

May 1986

# DEBT COLLECTION

## Billions Are Owed While Collection and Accounting Problems Are Unresolved



*Released*

**RESTRICTED**—Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

035715

---

---



United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

B-220243

May 23, 1986

The Honorable Dennis DeConcini  
United States Senate

Dear Senator DeConcini:

As you requested, this report describes the results of our review of selected federal agencies' efforts to implement the Debt Collection Act of 1982 and to improve debt collection. The report also presents our evaluation of agencies' systems that account for debts owed to the government.

Our review showed that agencies have been slow in implementing the tools which the act provides. The full benefits of the act have, therefore, not been realized. In addition, agencies' accounting systems often do not provide management with current and accurate information on the status of debts owed to the government. The report contains recommendations to the Congress for amending the act and to agencies for improving their debt collection efforts.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send the report to the Director, Office of Management and Budget; the Secretaries of Education, Housing and Urban Development, and Agriculture; the Administrator, Veterans Administration; and interested parties. Copies will also be made available to others on request.

Sincerely yours,

A handwritten signature in cursive script that reads 'Charles A. Bowsher'.

Charles A. Bowsher  
Comptroller General  
of the United States

# Executive Summary

## Purpose

Debts owed to the federal government, as well as the past due portion of these debts, have increased greatly over the past 4 years. These debts increased by 27 percent since fiscal year 1982 and, as of September 30, 1985, amounted to about \$346 billion, including a large portion for which collectibility is uncertain. Nontax delinquencies grew by 55 percent—to about \$24 billion, \$15 billion of which was delinquent for more than a year. Guaranteed loans, which represent potential debts that may require future collection, grew by 24 percent—to about \$410 billion. These steady increases combined with the Congress' emphasis on balancing the federal budget underscore the need for aggressive debt collection and reliable systems to manage and account for receivables. Improved debt collection practices would help reduce the mounting deficit and thereby lessen the impact of curtailing programs by cutting budgets.

To help agencies manage and collect debts, the Congress passed the Debt Collection Act of 1982. As requested by Senator Dennis DeConcini, this report summarizes GAO's views on selected federal agencies' efforts to implement the act and identifies impediments to full utilization. The integrity of agencies' systems that account for debts owed to the government—a critical prerequisite to effectively implementing the act—is also discussed.

## Background

A wide range of activities—from housing loans to import duties to mineral royalties—generates enormous amounts to be collected by agencies.

**Table 1: Total Receivables and Nontax Delinquencies, Fiscal Years 1982 to 1985**

Dollars in billions

Fiscal year	Total receivables	Total nontax delinquencies
1982	\$273	\$15
1983	294	17
1984	318	20
1985	346	24

The largest portion of the government's receivables and nontax delinquencies relate to loan programs such as those for farming, housing, and education. This type of debt primarily constitutes the receivables for agencies included in GAO's review (the departments of Education and Housing and Urban Development, and the Farmers Home and Veterans Administrations). Although the Internal Revenue Service (IRS) accounts for a large share of the total receivables and delinquencies, IRS collection



efforts were not included in this review because debts arising under the Internal Revenue Code are not subject to the act, and IRS has more powerful debt collection tools than those provided in the act.

Loan programs are designed to accomplish congressionally mandated goals from increasing the opportunity for college education to financing farmers whom commercial lenders will not support. Collection of some of these loans can be indirectly influenced by the state of the economy as well as government policies.

Problems in the government's debt collection have long been recognized by the Congress, GAO, and the Office of Management and Budget (OMB). Consequently, the Congress passed the Debt Collection Act to strengthen the agencies' ability to collect debts more effectively by making clear that they can use collection tools available to the private sector.

Agencies also have long-standing problems in accounting for receivables. GAO, inspectors general, and federal agencies themselves have identified serious weaknesses in accounting systems that produce information on debts owed to the government. Thirteen agencies stated in their 1985 Financial Integrity Act reports to the Congress that debt collection was a material weakness in their programs.

---

## Results in Brief

Agencies have been slow in implementing the debt collection tools provided by the Debt Collection Act. As a result, the full benefits of the act have not been realized. Billions in receivables continue to go uncollected, and additional billions are written off annually. Agencies need to place greater emphasis on resolving impediments and ensuring that all debt collection initiatives applicable to their programs are used. (See chapter 2.) In addition, agency debt collection efforts are further hampered by accounting systems which often do not provide management with current and accurate information on the status of debts owed to the government. (See chapter 4.)

---

## Principal Findings

---

### Debt Collection Act Not Implemented

Progress among the agencies we reviewed in implementing improved debt collection initiatives has not been consistent. In some instances, management priorities, system capability limitations, management uncertainty, and the regulatory process have slowed agency progress.

In the more than 3 years since the Debt Collection Act was passed, most of its provisions have not been fully implemented. For example, in many cases agencies have not

- reported delinquent individual debtors to credit reporting agencies;
- fully determined the extent private collection agencies could be used to collect debts and, therefore, do not use such services;
- collected delinquent debts, such as education and housing loans, by offsetting either the salaries of federal employees or other payments; and
- assessed interest, penalties, or administrative costs on delinquent debts.

Other initiatives which would also improve agencies' debt collection programs have not been fully explored. These include selling portions of loan portfolios, which has been only pilot tested in a very limited way.

In May 1985, OMB prescribed in circular A-129 policies and procedures for managing federal credit programs. However, most of its provisions have not been implemented. (See chapter 2.)

---

### Accounting for Receivables Is Unreliable

Agencies have attempted for years, without success, to develop systems to solve their problems in accounting for receivables. GAO's accounting system and financial statement audits, as well as inspector general reviews, have consistently disclosed serious weaknesses in agencies' systems that account for and control receivables. These problems include understating the amount of delinquent debt, not establishing allowances for loan losses, and the inability to promptly record amounts due and to reconcile account balances.

Without accurate records on receivables, the act cannot be fully implemented. In addition, financial reports which accurately disclose amounts owed to the government, as well as related delinquencies, are needed to help the Congress monitor agencies' programs. (See chapter 4.)

---

## Recommendations

GAO recommends that the Congress amend the Debt Collection Act to require that

- agencies report, as part of their annual budget submissions, on their receivables and progress in implementing the act;
- certain credit management and debt collection concepts such as using private collection firms and credit reporting agencies be mandatory;
- agencies accurately prepare financial reports on their programs that generate receivables and that the reports be audited. (See chapters 2, 3, and 4.)

GAO is also making several recommendations to agencies to improve their debt collection efforts and to strengthen their accounting for and control over debts owed to the government. (See chapters 2 and 4.)

---

## Matters for Congressional Consideration

GAO is suggesting that the Congress consider whether the act should be amended to provide agencies additional incentives to collect debts. Options include providing managerial incentives and improving debt collection operations and systems by permitting agencies to use a portion of collections in excess of established targets for systems improvement.

Some of these options can be adopted with relative ease because they do not affect agency program operations. Other options involving more difficult policy issues could be explored by the Congress. (See chapter 2.)

---

## Agency Comments

Generally, the agencies believe that they have made significant progress since GAO concluded its fieldwork. GAO's analysis of agency comments, however, showed that many of the debt collection improvements cited are planned activities which have not yet been implemented. The agencies agreed that they have receivable and collection accounting problems and indicated that efforts are underway to address these problems. (See appendixes VII, VIII, IX, and X.)

OMB opposes amending the Debt Collection Act to require agencies to report their debt collection activities to the Congress. GAO believes that the importance of debt collection justifies this type of reporting. OMB also commented that legislation providing additional debt collection incentives is not needed and that agencies should not be allowed to use a portion of collections for debt collection administrative services. GAO disagrees and believes that these are worthy of congressional consideration. (See chapter 2.)

---

# Contents

---

<b>Executive Summary</b>		<b>2</b>
<hr/>		
<b>Chapter 1</b>		<b>10</b>
<b>Introduction</b>	Provisions of the Act and Other Debt Collection Initiatives	<b>12</b>
	Objectives, Scope, and Methodology	<b>13</b>
<hr/>		
<b>Chapter 2</b>		<b>18</b>
<b>Additional Use of Debt Collection Initiatives Needed</b>	Debts Owed the Government Are Large and Increasing	<b>18</b>
	Growth in Loan Guarantees	<b>21</b>
	OMB and Treasury Emphasizing Debt Collection	<b>23</b>
	Provisions of the Act and Other Initiatives Not Being Implemented	<b>24</b>
	Agencies Identify Material Weaknesses in Debt Collection	<b>34</b>
	Agencies Need Additional Incentive to Collect Debts	<b>35</b>
	Conclusions	<b>37</b>
	Recommendations to the Congress	<b>38</b>
	Matters for Congressional Consideration	<b>39</b>
	Recommendations to Agencies	<b>39</b>
	Agency Comments and Our Evaluation	<b>40</b>
<hr/>		
<b>Chapter 3</b>		<b>44</b>
<b>Additional Credit Management and Debt Collection Authority Needed in Certain Areas</b>	Credit Management and Debt Collection Concepts Should Be Statutorily Required	<b>44</b>
	Use of Private Attorneys To Litigate Claims Should Be Statutorily Required	<b>46</b>
	Provisions for Use of IRS Address Information Should Be Clarified	<b>47</b>
	Authority for Salary Offset for Routine Pay Adjustments Should Be Amended	<b>48</b>
	Conclusions	<b>50</b>
	Recommendations to the Congress	<b>50</b>
	Agency Comments and Our Evaluation	<b>51</b>

<b>Chapter 4</b>		<b>52</b>
<b>Accurate and Reliable Accounting for and Reporting of Receivables Are Needed</b>	Long-Standing Problems in Accounting for and Reporting of Receivables	<b>53</b>
	Receivables Accounting Data Are Unreliable	<b>54</b>
	Individual Account Balances Are Inaccurate	<b>56</b>
	Efforts To Improve Systems and Need for Discipline in Accounting for and Reporting of Receivables	<b>57</b>
	Conclusions	<b>59</b>
	Recommendations to the Congress	<b>60</b>
	Recommendations to Agencies	<b>60</b>
	Agency Comments and Our Evaluation	<b>60</b>

<b>Appendixes</b>	Appendix I: Letter Dated May 7, 1984, From Senator DeConcini	<b>62</b>
	Appendix II: GAO Reports Concerning Debt Collection	<b>63</b>
	Appendix III: Receivables, Delinquencies, and Write-Offs Reported by Agencies as of September 30, 1985	<b>66</b>
	Appendix IV: Summary of Major Receivables by Agency or Function as of September 30, 1985	<b>67</b>
	Appendix V: Receivables, Delinquencies, and Write-Offs for Selected Agencies as of September 30, 1985	<b>69</b>
	Appendix VI: Summary of Provisions of OMB Circular A-129, Dated May 9, 1985	<b>70</b>
	Appendix VII: Collecting and Accounting for Debts Owed to the Department of Education	<b>74</b>
	Appendix VIII: Collecting and Accounting for Debts Owed to the Department of Housing and Urban Development	<b>84</b>
	Appendix IX: Collecting and Accounting for Debts Owed to the Farmers Home Administration	<b>94</b>
	Appendix X: Collecting and Accounting for Debts Owed to the Veterans Administration	<b>104</b>
	Appendix XI: Summary of Debt Collection Initiatives	<b>116</b>
	Appendix XII: Comments From the Office of Management and Budget	<b>126</b>
	Appendix XIII: Comments From the Department of Education	<b>134</b>
	Appendix XIV: Comments From the Department of Housing and Urban Development	<b>145</b>
	Appendix XV: Comments From the Department of Agriculture	<b>158</b>

Appendix XVI: Comments From the Veterans Administration	166
---	-----

**Tables**

Table 1: Total Receivables and Nontax Delinquencies, Fiscal Years 1982 to 1985	2
Table 2.1: Receivables, Nontax Delinquencies, and Nontax Write-Offs, 1982 to 1985	19
Table 2.2: Total Receivables for Selected Agencies at End of Fiscal Years 1982 to 1985	20
Table 2.3: Total Delinquencies for Selected Agencies at End of Fiscal Years 1982 to 1985	20
Table 2.4: Age of Nontax Delinquent Debt, Fiscal Years 1982 to 1985	21
Table 2.5: Status of Agency Implementation of Debt Collection Initiatives	26
Table 2.6: Debt Collection Initiatives Not Implemented by Education	27
Table 2.7: Debt Collection Initiatives Not Implemented by HUD	29
Table 2.8: Debt Collection Initiatives Not Implemented by FMHA	31
Table 2.9: Debt Collection Initiatives Not Implemented by VA	33
Table 2.10: Collections and Percent of Receivables for Fiscal Years 1982 to 1985	35
Table VII.1: Education Receivables, Delinquencies, and Collections	74
Table VIII.1: HUD Receivables, Delinquencies, and Collections	84
Table IX.1: FMHA Receivables, Delinquencies, and Collections	94
Table X.1: Veterans Administration Receivables, Delinquencies, and Collections	105
Table XI.1: Status of Implementation: Use of Credit Reporting Agencies	116
Table XI.2: Status of Implementation: Private Collection Firms	117
Table XI.3: Status of Implementation: Disclosure of IRS Addresses	118
Table XI.4: Status of Implementation: Salary Offset	119
Table XI.5: Status of Implementation: Administrative Offset	120

---

Table XI.6: Status of Implementation: Loan Portfolio Sales	121
Table XI.7: Status of Implementation: Assessment of Interest, Penalties, and Administrative Costs on Delinquent Debt	122
Table XI.8: Status of Implementation: Reporting Discharged Debts to the Internal Revenue Service	123
Table XI.9: Status of Implementation: Screening of Loan Applicants Against IRS Tax Accounts	125

---

**Figures**

---

Figure 2.1: Actual and Projected Growth in Guarantees	22
---	----

---

**Abbreviations**

CARS	Centralized Accounts Receivable System
CHP	College Housing Program
CPA	certified public accountant
DOD	Department of Defense
FCCS	Federal Claims Collection Standards
FISL	Federal Insured Student Loan
FmHA	Farmers Home Administration
GAO	General Accounting Office
GSA	General Services Administration
GSL	Guaranteed Student Loan
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
NDSL	National Direct Student Loan
OMB	Office of Management and Budget
OPM	Office of Personnel Management
VA	Veterans Administration

# Introduction

---

Debts due the federal government are generated by numerous activities—from housing loans to import duties to mineral royalties. Most of these receivables result from direct and guaranteed loan programs. The loan programs include farm, housing, education, disaster, and business loans.

As of September 30, 1985, federal agencies reported that receivables totaled \$345.8 billion, including \$23.9 billion in nontax delinquencies. This represents a 27 percent increase in total receivables and a 55 percent increase in nontax delinquencies over what was reported at September 30, 1982. Also, since September 30, 1982, loans guaranteed by the government, which represent potential receivables that may require future collection, increased by almost 24 percent—from \$331.2 billion to \$410.4 billion. This steady increase in receivables, delinquencies, and guarantees (which is discussed more fully in chapter 2), coupled with the mounting federal deficit, underscores the need for aggressive efforts to collect and control receivables.

When amounts owed the federal government are not paid or when payment is late, the government is deprived of the current use of funds, its losses due to bad debts increase, and its administrative work load goes up. In addition, when debts are not collected, people are given benefits to which they are not entitled; self-help programs are, in effect, converted into unauthorized grant programs. As debtors realize that repayment can be avoided, fewer people will pay voluntarily, resulting in agencies having to devote increasing amounts of time and resources to collection. It is also unfair to taxpayers and to those who pay their debts to allow debts to go uncollected.

Congressional concern over the federal government's debt collection problems resulted in passage of the Debt Collection Act of 1982 (Public Law 97-365). Introduced in cooperation with the administration in May 1981, this comprehensive debt collection legislation made clear that federal agencies can use many of the collection tools available in the private sector. The act, which primarily amended the Federal Claims Collection Act of 1966, was intended to increase the efficiency of governmentwide efforts to collect debts. Federal agencies are to implement the act pursuant to guidance provided by the Federal Claims Collection Standards (FCCS), which are regulations jointly issued by GAO and the Justice Department. As requested by Senator Dennis DeConcini (see appendix I), this report summarizes our views on selected federal agencies' efforts to implement the act. Agencies reviewed were the Department of Education, Department of Housing and Urban Development



(HUD), Veterans Administration (VA), and Farmers Home Administration (FmHA).

We have long stressed the need for improved debt collection in the federal government and since 1978 have issued over 40 reports dealing with this area. (See appendix II.) For example, in October 1978, we reported that federal agencies lacked prompt and aggressive collection action on delinquent debts and that inaccuracies existed in their accounting for and reporting of accounts receivable.<sup>1</sup> In a February 1979 report, we noted that when compared with commercial practices, the government's collection methods were slow, expensive, and ineffective.<sup>2</sup> In a March 1981 report, we estimated that strengthened debt collection could save billions of dollars.<sup>3</sup> In April 1983, we reported that increased focus on debt collection resulted in improved collection practices and increased collections, but we also emphasized the need for continued oversight by the Office of Management and Budget (OMB) and the Congress to ensure that debt collection receives high priority.<sup>4</sup>

In response to our work and to congressional concern, OMB established the Debt Collection Project in August 1979 to identify and recommend solutions to governmentwide problems which impede agency collection efforts. The project's report, issued in January 1981, included a series of recommendations for strengthening credit management and debt collection. Among other things, that report stressed the need for government agencies to use collection tools and services available to the private sector.

Recognizing the need for improved financial management, the administration made debt collection a priority and designated OMB as the focal point for debt collection initiatives. In May 1985, OMB issued circular A-129, which prescribes policies and procedures for managing federal credit programs and for collecting loans and other receivables. The circular contains management guidance on extending credit, servicing accounts, collecting delinquent receivables, and writing off uncollectible

<sup>1</sup>The Government Needs To Do a Better Job of Collecting Amounts Owed by the Public (FGMSD-78-61, October 20, 1978).

<sup>2</sup>The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices (FGMSD-78-59, February 23, 1979).

<sup>3</sup>Improved Administrative Practices Can Result in Further Budget Reductions (PAD-81-69, March 30, 1981).

<sup>4</sup>Significant Improvements Seen in Efforts To Collect Debts Owed the Federal Government (AFMD-83-57, April 28, 1983).

accounts. In chapter 2, OMB's efforts to provide direction and to monitor agencies' debt collection efforts are discussed further.

Chapter 2 also summarizes progress being made by selected agencies to implement the Debt Collection Act and other debt collection initiatives. The need for additional debt collection authority is discussed in chapter 3. Problems in accounting for debts owed the government are highlighted in chapter 4. Detailed discussions of these areas as they relate to the specific agencies in our review are included as separate appendixes, which are an integral part of this report.

## Provisions of the Act and Other Debt Collection Initiatives

The Debt Collection Act of 1982 requires the Director of OMB to analyze reports received from agencies and to prepare an annual report to the Congress on the management of agency debt collection activities. In addition, it specifically requires agencies to obtain taxpayer identification numbers from loan applicants and to assess interest, penalties, and administrative costs on delinquent debts. The act also addresses the use of several other debt collection tools. For example, it

- makes clear that agencies may contract for debt collection services and pay debt collection contractors from the proceeds recovered by them;
- permits agencies to redisclose addresses obtained from IRS to certain third parties for debt collection purposes;
- authorizes agencies to offset salaries of government employees who owe delinquent debts, provided certain procedures are followed;
- allows agencies to disclose information about an individual's delinquent debt(s) to credit reporting agencies provided certain procedural requirements are followed;
- allows federal agencies to take administrative offset against current and/or future payments to debtors to recover delinquent debts for up to 10 years after the debt is incurred; and
- allows IRS to disclose to other federal agencies whether applicants for loan programs have delinquent tax accounts.

