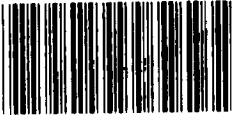


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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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STATEMENT OF  
ELMER B. STAATS  
COMPTROLLER GENERAL  
OF THE UNITED STATES

GAO 10

BEFORE THE  
SUBCOMMITTEE ON LEGISLATIVE  
THE SENATE APPROPRIATIONS COMMITTEE

309

ON

[IMPROVING GOVERNMENT DEBT  
COLLECTION OPERATIONS]

Mr. Chairman and Members of the Subcommittee

We are here today at your request to discuss ways in which Federal agencies can improve their debt collection operations. We appreciate your interest and concern about the need to reduce the budget deficit by improving Government debt collection and would like to express our appreciation for your continued support of our efforts in this area.

As you are no doubt aware, the inventory of debts owed the U.S. Government has become enormous, and is growing. As of September 30, 1977 the amount owed the Government was about \$118 billion, a substantial increase over prior years. Of this total, \$76 billion was owed by U.S. citizens and organizations, and \$42 billion was owed by foreign governments

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and concerns. More current data is not available because of delays experienced by Treasury in obtaining data from agencies and problems in compiling this data.

The large amount owed the Government results from a host of Federal activities including tax assessments; sale of Government services, such as satellite launchings; sale of Government goods, such as natural resources from Federal lands; overpayments to people like veterans and annuitants; and various loan programs such as student and housing loans. The Federal loan programs represent about 87 percent of the total amount owed.

Much of the \$76 billion due from U.S. citizens and organizations has been or will be paid routinely. However, a large and growing part requires some type of collection action. Since collection efforts are not always successful, a substantial amount will be written off as uncollectible depending, of course, on whether collection methods are effectively improved in a timely manner. The expected losses due to uncollectible receivables were \$3 billion as of September 30, 1977, a 35 percent increase since 1976.

The \$3 billion in expected losses were reported to the Treasury Department by the agencies having primary responsibility for collection. However, some agencies have not established any estimate of expected losses and therefore, the \$3 billion figure is probably understated.

Overall figures are not available on the actual number and value of claims written off by Federal agencies. However, we were able to obtain data showing that nine agencies wrote off over \$400 million in fiscal year 1978 as uncollectible. Also, we have some additional information which will help illustrate the magnitude of the Government's collection problems. For example:

- In 1978, three agencies - Small Business Administration, Veterans Administration and Farmers Home Administration - wrote off as bad debts \$274 million, a 60 percent increase compared to 1976.
- Many debts result from overpayments by the Federal Government. For example, Social Security Administration reported \$1.5 billion in overpayments as of September 30, 1978. It estimated that it would not collect one-third of this amount. It should be noted that the agency is authorized to and will grant relief for part of this amount. During 1978, it wrote off \$108 million as uncollectible.
- The Veterans Administration reported overpayments of over \$400 million at September 30, 1978. In 1978, most of the \$93 million written off by this agency stemmed from overpayments.

--HEW's Office of Education has over \$4 billion in receivables. About \$1 billion of these loans are in default and the amount has been increasing rapidly.

We believe there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection, some appear not to devote enough resources. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices.

Based on the analysis of the problems identified in our audits, we recommended specific corrective action to improve the recording, reporting, and collection of receivables.

#### REVIEW OF GOVERNMENT ACCOUNTS RECEIVABLE

We reviewed Government accounts receivables as part of our continuing effort to evaluate agency accounting systems. We performed reviews at 12 departments and agencies which had large accumulations of accounts receivable due from the public. We also analyzed results of other related GAO reviews on debt collection to develop a broad picture of how Government agencies handle these assets and collect debts. As a result of this review we issued a report to the Congress on October 20, 1978, titled "The Government Needs To Do A Better Job Of Collecting Amounts Owed By The Public" (FGMSD-78-61).

Our review showed that prompt collection action on the Government's accounts receivable from the public has been hindered by

- a lack of prompt and aggressive collection action,
- low or no interest charges being imposed on delinquent accounts, and
- inaccuracies in accounting for and reporting accounts receivable, including inadequate allowances for bad debts.

I will discuss each of these problem areas.

Federal agencies can improve collection activities

Most agencies we reviewed did not take prompt and aggressive collection action on delinquent accounts receivable. Although the agencies prepared initial bills promptly, they did not collect many receivables within a reasonable period. All the agencies had formal debt collection procedures but these were not always followed. For example:

1. Delinquent receivables were not promptly identified for follow up action.
2. Follow up letters were not regularly sent within 30 days and sometimes were not sent at all.
3. Certain delinquent debts were not promptly referred to GAO or the Department of Justice, as required, after agency collection efforts were exhausted.

