENTS BROUGHT INTO ADMINISTRATIVE OFFSET PROGRAM

While referring all legally enforceable delinquent nontax debts for offset is an essential element of an effective administrative offset program, the program's objectives cannot be achieved in the absence of another equally essential element–payments that can be offset. As discussed later, systems development problems have hampered Treasury's ability to attempt to bring additional payments into its administrative offset program.

Currently, payments that are available for administrative offset are limited to (1) vendor payments disbursed by Treasury and (2) retirement payments made by the Office of Personnel Management (OPM). These types of payments have been in the administrative offset program since 1996. Further, they comprised about 5 percent of the total number of disbursements made, and about 21 percent of the total dollars paid, by Treasury disbursing offices during fiscal year 1997.

In addition, although almost all of the vendor payments disbursed by Treasury are currently available for administrative offset, many of these payments cannot be matched against debtor information in Treasury's delinquent debtor database because the vendor records do not contain Taxpayer Identification Numbers (TIN). According to Treasury, during March 1998, about one-third of the payment requests submitted by the agencies for payment by Treasury did not include TINs.

Further, Treasury does not yet know the total number of federal payments that may be available for administrative offset. In addition to federal payments made by Treasury, more than 50 Non-Treasury Disbursing Offices (NTDO) make federal payments. However, Treasury has not yet identified the total volume of NTDO payments, which include those made by DOD, the U.S. Postal Service (USPS), and numerous other federal agencies. Moreover, Treasury has not yet fully determined the extent to which payments will be exempt from administrative offset. Currently, Treasury has a request pending from the Pension Benefit Guaranty Corporation for discretionary exemption for a number of payment types, including those related to premium refunds to pension plans. In the

future, other agencies may identify payments exempt by statute or request means-tested or discretionary exemption of payments.[6]

To date, Treasury has primarily relied on the agencies to identify potentially exempt payments. For example, VA informed Treasury that certain payments were exempted based on Section 5301(a) of Title 38, and Treasury confirmed the exemption. In addition, the Social Security Administration (SSA) and USDA requested and received exemptions for Supplemental Security Income and certain Food and Consumer Services payments, respectively, based on DCIA's requirement that the Treasury Secretary exempt payments under means-tested programs. At this stage, Treasury does not know the total effect on the administrative offset program of payments that will be excluded from the program in accordance with DCIA, or other statutory provisions, and on the basis of requests for exclusions by heads of agencies.

To facilitate implementation of payments into the administrative offset program, Treasury is developing several regulations applicable to payment issues. Some regulations have been published as Interim Rules (for example, those relating to federal salary offset), while others are currently being drafted or are with another agency for comment. For example, the rule for offset of federal benefit payments has been forwarded to SSA for consultation. Retirement and Survivors Benefits and Disability Insurance Benefits under the Social Security Program accounted for about 61 percent of the number of payments made by Treasury Disbursing Offices in fiscal year 1997.[7] According to Treasury's most recent DCIA Implementation Plan, it does not intend to publish a final rule for offsetting federal benefit payments, including Social Security payments, until October 1998. In addition, according to Treasury and SSA officials, even if the final rule were published, SSA will not be ready to make required systems changes until 1999 because of demands on its staff related to the Year 2000 computing crisis.[8]

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[6]DCIA excludes payments certified by the Department of Education under Title IV of the Higher Education Act of 1965 and payments made under United States tariff laws. In addition, DCIA requires exemptions for means-tested programs and allows other discretionary exemptions when the head of the agency makes the request to the Treasury Secretary, and the Secretary approves the request.

[7]DCIA provides that, except for $9,000 a debtor may receive within a 12-month period, all payments due to an individual under the Social Security Act shall be subject to offset.

[8]For the past several decades, information systems have typically used two digits to represent the year, such as "98" for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, 2000 is indistinguishable from 1900 because both are represented as "00." As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

OFFSET PROGRAMS NOT YET CONSOLIDATED

One of the DCIA's goals is to minimize debt collection costs by consolidating related functions and activities. To date, however, Treasury has not yet consolidated the administrative, tax refund, and federal salary offset programs.

The Federal Tax Refund Offset Program (TROP) has been a cooperative effort of IRS and the federal program agencies. Legislation, beginning with the Deficit Reduction Act of 1984 (Public Law 98-369), authorized the use of tax refund offsets to recover delinquent federal nontax debts. The Emergency Unemployment Compensation Act of 1991 (Public Law 102-164) provided permanent authority to use tax refund offsets. Since TROP's inception in 1986, approximately $8.5 billion of delinquent debt has been recovered through the program.

The Debt Collection Act of 1982 authorized, but did not require, federal salary offsets and administrative offsets to liquidate delinquent nontax debt owed to federal agencies. The DCIA requires agencies to participate in an annual matching of records to identify federal employees delinquent on federal debts.

Since 1987, the federal employee salary offset program has been a cooperative effort between the federal agencies and DOD's Defense Manpower Data Center (DMDC). Under the program, DMDC performs the computer matching necessary to identify federal employees who are delinquent on their debts using delinquent nontax debtor files provided by the various creditor agencies. DMDC matches these files against active and retired civilian employment files provided by OPM, as well as against DOD's active, retired, and reserve military personnel files. Under a similar program, creditor agencies submit delinquent nontax debtor files to USPS for matching against USPS personnel files. According to Treasury data, during fiscal year 1997, agencies collected over $42 million through these programs.

Treasury's lack of progress in consolidating the offset programs is primarily the result of its problems with the development of a new administrative offset system. I would now like to highlight these problems.

SYSTEMS DEVELOPMENT PROBLEMS
MUST BE EFFECTIVELY ADDRESSED

Treasury does not have a system that can perform all the administrative offset functions envisioned as a result of DCIA. This can be directly attributed to problems Treasury has experienced in managing the development of such a system. Although Treasury has recently taken several actions to address systems development issues, it will be some time before enough information is available to accurately assess the effectiveness of those actions. In addition, we have identified several areas where additional actions must be taken immediately to reduce the risk of further system development problems.

Prior to the passage of DCIA in April 1996, Treasury in conjunction with the Federal Reserve Bank of San Francisco (FRBSF), developed a pilot system to demonstrate the feasibility of conducting administrative offsets on a routine basis. The system, referred to as the Interim Treasury Offset Program (ITOP), is currently operational and is used to offset vendor payments disbursed by Treasury Disbursing Offices and OPM retirement payments. However, Treasury never intended the system, as it was originally developed, to perform all of the administrative offset functions envisioned as a result of DCIA.

In September 1996, Treasury awarded a contract for the development and implementation of a new and expanded administrative offset system, known as the Grand Treasury Offset Program (GTOP). This system was to be used to consolidate the administrative, tax refund, and federal salary offset programs, and was to include all eligible delinquent federal nontax debt and federal payments. In addition, Treasury intended the system to be capable of incorporating state child support debts and other state debts, which DCIA authorizes to be recovered through federal payment offsets.

GTOP was scheduled to be implemented in January 1998. However, because of systems development problems, it has not been placed into operation. Currently, Treasury is focusing its efforts on enhancing ITOP to handle all eligible debts and payments for the administrative offset program, as well as the consolidation of the administrative, tax refund, and federal salary offset programs.

GTOP's Development

Treasury has concluded that it currently cannot use GTOP for the administrative offset program primarily because Treasury did not apply a disciplined system development process for that system. Treasury's policies, including its systems life cycle methodology, and our guidance[9] call for the completion of a concept of operations and functional requirements in the development of a major system.

The GTOP development effort was undertaken without (1) completing an overall concept of operations, which includes the high-level information flows for the system and (2) documenting the functional requirements that the system must meet. Treasury's policies call for such generally accepted steps to be completed before a system is developed.

We are unsure why the previous management team responsible for GTOP's oversight allowed GTOP to be developed before these critical steps were completed. However, according to Treasury, the effect was that the completeness and usefulness of the software delivered by the GTOP contractor in October 1997 cannot be reasonably

[9]Strategic Information Planning: Framework for Designing and Developing System Architectures (GAO/IMTEC-92-51, June 1992).

measured and the system cannot be tested to determine if it would meet Treasury's needs. Thus, Treasury has not placed the system into operation.

Current Treasury Efforts

In December 1997, Treasury established a new management team for DCIA implementation, which includes managing a new systems development effort for the administrative offset program. The new management team has decided to halt all work on GTOP and enhance ITOP. Treasury recognizes that one of the disadvantages of this approach is that it may result in little or no return on the approximately $5 million it has paid to the contractor for development of the system software that has been delivered. However, it also believes that modifying ITOP is the most practical way to consolidate the administrative and tax refund offset programs for the 1998 tax year and to begin adding federal salary and benefit payment streams in the administrative offset program during calendar year 1998 or early 1999.

According to Treasury officials, the enhancement of ITOP will comply with Treasury guidance for systems development efforts. Based on our review of documentation recently provided to us, there are indications that some of the critical system development requirements are being addressed. For example, Treasury has identified the information flows associated with several payment types and has begun to develop the corresponding functional requirements for those payment types. It has also developed a DCIA Implementation Plan that includes many of the steps necessary to enhance ITOP and projected completion dates for each step. This plan should enable Treasury management and others to promptly and objectively measure whether the ITOP enhancement is on schedule.

In addition, Treasury's Financial Management Service's Debt Management Services is now routinely briefing the Under Secretary for Domestic Finance and other top Treasury officials on progress relating to the administrative offset program with the intention that such high-level oversight will facilitate keeping the implementation of DCIA on schedule and help to identify any significant problems early so that corrective actions can be taken promptly. While these efforts are positive steps, we have identified several areas where additional actions are needed.

Actions Needed to Reduce
Significant Risks Further

In reviewing Treasury's plans and actions to date, we have identified several areas where additional actions must be taken immediately to adequately reduce the risk of costly modifications and further delays in the effective implementation of the administrative offset provisions of DCIA. First, a documented overall concept of operations has not yet been developed. A concept of operations includes high-level descriptions of information systems, their interrelationships, and information flows. It also describes the

operations that must be performed, who must perform them, and where and how the operations will be carried out.

According to Treasury officials, they understand the importance of such a document, but until recently, have not placed a high priority of completing it because they believe the individuals involved with the project have an overall view of how the offset processes should work. After we discussed this issue with Treasury officials, they have agreed to increase the priority associated with this effort and have projected completion of an overall concept of operations in July 1998.

It is important for Treasury to place a high priority on ensuring that this effort is completed on schedule because it is the primary building block on which the entire systems development effort is based. Moreover, if personnel changes occur prior to completion of the project, it would be difficult to effectively complete the project promptly without such documentation.

Second, overall functional requirements for the administrative offset system are not yet available. Functional requirements, which describe a system's functional inputs, processes, and outputs, are derived from the concept of operations and serve as the rationale for a system's detailed requirements. They are generally expressed in user terminology and are the foundation that guides the development process.

Although Treasury has begun to develop and document functional requirements for several key processes, such as federal salary and tax refund offsets, it has not developed overall functional requirements for the administrative offset system. While the development of functional requirements for each key process is a necessary step in the incremental systems development approach being used, it does not replace the need for overall functional requirements Until the functional requirements for the overall system are defined, the requirements for a given process may not be adequate. We discussed this issue with Treasury officials, and they have agreed to increase the priority associated with this effort and have projected completion of overall functional requirements by the end of August 1998.

Treasury is in the process of preparing functional requirements for certain key processes. Treasury personnel stated that for each key process, the functional requirements would be clearly defined and that a requirements traceability matrix would be developed so that a test plan could be prepared.

Treasury must place a high priority on (1) completing the overall functional requirements, (2) clearly defining the specific functional requirements as they are prepared for each key process, and (3) ensuring that the key process functional requirements are consistent with the applicable overall functional requirements. This is important because many system developers and program managers have identified ill-defined or incomplete requirements

as one of the root causes of system failures. In addition, as previously stated, the lack of documented functional requirements is a major reason GTOP was not able to be tested.

Third, Treasury's DCIA Implementation Plan does not yet include all facets of the administrative offset program. The most recent version of the plan, dated May 1, 1998, includes the tasks and projected milestone dates involved with several of the key processes. However, the plan does not include information on handling certain payment types, such as payments made by NTDOs (other than USPS and DOD), miscellaneous payments, and salary payments made by payroll offices other than USDA's National Finance Center (NFC), for which Treasury makes the disbursement.[10] According to Treasury officials, because of the priorities they have put on merging the administrative and tax refund offset programs, processing salary payments from NFC, and processing Social Security Benefit payments, they have not as yet devoted time to fully developing an overall DCIA Implementation Plan.

We recognize that Treasury's current focus is largely directed toward consolidating existing payment offset programs to improve efficiency and attempt to minimize the costs of debt collection, which is an important objective of DCIA. In addition, the degree of specificity associated with a particular facet of the program may vary depending on the priority that Treasury assigns to it. However, a complete DCIA Implementation Plan is critical to the success of Treasury's systems development efforts. Such a plan is needed for Treasury management and others to effectively evaluate (1) how the development and implementation of the overall system is progressing and (2) when corrective action is needed to ensure that major slippages do not occur. Treasury officials have agreed to more fully develop the DCIA Implementation Plan in the near future.

Fourth, Treasury has not yet completed a risk management plan. A risk management plan is critical for the successful implementation of a systems development project because it provides management and others the ability to focus their efforts on the areas that pose the greatest risks. It also outlines the actions that Treasury will take to mitigate the risks identified. Treasury officials stated that although they have not developed such a plan for the overall system, they have developed a plan for the software development efforts. A risk management plan takes on even more importance when tight time frames are involved in a given effort because it outlines the actions that will be taken should the project miss key delivery dates. Treasury officials agreed that an overall risk management plan is needed and has projected completion in July 1998.

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[10]During fiscal year 1997, NFC processed about 35 percent of the payroll transactions processed by the 93 payroll offices that used Treasury Disbursing Offices for making salary payments.

Finally, Treasury has not yet evaluated the adequacy of the hardware and software platforms. Treasury has decided to use the hardware and software platforms[11] that were selected for GTOP until it can conduct tests to determine if these platforms are adequate. Treasury officials acknowledge that this decision increased project risk because development efforts were being based on these platforms prior to knowing whether they were adequate for the requirements of the enhanced ITOP system. However, they believe the risk is justified because (1) the hardware has already been acquired and an evaluation of the adequacy of the platforms should be completed by June 30, 1998, and (2) some work had been performed to evaluate the adequacy of the platforms before they were selected for GTOP. Management must ensure that the evaluation of the hardware and software platforms is completed by the estimated completion date of June 30, 1998. Otherwise, Treasury runs a risk that the system it is developing cannot become operational without costly modification.

Treasury's commitment to address the systems development issues we have raised is encouraging. But it will be important for Treasury's top management to ensure that the planned corrective actions are effectively and expeditiously completed prior to making any significant investment in the development of an administrative offset system. Otherwise, Treasury is significantly exposed to the risk of costly systems modifications and additional delay in developing a system to implement the administrative offset provision of DCIA.

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Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

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[11]The hardware platform is the physical computer, which consists of components such as the central processor, memory, and disk storage. The software platform refers to the operating system software and other system support software. Application software that performs a specific task is designed to run on a specific combination of hardware and software platforms. Consequently, applications for one platform generally cannot run on others.

Mr. HORN. Well, thank you very much for that most helpful presentation. We are going to start the questioning with a new member we have on this subcommittee, Ron Lewis, Member from Kentucky.

We are delighted to have Ron. He has a background as a book dealer and a small businessman. He also is very active in his community, and we are glad to have him here. So, Ron, we are going to start with you for 5 minutes, then we will go to Mrs. Maloney for 5 minutes.

Mr. LEWIS. Thank you, Mr. Chairman, it is a pleasure to be on this committee.

Mr. Hawke, you chair a biweekly debt collection steering committee. It has meetings with Treasury and FMS staff; is that correct?

Mr. HAWKE. Yes, sir.

Mr. LEWIS. Was it your idea to begin holding these steering committee meetings?

Mr. HAWKE. I believe it was.

Mr. LEWIS. When did you first begin these meetings?

Mr. HAWKE. I can't recall the exact date. I think it was probably in December or January.

Mr. LEWIS. So you waited approximately 18 months after enactment of the DCIA to begin managing this program on a regular basis?

Mr. HAWKE. Well, we began a much closer oversight by main Treasury at that point. The program management responsibility was with the Financial Management Service.

Mr. LEWIS. How many steering committee meetings were held before you removed Mr. Murphy, Mr. Morris, and Mr. Smokovich?

Mr. HAWKE. We were not having regular biweekly meetings before that time, but we had had a number of meetings with FMS management about the program. It was not on a regular basis.

Mr. LEWIS. So there was not a meeting, per se, before that?