We have recommended in the past that delinquent debtors' tax refunds be withheld to recover debts owed to the federal government. The Deficit Reduction Act of 1984 gives the Internal Revenue Service (IRS) temporary authority to withhold income tax refunds payable in 1986 and 1987 to recover past-due, legally enforceable debt. Five agencies (Education, VA, HUD, Department of Agriculture, and Small Business Administration) are participating in the first year of the pilot program and have

referred 750,000 accounts to IRS. In commenting on our report, OMB estimated that about \$150 million will be collected during the first year of this program. To date, recoveries through the tax refund offset program include \$74 million for Education, \$4.4 million for VA, and \$615,000 for FmHA. Other agencies may participate in the second year of the pilot. After the pilot project, the Congress will decide, based in part on IRS-accumulated data on the effects of refund offsets on taxpayer compliance, whether the program should be extended.

To provide federal agencies with an additional resource for improving their debt collection capability, the General Services Administration (GSA) awarded 2-year contracts in October 1985 to four collection agencies for collecting debts owed to the federal government. Agencies with existing contracts for collection services may continue to use those services until their contracts expire, after which OMB requires that they use the GSA contracts for subsequent collections. GSA estimates that federal agencies will refer as many as 1.4 million delinquent accounts valued at approximately \$4.5 billion.

Under the Internal Revenue Code, agencies are to report debts discharged through compromise, waiver, or termination of collection action to IRS for inclusion in the debtor's taxable income. In addition, agencies may sell portions of their loan portfolios.

## Objectives, Scope, and Methodology

Senator Dennis DeConcini requested that we evaluate selected agencies' efforts to implement the act because of national concern over the increasing level of debt due the federal government during a time of rising federal deficits. He is interested in ensuring implementation of the Debt Collection Act and other tools to increase collections. He also asked that we evaluate OMB's efforts to assist the agencies in implementing the act and improving debt collection. As agreed upon with the Senator's office, we also evaluated selected agencies' systems for accounting for debt to be collected. Specifically, our objectives were to

- evaluate the efforts of selected agencies to implement the act and other debt collection initiatives,
- evaluate OMB's efforts to assist agencies in implementing the act and improving debt collection,
- determine whether additional collections have resulted from debt collection initiatives, and
- evaluate the integrity of systems that account for debt owed to selected agencies.

Our review focused primarily on the following four agencies:

- Farmers Home Administration,
- Department of Education,
- Veterans Administration, and
- Department of Housing and Urban Development.

Collectively, as of September 30, 1985, the selected agencies account for \$117.1 billion in receivables and \$14.1 billion in delinquencies, which represents 39 percent of the total federal nontax receivables and 59 percent of nontax delinquencies.

Although our work centered on these agencies, we also obtained general information on the amount of receivables and delinquencies of other federal agencies. We obtained this information by reviewing OMB and agency documents and through discussions with OMB and agency officials.

We chose the agencies for our detailed review on the basis of several factors. One was the amount of receivables and delinquencies they reported. Other factors included initial indications of an agency's efforts to implement the act or other debt collection initiatives; problems experienced in implementing effective debt collection systems, the act, or other debt collection initiatives; and identification of debt collection systems as a weakness in an agency's Financial Integrity Act reports.

To the extent possible, we focused on those programs owed the largest share of delinquent debt within each agency. For example, at HUD we concentrated on the Multifamily, Single Family, and title I programs. At Education we examined the Guaranteed Student Loan, National Direct Student Loan, and College Housing Loan programs.

A large portion of the receivables and delinquencies is owed to IRS. We did not, however, include IRS in our review because debts arising under the Internal Revenue Code are not subject to the Debt Collection Act. Also, IRS has more powerful debt collection tools, such as levies against bank accounts and salaries, liens, and seizures, which are not available under provisions of the Debt Collection Act. In addition, we separately consider debt collection at IRS as part of our ongoing tax issue area work. For example, we have issued several reports on this subject in recent years and have other debt collection reviews currently in progress at IRS. In order to clearly present the magnitude of amounts due the government from all sources, we have included tax receivables in the total

figures presented in the various charts in chapter 2. However, figures for delinquencies exclude those related to tax receivables in order to present delinquencies which generally could be subject to collection using the tools provided by the Debt Collection Act of 1982—the main focus of this report.

The recommendations made in this report arose in the course of reviewing the collection activities of these four agencies. Although the agencies' and programs included in this project account for more than half of the government's nontax delinquencies, they do not represent all of the types of debts, debtors, and programs to which the act applies. Both for this reason, and because GAO and Justice continuously render decisions interpreting the act's provisions, our recommendations are not intended to propose a comprehensive revision to the Debt Collection Act's provisions. Future suggestions for revision of the act in areas other than those recommended in this report are likely. We will advise the Congress of these as appropriate.

To determine an agency's progress in implementing the debt collection initiatives, we interviewed officials responsible for each agency's debt collection initiatives and OMB officials responsible for monitoring agency efforts. We also reviewed pertinent agency and OMB documents. We directed our discussions and review of documents at determining the status of each agency's efforts, debt collection accomplishments, impediments to implementing debt collection initiatives, and future debt collection plans.

We evaluated the guidance OMB provided, as well as how OMB monitored agency efforts. Through discussions with selected OMB debt collection officials, we obtained an understanding of the methods it uses to monitor agency activities and progress. We also reviewed OMB documents used to monitor agency progress, such as periodic reports showing an agency's status in using each debt collection tool.

We reviewed pertinent inspectors general reports of the selected agencies and, where appropriate, discussed debt collection work with officials of these offices. In addition, we reviewed the agencies' Financial Integrity Act reports.

We spoke with officials of the Department of the Treasury, GSA, and IRS because of their central role in several of the debt collection initiatives. Because both the IRS tax refund offset programs and the GSA collection services contracts were in the initial stages at the time of our review, we

did not assess these efforts. We also performed work at the Department of Defense to determine its procedures for withholding routine salary adjustments from military service members' pay.

Because of the impact of systems that account for debts owed to the federal government on the effective implementation of debt collection tools, we also evaluated the integrity of these systems at selected agencies. We interviewed financial management officials at selected agencies concerning their systems of accounting for receivables and short- and long-term enhancement efforts underway to correct known problems. We followed up on selected accounting problems which we, inspectors general, private contractors, and the agencies themselves previously identified.

We performed our fieldwork from January 1985 through November 1985 in accordance with generally accepted government auditing standards. We conducted our work at the four agencies' headquarters offices in Washington, D.C., and at selected field office locations. The latter locations consisted of the Farmers Home Administration, St. Louis, Missouri; the Veterans Administration, St. Paul, Minnesota; the Air Force Accounting and Finance Center, Denver, Colorado; the Navy Finance Center, Cleveland, Ohio; and the Army Finance and Accounting Center, Indianapolis, Indiana.

We obtained official agency comments of a draft of this report from the Office of Management and Budget; the departments of Education, Housing and Urban Development, and Agriculture; and the Veterans Administration. These comments are included in appendixes XII through XVI. Our general evaluation of the agencies' comments appears, as appropriate, in chapters 2 through 4. Our evaluation of agencies' specific comments are presented in appendixes VII through X, which provide a detailed discussion of the status of each agency's debt collection activities.



# Additional Use of Debt Collection Initiatives Needed

Despite enactment of the Debt Collection Act of 1982, serious and long-recognized problems in collecting debts owed the government remain unresolved. Agencies are faced with collecting increased amounts of receivables and delinquencies. Billions are going uncollected for years, and the amount being written off is large. At the same time significant amounts of potential debt in the form of loan guarantee programs have been generated. However, agencies' progress in implementing the act's provisions has been slow. By not making greater use of available debt collection tools, agencies are missing a valuable opportunity to contribute to reducing the growing budget deficit.

OMB has monitored agencies' performance in improving debt collection and, most recently, has emphasized the entire credit management area—including debt collection—by the issuance of OMB circular A-129. Additionally, OMB is giving the Department of the Treasury a more active role in federal credit management. While we support these actions, additional agency emphasis to improve debt collection practices is essential before the full potential of the Debt Collection Act and other debt collection initiatives can be realized.

Collections for the agencies included in our review have decreased during the past year. Progress by these agencies in implementing debt collection initiatives has varied. On the whole, they are not using, or are not making full use of, the initiatives provided for in the act. Debt collection problems have also been highlighted in several agencies' 1984 and 1985 Financial Integrity Act reports.

Increased emphasis by agency management to solve these problems is necessary in order to ensure implementation of improved debt collection initiatives. One way of doing this is to provide agencies additional incentives to collect debts.

---

## Debts Owed the Government Are Large and Increasing

As of September 30, 1985, federal agencies reported that receivables totaled \$345.8 billion, of which \$23.9 billion was nontax delinquencies. This represents a 27 and 55 percent increase in total receivables and nontax delinquencies, respectively, over what was reported at the end of fiscal year 1982. Table 2.1 shows receivables and nontax delinquencies at the end of fiscal years 1982 through 1985, the percent change from one year to the next, and the amounts of nontax write-offs during each year.



**Table 2.1: Receivables, Nontax Delinquencies, and Nontax Write-Offs, 1982 to 1985**

Fiscal year	Total receivables <sup>a</sup> (billions)	Change from prior year (percent)	Nontax delinquencies (billions)	Change from prior year (percent)	Nontax write-offs (billions)
1982	\$273.2	13.1	\$15.4	28.3	\$2.7
1983	293.9	7.6	17.3	12.3	2.8
1984	318.0	8.2	20.2	16.8	2.8
1985	345.8	8.7	23.9	18.3	2.0

Note: All figures, except percentages, were taken from OMB data. The data were based on information federal agencies provided and (except where otherwise noted) include tax as well as nontax receivables and both domestic and foreign debt. Although we did not verify these figures to the agencies' underlying records, we traced total receivables for fiscal years 1984 and 1985, reported by OMB, to reports the agencies prepared for the Department of the Treasury. Chapter 4 addresses problems with agencies' accounting systems and reporting procedures which could affect the reliability of these amounts.

<sup>a</sup>The receivables applicable to IRS, which include tax—as well as other—receivables, ranged from 8.8 percent to 12.6 percent of total receivables and consisted of \$43.6 billion in 1985.

Appendix III shows receivables and delinquencies as of September 30, 1985, for each major department and agency, as well as amounts written off during fiscal year 1985. Major receivables by agency or function as of September 30, 1985, are summarized in appendix IV.

The agencies included in our review reported that receivables and delinquencies totaled \$117.1 billion and \$14.1 billion, respectively at the end of fiscal year 1985. This represents a 16 percent increase in receivables and a 52 percent increase in delinquencies since the end of fiscal year 1982 for those agencies. (Appendix V shows, for the agencies included in our review, the amount of receivables, delinquencies, and write-offs, by major program, at the end of fiscal year 1985.) The change in receivables for these agencies for fiscal years 1982 through 1985 is shown in table 2.2, and their change in delinquencies for fiscal years 1982 through 1985 is presented in table 2.3.

**Chapter 2**  
**Additional Use of Debt Collection**  
**Initiatives Needed**

**Table 2.2: Total Receivables for Selected Agencies at End of Fiscal Years 1982 to 1985**

Dollars in billions					
Agency	Fiscal year 1982	Fiscal year 1983	Fiscal year 1984	Fiscal year 1985	Percent increase from 1982 to 1985
Education	\$10.8	\$11.3	\$11.7	\$11.9	10
VA	4.3	4.2	4.1	4.5	5
FmHA	60.1	63.0	66.8	71.6	19
HUD	14.1	14.5	15.0 <sup>a</sup>	29.1 <sup>a</sup>	11 <sup>c</sup>
<b>Total</b>	<b>\$89.3</b>	<b>\$93.0</b>	<b>\$97.6</b>	<b>\$117.1</b>	<b>16<sup>c</sup></b>

Note: See note to table 2.1.

<sup>a</sup>In fiscal years 1984 and 1985, HUD paid off approximately \$1.0 billion and \$12.5 billion, respectively, in guaranteed loans for public housing authorities, which resulted in a substantial increase in receivables owed for these years to HUD by these authorities. The percentages were, therefore, determined after excluding these receivables.

**Table 2.3: Total Delinquencies for Selected Agencies at End of Fiscal Years 1982 to 1985**

Dollars in billions					
Agency	Fiscal year 1982	Fiscal year 1983	Fiscal year 1984	Fiscal year 1985	Percent increase from 1982 to 1985
Education	\$3.5	\$3.1	\$4.0	\$4.0	14
VA	1.3	1.3	1.4	1.6	23
FmHA	3.0	4.0	5.3	6.9	130
HUD	1.5	1.8	1.7	1.6	7
<b>Total</b>	<b>\$9.3</b>	<b>\$10.2</b>	<b>\$12.4</b>	<b>\$14.1</b>	<b>52</b>

Note: See note to table 2.1.

**Collectibility of Receivables Is Uncertain**

Although agencies' accounting systems attempt to track debts owed the government, the actual collectibility of such debts may be questionable due to several factors. Such situations include the potential uncollectibility of amounts owed by farmers and foreign nations and the increasing age of delinquent debts.

In two recent reports,<sup>5</sup> we noted that a large amount of the debt FmHA recorded may be uncollectible because of the deterioration of the farm economy. Because of its responsibility as a lender of last resort, FmHA has lent money to many farmers who have limited ability to repay. As of June 30, 1985, FmHA estimated that over 50 percent of its farm loan

<sup>5</sup>Financial and General Characteristics of Farmer Loan Program Borrowers (GAO/RCED-86-62BR, January 2, 1986) and An Overview of Farmer Program Debt, Delinquencies, and Loan Losses (GAO/RCED-86-57BR, January 2, 1986).

portfolio is owed by borrowers in extreme financial difficulty and, thus, in jeopardy of default.

Also, in our opinion, a portion of the foreign debt included as receivables is probably uncollectible. For example, in February 1986, we testified before the Subcommittee on International Finance and Monetary Policy of the Senate Committee on Banking, Housing and Urban Affairs, about our concern that the Export-Import Bank overstated its reported loan balance. In that testimony, we pointed out that a significant portion of the bank's loans owed by or guaranteed for foreign governments is probably uncollectible. This is because a large portion of these loans are delinquent, many previously delinquent loans were changed to a current status, and many of the defaulted loan claims paid by the bank under its guarantee and insurance programs are treated as loans receivable.

Finally, delinquent debt is becoming older, with increasing amounts approaching or exceeding 1 year after the initial default or establishment of the debt. The longer a debt is outstanding, the more difficult the collection of that debt will be. The information in table 2.4, taken from OMB figures as reported by the agencies, shows the age of nontax delinquent debt owed the government for fiscal years 1982 to 1985.

**Table 2.4: Age of Nontax Delinquent Debt, Fiscal Years 1982 to 1985**

Dollars in billions

Fiscal year ended	Total nontax delinquencies	Nontax delinquencies over one year old	Percent of total nontax delinquencies
1982	\$15.4	\$ 7.8	50.6
1983	17.3	11.8	68.2
1984	20.2	12.3	60.9
1985	23.9	15.0	62.8

Note: See note to table 2.1.

For the reasons discussed previously, we believe that the amounts reported as delinquencies may be seriously misstated. While this amount is owed the government for valid reasons, a large portion may never be collected.

## Growth in Loan Guarantees

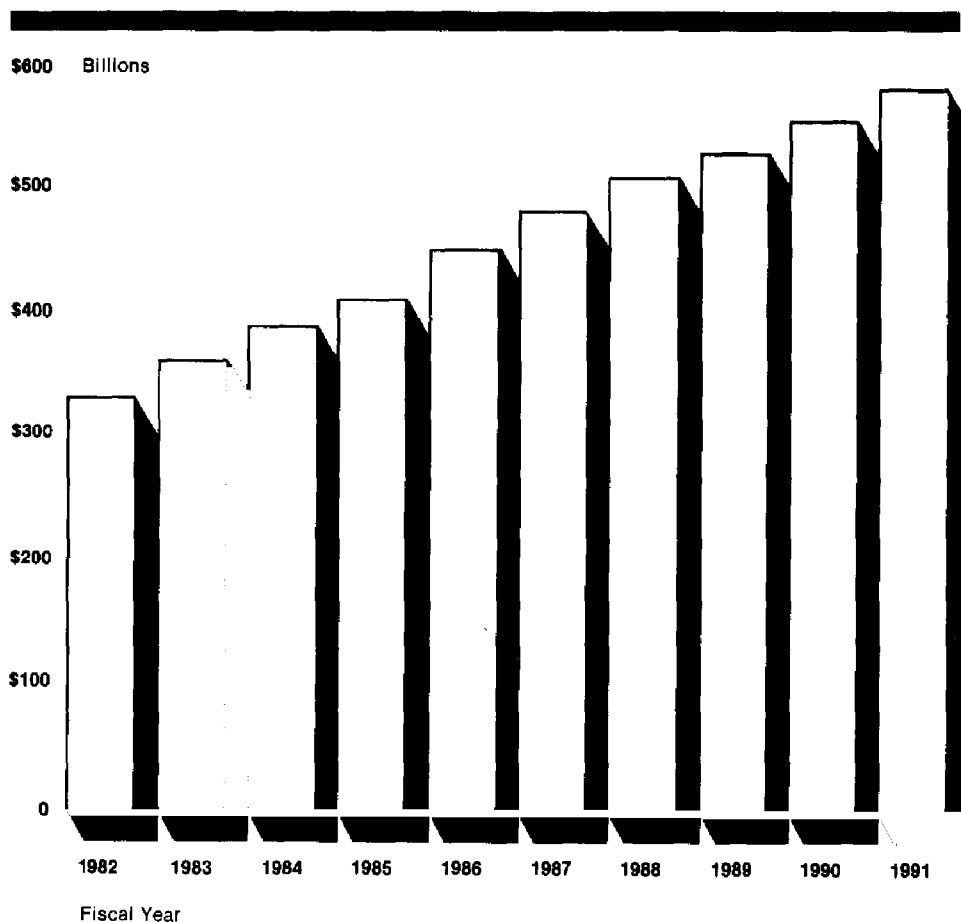
Guaranteed loan commitments are agreements in which federal agencies guarantee the payment of principal and interest of a loan in whole or in part in the event of default. Guarantees, which are used in a wide

**Chapter 2**  
**Additional Use of Debt Collection**  
**Initiatives Needed**

variety of programs, thus transfer some or all of the risk of default from the lender to the government.

Between fiscal years 1982 and 1985, guaranteed loans increased from \$331.2 billion to \$410.4 billion—an increase of 24 percent. In addition, OMB estimates that loans guaranteed by the federal government will increase to about \$581 billion by the end of fiscal year 1991. Figure 2.1 shows the actual increase in guarantees through fiscal year 1985 and the projected increases through fiscal year 1991.

**Figure 2.1: Actual and Projected Growth in Guarantees**



Data taken from OMB's *SPECIAL ANALYSES Budget of the United States Government* fiscal years 1985, 1986, and 1987

As government programs move toward guaranteeing greater amounts of loans, it is natural to anticipate that the government will eventually

need to collect a portion of these guaranteed loans. Therefore, an effective debt collection program assumes even greater importance. For example, the Maritime Administration's Federal Ship Financing Fund had outstanding loan guarantees and commitments of \$6.5 billion as of September 30, 1985. On June 25, 1985, we testified before the Subcommittee on Merchant Marine, House Committee on Merchant Marine and Fisheries, that the fund suffered defaults of \$373.7 million in principal and interest for the 3 years preceding May 31, 1985, and that additional defaults of \$300 million to \$500 million are expected by the end of fiscal year 1986.