4. Agencies did not analyze their collection activities to identify their cost of collection. Without this analysis, agencies did not have an adequate basis for making the required decisions on when to terminate collection efforts. As a result, the number of demand letters sent on claims of less than \$100 varied widely.

We made recommendations to the agencies included in our review and they have initiated corrective action. Because other agencies not included in our review were no doubt experiencing similar problems, we sent separate letters to all Federal activities and urged them to take a hard look at their collection procedures and actual collection efforts and to make such improvements as warranted.

Need to charge interest  
on delinquent accounts

We noted that Government agencies had widely divergent practices for assessing interest charges when payments due the Government are not timely. Although a few agencies charge high rates of interest on delinquent accounts, many agencies charge little or no interest.

These inconsistencies exist because there is no law or Government-wide policy requiring standard or consistent interest charges on delinquent accounts. Although general statutory provisions authorizing agencies to charge

interest do not exist, the courts have ruled that creditors, including the Federal Government, may charge interest on overdue accounts.

The agencies included in our review that charged substantial interest generally collected most accounts in a prompt manner. However, other Government agencies that had not established interest charges for late payments were encountering serious collection problems. For example, Geological Survey did not charge interest on late payments for oil and gas royalties and it received late payments of about \$360 million in 1977.

We believe that interest probably should not be applied to collection of overpayments made by the Government to recipients under Federal programs when the recipients are not at fault except when the money due is not repaid within a reasonable time.

To overcome this problem, we recommended that guidelines be issued providing that Government receivables bear interest at not less than an established minimum rate.

Treasury took action to require Federal agencies to include a stipulation in all contracts and agreements that interest will be charged for late payments. This is a step in the right direction but the guidelines should be further revised to provide for interest charges on delinquent receivables not covered by contracts or agreements. Treasury agreed and is amending their guidelines.

Accounts receivable not accurately recorded and reported

Another problem identified in our review was the way agencies record and report accounts receivable. We identified substantial over- and understatements of these receivables. These errors indicated that controls over collections and writeoffs of receivables were weak, asset balances were incorrect, and expected future losses were not fully disclosed. These problems demonstrated a need for increased management attention to agency accounting systems, a need for specific guidance for recording and reporting accounts receivable, and a need for increased internal audit coverage of financial operations.

On the basis of our recommendations, the agencies we reviewed took corrective action to provide better accounting and reporting. Since other agencies could be experiencing similar problems, we recommended that Treasury revise its guidelines in order to strengthen financial reporting by all departments and agencies. Treasury is making the revisions deemed necessary to help achieve this objective.

USE OF COMMERCIAL COLLECTION PRACTICES

We undertook another review at the request of Senators Long and Packwood, in which we studied and compared the debt collection practices used by the public and private sectors to determine their relative efficiency and effectiveness.

On February 23, 1979, we issued our report on this review titled "The Government Can Be More Productive In Collecting



Its Debts By Following Commercial Practices." (FGMSD-78-59, February 23, 1979) This report proposes that the Government adopt certain private sector practices that have potential for improving Government collections.

The Federal debt collection process is expensive. Because of the requirements placed on Federal collectors the Government cannot be expected to match the cost effectiveness record of private industry. But processing costs can be reduced by adopting certain aggressive and effective private collection practices.

Federal collection is also slower. Commercial firms told GAO they were generally able to pursue collection to the point of obtaining a court judgement within 5 months. In the Federal Government it takes a year and frequently longer to reach that point in the process.

In analyzing the reasons for the differences in performance, we identified several commercial practices that we believe would significantly improve Federal debt collection performance.

#### Report debts to credit bureaus

Commercial firms place primary reliance in collecting unsecured debts on aggressive collection action backed by the potential consequence of adversely affecting the debtor's credit rating. In addition, the private sector limits the extent of credit available to individuals by reporting loans and installment obligations to the credit bureau network. These

commercial practices have potential for use in the Federal Government.

Private industry officials told us that the single most powerful motivation for an individual to pay a debt was the stigma of having that person's credit rating reflect that he or she has not paid debts promptly. The vast majority of Americans rely on credit and a good credit rating to buy the things they need.

When individuals are prompt in making payments due the Government, and this data is recorded at the credit bureaus, their credit ratings are maintained or enhanced, providing them with additional credit.

#### Use of credit bureau debtor locator service

Finding people who do not voluntarily pay the Government the amounts they owe is a problem for many agencies, particularly those dealing with students. A technique debtors use to avoid paying debts is to elude being found; they move and do not leave a forwarding address. Agencies have accumulated a large backlog of delinquent debts and have written off several hundred million dollars in debts because they could not locate debtors.

