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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
HOUSE OF REPRESENTATIVES
ON
"DEBT COLLECTION AT THE DEPARTMENT
OF EDUCATION"

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear before you to discuss debt collection at the Department of Education.

Debts owed the Government are enormous and growing each year, with billions of dollars delinquent. Federal agencies reported that, at the start of fiscal 1982, receivables due from U.S. citizens and organizations exceeded \$180 billion, over \$33 billion of which was delinquent. By the end of fiscal 1982, these amounts had further increased to approximately \$200 billion and \$38 billion, respectively, with nontax delinquencies totaling about \$14 billion.

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To stem the continued growth in these numbers, the Congress and GAO have long called for strengthened debt collection. We have reported that the Government was not doing an effective job of accounting for and collecting its debts. Recognizing the need for improved financial management, the Administration made debt collection a management priority. At the request of the House Committee on the Budget, we recently reviewed the Administration's effort to strengthen debt collection during fiscal 1982 and the prospects for future collections. We focused on the six Federal agencies having the highest nontax delinquencies and concluded that the Administration, through the Office of Management and Budget (OMB), has

- implemented a program for improving debt collection,
- actually collected more debt than was anticipated by OMB, and
- ensured that in the near future debt collection prospects look good.

The Department of Education was one of the six agencies included in our recent review. During fiscal 1982, Education acted to resolve longstanding debt collection problems and in doing so increased its oversight of schools administering student loans. Education developed a comprehensive debt collection improvement plan which assisted in organizing the agency's debt collection efforts. In addition, the agency created a credit management board which Education officials believe has enhanced communication between program and administrative personnel regarding credit management issues. Debt servicing and collection issues addressed by the Department included

- improving the accuracy of information systems for the Guaranteed Student Loan and National Direct Student Loan (NDSL) programs,
- improving the control and reporting of financial transactions, and
- augmenting Education's collection staff with private sector collectors and temporary employees.

I know the Subcommittee is interested in Education's use of private collection agencies. Because our review for the Budget Committee focused on Education's overall approach to strengthening debt collection, we did not analyze in depth or evaluate the private collectors' performance or the contracting for these services. However, in a separate study your Subcommittee recently requested, we are evaluating Education's use of private collection agencies versus in-house staff. This review, which will focus mainly on the performance of the two private collectors currently under contract to Education, is in the preliminary stage. While we do not at this time have any information on the adequacy of the private collectors' performance, we have several observations.

The Debt Collection Act of 1982 gives Federal agencies the authority to contract with private collection agencies. Previously, Education, beginning in 1979, entered into two pilot contracts for collection services. In 1981, the Department entered into two more contracts for collection services, an action which followed the decision to reduce its in-house collection staff.

Our 1981 report "Stronger Actions Needed to Recover \$730 Million in Defaulted National Direct Student Loans"(HRD-81-124, September 30, 1981) recognized that Education's decision to use private collection agencies was consistent with statutory and regulatory provisions. We noted, however, that the cost effectiveness of using contract collectors had not been fully determined and recommended that Education monitor the performance of its contractors to ensure cost effectiveness. The Government did not have any past experience using private collectors and Education is the only agency to date that has entered into large scale collection contracts.

Education is presently monitoring the current contracts. Under these, the Department transferred to the contractors about \$635 million of defaulted loans. Education expects the contractors over a 3-year period to collect at least 10 percent of the amount assigned, or \$63.5 million. The Department reported that through June 30, 1983, (18 months into the contract) almost \$24 million, or about 4 percent, has been collected.

Monthly collections have increased. Only \$4 million was collected during the first 6 months of the contracts, while in the following 12 months, collections totaled almost \$20 million. Education projects that contractor collections, which totaled \$8 million in fiscal 1982, will be about \$20 million in fiscal 1983. It points to the acceleration of collections as evidence that the contractors will be more successful in future periods.

One last observation about the use of contract collectors: OMB claims that contractor performance is hampered by current

regulations which do not allow contractors to directly bring suit against debtors. Instead, accounts must be referred to Justice for litigation. Contractors contend that this greatly affects their collection efforts because litigation is one of the most important tools available to private collection agencies.

Another important issue facing Education is how to resolve its longstanding accounting and reporting problems. In fiscal 1982, the Department was not able to submit to Treasury and OMB a reliable financial report on debt collection activities. One Education official estimated a 25 percent error rate in reported collections, and OMB debt collection officials expressed concern over the quality of Education's data.

In an attempt to establish reliable accounts receivable information, Education has converted old computer records on receivables, originated in the former Office of Education, to a new format suitable for its present accounting system. The agency is also in the process of reconciling computerized records to manual records to resolve discrepancies and ensure that accounting records are accurate.

Education is planning many short-term reporting improvements but officials believe that the key to solving their accounting and reporting problems is a long term effort to install an information system capable of handling all of the Department's loan programs. The Department has assessed the information needs of each program and is presently evaluating various alternative systems. While Education expects a new system to be installed during the 1986-1987 academic year, we

caution that the agency has had past problems in developing and operating an automated information system for the Guaranteed Student Loan Program.

Although acting to improve its debt collection program, Education's fiscal 1982 reported collections were about \$6 million less than in fiscal 1981 and the agency fell far short of its OMB target. Total collections as reported to OMB by Education declined by 1 percent during the year to \$653 million from \$659 million in fiscal 1981. Of the six agencies we reviewed, this was the only instance of an agency reporting declining total collections. At the same time, Education reported that its total receivables grew by over 5 percent.

OMB's formula for measuring collection performance considers both total collections and receivables. The decrease in Education's total collections, when factored by the corresponding increase in receivables, computes out to a \$41 million relative drop in collections. In terms of the \$225 million target for increasing collections given to Education by OMB, the agency, therefore, fell short of the goal by \$266 million.

Education officials explained the shortfall by pointing to the reduction of 700 in-house collector positions during fiscal 1982. They believe that the private contract collectors will eventually fill this void, but the contractors will need more time to reach maximum productivity. Even at maximum productivity, however, the contractors would not have been able to make up the \$266 million shortfall reported for fiscal 1982. As I mentioned earlier, contract collections totaled \$8 million in

fiscal 1982, or a little over 1 percent of total reported collections for the year, with Education's goal for the contractors being \$63.5 million for a 3 year period.

Officials also said that because of reporting delays the results of their fiscal 1982 initiatives were not reflected in collection totals for the year. Further, they pointed out that loan origination fees totaling about \$150 million in fiscal 1982 were not counted in computing their collection shortfall. The analysis OMB gave us for fiscal 1982 did not include these amounts as collections against Education's target. The fees do not represent the collection of delinquent debt. Also, we were told the fees were not included in reported collections for fiscal 1981.

One final matter, Education should be well served by the Debt Collection Act. For example, full implementation of the act's provision allowing the offset of Federal employees' salaries to satisfy general debts owed to the Federal Government should increase future collections. Using computer matching, in fiscal 1982, the agency identified about 47,000 Federal employees who were in default on \$68 million in student loans. Another provision requiring individuals who apply for Federal loans or assistance to furnish their social security numbers should make NDSL defaulters easier to find. Finally, Education's plans to refer about 500,000 delinquent borrowers to credit bureaus this year should also help spur future collections.

This concludes my statement. I will be happy to answer any questions you or the other members may have.