---

## OMB and Treasury Emphasizing Debt Collection

OMB, as the administration's focal point for debt collection, has issued bulletins and circulars and provided guidance and oversight on specific agency issues to encourage agencies to improve their debt collection efforts. In March 1983, OMB issued bulletin 83-11, requiring agencies to update their debt collection plans to show how they will implement the Debt Collection Act.

Additional guidance was provided in August 1984 when OMB revised circular A-70, "Policies and Guidelines for Federal Credit Programs." This circular provided guidance to agencies in proposing new credit programs and reviewing existing credit programs for the purpose of suggesting changes and establishing or adopting management policies.

Building on the policies outlined in circular A-70, OMB issued circular A-129, "Managing Federal Credit Programs," in May 1985. This circular further emphasized the requirement for agencies to implement the Debt Collection Act and other initiatives. Circular A-129 addressed the entire credit management process, prescribing policies and procedures for managing federal credit programs and collecting receivables. In the circular, OMB offered additional management guidance on extending credit, servicing accounts, collecting delinquent receivables, and writing off uncollectible accounts. Provisions of circular A-129 are outlined in appendix VI and further discussed in chapter 3.

As required by the act, OMB reports annually to the Congress on agency debt collection activities. OMB's 1985 report contained general information on agency accomplishments and efforts to implement the act, as well as data in areas such as amounts receivable and delinquent.

In an effort to institutionalize these policies in the federal government, OMB is giving the Department of the Treasury a more active role in federal credit management. Treasury's Financial Management Service will assist federal agencies in implementing credit management and debt collection policies and will ensure that agency accounting and management information systems are in place to carry out the provisions of the Federal Claims Collection Standards (FCCS) and circular A-129. OMB, however, will continue its role in establishing management policy, monitoring agency implementation, and evaluating department and agency performance.

We believe the policies OMB has presented in circular A-129 and its efforts to involve Treasury are generally sound credit management initiatives and should improve the government's debt collection picture. What remains now is for the agencies to implement these policies, which will take a concerted effort on the part of the agencies as well as OMB and Treasury. We believe, however, that circular A-129, by itself, will not provide a sufficient basis for agencies to take action to improve their debt collection practices. We believe that it will require additional incentives and further legislative authority. (See pages 35-37 and chapter 3, respectively.)

While the report OMB is required to submit to the Congress under the act is informative, we believe that specific information on each agency's credit management and debt collection activities and goals would be more useful in assessing agency performance and that the agencies should provide these reports as part of their budget submissions. In addition, we believe that OMB's 1986 report to the Congress should state how OMB (and Treasury) will ensure that agencies follow the provisions of circular A-129 and the act.

---

### Provisions of the Act and Other Initiatives Not Being Implemented

Progress by the agencies we reviewed in adopting tools the act provides and other initiatives has differed. For example, FmHA and VA have made limited use of their authority to report delinquent debtors to credit bureaus, to use private collection agencies to collect debts, to disclose IRS-provided addresses to certain third parties for debt collection purposes, and to make deductions from federal employees' salaries for repayment of delinquencies. Education, on the other hand, has used several of the debt collection tools the act provides.

During our review, we found situations where certain debt collection tools were available for agency use prior to the passage of the Debt Collection Act. For example, the FCCS required agencies to develop and implement procedures for referring information on delinquent debtors to credit bureaus prior to the passage of the Debt Collection Act. Some agencies, such as VA and Education, also had independent authority to do this. However, Education did not actually make referrals until 1984. VA began making some referrals in early 1986.

Table 2.5 provides an overview of each of our selected agency's efforts, at the end of our review, to implement the act and other debt collection initiatives. Each agency's progress is indicated by one of four categories: fully implemented, partially implemented, not fully or partially implemented, and not applicable or practical. We recognize that in some cases agencies are working towards implementing the initiatives. Also, where we show that the tool is implemented, expanded use of the initiative may be possible. Because of this, the remaining part of this section—as well as information in appendixes VII through X—should be considered in conjunction with table 2.5 to obtain complete details on the status of agencies' efforts to implement improved debt collection initiatives. See appendix XI for additional information on selected debt collection initiatives.

**Chapter 2  
Additional Use of Debt Collection  
Initiatives Needed**

**Table 2.5: Status of Agency  
Implementation of Debt Collection  
Initiatives**

Debt Collection Initiative	Agency			
	HUD	FMHA	VA	E
Reporting to consumer credit bureaus				
Obtaining taxpayer identification numbers	X	O		
Using salary offsets <sup>a</sup>	O			
Disclosing IRS-provided addresses	N			
Using administrative offsets <sup>b</sup>	O		O	
Assessing interest (minimum rate)	O		O	
Assessing penalties	O			
Assessing administrative costs	O		O	
Using private collection firms				
Screening loan applicants against IRS tax accounts	NC	NC	NC	N
Seeking IRS offset of income tax refund <sup>d</sup>	O	O	O	C
Reporting discharged debts to IRS <sup>d</sup>	X		X	
Selling loans <sup>d</sup>			O	

**Legend:**

- Fully Implemented: Implemented in those programs included in our review and used to the maximum extent we consider reasonably possible.
- Partially Implemented: Fully implemented in some programs but not in others.
- Not Fully or Partially Implemented: Even though the agency may be working toward implementing the tool, the agency has not yet succeeded in using the tool or is not using it to the maximum extent we consider reasonably possible.
- N Not applicable or practical.

<sup>a</sup>Withholding part of federal employees' salaries to satisfy delinquent debts.

<sup>b</sup>Offsetting payments due to federal program participants to satisfy delinquent debts.

<sup>c</sup>Use of this tool does not appear to be practical at the present time for reasons such as IRS response time and the inability of agencies, such as Education, to deny loans based on tax delinquencies.

<sup>d</sup>Initiative not included in the Debt Collection Act.

Officials at agencies we reviewed presented a number of reasons for not implementing initiatives to improve debt collection. These range from management uncertainty on how to proceed with certain issues to the inability to generate necessary information to implement the initiatives. Additional reasons include priority placed on other initiatives, the time required to develop necessary regulations, and concerns about the act's procedural requirements.



The Debt Collection Act, as well as other related initiatives, provides agencies with a wide range of tools they can use to be more effective debt collectors. The tools are complementary and, therefore, to obtain the most benefit, agencies should use all tools where possible. Our discussions on agencies' use of the initiatives are presented on this basis.

**Education's Debt Collection  
 Program Needs Continued  
 Emphasis**

Education has made considerable use of its debt collection authority in an effort to reduce the growing backlog of defaulted student loans. However, due to the increase in the rate of defaulted loans, continued emphasis on improving Education's debt collection program is needed. For example, according to Education officials, defaults for the Guaranteed Student Loan (GSL) program alone, which were estimated to be \$1 billion for 1985, could exceed \$1.8 billion annually and reach a cumulative total of nearly \$12 billion by 1990. To the extent these defaults occur and cannot be collected by the state guarantee agencies, the government will be responsible for reimbursing the guarantee agencies.

Education's collection procedures include using private collection agencies, reporting delinquent debtors to commercial credit bureaus, offsetting federal employees' salaries to satisfy delinquent debts, and withholding delinquent debtors' tax refunds. Those provisions of the Debt Collection Act and other initiatives which have not been implemented by Education for the programs we reviewed are included in table 2.6.

**Table 2.6: Debt Collection Initiatives  
 Not Implemented by Education**

<b>Initiative not implemented</b>	<b>Reason(s) not implemented</b>
Assessment of interest, penalties, and administrative charges under the act (see page 78)	Belief that statutory constraints make this initiative inapplicable to its student loan programs  Belief that such charges cannot be assessed when not contained in the loan agreement
Taking administrative offset to collect debts owed to Education (see page 77)	Delayed due to recent court decisions and uncertainty over the need to publish regulations prior to making offsets
Screening loan applicants against IRS tax accounts (see note c to table 2.5)	Belief that this initiative is inapplicable to its student loan programs
Reporting discharged debts to IRS (see page 79)	Debts discharged not meeting IRS' criteria for reporting (i.e., discharged debts less than \$600 cannot be reported)
Loan sales (see page 78)	Conducting an asset valuation analysis and determining with OMB the amount of loans to be offered

While we are encouraged by Education's use of debt collection initiatives, we believe that the department could do more to assess interest and penalties on future defaulted student loans. Education maintains that it cannot assess additional interest or penalties where such charges are determined by law and not explicitly stated in the loan agreement. While this may be true for existing loans, we believe Education should take appropriate steps, such as having statutes, regulations, or loan agreements amended, to allow for such charges in the future. In our opinion, interest, administrative costs, and penalty charges should be assessed in accordance with the act as a deterrent to borrowers who fail to make timely repayments and to compensate the government for the cost of collecting delinquent debts. Also, Education (like other agencies in our review) has made limited use of loan sales. We believe sales of loans should be further explored as a credit management tool.

Appendixes VII and XI present additional information about the status of Education's debt collection efforts. Our views on Education's reasons for not implementing some debt collection initiatives are discussed in appendix VII.

---

**HUD Needs To Do More To  
Implement the Debt  
Collection Act**

The Department of Housing and Urban Development has made some progress in implementing the provisions of the Debt Collection Act. HUD obtains loan applicants' taxpayer identification numbers, and, in certain areas, makes offsets within its programs, withholds employee salaries to satisfy debts, and reports discharged debts to IRS. However, HUD has delayed implementation or not implemented other debt collection initiatives. Those initiatives not entirely implemented are presented in table 2.7.

**Chapter 2  
Additional Use of Debt Collection  
Initiatives Needed**

**Table 2.7: Debt Collection Initiatives Not Implemented by HUD**

<b>Initiative not implemented</b>	<b>Reason(s) not implemented</b>
Reporting delinquent debtors to credit bureaus (see page 85)	Contract changes and difficulty in determining which accounts to report under title I  Belief that modifications to its management information system would be too costly under Single Family  Belief that participants of Multifamily programs are not personally liable
Use of private collection firms (see page 86)	Belief that staff can collect just as well as private firms
Withholding of employee salaries to satisfy debts (see page 86)	Belief that this is unnecessary in the Single Family program because HUD holds the secured mortgage  Lack of social security numbers for cases prior to 1980  Belief that Multifamily participants are not personally liable and multimillion dollar mortgages make collection through salary deductions impractical
Requesting other federal agencies to administratively offset delinquent debt (see page 87)	Difficulty in determining if a debtor is receiving payments from other agencies
Assessment of penalties and administrative charges (see page 88)	Higher priority given to other debt collection efforts within the title I program
Screening loan applicants against IRS tax accounts (see note c to table 2.5)	Belief that this initiative is inapplicable for the title I and Multifamily programs because HUD is not involved in the initial lending process under title I and because Multifamily borrowers are partnerships and corporations  Concern over IRS response time for the Single Family program
Portfolio sales (see page 87)	Belief that sales of title I and Single Family loans would produce an unacceptable return  Belief that initiative is unfeasible for the Multifamily program because of OMB's requirement to sell without insurance

Note: We reviewed three programs within HUD: Title I Defaulted Notes, Single Family Mortgage Notes, and Multifamily Mortgage Notes. The information presented in this table is for those initiatives not implemented by all three programs.

We believe that HUD should implement the debt collection tools previously discussed. However, HUD does not agree in all cases. For example, HUD believes that its own staff can collect its delinquent debts as well as private collection agencies. HUD did not provide us any support for its position. In our opinion, HUD does not have sufficient information to

make this judgment. We believe that HUD should obtain further experience with private collection firms and then reevaluate its position. Use of the GSA contracts for private collection services is one way in which this experience can be obtained.

HUD maintains that to refer all delinquent debtors who have not met their revised repayment schedules to credit bureaus would require costly and time-consuming modifications to its management information systems. However, HUD has not determined what this cost would be. As a result, only those accounts entering foreclosure proceedings will be referred. In addition, Single Family program officials advised us that the current contract for this management information system expires in June 1987, and a request for proposal for a new contract is currently being written. In our opinion, this would be an opportune time to ensure that the system provides the needed information for referring accounts to consumer reporting agencies. We believe that for this tool to be most effective the Single Family program should not limit referrals to those accounts in foreclosure, but should also refer those debtors which have not met their repayment schedules.

Even though HUD has not identified delinquent federal employees participating in the Single Family program, Single Family officials believe that because the department holds secured notes, that involuntary salary deductions are unnecessary. However, we believe that opportunities may exist for the Single Family program to use this tool to collect some delinquent debts. For example, use of the tool prior to foreclosure may avoid the need for additional action.

Appendixes VIII and XI present additional information on the status of HUD's debt collection efforts. Our views on HUD's reasons for not using some debt collection tools are discussed in appendix VIII.

---

**Limited Progress Made by  
Farmers Home  
Administration**

FmHA's efforts to implement the Debt Collection Act and debt collection initiatives have been slow. Although the agency now collects information for reporting discharged debts to IRS and obtains taxpayer identification numbers from some borrowers, it has yet to complete some basic tasks, such as issuance of regulations, necessary to improve its debt collection performance. Those initiatives not implemented and FmHA's reasons for not implementing them are presented in table 2.8.

Chapter 2  
**Additional Use of Debt Collection  
 Initiatives Needed**

**Table 2.8: Debt Collection Initiatives  
 Not Implemented by FmHA**

<b>Initiative not implemented</b>	<b>Reason(s) not implemented</b>
Reporting delinquent individual debtors to credit bureaus (see page 95)	Higher priority given to other initiatives and program responsibilities  Difficulty in ensuring reported information is accurate, separating delinquent borrowers from others, and periodically updating information
Use of private collection firms (see page 95)	Benefits of using private contractors not fully assessed
Disclosure of IRS-provided addresses to FmHA agents (see page 47)	Belief that use of authorities other than the Federal Claims Collection Act prohibits use of IRS-provided addresses  High priority not placed on this initiative because its loans are secured by property
Withholding of employee salaries to satisfy delinquent debts (see page 96)	Departmental regulations published in March 1986  FmHA regulations not published
Taking administrative offset to collect debts owed to FmHA (see page 97)	Used prior to September 1983 but stopped because FmHA regulations did not provide full due process requirements of the Debt Collection Act  Higher priority given to other initiatives and program priorities
Screening of loan applicants against IRS tax accounts (see note c to table 2.5)	Belief that IRS response will not be timely
Assessment of interest, penalties, and administrative charges (see page 96)	Low priority given to assessing these charges because of concern that additional assessments may result in more bankruptcies in the farm sector  Lack of system capability to assess these charges
Loan portfolio sales (see page 97)	Unsuccessful pilot test conducted in 1985  Belief that present state of the farm economy limits sales potential

We recognize that the troubled farm economy may make the use of certain debt collection initiatives difficult and complicated at the present time. The agricultural sector is undergoing the most significant recession since the 1930's. Dealing with this agricultural crisis is an important issue and has a direct effect on the collection schedules for loans. However, we believe that FmHA should, where possible, implement these tools, but, at the same time, use discretion to ensure that its program responsibilities and objectives are met.

In carrying this out, FmHA may, under the FCCS, give appropriate consideration to any undue financial hardships that might result from its use

of the particular collection tools available to it, especially in view of the current farm crisis. For those initiatives that cannot be implemented due to the current crisis, FmHA should develop necessary procedures and be prepared to implement them when the rural economy stabilizes.

FmHA used administrative offset until September 1983, but stopped because its regulations did not include certain procedural requirements of the Debt Collection Act. The regulations have not been revised to incorporate these procedures. In our opinion, FmHA can use this tool even if regulations are not finalized—providing the debtor is given the substantive equivalent of the procedural rights prescribed by the Debt Collection Act and the FCCS. FmHA is making reasonable progress in revising its regulations.

Appendixes IX and XI present additional information about the status of debt collection at FmHA. Our views on debt collection tools not implemented by FmHA are discussed in appendix IX.

---

**VA Needs To Take  
Additional Action To  
Implement the Act**

VA has made limited progress in improving its debt collection efforts and implementing the provisions of the Debt Collection Act. VA assesses interest and administrative costs on some education and medical debt and is, where possible, making offsets between programs to collect outstanding debts. In addition, it has also reported discharged debts to IRS and sold portions of its loan portfolio. VA's progress in implementing other debt collection initiatives has been slow. Those initiatives not implemented and VA's reasons for not implementing them are presented in table 2.9

**Chapter 2  
Additional Use of Debt Collection  
Initiatives Needed**

**Table 2.9: Debt Collection Initiatives  
Not Implemented by VA**

<b>Initiative not implemented</b>	<b>Reason(s) not implemented</b>
Reporting delinquent debtors to credit bureaus (see page 105)	Need to modify accounting system to capture necessary data  Uncertainty about credit bureaus' willingness to accept information on VA's type of debt  Higher priority given to other debt collection efforts
Use of private collection firms (see page 106)	Concern that private collection firms may not be able to collect VA's debt effectively
Disclosure of IRS-provided addresses to its agents (see page 106)	Belief that such disclosures cannot be made unless the addresses are independently verified
Screening loan applicants against IRS tax accounts (see note c to table 2.5)	Concerns about timeliness of IRS response and IRS procedural requirements
Withholding of employee salaries to satisfy debts (see page 107)	Concern about the cost-effectiveness of this tool  Lack of hearing officials to conduct anticipated hearings  Need to reprogram its system which tracks delinquent debts
Requesting other agencies to offset debts owed to VA (see page 107)	Difficulty in determining if a debtor is receiving payments from other agencies
Assessment of penalties on delinquent debt (see page 108)	Belief that this initiative is inapplicable to VA
Obtaining taxpayer identification numbers (see page 109)	Required regulations not finalized  Loan forms to require this number not amended

Generally, we believe that the debt collection tools the act provides are applicable to all debts owed the United States. However, VA officials do not agree with our position on certain initiatives. For example, they maintain that VA should not assess penalties on delinquent debts because the Veterans Rehabilitation and Education Amendments of 1980, which authorized VA to charge interest and administrative costs on delinquent debts, did not include any provision for penalties. The Debt Collection Act and the FCCS require agencies to assess these penalties except as otherwise required by law. Since the Debt Collection Act was intended to improve governmentwide collection efforts and because the specific legislation VA cited in this case does not address penalties, an argument can be made that VA generally should assess penalties on its delinquent debt.

After this report was drafted, VA formally submitted a request for our opinion regarding its specific legal arguments. For this reason, we are

temporarily withholding recommendations on this issue until we can respond to VA's request. We also question VA's belief that IRS-provided addresses can be disclosed to its agents only after independent verification. Our discussions with IRS officials indicate that VA can disclose these addresses without verification through a third source. In our opinion, until VA implements all available debt collection initiatives, it will not have an effective debt collection program.

Also, during our review, we noted that the interest rate on defaulted home loan guarantees has not been raised since it was set at 4 percent in the 1940's. In our opinion, this should be changed to reflect current interest rates.

Additional detailed information about VA's status in implementing debt collection initiatives is presented in appendixes X and XI. Our views on debt collection initiatives not implemented by VA are discussed in appendix X.

---

## Agencies Identify Material Weaknesses in Debt Collection

Identification of debt collection as a material weakness by agencies in their Financial Integrity Act reports also highlights the need for debt collection emphasis. For example, 11 agencies reported debt collection problems in their 1984 reports. In 1985, 13 agencies reported debt collection problems in their reports. The agencies were:

- Department of Agriculture
- Department of Commerce
- Department of Education
- Department of Health and Human Services
- Department of Housing and Urban Development
- Department of the Interior
- Department of Justice
- Department of Labor
- Department of State
- Department of Transportation
- Department of Defense
- Small Business Administration
- Environmental Protection Agency



## Agencies Need Additional Incentive To Collect Debts

On a governmentwide basis, the total amount of collections that agencies have reported has generally been increasing. For example, in fiscal year 1985, collections for nontax receivables amounted to \$84.1 billion, which is a 27.6 percent increase over that collected in fiscal year 1982. This is to be expected considering that new receivables have increased as well. However, collections by the agencies included in our review have not consistently risen. To the contrary, collections by these agencies, as shown in table 2.10, have declined between 1984 and 1985.