Mr. HAWKE. Not in the same format that we started subsequently.

Mr. LEWIS. Thank you.

Mr. HORN. I thank the gentleman. I now yield 5 minutes to the ranking member for many years, who was very helpful when we passed the Debt Collection Act. She had great experience on this with the New York City Council, and if you can deal with the New York City Council, you can deal with anything. Five minutes.

Mrs. MALONEY. Thank you, Mr. Chairman.

Mr. HORN. Mr. Brasher is keeping time here.

Mrs. MALONEY. Thank you for allowing us to have this hearing.

You know, I tell you, and I applaud Treasury for putting in a new team that is working on this, but the bottom line is no matter how much effort, no matter how many meetings, no matter what is happening, we are not getting a result.

Usually in this Congress, when we go to the floor, it is a big partisan fight. Last night we had the budget resolution and it was very partisan, very divided. But what has been somewhat unique in this subcommittee, there has been a true bipartisan effort to work together to make Government work better. And in the bipartisan bill that Professor Horn and I passed, with the help of Treas-

ury and OMB and the President, the results are just not coming in. I feel we have to put a little more enthusiasm behind it.

My next bill is going to be that instead of the money going to reduce the deficit, that which we collect will go to the child care programs that the Republicans and Democrats are putting forward, and I hope Mr. Horn will help me with this. The Republican welfare bill has required women to go back to work, and there is a need for child care across this Nation to really live up to this Republican program and also to live up to the many women that are working. So, I am going to put it in that the money that comes in will go to the child care program that the President has put forward, that the Republicans have put forward, and I hope that there can be more enthusiasm for it.

I have a series of questions here that are technical on the systems that are being implemented, and I am going to submit them to be answered in writing. I have a meeting at 11 o'clock with Mr. Gephardt, and I might not be here for everything, but I would like to just focus on the commonsense aspect of all the reports showing that the older the debt gets, the harder it is to bring it in. So, while you are developing all these systems, I would like to see more effort out of Treasury to bring that in.

It doesn't have to be a computer, it can be a call to an agency that says, "Look, in 180 days you are going to have to send us your debt. We are going to give you a Treasury letter right now that says pay your bills, and let's see if we cannot get that debt in." I want to just see some commonsense approaches.

I recall talking to a member of your staff, who is no longer working there. I believe this person was fired. But this person used a commonsense approach. All she did was take Treasury letterhead and send out a dunning letter to a group of debtors and she improved the debt collection dramatically, over 50 percent. So, I would just like to see that step taken on this new debt that becomes old debt, while you are fiddling with systems and not making them work, or they have not gotten up to the standard to work.

I am not being critical. I think that new computer systems are complex and we need new technology. But while we are waiting for that system to be put in effect, I would like to just recommend that you start sending a dunning letter from Treasury just 60 days out. Have the agencies do it, if you don't want to do it yourself.

I can't believe that I am saying this, because I am a true believer in government. I support government. I think most government workers are very dedicated. I think government service, if it is done well and honestly, is one of the most really esteemed professions that one can have, and I respect government workers tremendously. I know that government workers can get the job done. But during this time, while we are working to set up systems that will bring this money in, I may explore with the chairman seeing if we could have a pilot project where we just contract all of this out to the credible private sector persons to see if they can bring it in, because it is not working.

What is so frustrating, and so exciting to me about this program, is that this is something Republicans and Democrats agree on. And I think most Americans agree that if you owe a bill and you are

capable of paying it, pay your bill. We pay our bills, why can't people who are given government money pay their bills?

I am saying I applaud the Education Department that worked out help to people, who need more help getting started. I don't think you should slap people who are getting started, but I think if you are affluent, then you should pay your daggone bills. And I really feel that maybe during this period while we are setting up the systems, maybe we should take a chunk of it and just contract it out to accredited private vendors to bring it in.

I have a report here, I'm looking at the GAO report, and I will be writing the chairman to have a hearing on this.

Mr. HORN. Don't forget the 5-minute rule, but go ahead.

Mrs. MALONEY. I didn't even get one question in, Mr. Chairman. But I tell you, all I have heard is it is not working. I don't understand why it is not working.

If I owe a doctor's bill, within 60 days I have a note telling me that I have to pay it. Yet at one point it was revealed all these affluent doctors hadn't even paid back their student loans. It is outrageous. They should pay their student loans back.

But, anyway, this was done on the Farm Service Agency, and it was a 5-year period, and I am going to ask the chairman to have a hearing on this. But this report showed briefly that in a 5-year period, billions were written off without any effort to collect it. Yet, in two States they used private collectors that cost them $58,000 and they brought in $2.2 billion. So, I think this is a very telling report on a 5-year period.

I think we have a wonderful opportunity to bring this money in and not raise taxes, yet have money for more IGs, for more people at Treasury that are overworked with the many problems they are confronting, for more teachers and police officers, and people that we need in our communities. I think it is a very exciting thing.

Can I just ask one question?

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

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June 5, 1998

REP. CAROLYN B. MALONEY -- OPENING STATEMENT

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

Thank you Mr. Chairman.

I am very pleased that you are holding this semi-annual oversight hearing on our Debt Collection Improvement Act of 1996 (DCIA). I am hoping our bipartisan investment in collecting delinquent debt will soon start to show a profit. So far,

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the implementation of our Debt Collection Improvement Act (DCIA), which became law in April 1996, has only collected $5 million out of the $ 50 billion dollars in delinquent debt. Although I recognize the fact that we cannot realistically collect all $ 50 billion dollars, it still means that in two years we have collected only $ 1 dollar for every $10,000 dollars that are owed. As I said before, that's embarrassing.

Soon after our last hearing in November, I have talked with the President about the government's performance, and he shared my concerns regarding the slow pace of implementing the DCIA. After our meeting, he contacted the Secretary of the Treasury,

Robert Rubin, and then Office of Management and Budget Director, Frank Raines, requesting that Federal agencies redouble their efforts to collect this debt.

Six months later, the verdict is still out. Fortunately, the Treasury Department has made some major changes. Treasury established a whole new management team which is now regularly briefing the Under Secretary for Domestic Finance and other top Treasury officials. Treasury has completed an informative portfolio analysis and has analyzed the collectibility of some of this debt. Treasury is also doing a great job briefing the Congress. I am hoping that this high-level visibility will help keep implementation of the DCIA on the new

schedule.

If I have learned one lesson from the briefing material that the Treasury Department has provided, it is that the older the debt becomes, the harder it is to collect. That's why I believe that we must move quickly to carry out the DCIA. If we don't, we stand to lose that money forever.

Perhaps even more important is that we should try to prevent debts from occurring in the first place. I want to point out that my bill, the Federal Benefit Verification and Integrity Act would prevent debts by improving the accuracy of information provided by applicants of Federal benefits. For example, by preventing an overpayment from occurring, the

government doesn't have to spend time and money chasing the resulting debt. My bill will save the taxpayer money, and I hope that the Chairman will hold a hearing on that bill soon.

Thank you.

Mr. HORN. We are going to have another round. Can you stay with us?

Mrs. MALONEY. Yes. I have to leave at 11.

Mr. HORN. You have touched on the question that I am going to touch on, and we might as well elaborate on it, and that is the use of private debt collectors and what system you have under way.

I have talked to you before privately, as well as in hearings, about what I regard as the idiotic way that the IRS had put up collection of debts due, some of which had been aged to 5 years. That was the kind of laboratory experiment they wanted to give to the private collectors.

Now, Mrs. Maloney is absolutely right. We have mentioned exactly that in any number of hearings. The question is what are the practice and policies now that the Treasury is implementing itself and getting the rest of the Government to implement, in terms of: Do you send the first dunning letter at the 30-day mark, or do you wait until the 60 days? What is our policy on all this?

Mr. HAWKE. Mr. Chairman, I think there is great force to the point that you and Mrs. Maloney are making, and I think the early experience that we have had with referrals to private debt collection agencies bears out the force of that point.

If you look at the color charts that were attached to my testimony, for example, there is one that is headed "Debt Collection Performance Summary," and the blue areas on those bar graphs show the tremendous increase in repayment agreements between the last hearing and the present time.

Mr. HORN. Now, the heading on that is Private Collection Agencies Performance Summary; which one are you on?

Mr. HAWKE. That is another one I want to refer to. This is called Debt Collection Performance Summary.

Oh, I'm sorry, Mr. Chairman, maybe you don't have this one. We will make this available for the record.

Mr. HORN. You are keeping two sets of books down there?

Mr. HAWKE. We didn't want to burden you with all the paper we have.

Mr. HORN. That's all right. Confession is good for the soul.

Mr. HAWKE. Let me give you the numbers. Since the November hearing, we have increased from $2 million to close to $40 million, the amount of repayment agreements. Now, these are agreements that are entered into through the private debt collection agencies after a dunning letter is sent out.

I think this bears out the force of the point that Mrs. Maloney was making. One of the first things the private debt collection agencies does when debt is referred to them is to send out a dunning letter in the name of the Treasury Department, and the tremendous increase in the number of repayment agreements is directly attributable to those letters. There is a very positive response when people get a letter from the Treasury Department asking for the repayment of their debt, and they very quickly move to enter into an agreement with the collection agency.

Now, since the last hearing, we have selected 12 private debt collection agencies. We started with a small pilot program of referring debts to them to see how that worked. We now have referred to them, something like $255 million worth of debt. They have al-

ready collected $600,000 in these first few months of the referral program.

Mr. HORN. Is this on a competitive bidding basis, or how did you select them?

Mr. HAWKE. They were selected on a competitive bidding basis.

Mr. HORN. What is the nature of the competitive bids?

Mr. GREGG. Let me interject. After they were selected, the private collection agencies are reimbursed a percentage of what they collect. So they don't get any direct money from us, but they get 23 percent of the amount that they collect, plus there is a 2-percent bonus, depending on how well they do, that may also be available to them.

Mr. HORN. What is the criterion on how well they do, just to get more debt in?

Mr. GREGG. Yes; we have to judge them and whether or not they were entitled to the bonus. We went through a competitive process in selecting the 12 contractors to begin with. Once they are in there, then they are evaluated continuously on how well each of them are doing and whether or not they are entitled to the 2-percent bonus.

Mr. HORN. Is that a decision made by you and the Financial Management Service or is that made by a higher level in the Treasury?

Mr. GREGG. The decision on the bonus?

Mr. HORN. The decision as to the policy; the decision as to who gets what and the decision as to who gets the bonus.

Mr. GREGG. I think the structure was set up certainly under FMS, but with the knowledge of the Department. We really are responsible for operating it now that it is up and running, and we decide on the quarterly bonuses and who is entitled to them.

Mr. HORN. Are there regulations that have the criteria by which these judgments are made?

Mr. GREGG. I don't think they are in the regulations, but we do have information that we can share with you on that.

Mr. HORN. At this point in the record, without objection, I would like to know what are the criteria that are used in selecting debt collectors; and what are the criteria that lead to the bonus, et cetera; how did you happen to pick 23 percent or is that standard in the private collecting world or what?

Mr. GREGG. We will be happy to provide that for the record.

[The information referred to follows:]

Question 1: What are the criteria used in selecting private debt collection contracts? What criteria determine their quarterly bonus? How was the 23% number picked?

Answer:

1 Criteria used for selecting the private collection agencies

Under FMS' solicitation, offerors were required to certify, at the time of award, that they had the capability to collect nationwide and territorial debt in order to be eligible for award. In addition, offerors were evaluated according to the following criteria, listed in descending order of importance: collections approach, past performance, system capabilities, subcontracting, training, security, personnel and facilities. Offerors were required under the solicitation to submit their price in the form of a percentage fee and were provided a "target rate" in the solicitation of 23%. According to the solicitation, offerors were required to provide a justification if their price deviated from the target rate.

2. Performance Bonuses for the private collection agencies

There are two performance bonuses built into Treasury's debt collection contract. One bonus is a monetary bonus and the other is an additional account referral bonus. Private collection agencies that collect more money for the government may be rewarded monetarily and/or may receive more accounts for possible collection. The criteria for determining bonuses are based on such factors as the amount collected and administrative points awarded for actions in which the collection agencies bear some administrative costs but do not recover dollars. This could happen if the debt has been resolved or excused by the creditor agency. The performance period lasts four months, with the first performance period ending on June 30, 1998. The private collection agencies are evaluated based upon collections and account resolutions made during that period.

3. Award of the 23% target fee

The 23% "target rate" contingency fee was established in the solicitation based on current standards for the private collection industry and historical knowledge of the previous General Services Administration (GSA) debt collection contracts. Typically consumer debt is much easier to collect than commercial - the contingency fee for consumer accounts is in the range of 18% while the contingency fee for commercial accounts is in the range of 32%. Since the contractors on Treasury's debt collection contract are tasked with collecting both consumer and commercial debts, a "target rate" of 23% was determined to be fair. After negotiations were completed, all debt collection contracts were awarded with a contingency fee of 23%.

Mr. HORN. Yes; but is 23 percent standard?

Mr. GREGG. I don't know if it is standard. I do know, based on previous experience, that that is certainly in the realm of what they are used to and, in fact, quite often it is higher than that.

Mr. HORN. What are the current criteria to select them? If it is competitive, it sounds to me like if one said, "Gee, I will do it for 21 percent," that might give the Treasury more. But apparently it is not financially competitive, so what is the criteria?

Mr. GREGG. We wanted to have a group of private collection agencies that would come in. So, basically, once they met that threshold, we allowed them all in.

The thing that I think is important to keep in mind is that these are contracts that come up periodically, and we will assess the performance of each of the contractors and make a judgment of whether or not to continue. We have the right to extend for 1-year periods individual contracts, and we will judge whether or not they are performing and whether or not to keep them as one of the collection agencies.

Mr. HORN. OK. My time is up. Mr. Lewis.

Mr. LEWIS. I would like to yield my time to Mrs. Maloney.

Mr. HORN. OK, fine.

Mrs. MALONEY. Thank you. I thank the gentleman for yielding.

I would like to follow up on the chairman's question, where you said you are now sending out a dunning letter from Treasury, then you send it over to a private collector. When did you start doing this?

Mr. HAWKE. The private collection agency sends out the letter when the debt is referred to them for collection.

Mrs. MALONEY. When did you start this program?

Mr. HAWKE. Commissioner Gregg can correct me on that; I'm sorry.

Mr. GREGG. Actually, the process is kind of linked together. The private collection agencies we got up and running in March, actually.

Mrs. MALONEY. In March?

Mr. GREGG. Before they were actually operational. There was quite a bit to do.

The process for cross-servicing, now this is only the cross-servicing part, works this way: After we get debts referred to us for cross-servicing from the agencies, we turn them over to our Birmingham collection center within FMS, and they go through the process of sending out, on Treasury letterhead, a notice to the debtor. We work that debt for a period of 30 days. If we are unsuccessful at that point, we turn it over to the private collection agencies, which then send out letters and continue the collection process.

The Birmingham operation really got up and running just within the last 4 or 5 months as a full-fledged operation. The success we have had with those letters goes back to the point I know you made in the last hearing, which was on the letters going out under Treasury letterhead. Birmingham has sent those out. Really, in the last 4 or 5 months, we have repayment agreements of $31 million as a direct result of those letters going out. And the money is coming in, $200,000 or $300,000 each month, as a result of those repayment agreements. So, that effort, I think, has been successful.

Now, as Mr. Hawke said earlier, we are not where we want to be here. But in that area, in the cross-servicing, just within the last few months, I think we have seen some noticeable improvement, and we certainly look, as more and more debt is provided to us for cross-servicing, for greater results in that area.

Mrs. MALONEY. I am going to call it cross-servicing centralization of debt, because that is really what it is. I think cross-servicing is a misnomer. Centralization of debt in Treasury, whose mission it is to collect debt. Were you surprised that the centralization of debt was more successful than the offset program?

Mr. GREGG. We only have the vendor payments and the OPM retirement under offset right now. So, I think we are not where we want to be in terms of bringing that payment stream in.

On the other hand, if you look at the Price Waterhouse analysis that was done for us, after you get through the tax refund offset portion of that, cross-servicing actually is a fairly significant piece and greater than the offset portion. Was I personally surprised? Yes; I was.

Mrs. MALONEY. I wasn't. I wasn't. And what surprises me is the reluctance that agencies have to cooperate with you.

I mean, they call me up and they tell me they don't want to refer their debt to Treasury, yet they are not bringing it in. I don't understand their resistance to referring debt and still, at this point, they are not really following the law. They are not referring the debt to you, yet they are not bringing it in either.

So, I am wondering if another approach of just sending them a Treasury centralization letter, even if it comes into their own department, might help the process more. I don't know.