Although agencies use a variety of ways to locate debtors, they have not made full use of the nationwide debtor service provided by the credit bureau network. Because millions of Americans have credit records, we believe the degree of success would increase if Federal agencies made arrangements to obtain a nationwide (rather than a regional) credit bureau

search, and if they arranged to be notified when debtors later apply for credit.

Improve the content of demand letters

We also noted that agencies could prepare much more effective demand letters. Government demand letters were not as specific as those used in the private sector in describing actions that would be taken in the event of nonpayment. This use of a less forceful message to the debtor lessened the likelihood of prompt repayment of the debt.

Based on our analysis of demand letters agencies need to see that their demand letters assure that debtors are being told clearly (1) how much is owed, (2) when payment is expected, (3) what action will be taken if payment is not received, (4) that an interest charge will be added for all debts if the money due is not repaid within a reasonable time, unless precluded by statute, and (5) when necessary, that available evidence must be provided to support any assertions that they do not owe the debt, that the amount is wrong, or that they have paid or cannot pay.

Make greater use of automation

As I have already stated, it is more expensive to collect debts in the public sector than in the private sector. Private sector officials attributed their low costs to the use of computer techniques.

Commercial firms we questioned, not only attributed their low collection costs to automation, but also to computerized interchange of information with credit bureaus. We believe use of these techniques could reduce costs in the Federal Government, too. The Internal Revenue Service has a fully automated collection system; other Federal agencies use automation in varying degrees, but more should be done.

#### Employ private debt collectors

Employing private debt collectors would require a change in legislation because Federal agencies are now precluded from using them, except when given legislative authority. HEW's Office of Education has that authority and is proceeding to use private collectors on a test basis. Private collectors should, however, be used only after aggressive collection action on the part of the agencies. We plan to monitor this test and examine the merits of proposing legislation to allow Federal agencies to employ independent collectors for debts they administratively write off.

#### Recommendations

We recommended that the Secretary of Health, Education, and Welfare and the Administrator of Veterans Affairs take action designed to

--where appropriate, report loans to the credit bureau network when they are incurred, information

on installments being paid, and the failure of debtors to pay amounts owed when due; and --make arrangements, at least on a test basis, to use the debtor locator services offered by credit bureaus and other firms and evaluate the cost benefit of these services.

Also, we have encouraged the heads of departments and agencies to improve the content of their demand letters and to assess the cost savings and other benefits that can result if they automate their debt collection process. The Department of Health, Education and Welfare has taken action to improve its demand letters and its automated debt collection system for the Guaranteed Student Loan Program.

#### OBTAINING BETTER INFORMATION ON DEBTS

As a result of the two reviews I have briefly described, it became apparent that the information available on delinquent debts was not adequate to meet the needs of the Congress or the agency management. On February 1, 1979 I sent a letter to the Secretary of the Treasury suggesting that his department expand the reporting requirements applicable to all Government agencies. Under these additional requirements, each agency would periodically report:

- The portion of its accounts and loans receivable that are past due and an aging schedule of delinquent accounts.
- The amount it wrote off or otherwise terminated collection action on during specified periods.

In addition, I urged Treasury, in cooperation with the Office of Management and Budget, (OMB) to take an active monitoring, analysis, and followup role to help ensure that agencies are doing as much as they can to collect amounts owed. Treasury has initiated action on our suggestions and expects to issue revised reporting requirements which will be effective for the financial reports due the Treasury for the period ending September 30, 1979.

At the same time I sent a letter to the Director, Office of Management and Budget, suggesting a close cooperative effort with Treasury to assure that the Government has an aggressive and effective debt collection program. On March 8, 1979, the Director sent a memorandum to the heads of executive departments and agencies pointing to the serious collection problems in the Federal Government as revealed by recent congressional hearings. The Director asked each department and agency to review its collection systems and procedures and to report to OMB on this review and remedial action by March 30, 1979. Also, the Director acknowledged that Treasury is revising its regulations to provide for more specific financial reporting on receivables, and said that in collaboration with Treasury, OMB will be reviewing the reports and following up with the agencies on remedial measures.

#### REVISION OF JOINT STANDARDS

As another measure to assure that departments and agencies take more aggressive collection action, I have initiated revisions to the Federal Claims Collection Standards. These

standards, which implement the Federal Claims Collection Act of 1966, are issued jointly by the Attorney General and the Comptroller General.

These regulatory changes will improve the effectiveness of agency collection efforts principally by adopting two practices that are common in the commercial world--charging interest on delinquent debts and reporting delinquent debts to commercial credit bureaus. Also, the Joint Standards will emphasize that agencies should establish procedures to identify the causes of overpayments, delinquencies, and defaults and the corrective actions needed.