**Table 2.10: Collections and Percent of Receivables for Fiscal Years 1982 to 1985**

Agency	Fiscal year 1982	Percent	Fiscal year 1983	Percent	Fiscal year 1984	Percent	Fiscal year 1985	Percent
Education <sup>a</sup>	\$0.88	8.1	\$1.12	9.9	\$1.37	11.7	\$1.14	9.6
FmHA	7.48	12.4	7.53	12.0	6.82	10.2	6.71	9.4
HUD	5.48	38.9	4.97	34.4	5.21	34.8	5.03	17.3
VA	1.55	36.2	2.35	55.9	1.66	40.4	1.31	29.4

Note: See note to table 2.1.

<sup>a</sup>Amounts reported for Education include collections made by educational institutions under the National Direct Student Loan Program. In fiscal year 1985, these collections totaled approximately \$524 million.

Improvements in debt collection as a result of initiatives that have been implemented by federal agencies are difficult to determine. In fiscal years 1982 and 1983, OMB used a standard formula to assess agencies' debt collection progress against established targets. However, according to OMB officials, the formula is no longer used to calculate savings because it did not adequately accomplish its objective. OMB officials advised us that they are attempting to develop a new approach to measure agencies' performance. Despite the lack of a uniform method to measure progress, some agencies we reviewed can identify specific accomplishments for some of the initiatives. These are addressed in appendixes VII through X, which are an integral part of this report.

We believe that, in addition to measuring agencies' performance in collecting debts, agencies need to be provided with a positive incentive for increasing collections and lowering delinquencies. A number of options for achieving this are possible. These options are not mutually exclusive—individually they represent potentially viable alternatives; in combination they could result in a comprehensive plan for influencing the emphasis agencies place on collecting debt. They must, however, be viewed in conjunction with the varying degrees of difficulty agencies face in collecting debts and the extent to which agencies' concentration

on debt collection activities should take precedence over other priorities. The options include:

1. Providing managerial incentives. Agency managers could, for example, be held more strictly accountable for attaining debt collection objectives and targets. This might be accomplished through such means as senior executive service and merit pay performance ratings and bonuses. OMB's circular A-129 currently recognizes this possibility through its provision for considering achievement of program objectives and performance measures in performance appraisals of individuals with credit management responsibilities.

Also, substantial cash awards could be made available to agency managers who significantly contribute to improved debt collection practices. The Department of the Treasury carries out a similar governmentwide program to recognize achievements in improving cash management.

In addition, agency managers could be specifically required to evaluate credit management and debt collection operations and systems annually, to identify areas where their programs could be strengthened, to initiate actions to correct problems, and to report the results of the evaluations to the Congress. Such a framework is provided by reviews required under the Federal Managers' Financial Integrity Act of 1982.

We believe that managerial incentives such as these could be relatively easy to act upon. We, therefore, believe that the Congress should place priority on and strongly consider their adoption.

2. Using collections in excess of targets for improving debt collection operations and systems. A portion of any increased collections that might result from exceeding established targets could be authorized for agency use in providing administrative services associated with collecting debts. Alternatively, a fund could be established and administered by the Department of the Treasury which would receive a portion of agencies' collections in excess of their goals. The funds accumulated in this manner could be made available to agencies for their use in improving credit management and debt collection operations and systems.

Another variation of this option might be to penalize agencies that do not meet debt collection targets by charging agency appropriations a specified amount or a portion of the amount of anticipated collections that are not recovered. The penalties assessed might then go into a fund

to be used to strengthen credit management and debt collection systems. This proposal parallels provisions of the Deficit Reduction Act of 1984, which established a similar mechanism relating to agencies' use of certain cash management procedures.

While this option raises policy issues, such as the impact of agencies retaining funds generated through increased collections that would normally be deposited into the Treasury as miscellaneous receipts, we believe this option can be adopted without encountering major controversy or affecting program operations. For example, the level of retention might be set at 10 percent of the amount collected, while the remainder of the excess collections would continue to be handled in the customary manner.

Our reason for presenting these options is that agencies do not yet have the incentive needed to place greater emphasis on collecting debt. We believe the improvement in credit management and debt collection that could result from adopting these options would also help agencies lessen the impact of legislatively-mandated budget reductions on agency program operations. Agencies would, therefore, have an alternative available to help ease the extent to which programs would need to be curtailed through budget cuts in order to reduce the budget deficit.

---

## Conclusions

For the agencies we reviewed, progress in implementing the act has been slow. Agencies have many reasons for delaying implementation, including management priorities, system capability limitations, management uncertainty, and the regulatory process. Although we realize that agencies have encountered problems in pursuing debt collection initiatives, we believe such problems can be mitigated through increased emphasis by the agencies, as well as by OMB and Treasury, on their efforts. Additional incentive is needed for agencies to use the tools the act provides and to improve their systems.

In circular A-129 OMB requires agencies to comply with management guidance that reflects many provisions of the Debt Collection Act, including such practices as using credit bureaus and collection agencies. Most of these provisions, however, have not been implemented.

OMB's annual report to the Congress, which is required by the act, is informative. Additional information, which specifically tells how each

agency is progressing in implementing improved debt collection practices and meeting its debt collection goals, would be more useful to the Congress in assessing agencies' performance in these areas.

The reporting of delinquent debtors to credit bureaus, which is common practice in the private sector, is one initiative which should be pursued quickly. We believe that, with greater use, reporting information on delinquent debtors can be an effective debt collection tool for government agencies as well.

Except for the Department of Education, those agencies included in our review have made limited use of private collection agencies. Private collection services may complement or even be a viable alternative to in-house collection efforts. Although agency concerns about using such services may be valid, agency officials cannot be certain if their perceptions are accurate without direct experience. Using the recently awarded GSA governmentwide contracts could provide agencies a vehicle for further evaluating the costs and benefits of this initiative.

Also, some agencies have not assessed interest, penalties, and administrative costs on their delinquent debts or made maximum use of salary offsets to collect debts from delinquent federal employees. The use of these tools would serve as an incentive to delinquent debtors to repay their debts, as a deterrent to future delinquencies, and as useful complements to other debt collection tools.

Although there may be opportunities for agencies to make greater use of loan sales, some agencies have little or no experience in this area. Therefore, we believe that agencies should further examine the risks and benefits of loan sales on their programs.

---

## Recommendations to the Congress

To help assess agency performance in improving credit management and debt collection practices, we recommend that the Congress amend the Debt Collection Act reporting requirements to provide that agencies shall, as part of their annual budget submissions, (1) report on their progress in implementing provisions of the act and other related debt collection initiatives, (2) disclose, on a program-by-program basis, the types of data listed in the act, for example, the amount of their receivables, age of delinquent debts, and amounts written off as uncollectible, and (3) set out their goals, both monetary and programmatic, for improving collections and reducing delinquencies and write-offs.

---

## Matters for Congressional Consideration

We suggest that the Congress consider amending the Debt Collection Act to provide agencies with additional incentive to collect debts. Options available to the Congress include managerial incentives such as holding managers more strictly accountable for attaining debt collection objectives and targets, developing awards programs for improved collection practices, and requiring annual evaluations of credit management and debt collection program operations. These do not require substantial policy decisions and could, therefore, be adopted with relative ease. An option involving the use of a portion of collections in excess of targets for improving debt collection operations and systems could also be adopted with little impact on program operations and without the need to resolve major issues.

---

## Recommendations to Agencies

To improve debt collection and credit management efforts, we recommend that:

- The Secretary of HUD require that managers of the Single Family Assignment program refer information on those debtors who do not meet their repayment schedules to credit reporting agencies. He should also explore the use of involuntary salary deductions in the Single Family Assignment Program. In addition, he should require that all program managers comply with the act's interest, penalty, and administrative cost requirements.
- The Secretary of HUD and the Administrator of VA require managers of programs which are not using private collection agencies to use the GSA contractors.
- The Secretaries of HUD and Education begin selling portions of their loan portfolios when deemed to be advantageous to the government.
- The Administrator of VA ensure that taxpayer identification numbers are obtained from loan applicants, information on delinquent debtors is referred to credit reporting agencies, and the salary offset provision of the Debt Collection Act is implemented. He should also raise the 4 percent interest rate currently charged on defaulted home loan guaranty cases. In addition, he should expeditiously disclose IRS-provided addresses to appropriate third parties.
- The Administrator of FmHA require that program managers use private collection firms, refer information on delinquent debtors to credit reporting agencies, and implement administrative offset. He should also require, where applicable, that program managers assess interest, penalties, and administrative costs; implement the salary offset provision; and explore selling portions of FmHA's loan portfolio. In carrying this out, FmHA may, under the FCCS, give appropriate consideration to any

undue financial hardships that might result from its use of the particular collection tools available to it, especially in view of the current farm crisis.

- The Secretary of Education take whatever steps are necessary to assess (or enable Education to assess) interest, penalties, and administrative costs under the act on defaulted student loans.
- The Director of OMB, in conjunction with OPM, should assist VA in ensuring that a sufficient number of hearing officials will be available to hear appeals on nonbenefit-related cases.
- The Director of OMB, in cooperation with the Secretary of the Treasury, ensures that the provisions of circular A-129 are implemented and include a statement which tells the Congress how this will be accomplished in his 1986 report.

---

## Agency Comments and Our Evaluation

The departments of Education, Housing and Urban Development, and Agriculture, and the Veterans Administration and the Office of Management and Budget provided comments on this report. (See appendixes XII, XIII, XIV, XV, and XVI.)

Generally, the agencies stated that they had made significant accomplishments since we completed our fieldwork and provided examples of these efforts. Although improvements were cited, our analysis of their comments showed that many planned activities have not yet been implemented. For example, several of the agencies indicated that they plan to begin using or pilot testing private collection agencies and to pursue the feasibility of selling loans.

VA and Education generally agreed with the recommendations to them. Although HUD stated that the recommendations to it are not valid because of planned debt collection changes, we believe that the recommendations will help provide HUD the impetus needed to carry out these plans. FmHA disagreed with our overall conclusion that it made limited progress in implementing the act, but its comments showed that none of the act's provisions had been fully implemented. Specific agency comments are addressed in appendixes VII through X, which contain our detailed discussion on agencies' efforts to collect receivables.

OMB commented that we focused too much on specific requirements of the Debt Collection Act and OMB circular A-129 and overlooked broader credit management issues. We disagree with OMB's characterization of our focus. Circular A-129, which provides a framework for many credit management initiatives, addresses the entire credit management process

and prescribes policies and procedures for managing federal credit programs as well as for collecting receivables. We recognize the need for a wide range of initiatives to improve the government's credit operations. In line with this, we are suggesting that the Congress consider instituting incentives to help agencies resolve these issues. We also make recommendations in chapter 3 for the adoption of credit management concepts to help agencies maintain effective credit management programs.

OMB stated that our report infers that writing off debt is to be avoided. This was not our intent. In fact, we believe it is good credit management practice to periodically write off debts which an agency has determined that it will be unable to collect. OMB also expressed the belief that we were contending that improved debt collection practices by themselves will reduce the deficit significantly and thus avoid the need to cut back programs. We agree that improved debt collection practices alone will not solve the deficit problem. However, as we point out, we believe that improved debt collection practices will help lessen the impact of budget reductions on agency programs.

OMB stated that the time required by the General Accounting Office and the Justice Department to issue implementing regulations was a major source of delay in agencies' efforts to implement the act. We recognize that this contributed to some delays in implementing certain debt collection tools. The Debt Collection Act was intended to deal with a complex and long-standing problem and, therefore, is necessarily a detailed and complex law. Nevertheless, agencies could still have begun to implement many provisions of the act, as well as many other debt collection initiatives, during the period prior to promulgation of the joint regulations, as well as immediately thereafter. Moreover, as we have previously ruled, while agencies are required to promulgate regulations to implement the act, consistent with the FCCS, we do not believe that the agencies are prohibited from using the tools in the act before their regulations, or the FCCS, are finalized, as long as debtors receive the substantive equivalent of their rights under the law. As OMB points out in its comments, the Debt Collection Act by itself cannot correct long-standing credit management problems.

In regard to our conclusion that agencies have been slow in implementing the Debt Collection Act, OMB stated that it was also concerned about the pace of agencies' implementation efforts. Conversely, it stated that agencies have made substantial debt collection progress since 1982. For example, it stated that while the amount of delinquent debt has

increased since 1982, the rate of growth in delinquencies has decreased. However, in reaching this conclusion, OMB excluded a significant portion of the federal government's delinquencies—those of the Department of Agriculture. Further, our analysis of the data OMB used to reach this conclusion shows that the rate of growth for all nontax delinquencies increased each year since 1982. For example, the rate of growth for these delinquencies was 9.6 percent in 1983, 17.4 percent in 1984, and 18.8 percent in 1985.

Also, other agencies' comments on our draft report show that progress is not as significant as OMB indicates. For example:

- FmHA and VA are not yet using private collection agencies.
- FmHA does not charge interest and penalties in accordance with the Debt Collection Act, and VA does not charge penalties.
- VA and FmHA do not use salary offset.
- FmHA does not refer delinquent consumer debtors to credit bureaus, and VA only recently started using this tool for some accounts.

OMB believes that legislation to provide additional debt collection incentives is not needed. Its position is based on the fact that OMB circular A-129 requires that achievement of debt collection program objectives and performance measures be considered in performance appraisals. However, our experience shows that legislative requirements usually have a better chance of success. Therefore, we believe this is worthy of congressional consideration.

OMB also opposes the concept that collections above a specified target be used for improving debt collection activities. It believes that use of collections in this manner would eliminate the flexibility of the President and the Congress in allocating resources through the budget and appropriations process. We have recognized that this would raise policy issues to be resolved by the Congress.

OMB also opposes amending the Debt Collection Act to require agencies to report their debt collection activities to the Congress. It believes that if the Congress needs additional information, it can be provided through other means such as agency budget justifications. We believe that the significance of debt collection activities and the potential impact of these activities justify the type of reporting we are recommending.





# Additional Credit Management and Debt Collection Authority Needed in Certain Areas

Because agencies have not made progress in strengthening debt collection programs in areas such as reporting delinquent debtors to credit bureaus and in using private collection agencies, implementation of certain collection tools should be statutorily required. In addition, a statutory basis should be provided which would require agencies to establish sound credit management programs from the time loans and other receivables are established until they are collected or written off.

Moreover, because the Department of Justice does not have sufficient resources to litigate all delinquent debts which agencies refer to it, agencies should be authorized by law to use, with proper supervision by the Attorney General, private sector attorneys to litigate debts owed the government. The act should also be amended in certain areas in order to resolve certain issues and impediments which prevent agencies from fully implementing some of its provisions. For example, FmHA had difficulty obtaining taxpayer addresses from IRS because of IRS' strict interpretations of the authority the act provides. In addition, the interpretations of the Department of Justice and the Office of Personnel Management (OPM) of the procedural requirements for offsetting salaries for "routine pay adjustments" place unnecessary administrative burdens on agencies.

## Credit Management and Debt Collection Concepts Should Be Statutorily Required

Additional credit management and debt collection authority, if legislatively mandated, would help to reduce the growing amount of delinquent debt and to overcome the slow progress by agencies in implementing provisions of the Debt Collection Act, as discussed in chapter 2. While the act addresses the use of a number of collection tools, its provisions do not, in all cases, make their use mandatory. In addition, the act concentrated primarily on ways to better collect debt. Management of federal credit programs would be strengthened if legislation were enacted to cover a full range of credit program activities, which begins when a loan is considered for extension or other types of receivables are established.

The Debt Collection Act generally allows, for example, federal agencies to disclose information about an individual's delinquent debt(s) to credit reporting agencies. The act also permits agencies to use private collection firms to recover debts owed. Overall, use of credit bureau reporting and private collection contractors by federal agencies has been limited, despite the provisions of the Debt Collection Act and the requirements of FCCS and OMB that agencies adopt these tools. Except for the Department of Education, we found that agencies included in our review had

little or no experience using such tools to supplement their own collection efforts. In our view, the use of collection contractors is an effective means of providing agencies with additional resources for improving their debt collection capabilities with no additional cost to the agency. Under the new GSA contracts awarded in October 1985, contractors are paid on a contingency fee basis, with the cost of collection being added to the amount due from the delinquent debtor. Thus, private collection contractors entail essentially no additional cost to the government. Use of these tools is intended to give agencies the ability to discourage delinquencies by adversely affecting the debtors' credit ratings and to improve collection capabilities by taking advantage of private collection firms' expertise. Therefore, until procedures such as these become common practice among federal agencies, the full benefits of such initiatives will not be realized.

Because agencies' debt collection programs have remained less effective than they otherwise could be, we believe the Congress should strengthen the Debt Collection Act by making the use of such tools mandatory. However, we recognize that exceptions exist when the use of credit bureaus and collection agencies may not be appropriate. In such cases, agencies should address these circumstances in reports to the Congress, along with their justifications for not using collection agencies or credit bureaus.

In addition to techniques which would help agencies better collect debts, adoption of other credit management concepts would also help agencies maintain effective credit programs. These include such practices as

- prescreening of applicants to determine whether they have previously defaulted and/or are currently delinquent on a government debt or federal tax payment;
- credit analysis and determination of ability to repay;
- assessment of loan origination and application fees to defray administrative costs and the estimated cost of defaulted loans;
- establishment of monthly payment schedules similar to those in the private sector for the type of loan involved;
- accounting services to include record keeping and documentation, account review and loss estimates, and routine invoicing and follow-up procedures; and
- permitting rescheduling only when it is in the government's best interest and the recovery of the amount is reasonably assured.

Many of these concepts have been prescribed in and are required by OMB circular A-129. (See appendix VI.) We believe that some of these proposals would require statutory authorization to implement and would give these credit management techniques force of law and permanence.

Improved management techniques which are supported by legislative requirements have, in our view, the greatest opportunity for agency implementation. We believe that a basis in statutory authorization is helpful for successful implementation of management initiatives.<sup>6</sup> Although not a guarantee of success, the legislative process ensures there will be considerable debate and compromise over any reform efforts, which will extend the base of interest and commitment to reform measures. Congressional oversight of legislation initiatives can be helpful in giving much needed continuity in order to sustain progress. Legislation can provide an ongoing requirement for action and an institutional focal point accountable for progress. The Congress provided the key impetus to sustained reform in procurement, paperwork reduction, and the inspectors general legislation. We believe that similar impetus should now be given to improving credit management and debt collection through additional legislative requirements.

### Use of Private Attorneys To Litigate Claims Should Be Statutorily Required

After federal agencies have exhausted all attempts to administratively collect debts, the only remaining course of action may be to obtain a judgment against the debtor. The Department of Justice is the agency charged with bringing civil actions against those who owe debts to the federal government. The FCCS require agencies to promptly refer claims of \$600 or more to Justice for legal action.<sup>7</sup> Justice, however, does not have the resources to litigate all of the government's enforceable debt claims.

In its 1981 report on strengthening federal credit management, OMB suggested that significant changes be made in the procedures Justice and the other agencies used to refer and handle claims sent for litigation. In July 1984, OMB submitted testimony to the Subcommittee on Administrative Law and Government Relations, House Committee on the Judiciary, stating:

<sup>6</sup>Selected Governmentwide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, August 8, 1983).