Mr. GREGG. Mrs. Maloney, we have worked in the last few months very cooperatively with the agencies. And I think to some extent the progress that had been shown before is as much our responsibility as the agencies' responsibility. We are working together, and I think we are working together very well. We went to the agencies and went through the process of working together to evaluate what is in their debt portfolio and figuring out how much can be referred, and now, actually, the amounts are starting to come to us.

So, I think, admittedly, it was a slow start, but I think in the last few months the agencies have, in fact, been working well with us, and more and more debt is coming over to us for cross-servicing, or for centralization, as you say.

Mrs. MALONEY. You mentioned the Price Waterhouse report. On page 6, they talk about most of the Government's debt is too old and will be hard to collect. I think that point is the point I keep trying to make. The older the debt gets, the harder it gets. So, right at the beginning is when you should have most of your focus, to get letters out from Treasury to citizens about their responsibility, and then it comes in.

Do you have guidelines for writing off debt? Have you developed centralized guidelines for writing off debt?

Mr. HAWKE. The question of writeoff policy is one that is under active consideration, I think, in the credit policy working group.

Mrs. MALONEY. I think that that is needed. That is pointed out in this report, the one that I mentioned in the GAO report on the

farm program; that there is no uniformity in certain areas of writing off debt within 1 year, the farm agency service report. So that is an important area to look at.

Mr. HAWKE. Mrs. Maloney, I think that is a very important point. That is one of the reasons that we wanted to have this Price Waterhouse study done, because a very substantial portion of the $52 billion in debt is over 4 years old. And when you look at the Price Waterhouse report and the experience in the private sector in collecting debt, it is a very low percentage. So, I think the point you are making is clearly right: The earlier that you can begin the collection effort, the higher percentage of the debt you are going to collect.

Unfortunately, under the act, the way it is structured, the debt does not come to Treasury until it is 180 days delinquent. And during that period of time, the agency is presumably working with the debtors to get the debt in the door or to deal with the due process issues and the other kinds of concerns that the statute imposes.

Mrs. MALONEY. Do you have uniform procedures for agencies in those 180 days? Do you have a guideline such as, we would like three letters, we would like four phone calls before you refer it to Treasury, or even a Treasury letter going out by that particular agency? I am just saying, do you have uniform procedures?

Mr. GREGG. We have not developed that. Really, the part that we have is that once it is over 180 days, it comes to us, and we have not gone back to the agencies and tried to say, "Well, here is what you ought to do to collect that." I do think that the passage of this act has certainly elevated the interests and the commitment from the agencies to do that.

Quite frankly, we have our hands full with the debt that comes to us after 180 days, and we really haven't focused on the internal agencies' collections before they get to us.

Mrs. MALONEY. It could be something as simple as a letter to them. We suggest you do three dunning letters. We suggest you do one from Treasury. We suggest you do four phone calls before you refer it to us. I mean, it wouldn't have to be a lot of work, just making a suggestion to him that they wouldn't have to follow, but just suggesting.

Mr. GREGG. Excuse me, Congresswoman, there are Federal claims collection standards that are out there that go through those kinds of steps. I think, by and large, the agencies are doing that. There is a routine that they are to follow and how often letters, subsequent letters, go out.

Mrs. MALONEY. Could you get to the committee what the routine is; that is, the uniform routine for the agencies?

Mr. GREGG. We would be happy to.

[The information referred to follows:]

Question 2: What are the routine procedures agencies use to collect debt within their 180 day threshold. Do they send a dunning letter on Treasury stationery. Could they?

Answer:

The Federal Claims Collection Standards (FCCS) set forth government-wide standards for debt collection policies and procedures. Although each agency is subject to unique statutory and regulatory requirements concerning debt collection, agencies generally use the following procedures when servicing debt less than 180 days delinquent, pursuant to the FCCS:

(a) first determine that a debt is owed (i.e., it is legally enforceable);
(b) send one or more demand letters (which become progressively stronger) on agency letterhead with notification to the debtor of the type and amount of the debt, the agency's intent to collect the debt by various available means, including referral to Treasury, the agency's policies with respect to charging interest, penalties, and costs, and any due process rights available to the debtor;
(c) review debtor's claims disputing the debt, hold hearings, and comply with any other applicable due process requirements;
(d) use any combination of the following debt collection practices, as appropriate:
(i) report the debt to credit bureaus;
(ii) negotiate a repayment or compromise agreement;
(iii) use internal offset, if available;
(iv) determine eligibility of debt for asset sale;
(v) refer debt to offset (tax refund and administrative offset);
(vi) refer debt for litigation;
(vii) begin foreclosure proceedings with respect to any collateral securing the debt;
(viii) garnish a debtor's non-Federal wages or other property; and
(ix) refer debt to a private collection agency.

Agencies do not send letters to debtors on Treasury letterhead. There are several reasons that Treasury does not believe that is in the Government's interest to allow agencies to use Treasury letterhead. As a practical matter, use of Treasury letterhead may result in debtors contacting Treasury for information about their debt. Such information will not be available to Treasury if the debt has not yet been referred. Also, use of Treasury letterhead by other agencies may result in inappropriate use of that letterhead. Finally, a debtor receiving a letter from a creditor agency on Treasury letterhead might mistakenly believe that his or her debt is being collected by and/or is owed to the Department of the Treasury. Although not subject to the Fair Debt Collection Practices Act (FDCPA), Federal agencies generally comply with FDCPA principles when collecting debt. Use of another agency's letterhead could be construed as a false or misleading representation in violation of the FDCPA. See also 31 U.S.C. § 333 (Civil and/or criminal penalties may be imposed for misuse of Treasury letterhead).

Within 5 days of a debt being referred to Treasury for cross-servicing, Treasury sends a demand letter to the debtor on Treasury letterhead. As long as an agency has completed all due process requirements, debts less than 180 days delinquent may be referred to Treasury for cross-servicing.

Mrs. MALONEY. Once it gets to Treasury, to you, Mr. Gregg, what is the procedure? Now, you have gotten it, it is 180 days, but from what I read, even after 180 days they are not referring it to you, but anyway, if you do get it, what do you do with it?

Mr. GREGG. The first thing we do if it is coming to us for centralization or cross-service, is send it to our Birmingham office within FMS. They go through a period of approximately 30 days, and go out and on Treasury letterhead try to contact the debtor.

Mrs. MALONEY. How many letters do they send out, one, two? How many letters do they send out before they refer it to a private collector?

Mr. GREGG. We send out one letter and give them a 30-day period after that time. If we are unsuccessful, we then turn it over to the private collection agency for continued efforts.

Mrs. MALONEY. So Birmingham is sending out one letter. Do they do a phone call or just one letter?

Mr. GREGG. They also try phone calls to establish contact with the debtor.

Mrs. MALONEY. How much has been brought in since you have been on board, Mr. Gregg?

Mr. GREGG. Under cross-servicing, we have had an additional $3.8 million directly within the FMS. An additional $600,000 from the private collection agencies is entirely new, since they just got established. So the total in the cross-servicing area is $4.4 million; however, the repayment agreements amount to another $31 million.

Mrs. MALONEY. But that is a definite improvement, I applaud you.

Mr. GREGG. Yes.

Mr. HORN. We are going to have to recess now. We have two votes on the floor, and we will come back to this and carry it on.

Mrs. MALONEY. One last question.

Mr. HORN. We are in recess for about 15, 20 minutes.

[Recess.]

Mr. HORN. The subcommittee will reconvene.

Mr. Sununu is not here. OK. Let me continue some of the questions that both Mrs. Maloney and I have asked this morning. What we want to clarify in the record, and I think perhaps we have already done it, is for you to give us the policy as to selection of private debt collectors. Also, the policy for the agencies that are granting loans, accumulating debt in terms of the degree to which their personnel send perhaps the first dunning letter, Commissioner, or do we just know that private collectors are involved. We say, "Well, that isn't our job, we will just dump it on them."

Let's face it, the psychology of an agency in the executive branch is to help their clients. If they are agriculture, they are farmers; if they are over in HUD, they are an urban constituency, and nobody likes to tell them the bad news; that wasn't a grant, it was a loan. And the only way you get the message over, as to whether it is a grant or a loan, is you really need to contact them in the first 30 days once they've defaulted on the loan.

It just seems to me that we need that spelled out, and if we are going to really be serious—and I am pleased, Mr. Secretary, that things seem to be moving better in that direction. If they are really

serious here, we need all those agencies to be marching to the same tune down this parade and I think the taxpayers would appreciate that.

In terms of IRS what is our situation there, in terms of private debt collectors doing what had technically—I don't know if legally—been sort of written off by the previous Commissioner. We had two pots, as I remember, which is what got me started in this law, over $100 billion since 1990, and then yet a $60 billion pot that they thought they could collect off the others. The others, they had just sort of written off themselves.

I thought there was national scandal for one that month. And where are we? Anything happening in IRS on debt collection?

Mr. GREGG. If you are referring, Mr. Chairman, to tax levy, that is something that we have just started talking to IRS about. We are working with them to figure out how to include the tax levy portion of what they've been responsible for, but we also have shared responsibility now, and my recollection is that is about $42 billion.

We have had some discussions with them on how to bring those over into the offset program. I don't think it is going to get done this year, but we do hope to move that along as quickly as we can to bring that into the offset program.

Mr. HORN. Is your thinking to have any different rules with IRS than you already have with other agencies? Are they unique in any way that you have to relate to them?

Mr. GREGG. There are some unique characteristics of tax levy debt that is different from what we have on the other debt that will be in the offset program. We have to make sure that we understand that, and we also have to be careful to make sure that that kind of debt is not sent out for cross-servicing, for example. There are certain rules that apply for tax debt that don't apply for other types of debt. We are in the process of trying to work out the requirements for that.

Mr. HORN. Do we know the degree to which the holders of this debt that they haven't paid off, are taking bankruptcy of one sort of another?

Mr. GREGG. I don't know that information, Mr. Chairman.

Mr. HORN. Has anybody ever thought about getting it, because that is part of the problem. Now we hear and read in the friendly papers around here that at last someone on the Hill is thinking about revising the Bankruptcy Act. Does the Treasury have a position here of how they would like it revised? The headline I saw was that he would like to help people that have less maybe than $60 or $70 thousand in income. But they weren't too keen on others.

I guess what bothers me on the use of personal bankruptcy and what they do certainly in California, I am sure they do it elsewhere, on housing, they just decide to declare bankruptcy. They sit in the house for 6 months. The poor soul happens to be one of my student assistants—her father left her a four-apartment building, and here you have a person declaring bankruptcy, and everything else. You can't get them out, and you can't get them to pay the mortgage.

And it is just harming the people who have small investments; the big guys and gals can take care of themselves. I think of the

person like the small farm and the small business person. Should we not make some recommendations out of Treasury, obviously coordinated with Justice and everybody else, and see if it is part of the President's program?

But I would hope that the Treasury leadership, and that is you, Mr. Secretary, among others, down there, would come up with some recommendations based on what we see in patterns and practices of people just getting a loan from this branch of the Government, or this agency under the executive branch, and then just defaulting on it; not even with a buyer league. It seems to be that person when that starts up in business again, there should be a real look at how the Federal Government can collect that debt they are owed, going way back.

I realize that is upsetting a few people in bankruptcy law and all that, but there has got to be some weeding out of who really needs help. I can think of farmers that need help, when things go bad due to rain or crop disasters or whatever, but when you got a business person, whether it be a restaurateur, which is one of the highest bankruptcy things in the world in the United States, when you have got a pattern and practice of constantly going into business, accumulating unbelievable debts, some of which are Government loans, and then simply saying, "Oh, well, forget it, bankrupt, go start another restaurant somewhere, another little business." While I am sympathetic with a little business, I am not sympathetic with people that constantly go into bankruptcy.

I think the Treasury should be sending us their insights to Capitol Hill and the Judiciary Committee that has jurisdiction on that. So I don't know, Mr. Secretary. Do you think Treasury will have an interest in bankruptcy recommendations?

Mr. HAWKE. Mr. Chairman, our Office of Economic Policy is very deeply involved in that subject as part of an administration, the development of administration position on the pending bankruptcy legislation.

Mr. HORN. Do they have any tentative recommendations?

Mr. HAWKE. That has been worked on in another part of the department, Mr. Chairman. I can't say exactly where that is.

Mr. HORN. That comes under which assistant secretaries?

Mr. HAWKE. For economic policy.

Mr. HORN. For economic policy? Because I would think you would have some major ideas to contribute to that discussion, just based on what your portfolio is here of debt. Or do you not agree with that?

Mr. HAWKE. We have had some input into that process, my staff has, but it is being run out of a different section.

Mr. HORN. Now, I am looking at the statement here of Commissioner Gregg, and on page 9, it says, since November, child support collections have more than doubled to 328,000 in administrative offsets, and these collections will continue to increase as additional payment types and additional States and territories are included in the offset program.

I am not too impressed that it is only 328,000. Now, do you have a feel, Commissioner, as to what is out there?

Mr. GREGG. I think there is a tremendous amount out there in child support, and we are seeing a fair amount of that in the Tax

Refund Offset Program, where I think the amount that we have collected through that program this last year has been $981 million in child support. So the need is there, and I agree with you, that number isn't all that impressive.

I think the reason that it is not, is because there aren't that many payments that we now have in the offset process to work against those child support debts. When we bring in later this year the National Finance Center's salary offset, and then work next year with Social Security and some of the other payment streams, I think that will change.

I think we will work with the States, too, when the time is right, when we have more of those payments available to encourage them to use administrative offset in addition to the tax refund offset.

Mr. HORN. Well, I thank you.

I now yield 5 minutes to my colleague from New Hampshire, Mr. Sununu.

Mr. SUNUNU. Thank you very much, Mr. Chairman.

Mr. Engel, in your summary, in your evaluation of FMS, one of your main criticisms was that the FMS operation lacked an overall concept of operations. Could you get into a little bit more detail there? Describe what you meant by that. Put it in layman's terms and give us a couple of specific examples.

Mr. ENGEL. Sure. I will do that, and then I will have Keith Rhodes give you a specific example in layman's terms. What we are saying is that when we are dealing with the development of a system, and if you look at that from a building block approach, the concept of operations is where you pretty much are establishing the operations that you want that system to handle, how it will be run, who will do what, and how those operations will be performed. But, to put this in layman's terms, Mr. Rhodes can you give them an example?

Mr. RHODES. Mr. Sununu, prior to coming to the Government, I worked in aircraft design, so I will give you an example from there using the C–17. The concept of operations, we make a distinction in the systems, discussion between concept of operation and functional requirements. The concept of operations regarding aircraft, for example, you would say, in the C–17, I want a heavy lift aircraft that can go into a short runway environment where there is no prepared runway, it has to be able to support brigade level, and can go in by itself.

You know, it is a single stand-alone unit. The functional requirements will get down to actually defining what the runway is, actually defining how much, how heavy the heavy lift is, trying to get within four engines or two engines. If I translate into what we are talking about regarding debt collection, the discussions you have been having prior to our discussion are actually trying to work out the concept of operations, how large a problem, I mean, how grand is grand, in GTOP, how interim is interim in ITOP. Those are the kind of things you are working out.

How much money are we actually talking about? Is ITOP, GTOP, whatever the final system looks like, is it a last ditch effort? If, for example, I want the "something" TOP system to deal at the State level, I have to understand up front that I want this to be incor-

porated into State functionality, because each of the States is going to handle the rules regarding debt differently.

Some are going to employ the Government regulation regarding 25 percent of disposal income is the max that anyone can recoup. Maryland and Virginia implement that rule differently. Maryland has very specific rules about the maximum value that money can be collected, whereas Virginia employs the straight Federal guideline on 25 percent of disposal income.

Those are the concepts that you are looking for. The specific—how do you know—how big a problem are we trying to solve? That is really what you are getting to in the concept of operations, and then it is who is going to do it. As they are talking about in cross-servicing, who actually is going to be providing the information and executing the collection.

Mr. SUNUNU. Ultimately who is really—who has got to be responsible for defining and driving those concepts of operations?

Mr. RHODES. It would be Treasury. Treasury in consultancy with the other agencies that has to figure out what the monetary flow is and who is ultimately going to be in charge of collections.

Mr. SUNUNU. You mentioned GTOP, so let me ask a little bit about that. I think everyone in the room is disappointed to hear a story of $5 million that has been invested for a system that will really never achieve any of its original goals. That is a significant problem, but the fact is, no system is perfect.

The shortcomings at GTOP—in your assessment, is that an isolated incident, is it an aberration, or has FMS had a history of administrative and implementation problems of this sort?

Mr. ENGEL. We are not familiar with the history of FMS' systems development problems, but I would say as it relates to the GTOP situation that, as Keith pointed out, one of the key problems, and the reason it could not be used, is they could not test to see whether it would do the functionality that it was intended to do, because it did not have the concept of operations, and it did not have the functional requirements.