REVIEW OF THE FEASIBILITY OF  
KEEPING FEDERAL TAX REFUNDS  
AS OFFSETS

We recently sent another report to the Congress titled "The Government Can Collect Many Delinquent Debts By Keeping Tax Refunds as Offsets" (FGMSD-79-19). In this report, we recommended that IRS implement, on a test basis, procedures which provide for agencies to refer delinquent receivables to the Internal Revenue Service after the agencies have exhausted all collection efforts open to them.

The Internal Revenue Service would then screen Federal income tax refunds against these delinquent debts and withhold all or the available part of any refunds due to satisfy the delinquent debts.

To evaluate the feasibility of this collection method, we provided data to the Internal Revenue Service on 613 outstanding Government receivables on which collection action had been terminated and valued at about \$431,000. The Internal Revenue Service determined that over \$153,000 or 36 percent, could conceivably have been collected by reducing tax refunds paid in the following 2 years. Additional amounts could have been recovered in succeeding years.

Of the amount which conceivably could have been collected, almost two-thirds was from joint returns. Our report recognizes that the Internal Revenue Service offsets individual debts against joint returns only to the extent that the debtor has an interest in the refund. However, in most cases, the debtor will have a substantial interest in the joint refund.

Although we cannot predict how much can be collected under the arrangement, the amount should be substantial. Much of the over \$400 million which was written off by agencies in fiscal 1978 involved small claims. For example, the Veterans Administration discontinued collection action on over \$93 million in claims with the average overpayment being less than \$500. When you consider that in fiscal 1977, 68 million taxpayers received \$36.5 billion in tax refunds, we believe this offset collection system has substantial potential.



The Internal Revenue Service had reservations about the desirability and practicability of this program when balanced against the value of concentrating IRS resources and expertise on administration of the tax laws. The agency also said problems could be encountered in obtaining congressional funding for this program.

We recognize that sound tax administration is essential and that acquiring additional workload while maintaining the present staff could impair tax administration. We recognize that delays can be encountered in obtaining funding for testing and instituting this program and that diversion of resources to this area would decrease the resources available to administer tax laws. However, these resource limitations should not preclude a test of this program. The purpose of this test would be to find out the extent to which there are problems and how they should be overcome before undertaking a full scale program.

#### OTHER AGENCY REVIEWS

Although considerable effort has been taken to strengthen the Government's collection efforts, we are continuing our efforts to evaluate individual agency collection systems. We recently issued reports to the Congress titled "Social Security Should Improve Its Collection of Overpayments to Supplemental Security Recipients" (HRD-79-21, January 16, 1979), and "Social Security Administration Should Improve Its

Recovery Of Overpayments Made to Retirement, Survivors, and Disability Insurance Beneficiaries" (HRD-79-31, January 17, 1979.)

These reports discuss the need for quick and uniform resolution of overpayments so that debts are collected promptly and that the overpaid recipients are treated fairly. Although many overpayments will be collected through adjustment of current and future social security benefits, others were made to individuals no longer on the program rolls. The Supplemental Security Income program had \$382 million in outstanding overpayments to such individuals as of September 1978 and the Retirement, Survivors, and Disability Insurance beneficiaries in this category owed \$234 million as of July 31, 1978.

We recommend certain improvements to Social Security Administration management which should result in more efficient and effective recovery efforts. Management has initiated action on our recommendations.

#### WHAT ELSE NEEDS TO BE DONE

We are continuing to review individual agencies' collection systems. However, much action can be taken to minimize Government losses from uncollectible debts. To summarize:

- Agencies can establish procedures to identify the causes of overpayments, delinquencies, and the corrective actions needed. Also, the agencies can establish better control over

receivables and take more aggressive collection action.

- Treasury can revise its fiscal requirements manual to require interest charges on delinquent accounts and to provide for more complete reporting of data on delinquent accounts.
- The Office of Management and Budget can place increased emphasis on accounting system approval and emphasize collection efforts as part of the budget process.
- The Congress can consider the amounts written off and the amount of outstanding receivables during each agency's appropriation hearings. In many cases, collection of receivables increases obligation authority and thus reduces the need for appropriated funds. By reducing agency appropriations where appropriate, the Congress can give agency management a greater incentive to recoup outstanding receivables. Also, improved collection of amounts due decreases the budget deficit by reducing the need for Treasury borrowing.
- Internal Revenue Service can implement, on a test basis, a collection system to match refunds with delinquent debts so that debtors' refunds can be retained to cover the debts owed.

--The Congress can monitor the test conducted by the Internal Revenue Service and assure that adequate staff and funding are available to test and adopt this collection method.

This concludes my statement, Mr. Chairman. We will be pleased to respond to any questions you and other Members of the Subcommittee may have.