<sup>7</sup>va has independent authority under Public Law 96-466 and an agreement with the Justice Department to use its own attorneys to litigate debts in its veterans benefit programs. va attorneys can litigate accounts worth \$1,200 or less but must refer the remainder to the appropriate U.S. attorney.

"...it is clear that nothing short of an enormous increase in the size of the U.S. Attorney's offices would be necessary to enable the Department to handle the caseload submitted by the agencies and currently awaiting litigation at Justice. OMB records from agencies show that these agencies referred over 100,000 cases to Justice which was able to act on around one-fifth of them in FY 1983. While these numbers are reported annually, we understand that the backlog has increased substantially."

In an effort to improve the government's ability to litigate claims, several legislative proposals have been introduced in the Congress to authorize agency use of private attorneys. Specifically, the legislation would allow the Attorney General to contract with private attorneys to litigate debts and enable federal agencies to refer claims directly to attorneys under contract with Justice.

We support this type of legislation. In several written comments, and in testimony before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, on June 19, 1985, we have stated that if properly supervised, private attorneys paid on a contingency basis could be a useful and profitable complement to the government's current collection tools. The Justice Department has also endorsed this concept.

---

## Provisions for Use of IRS Address Information Should Be Clarified

The Federal Claims Collection Act, as amended by the Debt Collection Act, allows agencies to redisclose taxpayer addresses to their employees and agents for the purpose of locating delinquent debtors. IRS refuses to disclose addresses to agencies unless they cite the Federal Claims Collection Act as their collection authority. IRS has denied such access to FmHA, the Federal Deposit Insurance Corporation, and the Department of the Navy's Deputy Assistant Judge Advocate General because they cite legislation other than this act as their collection authority. For example, FmHA cites the Consolidated Farm and Rural Development Act, as amended, and the Housing Act of 1949, as amended, as its collection authority.

According to IRS officials, agencies can assert the Federal Claims Collection Act as authority to obtain IRS address information without abandoning their other claim authorities. However, the requesting agency must use the information only for those purposes consistent with and authorized by the act. Under the IRS position, use of taxpayer address information to accomplish collection under other debt collection authorities which give the agency more authority than does the Federal Claims Collection Act is strictly prohibited.

In order to eliminate this problem for all agencies and to achieve the maximum benefits of the Debt Collection Act, we believe that the act should be amended to clarify the right of federal agencies to obtain and disclose IRS address information while pursuing debt collection activities under authorities other than the Federal Claims Collection Act, as well. This would allow FmHA and other agencies to obtain IRS address information without having to narrow their claims collection process or to abandon or violate the provisions of their enabling legislation.

---

### Authority for Salary Offset for Routine Pay Adjustments Should Be Amended

The Debt Collection Act authorizes federal agencies to make involuntary deductions from the salaries of government employees who have delinquent federal debt. This process is commonly called "salary offset." Salary offset can be used to satisfy debts of federal employees arising from a number of situations, such as repayment of education loans or recovery of routine salary overpayments which result from circumstances such as clerical errors or delays in processing payroll documents.

Federal agencies are required to implement the salary offset provision in accordance with Office of Personnel Management (OPM) regulations which interpret the salary offset authority contained in section 5 of the Debt Collection Act. The OPM regulations state, among other things, that federal agencies must, in all cases, provide written notice to the debtor and an opportunity for a hearing before offset begins. These OPM regulations are consistent with the Justice Department's interpretations of the act.

While we agree that debtors are entitled to due process, in our opinion the procedures established by OPM to implement section 5 of the Debt Collection Act unduly burden the collection of routine pay adjustments<sup>3</sup> through salary offset. We reviewed the procedures followed by the Department of Defense (DOD) pay systems for the armed forces and found them to permit salary offsets for routine pay adjustments under less stringent authority than section 5 of the Debt Collection Act.

---

### DOD Uses Alternate Authority

After passage of the Debt Collection Act, DOD military pay system officials concluded that their payroll systems would be bogged down if they followed the OPM and Department of Justice view that the procedures

---

<sup>3</sup>A routine pay adjustment is a pay deduction to recover an erroneous payment resulting from a clerical or administrative error or processing delay.

required by section 5 of the Debt Collection Act must be completed prior to making routine salary adjustments. DOD's pay systems for the members of the armed forces make hundreds of thousands of routine salary adjustments each month. Generally, these are related to overpayments of base pay and allowances for subsistence and shelter.

Currently, the military services are handling routine pay adjustments to military service members' salaries under the DOD Authorization Act of 1985.<sup>9</sup> This act effectively eased the applicable procedural requirements by allowing deductions against military members' salaries under the less stringent procedures of section 10 of the Debt Collection Act, which in certain cases allow offsets to be made prior to completion of the due process procedures. For example, DOD can provide an indebted military service member with notice of the offset and an opportunity for a hearing after the offset has taken place in certain circumstances. Although less burdensome than the procedures in section 5 of the Debt Collection Act, these procedures still fully protect the debtor's rights.

---

### Other Federal Agencies Follow Stringent Procedures for Routine Salary Overpayments

During the comment period prior to OPM's issuance of salary offset regulations, many federal agencies expressed concern about the procedural requirements for salary deductions in section 5 of the Debt Collection Act, especially as they related to routine pay adjustments. Nearly every agency which addressed the issue of salary overpayments was concerned about the burdens and cost-effectiveness of providing pre-offset notice and hearing procedures in all cases. A few agencies even suggested that employees with overpayments below \$100 or \$500 not be granted any due process.

Generally, the agencies we reviewed first ask the employee to agree to a voluntary allotment to repay a salary overpayment. This approach can sometimes avoid the need for due process hearings. However, officials at HUD, for example, still believe that it may not be cost-effective and takes too much time to provide due process for low-value overpayments.

We agree that employees should receive an appropriate notice and an opportunity for a hearing when salary offsets are taken on routine pay adjustments. Justice's position is that section 5 of the Debt Collection Act must be strictly applied to require completion of notice and opportunity for a hearing on routine pay adjustments before offset begins. We

---

<sup>9</sup>Passed in October 1984, section 1305 of the DOD Authorization Act of 1985, Public Law 98-525, amended 37 U.S.C. 1007(c).

think, however, that this is unnecessarily stringent. We do not think that the congressional intent was to subject routine adjustments of pay to the strict and burdensome procedures of section 5 of the act. Since Justice and OPM disagree with us on this point, we believe the Congress should amend section 5 of the Debt Collection Act to permit salary offset for routine pay adjustments to take place prior to completion of notice and opportunity for a hearing.

---

## Conclusions

In our view, agencies' debt collection efforts could be enhanced if the agencies were legally required to implement certain credit management and debt collection concepts, when appropriate, such as referring delinquent debtors to commercial credit bureaus and using private collection agencies. We also believe that, under proper supervision, the use of private attorneys paid on a contingency basis could be a useful supplement to the federal government's debt collection efforts.

Additionally, we believe agencies should be permitted to obtain and disclose IRS address information without abandoning or substantially revising their independent claims collection authority. For routine salary adjustments, we think that notice and hearing procedures which adequately protect the debtor's rights should be permitted to be completed after, rather than before, offset begins.

---

## Recommendations to the Congress

To ensure optimum credit management and debt collection results and to clarify the above issues, the Congress should amend the Debt Collection Act to

- require federal agencies, except where they can justify to the Congress reasons for not doing so, to implement improved credit management techniques, such as those discussed on pages 44 to 46, and debt collection practices, including a requirement to report information about individuals and businesses with delinquent debts to credit reporting agencies and to refer delinquent debtors to private collection contractors;
- authorize federal agencies to use, with proper supervision by the Attorney General, private sector attorneys to litigate debts owed the government;
- explicitly authorize IRS to provide taxpayer address information to agencies pursuing debt collection activities under authorities other than the Federal Claims Collection Act; and



- permit the notice and hearing procedural requirements for involuntary routine salary adjustments for federal employees to be completed after offset occurs.

---

## Agency Comments and Our Evaluation

Education agreed with our view that OPM procedures under section 5 of the Debt Collection Act burden agencies' debt collection processes. However, Education commented that the institution of offset proceedings before waiver requests have been adjudicated may result in the withholding of amounts that must later be refunded as the result of a favorable waiver decision. For this reason, Education proposed that notices be sent before routine pay adjustments are made. Education's proposal seems reasonable. However, waiver decisions often take considerable time. Since routine adjustments usually involve relatively small amounts, we think that if there would be authority to refund the adjustment to the employee in the event of a favorable waiver decision, then salary offset normally should not await the waiver decision. The FCCS specifically address this issue in section 104.2(c).

# Accurate and Reliable Accounting for and Reporting of Receivables Are Needed

For the full benefits of the Debt Collection Act of 1982 to be realized and for the government to effectively collect its debts, it is imperative that agencies have accurate and reliable accounting systems and related information on the status of individual accounts. While the act does not specifically address the need for such systems, agencies' accounting system problems can seriously impact the integrity of amounts shown in individual borrower or debtor accounts as being due the government. Many of the act's provisions, such as credit bureau referrals and the assessment of interest, penalties, and administrative costs, cannot be fully implemented without accurate and timely information on debts owed. In addition, agencies' efforts to sell loan portfolios will be impaired if accurate information relating to the loans to be sold is not available. Also, accurate and reliable accounting information on amounts owed the government and related delinquencies is needed to help the Congress and OMB in monitoring agencies' programs and reviewing agencies' budget requests during the appropriation process.

Historically, federal agencies have experienced problems in accounting for, controlling, and reporting on debts owed the government. In October 1978, we reported that the government's debt collection efforts had been hindered by inaccuracies in accounting for and reporting of accounts receivable.<sup>10</sup> Since then, we and the inspectors general have issued numerous reports discussing these problems and recommended corrective actions to alleviate them. Long-standing problems, however, continue to exist.

For example, in 1984, agencies reported pursuant to the Federal Managers' Financial Integrity Act of 1982, serious problems in their ability to accurately account for amounts they were owed. Serious accounting system problems were also noted at the four agencies we reviewed. These problems included the inability to apply all collections to borrower accounts, to reconcile general ledger control accounts with individual borrower accounts, and to promptly record amounts due to the government. (See appendixes VII to X for a detailed discussion on the problems we found at each agency.)

While most of the agencies we reviewed have long-term system development efforts underway to correct problems in accounting for receivables, the efforts of some agencies have been underway for several years, but little progress has been made during this time to correct the

<sup>10</sup>The Government Needs To Do a Better Job of Collecting Amounts Owed by the Public (FGMSD-78-61, October 20, 1978).

problems. Top agency management must monitor these efforts closely to ensure that they stay on schedule, correct the problems identified, and conform with the Comptroller General's accounting requirements<sup>11</sup> and OMB circular A-129, which requires agencies to establish accounting and reporting systems that provide accurate and timely financial reports on major loan programs. Information in these reports is relied upon by agency managers, the Congress, and the public to determine the value and collectibility of agencies' loan portfolios and other receivables.

## Long-Standing Problems in Accounting for and Reporting of Receivables

We and the inspectors general have issued many reports on the serious problems in accounting for and reporting of receivables. For example:

- In fiscal year 1984, the Education inspector general reported that the department's accounts receivable system did not provide accurate and timely general ledger account balances for financial reporting purposes. In our recent report Second-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education (GAO/HRD-85-78, September 26, 1985), we noted that the accounts receivable system contained inaccurate information and did not produce accurate reports.
- From 1982 to 1985, Agriculture's inspector general issued several reports pointing out accounting problems at FmHA such as untimely and inaccurate data on loan transactions and delinquencies, no reporting of rescheduled debt, incorrect charging of interest on loans, and the inability to generate management reports on collection activity.
- In 1985, HUD's inspector general reported that certified public accountant (CPA) firms had audited two HUD revolving funds and found significant accounting problems. Specifically, in the Non-Profit Sponsor Assistance Fund, the CPAs could not readily determine the status of more than half of the \$467,929 in loans receivable. In the Rental Housing Assistance Fund, the accounting system did not have the capability to ensure proper recognition and recording of accounts receivable.
- From 1982 to 1985, we issued four reports which pointed out that VA medical centers were not routinely recording, billing, and collecting for reimbursable medical care costs. VA's inspector general found similar deficiencies which he noted in reports issued in 1983 and 1984.

<sup>11</sup>The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards. Also, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and with related requirements such as the Treasury Financial Manual and OMB circulars.

Pursuant to the Federal Managers' Financial Integrity Act, agencies also reported serious problems in their ability to accurately account for amounts they were owed. In 1984, for example, Agriculture reported that FmHA's accounting system and associated data processing equipment were obsolete. Education reported that its Accounts Receivable System contained inaccurate information and had limited capabilities for aging delinquencies in certain program areas. HUD reported that three major accounting systems used to account for the department's programs were cumbersome and costly to change or enhance, error-prone because of manual interfaces, difficult to control, and time-consuming to operate and reconcile.

Additionally, Health and Human Services reported that its Payment Management System did not include key subsystems to correct deficiencies in the area of debt collection and the liquidation of receivables. Commerce reported that its Office of the Secretary Accounting System did not properly establish and bill for receivables. The Small Business Administration reported that its Pollution Control Equipment Guarantee Revolving Fund Accounting System did not reflect defaulted loans or provide for loss reserves.

---

## Receivables Accounting Data Are Unreliable

Agency managers need accurate and reliable information to determine the value and collectibility of debts owed the government. Accurate and reliable accounting information on amounts owed the government and related delinquencies enables the Congress and OMB to better monitor agencies' programs and to review agencies' budget requests during the appropriation process. However, due to accounting systems that are antiquated, error-prone, and time-consuming to operate and reconcile, many agencies are unable to generate accurate and reliable accounting information on receivables. The following is an assessment of some of the problems in accounting for and reporting of receivables affecting the accuracy of financial data generated by agencies' accounting systems for use by the Congress, OMB, and agency managers.

Although required by OMB circular A-129, some agencies' accounting systems are unable to separately identify and classify in financial reports significant amounts of loans or other debts that have been rescheduled. These are loans and other debts which were, in effect, refinanced because the debtor was unable to fulfill the original debt obligation. This results in scheduling repayments over a greater period of time and lowering the amount of individual repayments. When the rescheduling occurs, some agencies include these previously delinquent

receivables in financial reports as part of current receivables. For example, FmHA estimates that several billions of dollars of its receivables have been rescheduled but are reported in financial statements as current receivables. The potential for future uncollectibility is, therefore, not adequately disclosed.

Other agencies' financial reports do not accurately reflect the collectibility of loans made because allowances for loan losses were not established. OMB circular A-129 requires such allowances to be established in agency accounting records. In 1985, we reported that the financial statements of the Export-Import Bank and the Federal Deposit Insurance Corporation did not appropriately account for loan losses. For example, we estimated that total assets and accumulated income at the Export-Import Bank would be decreased between \$1.0 billion to \$1.5 billion, if an allowance for loan losses had been established. Also, in 1985, we testified before the Subcommittee on Merchant Marine, House Committee on Merchant Marine and Fisheries, that the Maritime Administration's failure to establish an allowance for loan losses for its title XI Federal Ship Financing Fund could mislead users of the fund's financial reports.

The amount of delinquent receivables the government reports may not be adequately disclosed because agencies differ in their classification and reporting of delinquent receivables. OMB circular A-129 requires agencies to identify all loans that have been delinquent 6 months or more. These accounts should be considered "nonperforming" and their entire amount separately identified in the accounting records. However, when a debtor fails to pay a scheduled loan amount for more than 30 days, Education declares the entire unpaid loan amount to be delinquent. FmHA and HUD, on the other hand, only consider the individual amounts that are past due to be delinquent rather than the entire loan amount. By waiting until each installment loan payment becomes past due to report it as delinquent, agencies such as FmHA and HUD may be significantly understating the status of delinquent receivables.

Finally, some agencies' accounting systems cannot prepare reliable financial reports on accounts and loans receivable due from the public. Education's general ledger system, for example, does not capture information on receivables such as collections, accrued interest, and insurance premiums. Instead, Education relies upon the manual records maintained by its accounts receivable branch and upon information provided by its program offices. These organizational units, however, do not provide the information which is necessary for accurate reporting of debts owed the government. Likewise, VA does not have a consolidated

accounts receivable system. Instead, VA relies upon its automated Centralized Accounts Receivable System and various VA facilities for information on amounts it is owed. We noted that the decentralization of accounts receivable information can result in inaccurate reporting. Problems in maintaining accurate individual account balances, as discussed in the following section, can also affect the reliability of overall amounts shown on agencies' financial reports.

---

## Individual Account Balances Are Inaccurate

Agencies need accurate and reliable information on individual amounts owed if they are to effectively collect the billions of dollars owed the government and utilize the collection tools provided by the Debt Collection Act.

However, our review showed that agencies' systems do not maintain accurate information on individual account balances. For example, we noted that as of September 30, 1985, HUD had not applied about \$10 million in collections received to individual accounts. Likewise, HUD had not applied about \$7.3 million in tax disbursements to individual accounts. Also, as of June 1985, Education had an unapplied balance of approximately \$4 million from debtors. Some of the Education payments we reviewed have been in this unapplied status since 1976, and some are the subject of complaint letters from debtors. Education also had an unapplied premium insurance balance of about \$3.6 million as of August 31, 1985.

Some agencies cannot reconcile collections received. For example, since October 1984, Education has not been able to reconcile its deposit transactions on collections with those Treasury reported because Education's accounting records are inadequate. Specifically, Education's records showed bank deposits of \$122 million, while Treasury's records showed \$146 million. FmHA, as another example, has not been able to reconcile collections received and recorded in its general ledger deposit fund with its subsidiary computer file or borrowers' accounts since 1973. FmHA attempted to reconcile the general ledger deposit fund with the subsidiary automated computer file in June 1984, but this resulted in an unidentified difference of \$16.9 million. As a result, the accuracy of individual accounts is uncertain.

Additionally, during 1984 and 1985, we reported a variety of deficiencies in the management of receivables at the Army Corps of Engineers, the U.S. Customs Service, the General Services Administration, and the Immigration and Naturalization Service. Weaknesses reported included

receivables which were not promptly identified, recorded, or billed. In a December 1985 report on the Army's efforts to collect debts from former service members, we noted that its automated system did not generate complete information on new receivables and that its reporting of rescheduled receivables was erroneous. In October 1985, we reported that Justice continued to have control deficiencies involving the collection and reporting of about \$4 billion in criminal fines and penalties and civil debts owed the government, and that it lacks a departmentwide system to account for, control, and report on its debt collection activities.

---

## Efforts To Improve Systems and Need for Discipline in Accounting for and Reporting of Receivables

The agencies we reviewed recognized that they have problems accounting for receivables and have efforts underway to correct them through short- and long-term system enhancements. Specifically, Education plans to invest approximately \$23 million over the next several years to replace, redesign, or improve its current accounting systems. FmHA has undertaken a major effort to redesign its current accounting system with a single, automated, integrated system. FmHA expects to complete the new system by September 1988 at a cost of about \$18.7 million. VA's automated data processing plans for fiscal years 1985 to 1989 call for a redesign of the automated Centralized Accounts Receivable System to include certain overpayments and the charging of interest and administrative collection costs on compensation and pension overpayments.

However, at some of the agencies we reviewed, long-term system development efforts have been underway for several years, and little progress has been made during this time to correct their problems in accounting for receivables. For example, Education had tried since 1979 to develop a summary tape of Federal Insured Student Loan and National Direct Student Loan collections for its general ledger system. Further, the scheduled completion date for the new FmHA system, which FmHA began to plan and design in 1983, has slipped over 2 years, from March 1986 to September 1988. A FmHA official told us that the slippage was due to (1) the preliminary nature of the original estimate, (2) budget uncertainties concerning the continuation of FmHA programs, and (3) a longer lead time needed for software development due to the complexity of accounting needs. Also, VA has made little progress in redesigning the Centralized Accounts Receivable System. For example, no decision has been made on the location or type of equipment to be used. Requirements, such as the data base, have not been developed nor have the criteria been defined. We believe that management at these agencies

and OMB should closely monitor development projects relating to these systems to help ensure that they are completed on time and to correct known problems.