I don't know whether other Treasury systems, such as at IRS or places like that, whether they incurred those same types of problems. But, I do know that systems failures quite often are because of those building blocks not being in place. So, I would assume things that have gone wrong over at IRS, in some cases, have been because the proper upfront work in designing what the concept of operations and what they want the system to do and what is the functions they want it to perform was not done.

Mr. SUNUNU. Would any of the other panelists like to comment, particularly those from Treasury? Is this an isolated incident? $5 million—in taxpayers' money—and the project has not been brought to fruition. Are there systematic problems that are going to cause this sort of waste to occur again?

Mr. CALAHAN. Well, the IG's Office could comment briefly on that point. I think we view the problem with GTOP as a problem that is linked to process as opposed to episode. And we could provide for the record for you a list of problems in the past with systems development.

[The information referred to follows:]

INFORMATION FOR THE RECORD
PROVIDED BY RICHARD B. CALAHAN
DEPUTY INSPECTOR GENERAL
U.S. DEPARTMENT OF THE TREASURY

Let me first say that the Office of Inspector General does not have a series of reports that would support a conclusion that the Financial Management Service has a history of investing in systems that fail to meet their original goals. However, over the past five years, either our office or contracted reviewers have identified a number of problems in existing systems that need attention. Some of these deficiencies have existed for quite some time. For example:

- In our audit report entitled Financial Management Service's Activities To Process and Monitor Agency Disbursements, we found control weaknesses over computer operations at three Regional Finance Centers. Certain access controls and disaster recovery plan testing were inadequate because computer security officers had not conducted required tests on computer security and disaster recovery plans. The Regional Finance Centers also had not always updated status reports to help senior officials monitor actions to correct the deficiencies (OIG-94-097, May 26, 1994).

- In a follow-up review to this earlier audit, we found that Financial Management Service officials still had not fully corrected the conditions we reported. Although management had made progress on some of the corrective actions we recommended, none had become fully implemented (OIG-97-121, August 18, 1997).

- In our audit report entitled The Financial Management Service's Internal Controls Over Processing Refunds, we identified programming errors in the Treasury Receivable, Accounting and Collection System (TRACS). The TRACS was designed to provide accounting, billing, collection and reporting requirements for the check claims process. We found that the programming errors caused inaccurate check claim case histories as well as inaccurate general ledger account postings and balances (OIG-97-025, January 7, 1997).

- In a contracted survey report entitled Auditability Survey of Accounts Administered by the Financial Management Service Accounts Branch and Other Miscellaneous Custodial Accounts, the independent public accounting firm identified similar problems with TRACS. One of the more significant issues was that unreconciled differences existed between TRACS and the central accounting system and that the TRACS trial balance did not agree with supporting detail records. The firm also reported that the Credit Accounting Branch did not have formal back-up procedures ensuring financial data will be recoverable in the event of system failures (OIG-97-076, April 10, 1997).

- In our audit report entitled Treasury's Resolution of Risks Associated with the Electronic Benefits Transfer Program, we evaluated the Financial Management Service's actions to resolve 18 vulnerabilities identified for the conceptual model of the nationwide Electronic Benefits Transfer system configuration. These vulnerabilities had been previously identified in a December 1996 contractor report that provided an assessment of risks and operating effectiveness of the system's internal control structure. Our review found that the issues had not been formally addressed and remained unresolved (OIG-98-081, April 27, 1998).

Mr. SUNUNU. I would certainly appreciate you submitting that list to the committee. Are there any specific examples that you can call to mind?

Mr. CALAHAN. Let me ask Mr. Savill to respond to that.

Mr. SAVILL. I can't think of any. There was—Systems 90 was an IT systems development within FMS that did have some problems. I think——

Mr. SUNUNU. What was the purpose of that system?

Mr. SAVILL. It was an accounting system internal to FMS.

Mr. SUNUNU. Is it in use today?

Mr. SAVILL. I can't comment on that, sir.

Mr. GREGG. Mr. Sununu, if I might.

Mr. SUNUNU. Please.

Mr. GREGG. I think there are a couple of points. One is that the evaluation that we did on the ITOP and the GTOP system was to try to figure out what makes sense for going ahead, and that was a decision that we recommended to Treasury, to terminate any further work on the GTOP system and to proceed with ITOP. I can't speak to what FMS has done in the past in developing automated systems, but I have a fair amount of experience in the kind of things that work and the kind of things you have to watch out for. It starts with having the top management of the organization, especially for large systems, being involved and taking the responsibility to make sure that things get done.

Another thing is having a project manager who is knowledgeable and a project manager who will raise issues. One of the biggest things that happens is that problems occur, and people they are afraid to raise them up in the organization. So you need someone who has that kind of confidence and knowledge to spot things.

I think one of the biggest dangers is not having the right kind of interaction between the people knowledgeable in the program and those developing it. Unless you have that, the risks are very great that what you are going to get is not what you want. You need the program people; for example, in this case, debt, working very closely with the ITOP people and others to make sure this happens.

Mr. SUNUNU. Do you believe that you have that kind of program structure and accountability in place now at FMS?

Mr. GREGG. Yes, sir. One final point.

Mr. SUNUNU. Please.

Mr. GREGG. A concern in large automated systems is they keep growing. You need someone to say this is what we are going to build and get it built, and do that in a modular fashion. The greatest danger is for someone to keep getting ideas and to have it get bigger and bigger and 2 or 3 years go by and you still don't have anything. You need the constant reinforcement of what it is you are going to build and sticking to that, and then enhancing it later on, rather than trying to do too much at once is important, because they are tough enough as it is.

Mr. SUNUNU. Thank you. Let me get back briefly, Mr. Gregg, to some discussion on the collections process and, in particular, collections of so-called deadbeat corporations. Last night the subcommittee received a letter from Dun & Bradstreet, and they had evaluated a series of deadbeat corporations that are delinquent, but

have continued to receive Federal grants and contracts. In that letter they gave three illustrative cases.

In the first case they had a company, company A. It had defaulted on a Federal loan and then that default was quickly followed by the filing of a tax lien. The agency still awarded a $71,000 contract to the company. At that time, they weren't satisfied with the company's performance, and it was finally debarred from doing business with the Federal Government until the year 2000.

A second case, company B, received a loan and filed for bankruptcy, yet even after that fact, they still received contracts with six different agencies for a total of $5 million. And in the third case, company C, they stopped paying on a Federal loan to an agency, and then that same agency made another loan. Additionally, the agency was named in Federal tax liens, a different Federal agency also awarded contracts worth approximately $200,000 to this so-called deadbeat corporation.

This letter notes also over 1,200 companies are Federal vendors eligible to receive Federal purchases through the Visa impact credit card, and these vendors have received $106 million in Federal business.

The basic question is, if a private company like Dun & Bradstreet can identify these kinds of problems, why can't the Federal Government be more effective in identifying these kinds of deadbeat corporations and stopping this kind of fundamentally unnecessary subsidy?

Mr. GREGG. There is a regulation that we have published in the last few months that provides some overall guidance on barring delinquent debtors from obtaining Federal loans or loan guarantees. Proposed regulation is out for comment now, and we plan to get it published in final form as quickly as we can. I think that there are some tools now available, and I think the DCIA will help with that problem. Whether or not it solves it, I am not sure, but agencies that are granting loans or guarantees, first of all, should have information on the claim form regarding whether or not an individual is delinquent in any debts. Second, I think they have responsibility to check with credit bureaus on whether or not they are on the list, because that is one of the things, I don't think I mentioned before that, in fact, we do. We report this information on delinquent debt to credit bureaus. So if they reference that, then I think there is at least some opportunity to identify some of these.

Mr. SUNUNU. Is there any interagency system of communicating this kind of delinquency electronically, a red flag system where all agencies are informed simultaneously when this kind of a delinquency occurs?

Mr. GREGG. There is a system that—I see. There is a system, I forget which agency has it which is called CAVIRS, C-A-V-I-R-S, and I don't know whether that is HUD.

Mr. SUNUNU. I think that is a HUD system.

Mr. GREGG. A HUD system. And I think one of the purposes of that is to help agencies identify individuals or companies that are delinquent.

Mr. SUNUNU. How new is that system?

Mr. GREGG. I don't know. I will have to answer that for the record.

[The information referred to follows:]

CAIVRS (Credit Alert Interactive Voice Response System) began in December, 1993.

Mr. HAWKE. Mr. Sununu, could I add just one point. I think the point you are focusing on, which is a very important one, reflects some of the concern that Chairman Horn and Mrs. Maloney were expressing earlier about the rigor with which program agencies collect debt. It is not at all surprising to find that an agency, for example, that is dealing with a contractor that they have to deal with on a regular basis or to provide some service that they believe is particularly important for them, may be more permissive in collecting delinquent debt from that contractor than a third party would be. That is the underlying concept of the Debt Collection Act, that is to get that debt out of the program agency.

Mr. SUNUNU. Your point is well taken. But this specific concern isn't about being rigorous in collecting debt, it is about being rigorous in communicating to agencies when there is a delinquency so we don't keep lending or providing grants or providing contracts to these deadbeat corporations. That is—I mean it is complementary, but it is a separate system that needs to be put into place.

Mr. HAWKE. I agree. You are referring there to interagency relationships or multiple agency relationships with the same debtor. I was really going back to the earlier point about the granting of additional contracts within a particular agency.

Mr. SUNUNU. You are correct, interagency is important although some of these examples are also within a single agency, a single agency that has a delinquency. Again, it is not a question of being aggressive in collecting the delinquent debt, it is a question of recognizing a delinquency so you don't continue to issue contracts and continue to put additional taxpayer funds at risk.

Mr. HAWKE. Exactly. I think that reflects the chairman's point that program agencies may tend to be more concerned with carrying on their programs than collecting debt, and sometimes things like that happen.

Mr. HORN. It is a long 5 minutes. Go ahead. Keep going.

Mr. SUNUNU. Let me conclude with a question on a slightly different topic, but one that is near and dear, if you will, to the subcommittee's heart. We are talking about GTOP and the cost of poor implementation of IT systems. I want to just touch briefly on the year 2000 computer problem, which is one that the chairman of this subcommittee, I think, began to investigate and evaluate long before most anyone else in Washington, DC. As we approach the year 2000, obviously, the importance of this problem is receiving the exposure it deserves.

Currently, I believe FMS has completed 15 of its 62 mission-critical components for upgrades necessary to deal with the year 2000 problem. According to the most recent quarterly report, I believe it has been completing the renovation of five systems per quarter, and at that rate FMS clearly will not finish on time.

My question, Mr. Gregg, is how is FMS prioritizing the need to deal with this issue, how are you prioritizing your information technology staff in order to focus on the highest impact systems?

Mr. GREGG. Let me say that one of the issues—let me just mention specifically Social Security, since it has been identified as a

concern. We have made year 2000 our priority. We have given, since I first came to FMS on December 15, it has been the top priority within FMS, period.

With payment systems, and specifically Social Security, we knew the importance of moving on that, and, in fact, we started testing with Social Security in March of this year, and we will have the Social Security payments prepared for the year 2000 by this August. So it reflects the kind of priority that we have.

Generally, within FMS, we have a lot to do. But I think in the payments area, our plan is to have all of our payments year 2000 compliant by the end of this year. We are starting with Social Security. We are also nearly complete with IRS, and we will have those all done by the end of this year.

Mr. SUNUNU. Does that encompass all of the 62 mission-critical systems?

Mr. GREGG. No; it does not. Our plan is to have most all of those 62 systems done by the end of this year. There are some that are going to drag into early 1999, the March, April time period. And those are in the area of some of our accounting, Government accounting processes and internal accounting processes. Even within that, we have a system we call goals that has 18 subparts, and the priority that we gave for those 18 parts of which ones we can do first, were the ones that were most important. The ones that are toward the tail end, the March and April timeframe of 1999, are ones that are not nearly as important to our operation and certainly don't have an impact on individuals.

So what we have done is prioritize those. When I came to FMS, there was a bit of a spreading around of who was responsible for Y2K. I made it very clear from the start that our CIO, who reports directly to me, is responsible. She has full authority. In fact, she met with the subcommittee some time ago to make some decisions. She also knows that she has my support to see that it gets done. We are going to get it done.

Mr. SUNUNU. Well, I appreciate your optimism. But I do want to try and quantify this a little bit more. If we are at 15 systems now, 5 per quarter, I mean that would put us at about 30 of the 62 by the end of the year. You have said most all of them, however, will be completed at the end of this year. There seems to be a little disconnect between 30 and 62.

Mr. GREGG. I wouldn't go on a quarterly basis. For example, we are working on the payment systems together. And I think the—you know, there is going to be a considerable number that are completed by the end of this year. I don't have a percentage by quarter of how many of the 62 we will have done, but we do have a very detailed plan on all of those mission-critical systems, and we monitor that very closely.

The only thing I would point out is that the progress that we have had in the last quarter is going to accelerate in future quarters. I know what is involved to make sure that we get there. We have also prioritized those very clearly, and many of those are going to be completed by the end of this year. I don't have a percentage of the 62 right off the top of my head.

Mr. SUNUNU. Mr. Rhodes, would you care to comment on the progress at Treasury, in particular, and across agencies in general?

Mr. RHODES. Well, as this committee is probably painfully aware, GAO has testified numerous times on government readiness. The problem has gotten to a point at which everyone should be in a contingency planning mode. There is not enough time for everyone to get everything done. Therefore, you are not looking at it in terms of systems now, you are looking at it in terms of business continuity and keeping the continuity of government going.

The problem as it relates to the current subject on GTOP, ITOP, or whatever the final system is, is now you are trying to solve for several variables. We just issued a statement on Wall Street. For example, there was some movement to try and send Wall Street to operate in decimals as opposed to 1/8's and 1/16's, move them off of that so they can do international trading better. Our position was that you don't want to break open the code and try and move to decimalization at the same time that you are trying to solve for Y2K.

Over the next 6 months our estimation is there are a great many modernization efforts that will come to a screeching halt, because they will just have to solve for Y2K, and that is it. It will be all hands on deck, damage control, trying to keep the operation alive. Treasury is no different than the Department of Defense is no different than anyone else.

Your grades came out this week, you gave Treasury a "C." There is argument about whether the grade is correct or not, but let's assume that the grade is correct. That means you have a lot of work to do, and a lot of work to stay in business to keep continuous the operation of the office, not bring in something else. So these are the decisions. That is one of the reasons we place so much emphasis on the risk management plan.

The risk management plan is in light of GTOP, ITOP or whatever the final system will be called. The risk management plan, however, is something that takes the continuity of FMS as it relates to Treasury, as it relates to Government, and figures out whether you have the resources to bring to bear in light of Y2K, in light of all the other things that are going to have to be done.

Mr. SUNUNU. Thank you.

Thank you, Mr. Chairman.

Mr. HORN. I thank you. That is the most succinct series of questions I have heard in a long time and easily was cramped in 5 minutes. We have a witty staff.

Mr. SUNUNU. They were very good answers. I think that was the key.

Mr. HORN. That is right. We have witty staff members on this majority staff and the suggestion has been made that I should suggest to you that instead of GTOP, since it is a failed system, call it GFLOP, and we all will understand it.

I feel like Blondie, when she would come home and tell Dagwood, "I have been in the store, Dagwood. This sale was on and it was $500 marked down to $100 and, you know, I got a new hat today." Because what you have expended on GTOP is probably the de minimis case in the Federal Government, since I am used to $4 billion going down the rat hole with the FAA and $4 billion going down the rat hole with the IRS. So while IRS is in your bailiwick, neither of those agencies really knew what they were doing 2 or

3 years ago, when it all happened. Have we got ways to keep this from mounting up?

Mr. HAWKE. Well, I think the implication of your point is very well taken, Mr. Chairman. I think that the Blondie-Dagwood analogy may be apropos. But I do want to say——

Mr. HORN. It puts us both at the same age.

Mr. HAWKE. The decision that was made here was in effect a cut-your-losses decision. Because it would have taken almost $8 million more to bring the GTOP system to the point where we could really determine whether it worked or not. And it would be a contingency or an uncertainty even then. We know the ITOP system with enhancements will work. So that while we, in effect, wrote off a $5 million investment, we saved an investment of an additional $8 million that might or might not have turned out to be a wise investment.

Mr. HORN. No, I think you made the right decision. I wish more would manage these programs than what I have witnessed at FAA in 1993. You could just tell it was unmanaged. That was the problem. I asked them if they checked with Lufthansa as to what they were doing: Oh, gee, no, we didn't. I finally got to the Lufthansa tower a year and a half ago, went up in it, the president of Lufthansa was our host. I said I am curious, has the FAA ever been in this tower. He checked with his technical people there, and no, they had never been in the tower.