Last year we reported on the contribution to improving the quality of financial information achievable through the preparation of audited financial statements by agencies.<sup>12</sup> An integral part of these statements would be reliable information on amounts owed to the government. From an overall perspective, we have generally maintained that accurate information is not available to be consolidated because of the poor quality of financial information. This was confirmed by our review as it relates to information on the collection of debts. In addition, inspectors general at the agencies we reviewed have reported problems on various aspects of accounting for and control over outstanding receivables.

OMB circular A-129 requires agencies to establish accounting and reporting systems to enable them to meet the credit management standards of the circular. It calls for accurate and timely reports on the cost and current status of loan programs, and specifies that the following financial reports should be included: operating statements, statements of financial position, and cash flow statements. We believe that the need for effective systems is equally important in accounting for other types of receivables as well. We also think that a legislative requirement to accurately produce the types of financial reports on receivables provided for in OMB circular A-129 would help ensure that improved systems of accounting for receivables are developed.

To ensure the continued reliability of financial data once effective systems are established, we believe that the systems' operation and the financial data they produce must be periodically assessed. Audits are generally regarded as the best way to ensure this reliability by confirming the accuracy of the information in financial reports. We think such audits should be performed by the agencies' inspectors general or other appropriate organizations.

In our 1978 report on collecting amounts owed by the public, we recommended to OMB that it ensure that an adequate and balanced portion of internal audit resources is devoted to reviewing financial statements submitted to Treasury. We continue to believe that the need for audits

---

<sup>12</sup>Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35 and 35A, February 1985).



of financial reports is critical to exercising effective accounting and control practices for receivables. Since problems in accounting for receivables continue to hamper effective collection of debts, we believe that it is time to instill discipline in accounting for amounts owed to the government through legislatively-mandated audits of systems that account for and report on receivables. This would also contribute to the overall objective of issuing consolidated financial reports that have been subjected to an audit.

---

## Conclusions

Federal agencies continue to have serious problems in accounting for and reporting debts owed the government, which significantly impair their ability to collect debts and to implement the Debt Collection Act of 1982. Current systems of accounting for receivables do not produce accurate and reliable information on amounts owed to the government and, therefore, do not meet the accounting and reporting requirements of circular A-129. Reliable accounting information is necessary if agencies are to effectively collect the billions of dollars owed the federal government. Further, such systems are necessary if agencies are to realize the full benefits of the Debt Collection Act and to utilize collection tools such as credit bureau referrals and the assessment of interest and administrative collection costs. In addition, agencies need accurate information on debts owed to them in order to facilitate sales of loan portfolios.

The agencies we reviewed recognize that they have problems in accounting for receivables. They now have efforts underway to correct these problems through short- and long-term system enhancements. Long-term system enhancement efforts will require a sustained effort by the agencies. Top management at these agencies and OMB should closely monitor these developmental projects to help ensure that they are completed on time and to correct known problems. A continued high degree of interest and oversight by agency management toward these efforts would increase the likelihood that these agencies' accounting operations conform to the Comptroller General's accounting requirements and also to OMB circular A-129 requirements to establish accurate and timely accounting and reporting systems for loan programs. To ensure the reliability of financial data, agencies should be statutorily required to accurately produce certain financial reports on receivables operations and to have their inspectors general, or other appropriate organizations, conduct periodic assessments of systems that account for receivables and conduct audits of receivables information in the financial reports they produce. Our reasons for concluding that audited reports be legislatively

required parallel those presented in chapter 3, as they relate to providing a statutory base for certain credit management and debt collection concepts.

---

## **Recommendations to the Congress**

Financial data reported to the Congress on the amount and collectibility of debts owed the government must be reliable. In order to help improve their accounting for receivables and to institute the discipline necessary to achieve this reliability, we recommend that the Congress amend the Debt Collection Act to require agencies to accurately prepare financial reports on their programs that generate receivables, including a requirement for operating statements, statements of financial position, and cash flow statements (as presented in OMB circular A-129).

We also recommend that the Congress amend the Debt Collection Act to require agencies to have their inspectors general, or other appropriate organizations, periodically evaluate their systems of accounting for and reporting on receivables and annually audit the financial reports containing receivables information. This would help ensure continued reliability of financial data on amounts owed, once effective systems are established, and would strengthen the control environment under which debt programs operate.

---

## **Recommendations to Agencies**

Based on the results of our review, we recommend that the Secretaries of Education and HUD and the Administrators of FmHA and VA strengthen their receivables accounting and control systems in order to produce accurate and reliable information on the amount of debt owed to the government. They should do this by ensuring that systems that account for and control receivables conform to the Comptroller General requirements and those of OMB circular A-129.

Additionally, we recommend that the Secretary of Education and the Administrators of FmHA and VA closely monitor efforts to develop and implement new systems of accounting for receivables. This would help ensure that known problems are corrected and development efforts are completed without significant slippage of established milestones.

---

## **Agency Comments and Our Evaluation**

The four agencies we reviewed generally agreed with us that they have some receivable and collection accounting problems and indicated that efforts are underway to address these problems. See appendixes XIII to XVI for the agencies' specific comments concerning our evaluation of

---

**Chapter 4**  
**Accurate and Reliable Accounting for and**  
**Reporting of Receivables Are Needed**

---

their systems of accounting for receivables and appendixes VII to X for our evaluation of these comments.

Additionally, HUD agreed that agencies should be required to prepare financial reports on their receivables. However, it questioned the need for legally-mandated audits of these reports. HUD believed that the requirement for audited financial statements is not the most effective use of limited resources to improve debt collection. While we believe that requiring annually audited financial statements can require additional HUD resources, we think that such audits are critical to exercising effective accounting and control practices for receivables. This would help ensure that the financial information is consistent, comparable, and reliable.

# Letter Dated May 7, 1984, From Senator DeConcini

MARK O. MATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA  
LOWELL P. WEICKER, JR., CONN.  
JAMES A. MC CLURE, IDAHO  
PAUL LAXALT, NEV.  
JAKE GARN, UTAH  
THAD COCHRAN, MISS.  
MARK ANDREWS, N. DAK.  
JANES RUDNOR, S. DAK.  
ROBERT W. KASTEN, JR., WIS.  
ALFONSE M. D'AMATO, N.Y.  
MACK MATTINGLY, GA.  
WARREN RUDMAN, N.H.  
ARLEN SPECTER, PA.  
PETE V. DOMENICI, N. MEX.

JOHN C. STENNIS, MISS.  
ROBERT C. BYRD, W. VA.  
WILLIAM PROSSER, WIS.  
DANIEL K. INOUE, HAWAII  
ERNEST F. HOLLINGS, S.C.  
THOMAS F. EAGLETON, MO.  
LAWTON CHILES, FLA.  
J. BENNETT JOHNSTON, LA.  
WALTER D. HUDDLESTON, KY.  
QUENTIN N. BURDICK, N. DAK.  
PATRICK J. LEAHY, VT.  
JIM BASSER, TENN.  
DENNIS DE CONCINI, ARIZ.  
DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR  
FRANCIS J. SULLIVAN, MINORITY STAFF DIRECTOR

## United States Senate

COMMITTEE ON APPROPRIATIONS  
WASHINGTON, D.C. 20510

May 7, 1984

Honorable Charles A. Bowsher  
Comptroller General of the  
United States  
Washington, D.C. 20548

Dear Mr. Bowsher:

In fiscal year 1985, the Federal deficit will approach \$200 billion, an amount that increases with each passing year. The Congress is continually attempting to reduce this deficit and at the same time ensure that the public is provided the services they are due.

The GAO has been of great assistance to the Congress in pointing out ways to improve management in the Federal Government and opportunities for reducing the deficit, particularly in the area of debt collection.

In this regard, I would like the GAO to evaluate selected agencies' efforts to implement the Debt Collection Act of 1982. This evaluation should include an examination of OMB's efforts to assist the agencies in the implementation of the Act and improve debt collection in the Federal Government. I understand that the Federal Claims Collection Standards, issued jointly by GAO and the Department of Justice, have been revised to include guidelines for Federal agencies to follow in implementing the Act. Since the Standards were just issued in March 1984, I believe it would be premature to initiate a study at this time.

However, I respectfully request that GAO conduct a study in March 1985, one year from the issuance of the revised Standards, with a report to me by February 1986 for use during the fiscal 1987 appropriation process. Representatives of your Accounting and Financial Management Division have met with Mr. Robert Mills of my Appropriations Committee staff who will be the point of contact should your staff have any questions regarding this request.

Sincerely,



Dennis DeConcini  
United States Senator

DDC/Mt

# GAO Reports Concerning Debt Collection

Since 1978, we have issued numerous reports which have stressed the need for improved debt collection in the federal government. This appendix lists these reports by report number, date, and title to provide a reference for additional information on debt collection.

Report Number	Date	Report Title
GMSD-78-61	October 20, 1978	The Government Needs To Do a Better Job of Collecting Amounts Owed by the Public
GMSD-79-14	March 14, 1979	Department of Housing and Urban Development: Action Being Taken To Correct Weaknesses in the Rehabilitation Loan Program
GMSD-79-24	April 13, 1979	Geological Survey: Improvements in the Survey's Financial Management System Needed for Adequate Identification of All Oil and Gas Royalties Due
GMSD-79-41	August 16, 1979	Department of Housing and Urban Development: Additional Changes Needed in Servicing and Accounting Activities To Reduce the Delinquency Rate and To Promptly Collect Funds From Mortgages Due the Government
GMSD-78-59	February 23, 1979	The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices
GMSD-79-19	March 9, 1979	Delinquent Debts Can Be Collected If the Government Kept Federal Tax Refunds as Offsets
IRD-79-21	January 16, 1979	Social Security Administration: SSA Needs To Improve Its Overpayment Collection Process To Collect the Maximum Possible Amount of Supplemental Security Income Overpayments From Recipients
IRD-79-31	January 17, 1979	Social Security Administration: SSA Needs To Improve Its Recovery of Overpayments Made to Retirement, Survivors, and Disability Insurance Beneficiaries
GMSD-80-27	March 19, 1980	Department of Housing and Urban Development: Efforts To Improve Its Accounting System for Mortgage Insurance Premiums
GMSD-80-43	May 16, 1980	The Department of Housing and Urban Development: HUD Should Make Immediate Changes in Accounting for Secretary-Held Multifamily Mortgages
GMSD-80-46	June 4, 1980	Department of Education—Law Enforcement Assistance Administration: Improved Controls To Increase Collections, To Restore Accounting System Integrity, and To Guard Against Future Problems Needed
CD-80-1	January 15, 1980	Unresolved Issues Impede Federal Debt Collection Efforts—A Status Report
FGMSD 80 68	July 17, 1980	Oregon's Offset Program for Collecting Delinquent Debts Has Been Highly Effective
CED-81-3	December 8, 1980	Small Business Administration: Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business
FGMSD-80-37	March 4, 1980	Department of Housing and Urban Development: Delays in Implementing HUD's Accounting System for Its Mortgage Insurance Program
FGMSD-80-6	December 28, 1979	Department of Health and Human Services: HEW Must Improve Control Over Billions in Cash Advances

**Appendix II  
GAO Reports Concerning Debt Collection**

<b>Report Number</b>	<b>Date</b>	<b>Report Title</b>
HRD-80-77	June 10, 1980	Department of Health and Human Services: States Should Intensify Efforts To Promptly Identify and Recover Medicaid Overpayments and Return the Federal Share
CED-80-67	February 19, 1980	Farmers Home Administration's ADP Development Project—Current Status and Unresolved Problems
HRD-81-37	December 31, 1980	Department of Health and Human Services: Implementing GAO's Recommendations on the Social Security Administration's Programs
HRD-81-5	February 13, 1981	Veterans Administration: Aggressive Action Needed To Strengthen Debt Collection
PAD-81-69	March 30, 1981	Improved Administrative Practices Can Result in Further Budget Reductions
GGD-81-31	April 3, 1981	Improved Collections Can Reduce Federal and District Government Food Stamp Program Costs
AFMD-81-64	July 28, 1981	Millions Written Off in Former Service Members' Debts—Future Losses Can Be Cut
CED-81-144	August 31, 1981	Limited-Resource Farmer Loans: More Can Be Done To Achieve Program Goals and Reduce Costs
AFMD-81-106	September 17, 1981	Weaknesses in Internal Financial and Accounting Controls at DOE Accounting Stations
HRD-81-124	September 30, 1981	Stronger Actions Needed To Recover \$730 Million in Defaulted National Direct Student Loans
AFMD-82-6	October 29, 1981	Oil and Gas Royalty Collections— Long-Standing Problems Costing Millions
AFMD-82-14	December 7, 1981	Defaulted Title I Home Improvement Loans—Highly Vulnerable to Fraud, Waste, and Abuse
AFMD-82-22	December 10, 1981	Internal Controls at Department of Transportation's Federal Highway Administration
HRD-82-19	December 10, 1981	Solving Social Security Computer Problems: Comprehensive Action Plan and Better Management Needed
AFMD-82-32	January 22, 1982	Federal Agencies Negligent in Collecting Debts Arising From Audits
AFMD-82-55	April 27, 1982	Oil and Gas Royalty Accounting— Improvements Have Been Initiated but Continued Emphasis Is Needed To Ensure Success
HRD-82-49	June 4, 1982	Stronger VA and DOD Actions Needed To Recover Costs of Medical Services to Persons With Work-Related Injuries or Illnesses
AFMD-82-52	July 8, 1982	Adverse Opinion on the Financial Statements of the Student Loan Insurance Fund For 1980
AFMD-82-18	August 18, 1982	Problems Continue in Accounting for and Servicing HUD-Held Multifamily Mortgages
AFMD-83-7	December 1, 1982	Actions Underway To Reduce Delinquencies in the Health Professions and Nursing Student Loan Programs
AFMD-83-25	December 3, 1982	Internal Control Weaknesses at the Veterans Administration
RCED-83-40	February 4, 1983	Need for Greater Efforts To Recover Costs of Food Stamps Obtained Through Errors or Fraud
AFMD-83-57	April 28, 1983	Significant Improvements Seen in Efforts To Collect Debts Owed the Federal Government
HRD-84-31	February 13, 1984	Opportunities To Increase VA's Medical Care Cost Recoveries

---

**Appendix II**  
**GAO Reports Concerning Debt Collection**

<b>Report Number</b>	<b>Date</b>	<b>Report Title</b>
AFMD-85-34	September 20, 1985	Veterans Administration Financial Management Profile
AFMD-86-13FS	December 3, 1985	Information on the Amount of Debts Owed the Federal Government
AFMD-86-21BR	December 13, 1985	Army Efforts To Collect Debts From Former Service Members
AFMD-86-48BR	April 30, 1986	Air Force Efforts To Collect Debts From Former Service Members
AFMD-86-51BR	May 19, 1986	Navy Efforts To Collect Debts From Former Service Members

# Receivables, Delinquencies, and Write-Offs Reported by Agencies as of September 30, 1985

Dollars in millions			
Department or agency	Receivables	Delinquencies	Write-off
Agency for International Development	\$ 19,629.2	\$ 282.2	\$ 25.1
Agriculture	135,967.5	9,196.6	185.1
Commerce	1,068.1	516.3	43.1
Defense	3,168.5	1,030.5	47.1
Education	11,885.2	3,945.3	41.1
Energy	3,033.0	67.9	0.1
Export-Import Bank	17,565.2	970.6	4.1
Federal Financing Bank <sup>a</sup>	30,950.5	0.0	0.1
Federal Deposit Insurance Corporation	10,428.1	7.6	1.1
Federal Savings and Loan Insurance Corporation	1,508.5	50.1	3.1
General Services Administration	62.9	19.6	0.1
Health and Human Services	3,683.7	479.3	402.1
Housing and Urban Development	29,075.9	1,575.8	446.1
Interior	2,302.1	280.0	5.1
Interstate Commerce Commission	0.2	0.1	0.0
Justice	325.0	38.7	3.1
Labor	542.5	372.3	4.1
National Aeronautics and Space Administration	4.2	0.5	0.0
Overseas Private Investment Corporation	111.1	9.0	0.0
Small Business Administration	8,583.5	2,519.0	604.0
State	44.2	10.9	1.7
Tennessee Valley Authority	816.9	29.7	36.7
Transportation	2,883.6	620.4	18.8
Treasury <sup>b</sup>	56,167.9	35,583.6	764.0
Veterans Administration	4,478.5	1,555.4	96.0
Railroad Retirement Board	38.3	29.0	3.1
U.S. Railway Association	1,453.1	0.0	0.0
<b>Totals</b>	<b>\$345,777.4</b>	<b>\$59,190.4</b>	<b>\$2,741.5</b>

Note: The figures in this table were taken from data prepared by OMB as submitted by the individual agencies. Although we did not verify these figures to agencies' underlying records, we traced total receivables, as reported by OMB, to reports prepared by the agencies for the Department of the Treasury. As discussed in chapter 4, we have concerns with the agencies' accounting systems and reporting procedures which could affect the reliability of these amounts.

<sup>a</sup>Federal Financing Bank receivables represent amounts for financing of obligations issued, sold, or guaranteed by government agencies not shown elsewhere in this table. Receivables reported for other agencies, such as Agriculture, include amounts for obligations which are financed through the Federal Financing Bank and for which the agency retains loan servicing responsibility.

<sup>b</sup>Treasury totals include tax and nontax amounts for IRS. These consist of: receivables—\$43,614.1 million; delinquencies—\$35,283.5 million; and write-offs—\$758.7 million.



# Summary of Major Receivables by Agency or Function as of September 30, 1985

Dollars in millions				
Agency or program	Loans receivable	Accounts receivable	Other receivables	Total receivables
<b>Agriculture</b>				
Farmers Home Administration	\$ 66,580.9	\$ 4,425.6	\$562.7	\$ 71,569.2
Commodity Credit Corporation	24,112.0	1,972.2	269.7	26,353.9
Rural Electrification Administration	36,067.4	1,320.4	0.0	37,387.8
<b>Total Agriculture</b>	<b>\$126,760.3</b>	<b>\$ 7,718.2</b>	<b>\$832.4</b>	<b>\$135,310.9</b>
<b>Business and Economic Development</b>				
Small Business Administration	\$ 3,220.5	\$ 294.1	\$357.7	\$ 3,872.3
Economic Development Administration	729.2	46.7	0.0	775.9
Disaster Loan Program	4,556.6	93.9	57.4	4,707.9
<b>Total Business and Economic Development</b>	<b>\$ 8,506.3</b>	<b>\$ 434.7</b>	<b>\$415.1</b>	<b>\$ 9,356.1</b>
<b>Education</b>				
Housing and Facilities Loan Programs	\$ 2,656.4	\$ 60.0	\$ 0.0	\$ 2,716.4
Student Loan Programs	8,267.5	111.2	450.7	8,829.4
<b>Total Education</b>	<b>\$ 10,923.9</b>	<b>\$ 171.2</b>	<b>\$450.7</b>	<b>\$ 11,545.8</b>
<b>Housing</b>				
Federal Housing Administration	\$ 4,204.2	\$ 911.6	\$ 0.0	\$ 5,115.8
Elderly Housing Program	5,666.6	54.4	0.0	5,721.0
Low Rent Housing Loan Programs	14,694.1	704.2	4.0	15,402.3
Ginnie Mae Loan Program	1,637.2	27.8	0.0	1,665.0
<b>Total Housing</b>	<b>\$ 26,202.1</b>	<b>\$ 1,698.0</b>	<b>\$ 4.0</b>	<b>\$ 27,904.1</b>
<b>Income Security</b>				
Social Security Administration	\$ 0.9	\$ 2,013.8	\$537.9	\$ 2,552.6
<b>Tax Revenues</b>				
Taxes	\$ 0.0	\$43,458.3	\$155.8	\$ 43,614.1
<b>Transportation</b>				
Federal Railway Administration	\$ 1,301.3	\$ 4.6	\$ 593.8	\$ 1,899.7
<b>Veterans Programs</b>				
Loan Guaranty Program	\$ 1,221.3	\$ 62.7	\$ 828.6	\$ 2,112.6
National Life Insurance Program	1,064.8	29.4	0.3	1,094.5
<b>Total Veterans Programs</b>	<b>\$ 2,286.1</b>	<b>\$ 92.1</b>	<b>\$ 828.9</b>	<b>\$ 3,207.1</b>

**Appendix IV**  
**Summary of Major Receivables by Agency or**  
**Function as of September 30, 1985**

<b>Agency or program</b>	<b>Loans receivable</b>	<b>Accounts receivable</b>	<b>Other receivables</b>	<b>Total receivable</b>
<b>Other</b>				
Export-Import Bank	\$ 16,859.8	\$ 705.3	\$ 0.0	\$ 17,565.1
Federal Financing Bank	30,016.9	933.6	0.0	30,950.5
Bureau of Reclamation	451.1	32.2	1,295.8	1,779.1
Other Receivables	31,482.1	15,701.0	12,908.3	60,091.4
<b>Total other</b>	<b>\$ 78,809.9</b>	<b>\$17,372.1</b>	<b>\$14,204.1</b>	<b>\$110,386.5</b>
<b>Total receivables</b>	<b>\$254,790.8</b>	<b>\$72,963.0</b>	<b>\$18,022.7</b>	<b>\$345,776.5</b>

Note: See note to appendix III.

# Receivables, Delinquencies, and Write-Offs for Selected Agencies as of September 30, 1985

Dollars in millions			
	Receivables	Delinquencies	Write-offs
<b>Education</b>			
College Housing and Facilities	\$ 2,716.3	\$ 127.3	\$ 17.6
Guaranteed Student Loans	3,575.9	3,125.1	7.5
National Direct Student Loans	4,943.6 <sup>a</sup>	450.5 <sup>a/b</sup>	2.7
All other miscellaneous	649.4	242.4	13.6
<b>Total Education</b>	<b>\$ 11,885.2</b>	<b>\$ 3,945.3</b>	<b>\$ 41.4</b>
<b>HUD</b>			
Housing	\$ 26,239.2	\$ 1,432.5	\$ 88.0
Ginnie Mae	1,665.0	39.0	355.2
Rehabilitation Loans	729.9	67.3	0.1
All other miscellaneous	441.9	37.1	3.5
<b>Total HUD</b>	<b>\$ 29,075.9</b>	<b>\$ 1,575.9</b>	<b>\$ 446.8</b>
<b>FmHA</b>			
Agricultural Credit Insurance	\$ 32,911.7	\$ 6,620.9	\$ 147.6
Rural Housing	29,690.4	263.3	17.6
Rural Development	8,967.1	13.4	0.5
<b>Total FmHA</b>	<b>\$ 71,569.2</b>	<b>\$ 6,897.6</b>	<b>\$ 165.7</b>
<b>VA</b>			
Direct and Guaranty Loans	\$ 2,269.4	\$ 670.5	\$ 72.2
Education Loans	51.6	38.8	0.3
Readjustment Benefits	522.0	517.6	5.3
All other miscellaneous	1,635.5	328.5	18.3
<b>Total VA</b>	<b>\$ 4,478.5</b>	<b>\$ 1,555.4</b>	<b>\$ 96.0</b>
<b>Total</b>	<b>\$ 117,008.8</b>	<b>\$ 13,974.2</b>	<b>\$ 749.9</b>

Note: Amounts may not total due to rounding. Also, see note to appendix III.

<sup>a</sup>In commenting on our report, Education stated that the receivables for the National Direct Student Loans appeared overstated, while the delinquencies appear understated and suggested we review them. According to Education, the amounts should be \$5,072 million for receivables and \$561 million for delinquencies. However, analysis of these figures, based on reports submitted to Treasury and subsequent discussions with Education officials, showed that the correct figures should be \$4,943.6 million for receivables and \$450.5 million for delinquencies.

<sup>b</sup>This amount does not include delinquent notes held by the schools. Education officials advised us that these delinquencies amounted to \$687.3 million.

# Summary of Provisions of OMB Circular A-129, Dated May 9, 1985

---

This appendix provides a brief summary of OMB circular A-129, "Managing Federal Credit Programs." The circular prescribes policies and procedures for managing federal credit programs and for collecting loans and other receivables. It also provides management guidance on extending credit, servicing accounts, collecting delinquent receivables, and writing off uncollectible accounts, as well as establishes certain accounting and reporting requirements.

The circular states that it applies to direct loans, loan guarantees, loan insurance, financial contracts designed to support borrowing, and debts arising from contracts, grants, and other administrative arrangements. It also states that it applies to all executive branch departments and agencies and to government corporations, except where specifically excluded by law. However, its provisions do not apply to debts arising under the Internal Revenue Code, the Social Security Act, the tariff laws of the United States, or debts owed by state or local governments.

The circular sets forth as "policy" that each agency shall establish a comprehensive credit management program to ensure collection of all receivables, enable management to evaluate credit policies, provide efficient and effective account servicing, and improve the accuracy and timeliness of financial reports.

It lists specific standards for credit extension and screening of applicants, which are summarized here.

Screening Applicants — Agencies are required to verify information on applications, obtain and review credit reports to assess credit worthiness and ensure that the applicant has no delinquencies under another federal program, screen applicants against IRS delinquent tax files, and have financial institutions submit credit reports with defaulted guarantee loans to assist the agency in determining future collection actions.

Taxpayer Identification Number — Agencies are required to obtain these numbers for certain federal loan programs listed in an appendix to the circular and to attempt to obtain such numbers for existing loans if collection action is to be taken.

Credit Analysis and Ability To Repay — Agencies are required to analyze each applicant's credit worthiness, financial responsibility, and ability to repay, following specific criteria outlined in the circular. Such analyses are required both for individual and commercial organization applicants. If an applicant is found likely to qualify for private

financing, the agency is generally required to refer the applicant to private sources.

Loan Origination and Application Fees — Agencies are generally required to assess fees for loan origination on direct loans, fees to cover the costs of obtaining credit reports (in most cases), and fees on guaranteed loans to cover administrative and servicing costs and all or a portion of the estimated cost to the government of default.

Monthly Payments — Agencies are required to establish a payment schedule for each type of loan similar to private sector practice. Monthly payments should follow the “usual arrangement.”

Debt Collection Certification — Agencies are required to inform loan applicants of federal debt collection policies and procedures prior to extending credit. Applicants are to be required to sign a certification document, similar to examples presented in an appendix to the circular, indicating that they have read and understand the government's collection policies.

Account Servicing — Agencies are required to maintain their accounts in accordance with guidelines presented in the circular. The guidelines encompass the following areas.

1. Documentation: the type of standard information on the history and status of each loan that must be maintained.
2. Account review and loan loss estimates: actions agencies must take to complete risk ratings and loan loss estimates and the requirement for periodic reconciliation of loan files with subsidiary and general ledger accounts in agency accounting systems.
3. Referring account information to credit reporting agencies: a requirement for agencies to take specific actions involving the use of private credit reporting agencies, including referral of information on all accounts in excess of \$100 that have been delinquent more than 31 days.
4. Follow-up procedures: a requirement for agencies to send delinquent debtors written demand letters for payment in accordance with the FCCS and the Privacy Act.

Loan Collections — Agencies are required to have efficient systems for the collection of routine loan payments. They also must employ the special measures authorized by the Debt Collection Act to provide for the collection of delinquent loan payments. Specifically, they are required to take action in the following areas:

1. Delinquent accounts: Agencies are required to identify all loans that are delinquent 6 months or more and to take specific action to collect such debts.
2. Interest, penalties, and administrative costs: Agencies are required to assess these charges and to notify debtors prior to imposing such charges.
3. Administrative offset: Agencies are required to implement administrative offset in accordance with the Federal Claims Collection Standards.
4. Collection agencies: Agencies are required to determine, on a case by case basis, whether a delinquent account should be referred to a collection agency or referred for litigation.
5. Referral for litigation: Agencies are required to refer seriously delinquent accounts to the Department of Justice if there is sufficient reason to conclude that litigation is the most appropriate action.
6. Calling guarantees and foreclosing on collateral: Agencies are to exercise the government's rights under guarantee agreements or to pursue foreclosure proceedings as warranted.
7. Federal employee salary offset: Agencies are required to implement this tool in accordance with Office of Personnel Management regulations.
8. Income tax refund offset: Agencies are to pursue income tax refund offset in accordance with procedures provided by IRS and OMB.
9. Rescheduling: Agencies are to permit the rescheduling of payments only when it is in the best interest of the government and recovery of all or a portion of the amount owed is reasonably assured.

Write-off and Close-out Procedures — Agencies are required to develop write-off procedures that identify and remove uncollectible accounts

from receivables, and close-out procedures that cease collection activity. The circular provides specific guidance for determining when accounts should be written off or closed out. Amounts which are written off should be referred to IRS for inclusion in the debtor's taxable income.

Other Receivables — Agencies are required to follow standards outlined in the circular with respect to receivables generated through such actions as administrative operations, grants, or contracts. Generally, they should use the same guidelines as for loans with respect to account servicing, debt collection, and write-offs. In addition, the circular presents standards for agencies to follow in prescreening grant and contract applicants.

Portfolio Sales — Agencies are to consider the sale of direct loans and guaranteed loans, following standards outlined in the circular.

Management Review — Agencies are to engage in ongoing review and evaluation of whether programs are meeting their objectives in the most cost-effective manner. Agencies are required to develop annual plans for improving credit management performance, develop loss estimates for each loan program, establish certain performance measures, and include achievement of program objectives and performance measures in the performance appraisals of individuals with credit management responsibilities.

Accounting and Reporting — Agencies are required to establish accounting and reporting systems to enable them to meet the credit management standards provided in the circular. The systems of major loan programs are to provide accurate and timely reports on the cost and current status of these programs. Reports are to include operating statements, statements of financial position, and cash flow statements.

Finally, where current law or regulations preclude full implementation of the standards presented in the circular, agencies are to take appropriate steps to have the statutes or regulations amended.

# Collecting and Accounting for Debts Owed to the Department of Education

The Department of Education has made a concerted effort to implement the provisions of the Debt Collection Act of 1982 and other debt collection initiatives. However, because of the rising rate in the amount of its defaulted loans and the continued deficiencies in its accounting systems, Education must continue the ongoing impetus to improve its debt collection program.

## Background

Under Education's student financial-aid programs, participating schools and private lenders make low-interest loans available to students financing their post-secondary education. Education guarantees the loans in the event that the borrower fails to repay the debt.<sup>13</sup> Upon default, it reimburses the lender and establishes the receivable. Education also administers direct loan programs to provide funds to educational institutions financing the construction or purchase of college facilities. We focused our review on Education's Guaranteed Student Loan, National Direct Student Loan, and College Housing Loan programs.

As shown in table VII.1, the amount of outstanding receivables and delinquencies has risen steadily over the past 4 fiscal years. Outstanding receivables have increased by 10 percent, whereas delinquencies have increased by 12.2 percent.

**Table VII.1: Education Receivables, Delinquencies, and Collections**

	Fiscal year			
	1982	1983	1984	1985
Total receivables	\$10,806	\$11,260	\$11,736	\$11,885
Current receivables				
Not delinquent	907	2,437	2,137	115
Delinquent	3,517	3,068	3,976	3,945
Long-term receivables	6,382	5,755	5,623	7,825
Collections <sup>a</sup>	875	1,120	1,374	1,138

Note: See note to table 2.1.

<sup>a</sup>Amounts reported include collections made by educational institutions under the National Direct Student Loan Program. In fiscal year 1985, these totaled approximately \$524 million.

<sup>13</sup>Under the Guaranteed Student Loan program, loans are insured by a state or private guarantee agency. Upon default, if the debt cannot be collected, the lender is reimbursed by the guarantee agency, which, in turn, may be reimbursed by Education. The guarantee agency is then responsible for collecting the defaulted loan from the borrower and remitting a portion of the proceeds to Education.



Further, according to Education officials, defaults for the Guaranteed Student Loan (GSL) Program alone, which were estimated to be \$1 billion in 1985, could exceed \$1.8 billion annually and reach a cumulative total of nearly \$12 billion by 1990. To the extent these defaults occur and cannot be collected by the guarantee agencies, the government may be responsible for reimbursing the guarantee agencies and collecting the loans.

---

### Education's Debt Collection Program Needs Continued Emphasis

The Department of Education has implemented many provisions of the Debt Collection Act. Education's collection procedures include using private collection agencies, reporting delinquent accounts to commercial credit bureaus, and withholding portions of federal employees' salaries to satisfy delinquent loan debts. Education also plans to implement further debt collection measures. These include such actions as: assessing interest, penalty, and administrative charges where allowed by law; administratively withholding funds under one program to satisfy debts under another; and reporting debts discharged through compromise, write-off, or waiver to IRS to be included in the debtor's taxable income. Finally, Education is also considering reducing the size of its loan portfolio through loan sales.

Although Education has significant efforts underway, it must continue to stress and improve its debt collection efforts if it is to effectively deal with the growing rate of defaulted loans which it may ultimately become responsible for collecting.

---

### Education Reports Information to Credit Bureaus

As authorized by the Education Amendments of 1980 and the Debt Collection Act of 1982, Education began reporting delinquent debtors to three national credit reporting firms in October 1984. As of December 1985, Education has reported more than 401,000 Federal Insured Student Loan (FISL) and National Direct Student Loan (NDSL) accounts valued at approximately \$682 million. Education has also signed agreements with eight additional credit reporting firms in order to expand the geographic areas these agencies cover.

Education officials consider credit bureau reporting one of the most useful collection tools available to government agencies. Although they cannot specifically measure the effects in terms of higher collections, officials stated that Education's three regional collection offices receive an estimated 75 to 100 calls a week from borrowers who have had their credit records affected by adverse referrals.

---

### Education Uses Private Collection Firms

Since November 1981, Education has contracted with two private collection agencies to supplement its regional office collection activities in Atlanta, Chicago, and San Francisco. Prior to 1981, collection efforts were located in each of the department's 10 regional offices. The decision to use private collectors followed a 3-year pilot study begun in 1979 by the Department of Health, Education and Welfare,<sup>14</sup> and a task force review which concluded that using commercial collection agencies was at least as cost-effective as regional collectors. In September 1985, Education expanded this effort by awarding six new contracts to private collection agencies to begin servicing delinquent loans in February 1986.

Between November 1981 and April 1985, Education transferred over 745,000 accounts valued at nearly \$1 billion to the collection contractors. Through fiscal year 1985, the collection contractors had recovered more than \$99.5 million, with a net return (dollars collected minus commissions) of over \$68.9 million. We did not evaluate whether it was cost-effective for Education to use private collection agencies rather than performing all collections internally.

---

### Education Obtains IRS Addresses

Education has made extensive use of IRS-provided addresses within its own debt collection program, which includes disclosure to private collection agencies, commercial credit bureaus, and state guarantee agencies. The department's use of IRS addresses predates the Debt Collection Act. Education has been submitting address requests for its FISL accounts since about 1976 and for NDSL accounts since about 1979.

The IRS matching process has been successful in providing address updates for about 80 percent of the requests submitted. According to Education officials, IRS has provided addresses for about 85 to 91 percent of FISL cases and 72 to 74 percent of NDSL cases submitted.

---

### Employee Salaries Withheld To Satisfy Debts

Education has also used statutory authority to take salary offset against federal employees with defaulted student loans. In a 1982 computer match, the department identified 46,860 federal employees with delinquent loans totaling \$68 million. Education notified about 17,000 employees that it would seek to withhold part of their salaries unless steps were taken to begin repaying the defaulted loans. Under this

---

<sup>14</sup>The Department of Education was established on October 17, 1979, under the Department of Education Organization Act (Public Law 96-88), which reorganized the Department of Health, Education and Welfare into two departments, the other being the Department of Health and Human Services.

threat of offset, 15,402 employees submitted repayments exceeding \$10.6 million, according to Education officials. Actual offsets resulted in collections of another \$3.4 million from employees who still refused to repay their outstanding loans. No offset action was taken against the remaining employees identified because they no longer worked for the federal government or the loans were still in the hands of a state guarantee agency—that is, not assigned to Education.

Although most agencies cooperated fully, Education officials told us that the departments of the Treasury and Transportation and the Veterans Administration have refused to honor its requests to make employee salary deductions. These agencies have objected to Education's method of certifying employee indebtedness, which they maintain conflicts with OPM regulations. They interpret OPM's regulations to prescribe individual certification for each delinquent borrower, whereas Education's procedure is to certify delinquent borrowers within an agency under a "blanket" certification which covers a group of employees at one time. Education officials believe that blanket certifications are justifiable because its records are computerized and because the clerical process of making independent certifications is too costly and time-consuming. In June 1985, Education requested OMB's assistance in settling the dispute. However, this concern has not yet been resolved.

---

## Offsets Between Programs Delayed

To satisfy delinquent debts under one program, a government agency is allowed to administratively withhold funds due an individual or business under that program, or even a different program, after certain procedures prescribed by the Debt Collection Act have been followed. Education plans to use this tool to collect such debts as overpayments to contractors or grantees doing business with other government agencies.

Education has delayed using administrative offset to collect delinquent debts because of uncertainty over the need to publish regulations prior to making any offset.<sup>15</sup> Education is appealing two injunctions that limit

---

<sup>15</sup>GAO has ruled that the government is entitled to a reasonable period of time in which to promulgate regulations. It has also ruled that if agencies accord debtors with the substantial equivalent of the procedural rights prescribed by the Debt Collection Act and the Federal Claims Collection Standards, offset may be taken before regulations have been finalized, as long as the agency is making reasonable progress towards issuing regulations (B-219781, September 3, 1985). However, after that decision was issued, a federal district court issued an injunction prohibiting Education and Treasury from taking offsets against payments made under the GSL program to collect debts owed by commercial banks, unless and until both agencies have issued regulations under the Debt Collection Act (*American Bankers Association v. Bennett*, 618 F. Supp. 1528 (1985)). It does not appear that GAO's decision (or the cases and arguments cited in it) was brought to the court's attention or considered by it.

its use of administrative offset. Education expects to publish regulations governing administrative offset in the near future.

---

### Loan Sales Are Not Made

To date, Education has not made a practice of selling loans because private investors have shown little interest. Nonetheless, officials are interested in selling loans and have contracted with a private investment firm to determine the potential sales value of Education's \$2.4 billion portfolio of College Housing Program (CHP) loans. Officials believe that CHP loans will prove the easiest to sell since these are relatively low in volume and high in dollar value. In addition to offering CHP loans, Education is looking into the possibility of selling some of its NDSL loans. Officials said they are negotiating with OMB to determine the amount of loans to be offered sometime in fiscal year 1987.

Although Education has not sold loans, it has allowed some colleges and universities to prepay their outstanding CHP loans at less than face value. Since the department initiated this procedure in fiscal year 1984, it has collected about \$298 million in prepayments for some 684 loans valued at \$607.5 million.