Of course, the equipment in the tower, I think I have told you this story, was Raytheon from Massachusetts. It was not German, it was American. The people there said all you would have to do for the whole air traffic system in America, which is obviously much larger than Europe in interactions every day, is simply add a series of boxes and you would have it met.

Well, we blew $4 billion because we didn't go and look at what other people are doing. I am used to that attitude in California, since their attitude is: Gee, if we didn't do it in State government, why nobody has done it. Well, we have got innovation all over this country in small States, medium States, large States, and the same with the Federal Government. We need to learn from each other, and not repeat the same mistakes. So I am glad you cut your losses when you did. You made the right decision.

I don't have any other questions—well, I have one sort of, because we mentioned IRS, and I have great confidence as, you know, in Commissioner Rossotti. I think we all do. But before Rossotti, let me ask this to Commissioner Gregg: Has the FMS experience in collection of debt based on the offset of the IRS refunds been any different than the experience of IRS when they managed this program? What are the differences that you see—and maybe the Inspector General and GAO have some thoughts on that subject—has it changed in any way, moving into FMS and out of IRS in terms of the collection of debt and the offset refunds?

Mr. GREGG. The experience that we went through during the end of 1997 and the tax year of 1998 had both FMS and IRS involved in this transition year, and that was extremely difficult to pull off keeping two automated systems in sync. I think it also reflects what you can do if you work together very closely. So the next year,

the 1999 tax year, will be the first year that we are on our own with the tax refund offset as opposed to working in sync with IRS.

I don't know what is behind these numbers, but the dollar amounts jumped considerably during this last year for tax refund offset. We went from $540.8 million that was collected in the 1997 year to $765.6 million in 1998. Does that reflect FMS' involvement? I don't think to a very great degree. But at the same time, we haven't analyzed it enough to figure out why you had that kind of jump.

From our perspective in the administrative offset, we knew that there is an advantage because we were getting some debts referred to us earlier than we otherwise would have, had we not been in the tax refund offset process. We know that tax receipts going out or payments going out were greater, but that really doesn't reflect the amount of that jump.

Mr. HAWKE. Mr. Chairman, could I just add one point on that? We have thought right along it is of primary importance to protect the success of the Tax Refund Offset Program, and that really leads me to another point that I may have made before in these hearings, but I think it is important to continue to emphasize, and that is there is no constant relationship between the source of payments that we make or the kind of payments that we make and the likelihood of getting a connection with respect to an offset of a delinquent debt.

For example, far and away the largest universe of payments that we make is Social Security, yet Social Security yields—and the Price Waterhouse report I think indicates this—Social Security will yield almost the lowest incidence of offset hits. And that is because, for example, a great proportion of the delinquent debt is student loans, and to the extent that you have got debts like student loans and child support in the universe of debts, you are not likely to find an awful lot of hits against the population of Social Security annuitants.

On the other hand, the universe of tax refund payments is probably much more broadly representative of the public at large, and, therefore, much more likely to yield hits in the debt offset matching.

So we would like to sit down with the committee staff and go over numbers that we have developed that show the varying relationships between the incidents of offsets and the nature of the payment stream, because there is a tendency to assume that you are going to get the same incidence of offsets no matter what the nature of the payment stream is, and those relationships are all over the place.

Mr. HORN. Well, I am not surprised. I mean it seems to me you have the upper hand with offsets, as opposed to a lot of other things you would have to do if they weren't offset.

Mr. HAWKE. For example, the—well, we can sit down and show you the numbers.

Mr. HORN. I would like to do that. Well, I appreciate it. Does the inspector general have anything to add, and does the General Accounting Office have anything to add, perhaps, on the offset change and why we get a much better payoff in 1 year as opposed to another when it moved to FMS?

Mr. ENGEL. The payoff itself I can't speak to. But, I would say that one of the benefits that the transition process resulted in this year was having the amounts that were going to be matched against the IRS payments for the tax refund offset go through FMS. This increased the administrative offset database, so that is what jumped when we spoke of earlier today about $9.4 billion up to the $16.7 billion. I think that was a direct result of the interaction between IRS and FMS.

Mr. HORN. Good. Any comment, Mr. Calahan?

Mr. CALAHAN. No, Mr. Horn.

Mr. HORN. OK. Well, we thank each of you for coming here and having this dialog with us. We appreciate it. You are doing a very important thing as far as we are concerned. You could see from Mrs. Maloney's views on this, which have been consistent from the very beginning, we all feel strongly. I think we speak for our colleagues in both parties, that this is a useful thing to get into, and if there are ways we can improve it in any way, in either law or by administrative regulation, why, I hope we can work together and get the job done.

Thank you for coming.

We will now have panel 2 come forward. Our two presenters in panel 2, Mr. Mark Catlett, the Chief Financial Officer, Department of Veterans Affairs. He is accompanied by Mr. Todd Grams, who is the Chief Financial Officer, Veterans Health Administration, Department of Veterans Affairs. Mr. Nelson Toye, the Deputy Comptroller, Department of Defense, accompanied by Mr. Greg Bitz, the Director of Finance, Defense Finance and Accounting Service.

Gentlemen, you know the routine, when we introduce you, your statements will be automatically put in, we would like you to summarize, and we do ask witnesses to take the oath.

[Witnesses sworn.]

Mr. HORN. Thank you. The clerk will note all four have affirmed.

Let's just start with Mr. Catlett. Both of you are oldtimers here, so, even though you look pretty young to me. What good news do you have to bring with us, Mr. Catlett?

STATEMENTS OF MARK CATLETT, CHIEF FINANCIAL OFFICER, DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY TODD GRAMS, CHIEF FINANCIAL OFFICER, VETERANS HEALTH ADMINISTRATION, DEPARTMENT OF VETERANS AFFAIRS; AND NELSON TOYE, DEPUTY COMPTROLLER, DEPARTMENT OF DEFENSE, ACCOMPANIED BY GREG BITZ, DIRECTOR OF FINANCE, DEFENSE FINANCE AND ACCOUNTING SERVICE

Mr. CATLETT. Mr. Chairman and members of the subcommittee, it is my pleasure to testify on behalf of the Department of Veterans Affairs concerning our implementation of the Debt Collection and Improvement Act [DCIA]. Accompanying me today is Mr. Todd Grams, the Chief Financial Officer for the Veterans Health Administration.

As VA's Chief Financial Officer, I have been working closely with our Veterans Benefits Administration, Veterans Health Administration, and other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA.

VA personnel have worked closely with Treasury's Financial Management Service [FMS] to help in implementing the provisions of the DCIA. VA staffs have reviewed and provided comments on numerous draft, proposed and interim regulations published by Treasury to implement the law. Staff from our Office of Financial Policy participate in all three interagency working groups of the DCIA issues resolution groups. The Department has also formed an internal VA DCIA work group to monitor VA's implementation progress. This internal group continues to meet periodically with FMS staff to resolve any issues and impediments to implementation as they arise.

VA's Office of Financial Policy has also worked with FMS to revise the Report on Receivables Due from the Public so that it will provide better information on the implementation and effectiveness of the DCIA requirements.

Last April, I testified about VA's preparations for referring debts delinquent for more than 180 days to the Treasury. Since then, working together with Treasury's Financial Management Service, VA has made significant progress. The Veterans Benefits Administration's Debt Management Center has completed the amendment of its Privacy Act system of records to accommodate the referral requirements of the DCIA. Because VA has been a long-time participant in all available administrative offset programs and has effected many interagency matching programs, the Department had already published regulations needed to participate in the Treasury Offset Program [TOP].

VA's first step in the referral implementation process was to identify those debts that are eligible for TOP and those that are eligible for referral to Treasury's cross-servicing center. As we previously informed this committee, of the $1.33 billion of VA debt more than 180 days delinquent as of the end of fiscal year 1997, we identified $334 million eligible for the administrative offset program and $699 million eligible for cross-servicing. The categories, of course, are not mutually exclusive and many debts are eligible for both of these programs.

Of the $334 million identified as eligible for TOP, VA has already referred $262 million to Treasury. The amount referred includes all $218 million of eligible debt managed by our Debt Management Center in Saint Paul, MN; another $1½ million of VBA debt not managed by the debt center; and almost $42 million worth of our first-party medical care debt, the debt owed to us by the veterans themselves.

Excluding third-party medical claims, the unique nature of which are addressed in my written testimony, and the active vendee home loans which are managed by our mortgaging service contractor, the Debt Management Center currently houses almost 88 percent of VA debt over 180 days delinquent.

The Debt Management Center is a highly efficient and effective operation that performs all the functions required of a cross-servicing center. In recent years, even excluding benefits from VA benefit offsets, the Debt Management Center has generated an average of about $15 in cash collections for every dollar of operating costs. Inclusion of collections offset collections in this calculation brings

the historic collection rate to over $40 collected for every dollar spent.

The Debt Management Center's recent collection rates for overpayment debts is almost 70 percent for compensation and pension debt, and over 85 percent for our readjustment benefit debt, which is our education debt. These collection rates represent the ratio of collections to establishments. To achieve these results, the Debt Management Center employs every collection tool available to Federal agencies.

VA recently completed the Department's first referral of debt to Treasury for cross-servicing by referring $1.7 million worth of debt from the Nurse Scholarship Program. VA has been working closely with Treasury's Financial Management Service to accomplish referral of the remaining $698 million of eligible debt that I have already mentioned.

The Debt Management Center sent a test referral file to Treasury in April 1998, but because of the volume of debt involved, an estimated 66,000 cases for the first referral, VA cannot refer this debt for cross-servicing until automated processes are developed for Treasury and VA to update each other's databases. Both VA and Treasury expect that all systems modifications and new processes needed to accommodate the cross-servicing operation will be put in place during the summer of 1998. We expect that the Debt Management Center will refer approximately $525 million for cross-servicing soon thereafter.

VA is currently working with Treasury-FMS to determine how we can best achieve referral of the remainder of VA's eligible debt, and to determine if VA should request that the Secretary of Treasury exercise his authority to exempt some of this debt from the referral requirements since it may not be cost effective to refer certain VA debt types for cross-servicing, in particular, first-party medical debt which on average is a very low amount of debt owed by the veteran.

Mr. Chairman, over the past year, the cooperation and teamwork between VA and FMS in implementing the Debt Collection Improvement Act, I believe has been excellent. With this type of effort, we think our good record on debt collection will be enhanced by our participation in Treasury's DCIA programs.

This concludes my statement, Mr. Chairman. Mr. Grams and I are ready to answer your and the committee's questions.

[The prepared statement of Mr. Catlett follows:]

STATEMENT BY
THE HONORABLE D. MARK CATLETT
ACTING ASSISTANT SECRETARY FOR MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

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

JUNE 5, 1998

INTRODUCTION

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

As VA's Chief Financial Officer (CFO), I have been working closely with our Veterans Benefits Administration (VBA), Veterans Health Administration (VHA), and other VA elements to take the steps necessary to ensure our compliance with the requirements of the DCIA.

In turn, VA personnel have worked closely with Treasury's Financial Management Service (FMS) to help in implementing the provisions of the DCIA. VA staffs have reviewed and provided comments on numerous draft, proposed, and interim regulations published by Treasury to implement the DCIA. Staff from our Office of Financial Policy participate in all

three interagency working groups (and every subgroup) of the DCIA Issues Resolution Group. The Department has also formed an internal VA DCIA Workgroup to monitor VA's implementation progress. This internal group continues to meet periodically with FMS staff to resolve any issues and impediments to implementation as they arise. VA's Office of Financial Policy has also worked with FMS to revise the Report on Receivables Due From the Public so that it will provide better information on the implementation and effectiveness of the DCIA requirements.

VA IMPLEMENTATION OF THE DCIA REQUIREMENTS

Last April, I testified about VA's preparations for referring debts delinquent for more than 180 days to the Treasury Department. Since then, working together with Treasury's Financial Management Service (FMS), VA has made significant progress. The Veterans Benefits Administration's Debt Management Center (DMC) has completed the amendment of its Privacy Act system of records to accommodate the referral requirements of the DCIA. Because VA has been a long-time participant in all available administrative offset programs (IRS, Federal Salary Offset, benefit offset) and has effected many inter-agency matching programs, the Department had already published regulations needed to participate in the Treasury Offset Program (TOP).

VA's first step in the referral implementation process was to identify those debts that are eligible for TOP and those that are eligible for referral to Treasury's cross-servicing center. As we previously informed this committee, of the $1.33 billion of VA debt more than 180 days delinquent as of the end of fiscal year 1997, we identified $333.6 million eligible for the administrative offset program, and $698.9 million eligible for cross-servicing. The categories, of course, are not mutually exclusive and many debts are eligible for both administrative offset and cross-servicing.

Debts that are not eligible for referral for TOP and/or cross-servicing may be exempt for a variety of reasons, including: debt is in bankruptcy or foreclosure proceedings, debt is in VA's mandatory waiver/appellate process, debt is statutorily barred from referral. Further, among the amount that VA reports as over 180 days delinquent is approximately $155 million of third party medical care reimbursement billing (i.e., medical insurance claims) that is not referable to Treasury for TOP or cross-servicing because such "claims" do not represent sum-certain amounts owed. Rather, they are undergoing an administrative process whereby VA and the insurance company mutually determine the existence and amount of the third party liability, if any, under the applicable health care contract. Generally, upon completion of that process, either the third party pays the adjudicated debt amount (usually a portion of the original

billed amount) or VA determines that no liability exists. In the unusual case that VA determines a liability exists but the third party refuses to make full payment, the claim is referred for enforced collection.

IMPLEMENTATION OF ADMINISTRATIVE OFFSET REQUIREMENT

Of the $333.6 million identified as eligible for TOP, VA has already referred $261.5 million to Treasury. The amount referred includes all $218 million of eligible debt managed by our VBA Debt Management Center (DMC) in St. Paul, MN, another $1.5 million of VBA debt not managed by the DMC, and almost $42 million worth of 1st party medical care debt. Of the remaining $72 million not referred, over $50 million is comprised of other debts resulting from the operation of our medical centers (e.g., vendor overpayments, ex-employee debt). This debt was not referred under the existing Interim TOP process because, unlike the DMC debt and first party medical debt, we had never referred this debt under the Tax Refund Offset program. Referral of this debt to the Treasury Offset Program will begin in April 1999 when necessary system changes are in place. The remaining VA debt (approximately $20 million) is comprised of debts from many smaller programs. Given the relatively small amounts in each program and the costs of effecting referral for each type of debt, VA plans to refer most of these debts to TOP

through the Treasury cross-servicing center rather than directly to TOP.

IMPLEMENTATION OF CROSS-SERVICING REQUIREMENT

The DMC continues to work with OMB and Treasury to explore the possibility of becoming a cross-servicer of government debt under the DCIA. In regard to this objective, the DMC submitted a debt collection business plan to OMB and, in April 1997, submitted a cross-servicing application to Treasury. We have since been involved in discussions with OMB and Treasury, and we have been advised that a decision should be made by Treasury shortly regarding the cross-servicing application. At the same time, OMB has endorsed the DMC as a franchise fund activity. This was reflected in the FY 1999 Congressional budget.

The DMC currently houses almost 88% of VA debt over 180 days delinquent (excluding third party medical claims, the unique nature of which are addressed in this testimony, and active vendee home loans which are managed by a mortgage servicing contractor). The DMC is a highly efficient and effective operation that performs all the functions required of a cross-servicing center. In recent years, the DMC has generated an average of about $15 in cash collections (excludes collections from VA benefit offset) for every dollar of operating cost. Inclusion of administrative

offset collections in this calculation brings the historic collection ratio to over $40 for every dollar of operating cost. The DMC's recent collection rates for overpayment debts is almost 70% for compensation and pension debt and over 85% for readjustment benefit (education) debt. These collection rates represent the ratio of collections to establishments. To achieve these results, the DMC employs every collection tool available to federal agencies.

VA recently completed the Department's first referral of debt for cross-servicing by referring $1.7 million worth of debt from the Nurse Scholarship Program. VA has been working closely with Treasury's Financial Management Service to accomplish referral of the remaining $697.2 million of eligible debt. The DMC sent a test referral file to Treasury in April 1998, but because of the volume of debt involved (an estimated 66,000 cases for the first referral), VA cannot refer this debt for cross-servicing until automated processes are developed for Treasury to send collection and other account information back to VA, and for VA to send account updates to Treasury. Both VA and Treasury expect that all system modifications and new processes needed to accommodate the cross-servicing operation will be put in place during the summer of 1998. We expect that the DMC will refer approximately $525 million for cross-servicing soon thereafter.

VA is currently working with Treasury FMS to determine how we can best achieve referral of the remainder of VA's eligible debt, and to determine if VA should request that the Secretary of the Treasury exercise his authority to exempt some of this debt from the referral requirement since it may not be cost effective to refer certain VA debt types for cross-servicing (e.g., 1st party medical debt).

DEBT SALES

VA looks forward to working with OMB and Treasury to ensure implementation of that portion of the DCIA authorizing the sale of delinquent debt.

Unrelated to the sale of delinquent debt under provisions of the DCIA, VA currently has a highly efficient process for selling non-delinquent active vendee home loans. In 1992, legislation was enacted (Public Law 102-291) which authorized VA to directly guarantee securities issued in connection with vendee loan sales. Previously, VA could guarantee payment on the loans but not the securities which were issued and sold to investors. A new issuing vehicle named "Vendee Mortgage Trust" was created and features which have become standard for Agency mortgage securities were introduced.

VA executes three loan sales each year. In three FY 1997 sales, VA sold 13,997 loans with an aggregate balance of $981.23 million and netted $1.022 billion or $104.17% of par. In the first FY 1998 sale, VA sold 5,951 loans with an aggregate balance of $426.16 million and netted $449.6 million or 105.5% of par. Issuance costs for the sales have now been lowered to less than 0.19% (19 basis points) of the aggregate balance of loans sold.

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

Mr. HORN. Well, we appreciate that, and thank you for the statement. We are going to ask Mr. Toye to proceed from Defense. We have sort of common questions for both of you.

So, Mr. Toye, I take it that this is a promotion since the last time you appeared or are you still running the store anyhow?

Mr. TOYE. Sir, I think the promotion happened before I came up here, and I am not sure that I am running the store, but I am certainly trying, sir.

Mr. HORN. Good. Proceed.

Mr. TOYE. Mr. Chairman, members of the subcommittee, I, too, am pleased to be here again on behalf of the Department of Defense, this time to discuss the Department's progress in implementing the Debt Collection Improvement Act of 1996.

With me at the table this morning is Mr. Greg Bitz. Mr. Bitz is the Director for Finance at the Defense Finance and Accounting Service.

The Department has a strong debt collection program as a result of aggressively implementing the Debt Collection Act of 1982. That act provided agencies needed tools for implementing a more successful debt collection program.

The Debt Collection Improvement Act of 1996 provided additional tools. Up to the time that debts are referred to the Department of Treasury for collection, the Defense Finance and Accounting Service serves as the primary debt collection agency of the Department of Defense. Since its creation in 1991, the Defense Finance and Accounting Service has worked to standardize and consolidate debt collection systems and operations within the department.

In May 1997, the Defense Finance and Accounting Service successfully completed the consolidation of the Department's debt collection operations. As a result, information regarding delinquent debts owed to the Department, where no Department of Defense payment is available to offset that debt, now is maintained in a centralized debt collection system, the Defense Debt Management System.

Much of the debt owed to the Federal Government results from loans in credit programs. However, the Department of Defense has few such programs. Much of the amounts owed to the Department of Defense are owed by the Department's vendors, military members and civilian employees. Vendors may become indebted to the Department by failing to perform contractual obligations or by receiving payments in excess of amounts that they have earned.

Individuals may become indebted to the Department by receiving pay or benefits to which they are not entitled. For example, a military member may be paid an enlistment bonus or a reenlistment bonus, but subsequently fail to complete the period of service for which the bonus was paid or a civilian employee may receive emergency medical care at a military medical facility, but may not be entitled to receive the care without charge.

The Defense Finance and Accounting Service pays the Department's military members, its retirees, annuitants, civilian employees, as well as the Department's vendors and contractors. As a result, the Defense Finance and Accounting Service has the ability to work with individuals and does work with individuals and contrac-

tors to arrange for the voluntary repayment of debt, or it can offset payments if a voluntary agreement cannot be reached.

Within the Department, once a debt is delinquent and there is no Department of Defense payment to offset the debt, the debt is transferred to the Department's centralized debt collection office and is managed through the Defense Debt Management System. The system automatically issues demand letters and monthly billing statements to debtors. Additionally, if a debt remains unpaid, the debt system may report the debtor to a credit bureau or, until recently, refer the debt to a private collection agency.

These actions normally are completed within 30 to 120 days of the establishment of a debt. The Defense Debt Management System also performs debt matching to Department of Defense pay systems for internal offset where feasible. Other debts may be referred to the Department of Justice for appropriate legal action. Debts also regularly are referred to the Internal Revenue Service for offset against matching Federal income tax refunds.

During 1997, fiscal year 1997, the Department collected $10.1 billion in amounts that were owed to the Department. At fiscal year's end, the Department's report of receivables due from the public reflected $3.1 billion for debts that remained unpaid beyond the date of a written demand for payment. As you may be aware, not all debts shown in the report of receivables due from the public are in a collectable status. From the Department's perspective, the amounts included in the report may be owed to the Department, but the Department may not be in a position legally to enforce collection on some amounts.

For example, some amounts may be in protest or dispute, they may be undergoing further agency review or pending judgment. They may be in deferment, litigation, or involved in bankruptcy proceedings. Such amounts are exempt from being transferred or referred to the Treasury for collection or administrative offset until resolved.

After taking into consideration all such debts that are not at the stage where they are legally enforceable debts, as of the end of fiscal year 1997, of the reported $3.1 billion that remained unpaid beyond the date of a written demand for payment, only $267 million was subject to the cross disbersing or administrative offset provisions of the Debt Collection Improvement Act. Of the $267 million, $140 million had been referred to private collection agencies, $117 million had been referred to the Department of Justice, and the remaining $6 million was being collected through offsets to payments otherwise owed to the individual or the contractor by the Department.

Notwithstanding that, the collection of amounts owed to the Department are being actively pursued by the Department. The Department also recognizes the need for and the benefit of referring its debts to the Treasury for administrative offsets. Furthermore, the Department strongly supports the use of the Treasury Offset Program to perform administrative offsets for delinquent debt at the Federal level.

Previously, the Defense Finance and Accounting Service and Treasury's Financial Management Service began a joint effort to develop methodology for referral of Department of Defense debts

and automated process with the Treasury offset program. In September 1997, the Department referred over 131,000 delinquent debts totaling in excess $245 million to the Treasury Offset Program.

The Department also is working with the Department of the Treasury to ensure that the Department of Defense's payment information can be matched against debtor files at the Federal level. This is needed in order successfully to implement those provisions of the Debt Collection Improvement Act that require agencies to offset their proposed payments by amounts that may be owed to other Federal agencies.

The Department of Defense will continue to improve its performance under the Debt Collection Improvement Act. The Department also will continue to work with the Treasury Department on the interagency aspects to include active participation on various Treasury sponsored working groups and ad hoc committees. Enhancing the Department's processes and systems to enable the Department to produce and report more reliable debtor information and to collect such debts is a continuing priority for the Department.

The Department continues to modify and upgrade its accounting and other financial and nonfinancial systems to construct an improved financial infrastructure within the Department of Defense. The results of this effort will provide better information to manage the Department and to safeguard the resources entrusted by the Congress and the American people to the Department. The Department is proud of its progress to date in the area of debt collection.

Mr. Chairman, this concludes my opening statement. And I, as well as Mr. Bitz, would be happy to attempt to answer questions that you or other members of the subcommittee may have regarding the Department's implementation of the act.

[The prepared statement of Mr. Toye follows:]

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here on behalf of the Department of Defense to discuss the Debt Collection Improvement Act of 1996, and share with you the Department's progress in implementing the Act.

Historically, the Department has had a strong debt collection program as a result of aggressively implementing the Debt Collection Act of 1982. As you may recall, the Debt Collection Act of 1982, provided agencies needed tools for implementing a successful debt collection program. These tools included referring delinquent debtors to credit bureaus; offsetting a Federal employee's salary to satisfy general debts owed the Department; assessing interest and penalties on debts; and the use of private collection agencies. The Department's policies, procedures and systems since then have culminated in a successful application of those tools. Additionally, with the aid of those tools, most of the Department's debt collection efforts have been incorporated into the Department's entitlement and payroll processes, and collections now are accomplished largely through a payment offset process.

The Debt Collection Improvement Act of 1996, provided additional tools and imposed additional requirements. Among those is the requirement that agency debts, that are 180 days or more in arrears, be transferred to the Department of Treasury for collection or administrative offset, disbursing officer's payments be matched to debts certified to the Department of Treasury for offset, the mandatory use of electronic funds transfer when making payments and the inclusion of tax identification number on vouchers certified for payment.

Under the Debt Collection Improvement Act, the Department of Treasury is the federal government's primary debt collection agency. Up to the time that debts are referred to the Department of Treasury for collection, the Defense Finance and Accounting Service is the Department of Defense's primary debt collection agency. The Defense Finance and Accounting Service was created in 1991 as the Department's accounting firm. Since then, the Defense Finance and Accounting Service has made significant progress in standardizing and consolidating debt collection systems and operations within the Department. Information regarding delinquent debts owed to the Department, where no Department of Defense payment is available for offset, now is maintained in a centralized debt collection system--the Defense Debt Management System. The Department's consolidation of debt collection operations were successfully completed in May 1997. This consolidation resulted in a $9.5 million annual savings to the Department. The Defense Debt Management System is scheduled to be year 2000 compliant by October 31, 1998. In May 1998, this model program was awarded the Vice President's National Partnership for Reengineering Government prestigious "Hammer" award for improving collection services and realizing cost savings to the taxpayer.

Most of the debt owed to the Department results from administrative determinations of amounts owed by the Department's vendors, service members or civilian employees--rather than from government loans or credit programs. Vendors become indebted to the Department primarily in one of two ways--by failing to perform contractual obligations or by receiving payments in excess of amounts earned. Individuals become indebted to the Department by receiving pay or benefits that they are not entitled to. Examples would include a military

member who was paid an enlistment or reenlistment bonus but who failed to complete the period of service for which the bonus was paid or an individual who received emergency medical care at a government medical facility but was not entitled to receive the care free of charge. Both vendor and individual debt collection processes have imbedded administrative procedures that may defer collection actions until the completion of formal agency determination processes. For example, for contractor debt, such debts may be appealed to the Armed Services Board of Contract Appeals.

The Defense Finance and Accounting Service pays the Department's military members, retirees, and annuitants, as well as the Department's civilian employees. The Department's individual debt management operation is an integrated extension of many payroll functions performed for the Department's Service members and civilian employees. As a result, the Defense Finance and Accounting Service has the ability to work with an individual to arrange for the voluntary repayment of a debt, or to offset pay if voluntary repayments are not agreed to. It also provides the capability to consider and respond to other actions such as: a claim by the member/employee, a request for waiver or forgiveness of a debt, and findings from a Board of Correction of Military Records.

Once a debt is delinquent, and there is no Department of Defense payment available to offset, the debt is transferred to the Department's centralized debt collection office/system (Defense Debt Management System). The Defense Debt Management System automatically issues demand letters and monthly billing statements to debtors. Additionally, if a debt remains unpaid, the debt system may report the debtor to a credit bureau and refer the debt to a private collection agency. These actions normally are completed within 30 to 120 days of debt establishment. The Defense Debt Management System also performs debt matching to Department of Defense pay systems for internal offset where feasible. Larger debts are referred to the Department of Justice for appropriate legal action. Debts also regularly are referred to the Internal Revenue Service for offset against matching Federal income tax returns.

During FY 1997, the Department collected $10.1 billion in amounts owed to the Department. At fiscal year end, the Department's "Report of Receivables Due from the Public" reflected $5.5 billion in accounts receivable due from the public. Of those amounts, $3.1 billion were for debts that remained unpaid beyond the date of a written demand for payment.

However, as you may be aware, not all debts shown in the "Report of Receivables Due from the Public" are in a collectable status. That is, although, from the Department's perspective the amounts included in the "Report of Receivables Due from the Public" are owed to the Department, the Department may not be in a position to legally enforce collection action on some amounts. For example, some amounts may be in protest or dispute; may be involved in further agency determinations (review or judgement); or in deferment, litigation or bankruptcy proceedings. Such amounts are exempt from collection action until resolved. After taking into consideration all such debt amounts that were not legally enforceable debts at the end of FY 1997, of the $3.1 billion Department of Defense debt shown on the "Report of Receivables Due from the Public," only $267 million was subject to the cross-servicing or administrative offset provisions of the Debt Collection Improvement Act.

Of the $267 million in legally enforceable debts that had been owed to the Department for 180 days or more as of September 30, 1997, $144 million had been referred to a private collection agency, $117 million had been referred to the Department of Justice, and the remaining $6 million was being collected through offsets to payments otherwise owed by the Department. Under the provisions of the Debt Collection Improvement Act, these debts were exempt from being transferred to the Department of Treasury for collection (cross-servicing).

Notwithstanding, that the collection of the Department's legally enforceable debts are being actively pursued by the Department, the Department also recognizes the need for, and benefit of, referring its debts to the Treasury Department's National Interactive Delinquent Debtor Database for administrative offset. Furthermore, the Department strongly supports the use of the Treasury Offset Program to perform administrative offsets for delinquent debt at the Federal level. Previously, the Defense Finance and Accounting Service and Treasury's Financial Management Service began a joint effort to develop a methodology for referral of Department of Defense debts in an automated process to the Treasury Offset Program. In September 1997, the Defense Finance and Accounting Service referred over 131,000 delinquent debts, totaling in excess of $245 million, to the Treasury Offset Program.

The Department of Defense is one of the few agencies in the federal government other than the Treasury Department that pays its own bills. Therefore, the relationship between the Department of Defense and the Department of Treasury is different from that of most other federal agencies for both payments and collections. As a result, the government-wide payment offset concept for disbursing officials, as contained in the Debt Collection Improvement Act, presents special technical, procedural and process challenges for the Department.

The Department is working with the Department of Treasury to ensure that its payment information can be matched against debtor files at the Federal level. This is needed in order to successfully implement those provisions of the Debt Collection Improvement Act that would require agencies to offset proposed payments by amounts owed to other federal government agencies. For those agencies for which Treasury disburses funds, matching payments to the debtor records in the Treasury Offset Program is fairly straightforward. However, since the Department of Defense makes its own payments, there is a need to design a methodology to interface the Department of Defense's payment files with the Treasury Offset Program debtor records.

This matching requires an interface with process and procedural controls between the Department's payment systems and the Treasury's National Interactive Delinquent Debtor Database. The Department is working with the Department of Treasury to develop a working model that can be adapted to a methodology for matching its salary payments. The Department of Defense will continue to work with the Department of Treasury on process and procedural solutions to this payment matching issue.

Another major provision of the Act that I would like to address relates to the implementation of mandatory electronic funds transfer for all government payments. The Department considers itself to be a leader in both industry and government in promoting the use

of electronic funds transfer. In fact, the Department of Defense has been using electronic funds transfer to pay some of its personnel and vendors for many years.

The Air Force was the first agency to start a Direct Deposit program--over 25 years ago. The Department continued to offer electronic funds transfer to all employees on a voluntary basis until the early 1990s. At that time, salary payment by electronic funds transfer became a condition of service for military members and voluntary for civilian employees. Those who had entered the service/been employed by the Department before that date were grandfathered in some instances. With the passage of the Debt Collection Improvement Act, electronic funds transfer became a condition of employment for both military members and civilian employees. For the quarter ending March 31, 1998, the Department paid approximately 99 percent of its military members, and 97 percent of its civilian employees, via electronic funds transfer.

Similar to salary payments, the Department's use of electronic funds transfer to reimburse personnel for travel costs also was voluntary initially. In the early 1990s, the Department began to standardize and consolidate its travel systems to provide for the increased use of electronic funds transfer throughout the Department. Now, with the implementation of the Debt Collection Improvement Act, the Department of Defense has mandated the use of electronic funds for transfer travel reimbursements to all employees/members. While we have not yet fully implemented electronic funds transfer for the reimbursement of travel costs, currently, approximately 84 percent of such payments were made via electronic funds transfer as of the quarter ending March 31, 1998.

Until the passage of the Debt Collection Improvement Act, vendor participation in electronic funds transfer also was voluntary. With the passage of the Debt Collection Improvement Act, all vendors and contractors must accept electronic funds transfer payments. Accordingly, since the passage of the Act, the Department has been able to enroll many large contractors for electronic funds transfer. However, further conversion efforts were stymied by the inability of many financial institutions to receive, or pass on to the vender, an electronic advice of payment. The Department has overcome this difficulty by successfully negotiating with the Treasury Department and the Federal Reserve System to develop financial electronic data interchange software. This software enables financial institutions to decode and pass the electronic advice of payment information to their customers. The Department also worked with the National Automated Clearing House Association to ensure that Association rules were changed to mandate the passing of the advice of payment to contractor, effective this September. These efforts will better ensure that vendors and contractors know what they are being paid for and will encourage the financial market to charge fairly for passing an advice of payment to the recipient.

The Department also has developed a Central Contractor Registration database. Registration became mandatory for new contracting efforts on June 1, 1998. Establishment of the Central Contractor Registration database permitted the Department to establish a centralized data process for the collection and maintenance of electronic funds transfer and taxpayer identification number data and to standardize the electronic funds transfer data it collects. (Registration can be accomplished either by paper or electronic means.) With the full

implementation of Central Contractor Registration, electronic funds transfer participation is expected to continue to increase as new contracts are signed and grandfathered contracts lapse.

For child support payments, the Department of Defense has obtained Treasury's concurrence to continue payment by check until the various states can accept electronic funds transfer. This will ensure that child support payments will continue without interruption.

The Department of Defense will continue to improve it performance under the Debt Collection Improvement Act. The Department also will continue to work with the Treasury Department on the interagency aspects of the Act, to include active membership on various Treasury sponsored Debt Collection Improvement Act working groups and ad hoc committees.

Enhancing the Department's processes and systems to enable the Department to produce and report more reliable debtor information is a continuing challenge. The Department continues to modify and upgrade accounting, and other financial and nonfinancial systems to construct an improved financial infrastructure within the Department. The results of this effort will provide better information to manage the Department and safeguard the resources entrusted to the Department by the Congress and the American people. The Department is proud of its progress to date in the area of debt collection and expects to improve upon its previous performance.

Mr. HORN. Thank you very much.

Mr. Bitz, do you have anything to add at this point?

Mr. BITZ. No, sir.

Mr. HORN. OK. Mr. Sununu, 5 minutes, a long 5 minutes.

Mr. SUNUNU. No; I have just a couple of questions. First, for Mr. Catlett, I have a question about third-party payments, third-party debts. As I understand it, the VA probably is going to be collecting more and more payments from third parties as a result of recent legislation. Could you describe the Department of Veterans Affairs' efforts to improve that third-party collection process, in particular, medical debts that are owed by insurance companies?

Mr. CATLETT. Mr. Sununu, I will give you a brief overview and let Mr. Grams answer that. This question is directly germane, I think, to his attendance today, and he can give you better detail more quickly than I can. But you are right, clearly collection of third-party debt has become pivotal for us because we now retain those collections as of last year rather than returning them to Treasury.

Mr. SUNUNU. That provides a little bit of positive feedback, a positive incentive. Go ahead.

Mr. CATLETT. If I could, I would ask Mr. Grams to give you a quick overview, and I will be glad to provide in detail for the record the steps we have been taking to improve those collections.

Mr. GRAMS. I will make this very quick.

Mr. SUNUNU. Take your time, it is important.

Mr. GRAMS. We have about a dozen initiatives underway which we think over the next 5 years will help us almost double the amount of money that we are collecting from veterans' health insurers. They include several major efforts, such as changing what we bill insurance companies for the care that we provide veterans that is pursuant to a law that Congress passed last year, which allows us to charge something called "reasonable charges" instead of "reasonable costs."

That allows us to determine what the community charges are within each one of the locations of our 153 medical centers and charge something that is more comparable to what insurance companies are likely to pay, as opposed to limiting ourselves to our average costs, which is what we are doing at the present time.

Another major initiative is the referral of debt that is over 90 days old—well, referral is not quite right. It is getting the help of a private collection agency when a debt is over 90 days old. We ran a pilot at our Houston Medical Center over the last several months, and they used a private collection company who was familiar with the State laws concerning insurance collections in Texas, and they went after the health insurance companies in that State. For an investment of $10,000, that facility brought in $322,000. So for every dollar they spent, they brought in $32 in increased insurance collections. We expect later this month to sign a contract to move that program on a national basis and are hoping that the returns will be somewhat similar to the experience at Houston.

We are working with HCFA to do a data match on the small number of Medicare eligible veterans who have primary health insurance coverage; either the elderly that are still working or someone who has retired and has Medicare, but their spouse is still

working and they still have primary insurance coverage. HCFA has been very cooperative with us on that.

That initiative alone can generate around $70 or $80 million a year by helping us identify which veterans have insurance much better than we can today.

Another way we are trying to improve the identification of insurance that veterans have is called preregistration calls. This is really simple. Mrs. Maloney mentioned earlier common sense. Well, one of our staff really came up with a good commonsense idea, which was to call veterans at their home, remind them they have an appointment, check all of the information that they have previously given us, including whether or not they have health insurance. What we found is if they are talking to you from the comfort of their home, they are much more likely to tell you they have health insurance than if they are sitting in front of an admissions clerk in one of our facilities and they are anxious to get in and get on with their actual health care.

One of the other things that is going on is that you passed a law last year that allows us to keep the money we collect. In the past this was something that may or may not——

Mr. SUNUNU. Not you personally?

Mr. GRAMS. No, the Congress. Passed a law last year that allows VA, not me, to keep the money, although I wish it was the other way. I think this is going to provide a great incentive to our facilities to collect this money, because what they are about is providing health care to veterans and when they see that money coming in and knowing that they can use it to improve health care for veterans, we think that will provide a tremendous incentive to increase their efforts.

Mr. SUNUNU. Is the retention within VA as a whole or is it on a VISN by VISN basis?

Mr. GRAMS. According to the law, it is a VISN by VISN and facility-by-facility basis.

Mr. SUNUNU. Is it specific facilities retained or is it retained within the VISN?

Mr. GRAMS. It is retained within the VISN.

Mr. SUNUNU. In your mind, is there any value to sort of devolving this to the next level allowing facilities to retain, does that provide even additional feedback in each facility effectively managing this information regarding insurance and coverage on a customer-by-customer basis?

Mr. GRAMS. I think the way they are running it now, that is the way they are doing. Certainly if you told the facilities they automatically get to keep 100 percent, you might expect they would do a little bit more than if they are told they are getting 80 or 90 percent of it. On the other hand, what we are doing now in VHA is making each network office responsible for the health care of all of the veterans within their part of the country.

And we would like to balance maybe that extra incentive off against letting the network director and the network office decide overall where the resources should be, and just because a particular facility may have collected more than another, there may be reasons to put some of those resources in the other hospital to help

the veterans in that area. So I think we have a good balance right now.

Mr. SUNUNU. You mentioned the work of staff and helping to find commonsense initiatives. To what extent are the ideas, I think you mentioned 12 initiatives, but the ideas that you described, are they homegrown? Are they coming from staff? Are you looking out to the private sector for best practices, or other agencies as well?

Mr. GRAMS. I would say up until several months ago they were all homegrown, and that was fine. I think with what we are facing over the next 5 years, we realized we had to go out and look at the private sector, so we contracted with Coopers & Lybrand. They did a 5-month study where they went and looked at 25 of our facilities and 26 private sector health care entities to determine how well we are performing in terms of the processes and the administration of billing and collecting versus how it is done in the private sector. That has proven very helpful to us.

Mr. SUNUNU. Are you sharing this information with any other agencies that are doing third-party debt collection?

Mr. GRAMS. No, we haven't. We have shared it with our committee staff and all the facilities, but we haven't gone that extra step.

Mr. SUNUNU. I will certainly encourage you to do that, given the level of the success you have had in a very short amount of time.

Thank you. Thank you, Mr. Chairman.

Mr. CATLETT. Mr. Sununu, if I could, just to comment on your question of the distribution of those resources, I can't help myself here, one thing we have been talking about and I believe certainly, and I know Todd does and we are moving in that direction, is I don't think collection should be done at all of those sites. We need to consolidate and centralize that collection. So the issue of where the money goes, I believe, getting it back to the network or the VISN is appropriate for health care, as Todd said, across that system.

Because, to me, we need to improve our collection efficiency and one way to do that is to centralize our billing and collection process, and those things are underway.

Mr. SUNUNU. Thank you.

Mr. HORN. Thank you.

Let me ask you one that affects both of you. I listened to what the Veterans Administration is doing with its hospitals. What is the defense policy on collection from other health plans for military hospitals?

Mr. TOYE. I can't answer that specifically. But I will say, as I indicated earlier, we are very aggressively pursuing the collection of debts. Many of the debts in DOD are associated with DOD personnel. If we are talking military hospitals, we are probably talking about either retirees or military members, civilian employees or their dependents, so there is a very good chance that we are either paying the person who received the care or paying somebody in their family.

If, we have a pretty good track record in terms of being able to collect money from those folks that are associated with the Department of Defense. If we do not have a payment that we can offset for a debt, then we do have a consolidated debt process within the

Department of Defense, and we refer that to the consolidation process, the Defense Debt Management System, and we immediately start communication with the debtor, and we try to collect that.

Quite frankly, we don't always wait to 180 days. If we have sent a letter to an individual, and we get a response and that response makes it clear that we are not likely to reach a negotiated settlement, we will move right away. Even though that may be only 30 or 60 days after establishment of the debt, we will move right away.

Previously, we perhaps would have referred the debt to a debt collection agency. Today, we will work to get it into the Treasury offset program.

Mr. HORN. Could you look into how the debts are collected in your major medical centers such as Walter Reed, and are they taking advantage of that close relationship you are talking about, Mr. Catlett, with HCFA? I am glad——

Mr. BITZ. Mr. Chairman, if I could add a little clarification on the hospitals, on our medical facilities. That is our largest single category of debt we are dealing with right now. Our first action is against the individual to whom we gave the service. If they bring proof of an insurance that would actually have been required to reimburse us, then we reverse the effort against them and turn it into a third-party debt, similar to the VA, and then we go against that insurance company. But we can get you the specific steps of how we do that, sir.

Mr. HORN. Yes, I would appreciate that. And without objection, it will be put at this point into the record.

[The information referred to follows:]

Currently the Defense Finance and Accounting Service does not have specific steps in place to improve third party collections for medical facilities because they are service specific and decentralized. However, the Department of Defense, Health Affairs Office, is in the process of conducting a business process reengineering study to improve the Third Party Collection Program.

Mr. HORN. It seems to be that there is a lot of opportunity to have both Medicare reimburse and move that money from the Medicare accounts over to the Surgeon General's account or wherever you put the hospital system in the Department of Defense, and it also seems to me that some of them probably have additional health plans. Perhaps they are still working for State government or they are working for city government or they are working for a corporation.

And given the needs of the military hospitals, because they had been squeezed a little bit in recent years and some just canceled, the service obviously can't then be as supportive as a one-time inconvenience to where the patient clientele is versus where the hospital is. But if you can give us a feel for how that is coming, and are we collecting that type of money, I would appreciate it.

Mr. BITZ. Yes, sir.

Mr. HORN. What else could we learn from the Veterans Administration as you listen to the testimony? Are there some things they are doing that the Department of Defense should do, because in a way your clientele is somewhat similar. Let's face it.

Mr. TOYE. In some ways, we may be a little bit ahead of VA, at least with regard to the consolidation of debt management services.

We have already a consolidated debt management program. So I think in some respects VA is moving in the direction that DOD already has moved; although we only recently completed that, as I indicated, in May 1997, and that was a significant benefit to the Department, benefit in the sense that we reduced our costs of collecting debt and we believe we increased our success rate in collecting debt.

Mr. HORN. You mentioned that the hospital debt was your largest category of debt in the Department?

Mr. TOYE. Yes.

Mr. HORN. What's 2 and 3?

Mr. BITZ. No. 2, sir, is routine overpayments of salaries and benefits caused by delays in getting input that would show that service member's status had changed before they left service. No. 3 is recoupment of bonuses where we now pay the maximum amount of bonus up front as a recruiting tool. If the military members, for some reason, must shorten their term, their 6-year term, we then need to recoup that, and that tends to be No. 3 right now, sir.

Mr. HORN. Remind me what the total debt collection now is within the Department of Defense, all services? What are we talking about in money?

Mr. TOYE. As of the end of 1997, the total value of the debts that remained uncollected as of the first demand letter was $3.1 billion. But as I indicated earlier, that includes a number of instances where the debt is still under review or bankruptcy may be involved, litigation, or other issues.

Mr. HORN. So it is a total of $1 billion?

Mr. TOYE. $3.1 billion.

Mr. HORN. $3.1 billion. And you collect how much of that $3.1 billion of debt?

Mr. BITZ. In 1997, we only collected about $126 million against that. But it is a definitional problem, Mr. Chairman, in that one of the debts is $1.3 billion. It is one company and it is in court. But we have to carry it for accounting reasons; it is an accounts receivable. But it is also in our debt portfolio as something that looks like it is churning there awaiting for us to collect but we can't touch it.

In fact, if you take all of the amounts in that $3.1 billion total that are either in court or under some form of negotiation, it totals well over $2 billion.

Mr. HORN. Tell me a little bit about it. Was that a class action suit of sorts?

Mr. BITZ. No, sir, it is one contract on the A–12.

Mr. HORN. I see. OK. How long has that been kicking around in court?

Mr. BITZ. 1991, sir.

Mr. HORN. 1991. And has the case been decided?

Mr. BITZ. The Government lost the original case and it is now under appeal.

Mr. HORN. And what was the original case for, how much money was——

Mr. BITZ. For the $1.3 billion. But the contractor has countered and requested $2.6 billion from the government, so we are appealing that.

Mr. HORN. I am told that the General Accounting Office looked at the DOD situation and they said you could collect $1 billion a year. Do you agree with them on that?

Mr. TOYE. Mr. Chairman, we think——

Mr. HORN. From insurance companies they are arguing. Does that make sense to you?

Mr. TOYE. From the——

Mr. HORN. $1 billion a year from insurance companies?

Mr. TOYE. As a result of the military hospital operation, I am not sure that I would agree with the $1 billion number. And I don't know if they are—whether they are saying $1 billion in total or $1 billion in addition to what we are already collecting.

Mr. HORN. Do we have the General Accounting study here? OK. We will get it and send it to you.

Mr. TOYE. We would be happy to——

Mr. HORN. We will put the summary that the General Accounting Office made in the record at this point without objection.

Mr. BITZ. Sir, could I ask for a clarification? Our records show that our total hospital debt is under $340 million. So I am not sure—we will be glad to answer the GAO's numbers, sir.

Mr. HORN. Yes; well, do we even bill in any of these hospitals?

Mr. BITZ. Yes.

Mr. HORN [continuing]. How do we know what we are charging, and that is what is going to become debt, and where is the gap there? What are we—what do we do in actual services if you put the monetary value to it versus what you have hanging out there as a possible debt? What is your feeling on that? We have got some ballpark figures.

Mr. BITZ. No, sir; I don't know if they are questioning whether we are billing the right rate to people who come in who aren't entitled to the service or whether they are questioning after we have determined the customary and usual charge for that service, have we turned around and billed them and the insurance company.

And I assure you in the latter part we do. Once we get—provide the service, we provide the individual bill. If that individual then clearly establishes that we should have billed an insurance company, then we take action to remove the debt from them, apply it back to that insurance company. The number $1 billion is quite large. I will have to do some research.

Mr. HORN. It impressed me that way. It isn't my figure, it is presumably their figure. We will get it straightened out if you can give us a response.

Mr. BITZ. Yes, sir.

Mr. HORN. In the billing, I assume it is done internally in most hospitals?

Mr. BITZ. Yes, sir.

Mr. HORN. How is the debt collection work in relation to the hospital debt? Is it handled within the Surgeon General's office or is it kicked over to your firm?

Mr. BITZ. We handle that. In each of the hospitals there is a small finance and accounting office or unit that prepares the billings and gives us a status on the billings issued. If they do not receive payment within the 30 days, they will transfer that to our

debt management system, and we will begin the process of contacting the individual who received the service.

Mr. HORN. That is very helpful. Let's see, how large are the contract audit disallowances? What are we talking about there?

Mr. BITZ. I think the current number, sir, is under half a billion. I will have to look that up.

Mr. HORN. Where are some of the other problems? You said the health is the No. 1, you ticked off 2 and 3. Are there certain things out there that we should be recovering that we aren't recovering for one reason or another, either personnel or computing or whatever it is?

Mr. BITZ. All the other reasons vary by type of condition that caused them, whether it be a government property, lost or damaged, right before they left the service or a civilian employee was paid excess leave. They vary by that. There are none that are categorically removed from collection effort. Every debt is moved into the collection portfolio and, in fact, that is one of the difficulties we are having with reconciling the numbers with the Treasury; and, they are looking at a new schedule.

Keep in mind, our portfolio is—we even include bankruptcies. If someone goes bankrupt, we do not remove them from the portfolio, because we are allowed to continue to try and collect each year against the IRS offset. That is why our numbers tend to be a little bit higher than what is on those schedules, but there is no debt that we categorically set aside not to collect.

Mr. HORN. Very good.

Mr. Sununu, do you have any other questions?

Mr. SUNUNU. No; thank you very much, Mr. Chairman. Thank you, panel members.

Mr. HORN. Yes; we appreciate your testimony. We have a vote on the floor, and it is all coinciding at the right time. So thank you very much for coming and have a good day, as the saying goes. With that, at 12:30, this hearing is adjourned.

I would like to thank the following people: J. Russell George, staff director and chief counsel; Mark Brasher, senior policy director; Matthew Ebert, clerk; Mason Alinger, staff assistant; Betsy Damus, intern; Mark Urciuolo, intern; David Graff, intern; Faith Weiss, counsel for the minority; Jean Gosa, clerk for the minority; Pam Garland, Cindy Sebo, court reporters.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

Pamela M. Dillon
4601 North Park Ave., Apt. 718
Chevy Chase, Maryland 20815

March 11, 1998

The Honorable Robert E. Rubin
Secretary of the Treasury
U. S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

Dear Secretary Rubin:

The Office of Inspector General Report entitled, "EFFECTIVE PLANNING AND MANAGEMENT ARE NEEDED OVER THE IMPLEMENTATION OF THE DEBT COLLECTION IMPROVEMENT ACT OF 1996" (A-WA-97-066) is replete with factual inaccuracies, unfounded conclusions, questionable objectivity, and lack of understanding of both the spirt and letter of the Debt Collection Improvement Act of 1996 (DCIA).

For example:

1. The report refers several times to admnistrative offset as authorizing the offset of Federal debts by withholding Federal payments. See page 2 (at least 6 times). Debts are not offset. Payments are offset to pay the debts. This is a fundamental lack of understanding by the authors of the report of the offset programs. If all the debts of the Federal government were referred to FMS, and no payments were matched against those debts, there would be no offsets, because debts are not offset.

2. The report states (p.2) that FMS and IRS offset debt authorized by the Debt Collection Act of 1982 and that IRS created the tax refund offset program. Both statements are false. The tax refund offset program was created by law, not IRS, and the law was not the Debt Collection Act of 1982. Again, these are fundamental errors of fact.

3. The report states that one of the objectives of the audit was to evaluate FMS' planning and development processes for implementing the DCIA. (p.3). The audit results, however, only refer to one part of the DCIA, that of administrative offset. Neither cross-servicing provisions, nor asset sales provisions, nor wage garnishment provisions, nor regulation issuance provisions, nor gainsharing provisions, nor taxpayer identification number provisions, nor mandatory electronic payments, etc., are included in the audit but are all part of the

implementation requirements of the DCIA. The objectives of the audit are either erroneously stated or completely unfulfilled.

4. The report concludes on page 3 that FMS collected only $717,000 of the estimated $51 billion in delinquent debts at a cost of over $7 million to FMS and attributed this lack of success to its ineffective strategy to implement the DCIA provisions. The Congressional record of two hearings already conducted clearly indicate that Federal agencies have been slow to refer delinquent debts to FMS and that no where near $51 billion has been sent to FMS for collection. An objective report would indicate how much has been referred, when it was referred, how old the debt was, etc. An objective report would indicate that collections were increasing every month and as more payments would be added, the collections would continue to increase. In addition, an objective report would acknowledge that investment costs are not recovered at the beginning of any program, but over time. Finally, an objective report would indicate what the auditors conclude are the standards for the appropriate return on investment in one year's time for a government-wide computer system and how they arrived at those standards.

5. The report refers to the Clinger-Cohen Act on page 4, but fails to include the fact that an independent contractor completed a Clinger-Cohen Act assessment and supported the development of the Grand Treasury Offset Program (GTOP). The failure to include this assessment by Andersen Consulting in the report would lead a reasonable person to believe it had been excluded because it did not comport with the pre-determined conclusions of the audit.

6. The report's statements on page 5 concerning the merger of the tax refund offset program with the Treausry Offset Program (TOP) are completely false. The Congressional record contains unequivocal direction to transfer the tax refund offset program to FMS for merger into the TOP. It did not come, as indicated, by statements from the Fiscal Assistant Secretary and the FMS Deputy Commissioner. A Memorandum of Understanding between IRS and FMS concurred in the merger and was supported by the Treasury Chief Financial Officer and the OMB. Failure to review the Congressional record on the DCIA, internal Treasury documents on the merger, and budget submissions to OMB showing the cost benefits is another fundamental error of the audit and report.

7. The report states on page 7 that DMS only recognized the need for documented business requirements subsequent to the design of GTOP. This is not true. The original statement of work for the contract contained a provision for system requirements. It is not clear from the report whether the audit is using business and system requirements synonymously. However, FMS (not DMS) did not have sufficient appropriated funds for all the GTOP needs at one time, and a decision was made to get a system designed and developed in the first year of the contract and to obtain the documented system requirements in the second year. Otherwise, all the money would be spent on requirements, with no system

developed. Reasonable people may disagree on what should be contracted for first, but it is not accurate to state that FMS did not recognize the need for the requirements.

8. The report faults DMS on page 7 for not providing all the specifications which limit or exempt specific payments from offset. This is yet another flagrant lack of knowledge and understanding of the requirements of the DCIA. The inclusion of certain payments into the TOP, such as, but not limited to, Social Security, Railroad Retirement and Black Lung payments, are a matter for published regulations. These regulations were drafted and sent to Treasury's Office of General Counsel after consultation with the affected agencies as the DCIA requires. However, they had not been published for public comment and to freeze requirements for the contractor, before Treasury final approval, and before public comment, and before final publication, would be foolish at best and a violation of the Administrative Procedures Act, at worst. As a matter of fact, I understand that Treasury's Office of General Counsel has voided the draft regulations worked out in consultation with the affected agencies and is redrafting them. So it is unknown and unknowable when the exact specifications may be given to the contractor on these types of payments.

9. The report suggests on page 7 that a follow-on contract will be needed at further cost to the government and implies that there is something wrong with that. As a matter of record, Congress is considering amending the law to add payments for child support debt collection and follow-on development will be necessary. The point is to collect the debt at reasonable cost, not to avoid costs and not collect the debt.

10. The report states on page 8 that the expertise from the functional areas of Information Resources and Regional Operations was not utilized in the development of GTOP. This is completely false and there is ample documentation to show the involvement of both areas. DMS was in fact under the Assistant Commissioner for Regional Operations in its earlier phases and all activities had to receive the approval of the Assistant Commissioner. The files reflect continuous briefings, formal approval of GTOP design documents, formal approval of contract documents, team members from both Regional Operations and Information Resources on GTOP activities, and so on, throughout the design and development of GTOP. The GTOP platform was determined by the contractor and by the Information Resources experts, not DMS, as the record clearly shows. It is quite odd that the report contains statements completely refuted by the documented record.

11. Regarding project management on page 9, the report refers to three different project managers and that one project manager was reassigned without a replacement. The project manager was not reassigned but was rather promoted based on his expertise and performance and remained an active consultant on the management of GTOP. DMS actively recruited for his replacement using merit

principles which the record clearly shows. In addition, the TOP Program Manager remained in the position throughout the process.

12. Although GTOP was developed, delivered to FMS, and demonstrated by the contractor, it has not been operationally tested. Yet the report faults DMS for not providing the format for submitting data to GTOP to Federal agencies (Page 11). It would be quite foolish to provide untested formats and requirements to agencies and cause them to expend resources before FMS is certain the system works as intended.

13. The report concludes, without merit, that the task order for the development of GTOP was issued against an unrelated contract, that DMS selected the contractor because they were pleased with their work, and that the failure to compete the contract was a contract violation (p. 12).

    a. The report shows a woeful lack of knowledge about contracting. DMS has no authority to contract for services. DMS prepares a statement of work seeking contract services; approvals had to be obtained from the Acquisition Management Division and a warranted contract officer, from the FMS Chief Counsel staff, from the Chief Information Officer (Assistant Commissioner for Information Resources), and from the Small Business Administration. All of these approvals must precede the award of the contract and were so obtained as the documentation clearly reflects.

    b. The existing contract, against which a task order was written, included expertise and services to Federal agencies on participation in the tax refund offset program. This program was a major piece of the GTOP concept, as described in the law and Congressional record. The contractor was therefore knowledgeable of a major piece of the requirements and was experienced in dealing with Federal agencies on delinquent debt referral. It was the contractor's expertise with delinquent debt referral, system guidance to Federal agencies and past performance that led DMS to seek their expertise in developing GTOP.

    c. DMS relied for legal guidance on contracting from the Chief Counsel staff and from warranted contract officers. What the report relied on for its contract knowledge is not clear.

These comments are mine alone, and do not reflect those of anyone else in or out of FMS. While I am no longer working on the Treasury Offset Program, the report covers the time when I was the Director of the Treasury Offset Program and, therefore, I believe my comments should be considered by those who are interested in an objective audit.

There were many difficulties in implementing a broad, multi-faceted, government-wide debt collection operation as delineated in the DCIA. Any reasonable person would welcome constructive assistance in how to improve the implementation. There is nothing constructive the subject report, however. Auditors, they say, are those people who come in after the battle has been fought, and bayonet the wounded. The blades, here, were very dull indeed.

Sincerely,

Pamela M. Dillon
Director, Treasury Offset Program
8/95 to 11/97
Retired

cc: The Honorable Stephen Horn
The Honorable Carolyn Maloney
Office of Inspector General, Treasury

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June 3, 1998

Honorable Steve Horn
Chairman, Government Management,
Information and Technology
Government Reform and Oversight
Committee
United States House of Representatives
B-373 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the Dun & Bradstreet Corporation, thank you for the opportunity to provide comments concerning your legislative efforts that would amend Title 31 of the United States Code to reduce waste, fraud, and error in government programs, to improve federal debt collection practices and to promote electronic payments. We appreciate the consideration that you and Mark Brasher of your staff, and Representative Maloney and Mark Guiton of her staff, have given to these important matters.

This letter encloses the talking points that we have used in presenting information to those in the federal government with responsibility for these matters. We had hoped to modify this material to a style and form more suitable for inclusion in your proceedings and to add our suggestions with regard to the importance of the verification activities and techniques concerning commercial entities (not consumers) for federal benefit programs. We have not been able to complete this request but when we do we will submit it for inclusion in the record of your proceedings, if you conclude that it is appropriate to do so.

In addition to the attached material, we have the following general observations.

First, your efforts to improve the repayment of debt owed to the federal government should be commended and supported. According to a survey conducted by Representative Carolyn Maloney in March, 1997, the amount of unpaid commercial non-tax debt is very large -- approximately $51.9 billion with the vast majority of that debt being more than 180 days old.

Second, verifying the qualifications and eligibility of commercial entities for federal benefits before those benefits are provided is far more cost-effective than is seeking to recover from those entities to whom benefits should not have been provided.

Third, although improvements are being made, the federal government can do a much better job of verifying the eligibility and qualifications of commercial applicants before federal benefits are provided.

Fourth, systems and techniques currently used by the private sector can be successfully used by the federal government to improve verification efforts.

And fifth, the key elements of a successful verification program (and therefore the improved repayment of federal benefits) are (1) improved financial information concerning the commercial applicant; and (2) the application of private sector techniques to better evaluate the qualifications and eligibility of the commercial applicant.

With regard to the attachment, the "cases" described in the attachment are actual reported cases; they are not fictitious. We have not included the real names of the companies involved because it is not our intent to highlight from the *many* cases that exist, the three that are discussed in the attachment. Further, the information used in the case studies was information reported by various government agencies and may be, by this point in time, out of date and not reflective of the current status of the businesses reviewed. Our purpose in providing these case studies is merely illustrative to demonstrate that problems exist and how they may be addressed.

Again, thank you for the opportunity to participate in your important work.

Sincerely,

Jean Cantrell

cc: Honorable Carolyn Maloney

ATTACHMENT

Dun & Bradstreet letter, dated June 3, 1998, to Chairman Steve Horn.
"Talking Points" for the D&B presentation on debt collection and program verification matters.

It would probably be best to give you a very brief description of Dun & Bradstreet, including some specifics on how we collect data and provide services to government. D&B gathers and maintains information on more than 49 million business locations around the world. We operate directly in 39 countries and have correspondent relationships with information gathering entities in more than 150 additional countries. D&B's database contains up to 1500 unique elements on each business location. The data is collected by over 3000 business analysts as well as from electronic feeds from financial institutions, large vendors, public utilities and government agencies. D&B spends more than $300 million per year and makes over 900,000 updates to our files each day to ensure the timeliness and accuracy of our databases.

Through a Memorandum of Understanding signed after the passage of the Debt Collection Act of 1982, D&B receives commercial debt information from 22 government agencies in 11cabinet-level Departments on either a monthly or quarterly basis. We take the individual tapes and, using highly evolved (and patented) entity matching software and assign the appropriate DUNS® Number which allows us to merge them with additional data on the entity, such as debarment information from the GSA's Office of Acquisition Policy and grant information from the Federal Assistance Awards Database System, to create our Government Activity Database. This database holds more than 546,000 individual cases of debt owed to the Federal Government worth about $50 billion. There are two issues here which we'll come back to. First, we know that we don't have ALL of the commercial debtor data. And, second, the database is not integrated with the commercial payment information on the entity.

Another data element that D&B collects from governments is the Tax ID Number (TIN). Of D&B's standalone database of 6.6 million TIN's about 1.5 million are obtained from the federal government and another 5.1 million are gathered from the 50 states from business registrations, UCC filings and corporate charter details. Commercial entities and some government agencies use D&B's files as a source for TINs on vendor and payee databases.

D&B also collects tax lien information electronically through all federal and state filing locations. This data is stored in our Public Records database and lien information is incorporated into our credit, supplier evaluation and stress scoring services.

Government uses D&B information, primarily using our GSA Schedule as the procurement vehicle, in all phases of supply chain management for controlling risk in contracting, awarding grants and approving loans. D&B services, reports and scoring models allow government to verify the authenticity of a perspective trading partner and validate its ability to repay or perform during the "Pre-Approval" stage. For example, before a Small Business Administration Low Doc or Export Express loan is disbursed, the decision maker can access the D&B database to obtain an up-to-the-minute score card on how likely the recipient is to repay on time. DoD uses D&B as

the contractor to provide electronic validation of trading partners as they register in the Central Contractor Registration (CCR) database. This database will serve the Department of Defense as a single point of collecting all of the required data elements to conduct commerce (electronic and paper) with any trading partner – worldwide. Registering and validating the existence of a business, its basic demographics and, finally, assigning its DUNS® Number as a database key, is crucial to the ability to establish the first level of trust with a prospective trading partner. Benefits to government include: validation that a business is 'real'; reduced costs in the maintenance of individual agency's proprietary vendor databases; and access to accurate data for sourcing any procurement.

Once a database is used for sourcing and legitimizing a vendor, grantee or loan recipient, monitoring changes and important business events that could impact our trading partners is crucial, especially in the world of electronic commerce. For example, when D&B performed a Portfolio Analysis on the 315,000 vendors we provided to DoD for a seed file for the Central Contractor Registration (CCR) database, we found the following changes occurred between July and December of last year: 15,000 had relocated, 476 had filed bankruptcy, 568 had gone out-of-business and more than 3500 had a change in ownership.

Another example of how D&B monitors important business changes was found when we did a sweep of our government activity database. Of the 546K debts worth over $50 billion, over 73,000 or 13% of all actions are overdue. Of these overdue debts, 49% are owed by entities that have gone out of business. But the reporting agencies continue to deliver us overdue debt data in each monthly file. The overdue debtors include 1274 IMPAC card merchants representing almost $106 million worth of overdue non-tax debt and the federal contractors who've been awarded contracts in excess of $25K have an additional $495 million of overdue non-tax debt. When we pulled the records of entities that had been assessed a federal tax lien, we found over 456,000 liens representing at least $8.8 billion were owed by federal contract or grant awardees.

To sum up, the real power of D&B's information can be demonstrated by case studies we did for the Treasury Department and OMB to show the value of merging data elements from over 100 sources into one place. While these are examples of real companies and actual events, the actual names of the entities have not been disclosed.

Case 1: John Doe Enterprises defaults on a federally backed loan. This is quickly followed by the filing of a federal tax lien. Notwithstanding, a federal agency awards over $71K in contracts. Not satisfied with said contractor's performance, the same agency debars this company until the year 2000.

Case 2: After a federal loan to Smith Manufacturing is sent for collection AND the company files Chapter 11 bankruptcy, six (6) federal agencies award Smith over $5 million in contracts.

Case 3: Even after Jones Corporation stopped paying on its federal loan, the same agency granted another. Subsequently, Jones was named in both federal and state tax liens. This did not prevent a different federal agency from awarding over $200K in contracts.

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