---

### Additional Interest, Penalty, and Administrative Costs Not Assessed Against Defaulted Student Loans

Education has drafted regulations to impose interest charges on delinquent debts not paid within 30 days, as well as penalty and administrative charges for delinquent debts outstanding after 90 days. These charges would be on debts other than student loans, such as grant overpayments. Education does not plan to assess additional charges against defaulted student loans because it views these as statutory loan programs in which the rate of interest and other charges applied are determined by law and restricted by the contractual provisions of the original loan agreement. Therefore, the rate of interest charged against delinquent and defaulted student loans continues to be the lower subsidized rate, ranging from 3 to 9 percent depending upon when the loan was issued, rather than the Treasury rate prescribed by the Debt Collection Act. Furthermore, late penalties and the additional administrative cost of collections are not assessed against defaulted borrowers.

Education maintains that it cannot assess penalty and administrative costs where such charges are not explicitly stated in the original loan agreement. While this may be true for existing loans, we believe that Education should follow OMB circular A-129, which instructs agencies to take appropriate steps, such as having statutes, program regulations, or future loan agreements amended to allow for such charges. In our

opinion, assessing penalty and administrative costs would provide a useful deterrent by penalizing borrowers who fail to make timely repayments as well as reimbursing the government for the additional costs of collecting delinquent debts.

### Discharged Debts Not Reported to IRS

To date, Education has not reported discharged debts to IRS for inclusion in the debtors' taxable income.<sup>16</sup> During fiscal year 1984, the department discharged over 37,000 loan accounts. However, according to officials, it did not report these to IRS because they did not meet IRS' criteria for reporting. The class of receivables consisted of accounts which were over 9 years old and/or amounts less than \$600. Education plans to begin reporting discharged debts as soon as financial resources are available.

### Education's Problems in Accounting for Receivables Remain Unresolved

Education has not solved its many accounting problems so that reliable financial reports can be prepared on debt collection activities. In fiscal year 1984, the Education inspector general conducted a review which reported that the accounts receivable system did not provide accurate and timely general ledger account balances for financial reporting purposes. Further, in our recent report, Second-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education (GAO/HRD-85-78, September 26, 1985), we noted that the accounts receivable system contained inaccurate information and did not produce accurate reports. Also, the system had limited capabilities for aging receivables. In addition, our review of Education's accounts receivable system showed that financial reports are unreliable, accounting records are poorly maintained, and individual accounts are inaccurate.

### Reports on Receivables Owed Are Unreliable

Education continues to have problems preparing reliable financial reports on accounts and loans receivable due from the public. Education's general ledger system does not capture information on receivables such as collections, accrued interest, and insurance premiums. Instead, Education relies on the manual records which its accounts receivable branch maintains and on information its program offices provide. These organizational units, however, do not provide the type of information necessary for accurate reporting on debts owed to the government. For

<sup>16</sup>In this report we use the term "discharged debts" to refer to debts that are not collected because of compromise, termination, or waiver. "Discharged debts" often constitute taxable income for the debtor.

example, we noted that, in its March 31, 1985, report to Treasury, Education estimated outstanding receivables for the College Housing and Higher Education Facilities programs because the program office was late in providing the information. We found a difference of about \$60 million between the source documentation and the amount reported to Treasury. Further analysis also showed that Education twice revised the report to Treasury for these two programs because the collection amount was inaccurate. Additionally, a comparison of the loans receivable balance on the reports to Treasury and the balance in the general ledger system for five of Education's programs disclosed a difference of \$1.2 billion.

---

### Accounting Records Are Poorly Maintained

Since October 1984, Education has not been able to reconcile its deposit transactions on collections with those Treasury reported because Education's accounting records are inadequate. As a result, the accuracy of individual accounts is uncertain. For example, Treasury reported a \$24 million discrepancy in October 1984. Specifically, Education's records showed bank deposits of \$122 million, while Treasury's records showed \$146 million. This large discrepancy prompted Treasury to assign two staff members to assist Education in reconciling the difference. After 3 days, Treasury terminated the effort because it felt Education did not maintain appropriate documentation to perform the reconciliation.

---

### Individual Account Balances Are Inaccurate

Education has not applied millions of dollars in payments from debtors and lenders to individual accounts. As a result, some individual account balances may be inaccurate and individuals may be receiving incorrect billings. We did not attempt to determine the extent to which these inaccuracies occur.

As of June 1985, Education had an unapplied balance of approximately \$4 million from debtors. These payments could not be applied because the debtor did not include a social security number or return the billings receipt coupon to Education. In some cases, payments were not applied because Education did not correctly enter the data in the accounting system. Some of the payments we reviewed have been in this unapplied status since 1976, and some are the subject of complaint letters. For example, 22 of the 45 complaint letters regarding individual student accounts that Education's Atlanta region received in August 1985 dealt with incorrect account balances. Also, the department's Chicago region reportedly receives an average of 136 complaints each month from

debtors who claim they are not receiving proper credit for payments made to the school, lender, or Education.

Education also had an unapplied premium insurance balance of about \$3.6 million as of August 31, 1985. Education charges the lending institution participating in its FISL program an insurance premium for each insured loan. The rate of the insurance premium is one-fourth of 1 percent of the loan principal. An Education staffer told us that these premiums have not been applied to individual accounts because there is a backlog of payments waiting to be researched and applied to individual accounts. Also, only one person is assigned to update individual accounts and bill the lenders.

---

### Enhancement Efforts Underway

Education plans to invest approximately \$23 million over the next several years to replace, redesign, or improve its current accounting systems. Education believes these enhancement efforts, which are not expected to be completed until 1990, will result in better accountability over receivables. For example, Education expects to receive better and more comprehensive financial information on collection activities after it combines the FISL and NDSL collection systems into one system. This is expected to be completed in 1987 at an estimated cost of \$1 million dollars.

In our opinion, it is too early to determine whether these enhancement efforts will correct Education's problems in accounting for receivables. Some of these efforts have been underway for several years, and little progress has been made during this time to correct the problems. For example, since 1979, Education has not been able to develop a summary tape of FISL and NDSL collections for its general ledger system.

---

### Summation

For several years, Education has had difficulty collecting defaulted student loans and has been faced with serious accounting and reporting problems. With the rising rate of delinquencies, the department should continue its efforts to utilize the provisions of the Debt Collection Act and other debt collection initiatives available to it. Further, the department must ensure that its current system development efforts are completed on time in order to correct the numerous problems. The department will be severely hampered in its efforts to improve its debt collection program without a viable accounting system.

## Agency Comments and Our Evaluation

The Department of Education agreed that our conclusions were accurate at the time of our review but stated that they have since become outdated. Education also said that we did not include substantial achievements the department recently made in its debt collection program. In addition, Education stated that we downplayed program-related factors and resource limitations which have made student loan debt management especially difficult. Education believes it has continued to place a high priority on the dedication and success of its debt collection program and that new debt collection initiatives are continually being investigated and implemented as budget and personnel resources allow. We have incorporated the additional information provided by Education to the extent we consider appropriate and have included Education's comments as appendix XIII.

We believe our conclusions are still relevant. Although our fieldwork was completed in November 1985, we believe that information regarding Education's debt collection program, as well as our conclusions, recognizes that Education has made progress in implementing provisions of the act. We believe that Education's commitment to improving debt collection should continue as the magnitude of delinquent and defaulted student loans increases.

Education noted that additional authority, which will further strengthen its debt collection program, was recently provided under Public Law 99-272 (Consolidated Omnibus Budget Reconciliation Act of 1985, April 7, 1986). Among other things, this legislation authorizes the Secretary of Education to accelerate the process of assigning delinquent NDSL debts to the department and to require increased use of credit bureau reporting in the GSL program. Education also noted that in April 1986 it proposed additional changes to the Higher Education Act of 1965 which it believes would improve Education's ability to manage and collect its debts.

Regarding Education's attempt to collect debts by administrative offset, Education stated that two recent injunctions regarding specific debtors and programs (which are being appealed by Education) have discouraged the agency from using this tool at all prior to issuing regulations governing such offsets. Education expects to issue regulations in the near future. While Education must comply with these actions against it, it need not apply them to debts and debtors that are beyond their scope—especially since those injunctions appear to have been concerned only with specific debtors and programs. With regard to the other debts and debtors, we continue to believe, as explained in a September 3, 1985,



Comptroller General decision (B-219781), that as long as an agency is making reasonable progress toward issuing final regulations and provides debtors with the substantial equivalent of the procedural rights prescribed by the Debt Collection Act and the Federal Claims Collection Standards, administrative offsets may be taken before regulations have been finalized.

In commenting on the assessment of interest, penalties, and administrative costs, Education stated that it does not have the authority to assess interest and penalties as prescribed by the Debt Collection Act since these amounts are set by law and by the promissory notes for the life of the loan. However, Education stated that it will consider requesting legislative changes which would allow it to assess penalties and additional interest. This is in accord with OMB circular A-129 and our recommendation in chapter 2 that Education should take appropriate steps to amend its program legislation to allow for such charges on all future loan agreements. Education stated that it was provided the authority to assess administrative costs against defaulted student loans under the Consolidated Omnibus Budget Reconciliation Act of 1985, which it intends to implement by the end of this year.

Education generally agreed with our findings that its problems in accounting for receivables remain unresolved, reports on its receivables are unreliable, and accounting records are poorly maintained. It also acknowledged that the development of summary-level tapes for FISL and NDSL collections has not been completed because of other higher-priority work. Education, however, believes that we overstated the magnitude of its unidentified payments problem. Specifically, Education indicated that it accumulated \$2.7 million in unidentified payments as of March 31, 1986, while we cited approximately \$4 million as of June 1985.

While we recognize that the unidentified payments amount can fluctuate from month to month, at the time of our review Education had an unapplied balance of approximately \$4 million from debtors. Further, some of the payments we reviewed have been in this unapplied status since 1976, and some are the subject of complaint letters. Therefore, we believe that Education does have an unapplied payments problem and should strive for ways to apply these amounts to individual accounts in a timely manner.

# Collecting and Accounting for Debts Owed to the Department of Housing and Urban Development

The Department of Housing and Urban Development (HUD) has made some progress in implementing the provisions of the Debt Collection Act and other debt collection initiatives. However, because all applicable debt collection initiatives have not been implemented, HUD must place greater emphasis on its debt collection efforts. Also, while HUD has implemented new debt accounting systems, it still needs to improve the accuracy of individual account balances.

## Background

HUD administers housing assistance, mortgage credit, community development, fair housing, and equal opportunity programs. As of September 30, 1985, HUD had \$29.1 billion in outstanding receivables, of which \$1.6 billion was delinquent. Table VIII.1 presents the amount of outstanding receivables, delinquencies, and collections for fiscal years 1982 to 1985. Outstanding receivables increased by 11 percent,<sup>17</sup> whereas collections decreased by 9 percent.

**Table VIII.1: HUD Receivables, Delinquencies, and Collections**

	Fiscal year			
	1982	1983	1984	1985
Total receivables <sup>a</sup>	\$14,072	\$14,462	\$15,002	\$29,076
Current receivables				
Not delinquent	439	637	1,668	16,837
Delinquent	1,487	1,802	1,715	1,576
Long-term receivables	12,147	12,023	11,619	10,663
Collections	5,478	4,971	5,215	5,026

Note: See note to table 2.1.

<sup>a</sup>May not total due to rounding.

At HUD we focused on the Multifamily, Single Family, and title I programs. These comprise \$4.9 billion, or 17 percent, of HUD's total receivables and \$1.4 billion, or 88 percent, of HUD's total delinquent debt. Each program we reviewed is essentially a loan servicing program for HUD-insured loans on which borrowers have defaulted. Upon default the mortgage becomes HUD's property.

<sup>17</sup>See note a to table 2.2.

---

## HUD Needs To Do More to Implement the Debt Collection Act

HUD has implemented several provisions of the Debt Collection Act, such as making offsets within its programs and obtaining loan applicants' taxpayer identification numbers. However, the implementation of other debt collection initiatives has been delayed or not accomplished. These initiatives include providing information about delinquent debtors' accounts to credit bureaus and making deductions from federal employees' salaries to satisfy delinquent debts. Other initiatives are in varying stages of implementation.

While HUD has made some progress in improving its debt collection efforts, greater use of the debt collection tools, such as those provided for in the act, is needed to help increase collections.

---

## Information Not Reported to Credit Bureaus

HUD plans to provide information on delinquent debtors to commercial credit bureaus under its Title I Defaulted Notes program in May 1986. These referrals were initially scheduled to begin in April 1985, but were delayed because of contract negotiations and difficulty in determining if all accounts should be referred or only those which are delinquent. We support this effort under the title I program; however, we believe that continued emphasis must be exerted so that referrals will no longer be delayed.

HUD, through the Single Family assigned notes program, plans to start referring those accounts scheduled for foreclosure at the end of May 1986.<sup>18</sup> As of October 1985, this program had approximately 42,600 accounts, of which 1,700 were moving into foreclosure. Although we agree that those accounts in foreclosure should be referred to credit bureaus, in our opinion, greater benefits would result from referring information on those who do not meet the revised repayment schedule. HUD maintains that accounting and management information system modifications to enable all delinquent accounts to be referred would be too costly and time-consuming. Because of this, HUD has no plans for such modifications.

Officials within HUD's Multifamily assignment program advised us that they do not plan to provide information on delinquent debtors to credit bureaus. They maintain that participants in its programs are not personally liable, which would prevent such referrals. Also, according to HUD

---

<sup>18</sup>In commenting on our draft report, HUD stated that it will report foreclosed Single Family notes to credit bureaus in April 1986. A HUD official subsequently advised us that referrals will begin at the end of May 1986. HUD plans to refer approximately 80 to 85 accounts.

officials, the Multifamily partnerships/corporations are legally established as single-purpose entities for the specific mortgage obtained. Since these entities do not carry out other business activities, HUD believes that referral of such an organization to a credit bureau would be of no benefit. However, HUD is exploring the use of this tool.

---

### **Collection Efforts Conducted Internally**

HUD has not fully assessed the benefits of contracting for collection services in the programs we reviewed. Primarily, HUD's own personnel are used to collect the department's debts. HUD program officials believed the training provided to its staff allows them to adequately collect debts owed to the department. For example, according to HUD officials, a current pilot in the Multifamily program utilizing a private collection service did not show the collection service to be more cost-effective or better than HUD personnel in collecting HUD's debts. We did not evaluate the capabilities of HUD's staff to collect delinquent debts.

Although no study has been performed to fully support HUD's decision to use its own personnel, HUD maintains that the program's quality would deteriorate if the collection process was contracted out. The concern is that collection agencies would not be interested in the integrity of the program.

We believe that HUD can benefit from additional experience in the use of private collection agencies to supplement the ongoing collection efforts of its programs.

---

### **Deductions From Employees' Salaries Could Be Used More**

Although HUD has made deductions from federal employees' salaries to satisfy delinquent federal debt under its title I program, neither the Single Family nor the Multifamily assignment program uses this tool. By using this initiative, title I expects to collect about \$582,000 for its fiscal year 1985 efforts.

According to HUD officials, involuntary salary deductions cannot be used in the Multifamily assignment program because of a contract clause which they believe relieves the borrower of personal liability. Furthermore, they believe that the multimillion dollar mortgages within this program make collection through salary deductions impractical.

According to HUD credit management officials, using salary deductions for the Single Family assignment program is unnecessary because the department holds secured notes and can foreclose on the property.

Although HUD has not identified the number of federal employees who hold delinquent HUD debt, we believe the department should explore the use of salary deductions in its Single Family assignment program and weigh the costs and benefits of the effort. Use of salary deductions prior to foreclosure might eliminate the need for further action.

---

**Administrative Offsets**  
**Implemented Within Own**  
**Programs**

Two HUD programs we reviewed, the Title I Defaulted Notes and the Multifamily Assigned Notes, utilize administrative offsets to recover delinquent debt within their programs. HUD has decided that under the title I program a lender's claim may be offset if a previous claim was paid by HUD in error. In fiscal year 1985, such offsets of approximately \$470,000 were made. The Multifamily assignment program offsets rent subsidies to projects with delinquent mortgage debt. In fiscal year 1985, over \$5.2 million was administratively offset in the Multifamily assignment program. Offsets were not made in the Single Family assignment program because HUD believes it is not feasible to identify payments that can be offset.

---

**HUD Faces Several**  
**Obstacles in Selling Loans**

HUD has had experience in selling loans under its Multifamily assignment program, whereas no loans in the Single Family and title I programs have been sold. Eight mortgage auctions were conducted within the Multifamily assignment program from March 1982 through July 1984. The auctions consisted of mortgages which were sold both with and without insurance. In February 1984, OMB directed HUD to discontinue selling assigned mortgages with insurance to avoid potential further losses. HUD complied with this order; however, according to HUD officials, dropping the insurance reduced the sale of mortgages so significantly that additional auctions could not be justified and the sales program was suspended. During the program's duration, \$748.7 million in unpaid principal balance was sold, of which \$479.6 million was realized through the sales. As of September 1985, the insurance option was not exercised for any of the sales; therefore, HUD did not incur any additional expenses. Since mortgages were sold without insurance in the past, we believe that HUD should explore additional mortgage sales without insurance or possibly on a shared-risk basis. HUD plans a Multifamily sale in March 1987.

Title I and Single Family officials have discussed the feasibility of selling loans with industry and government representatives. As a result, they decided that such sales would not be practical for several reasons.

They concluded that the expected proceeds would be low and the administrative costs of preparing the loans for sale would be high. However, we believe that until HUD actually attempts to sell loans, it cannot fully support its concerns. Therefore, we believe that HUD should begin selling portions of its loan portfolio when found to be advantageous to the government.

---

**Assessment of Additional  
Charges Generally Dictated  
by Contract**

Generally, the interest rate assessed on HUD's delinquent debt is the contract rate charged by the lender at loan origination. The actual contract rate varies among programs but may be from 3 to 18 percent. HUD has established two exceptions. First, HUD assesses the Treasury rate on defaulted title I discount notes at the time the note is assigned to the department. Second, for Multifamily notes assigned after October 1984, HUD maintains that it has the option to increase the interest rate at assignment based on the determination of the debtor's ability to absorb the additional expense.

Penalty charges on delinquent payments are generally assessed on Single Family and Multifamily assigned notes. When a charge is assessed, the rate is usually dictated by the individual loan agreement. According to officials, penalties are not currently assessed on title I defaulted notes because of higher-priority debt collection efforts. HUD plans to assess penalties by the end of fiscal year 1986.

Assessment of service charges on Single Family and Multifamily assigned notes predates the Debt Collection Act. In fiscal year 1985, the Single Family assignment program collected over \$4.7 million in service charges.

The assessment of additional charges on delinquent debt should help reduce delinquencies by encouraging debtors to keep their accounts current. In addition, assessment of administrative costs should offset the additional costs of servicing delinquent debt. In our opinion, HUD should make the necessary changes to assess such charges.

---

**HUD Reporting Discharged  
Debt**

HUD advised us that it reports discharged Single Family, Multifamily, and title I debts to IRS. For example, the title I program has referred 385 accounts to IRS. The accounts amounted to about \$1.2 million and were discharged in 1984.

## HUD Needs To Make Further Improvements in Its Accountability Over Receivables

Over the past several years, HUD has made progress in improving its accountability over receivables. HUD had previously been hampered by serious loan servicing and accounting problems. These problems, which were identified from 1979 to 1982, include erroneous account balances, insufficient and untimely information on payment receipts, late billings, no inventory reconciliation of account records, and insufficient delinquency data. To correct these problems, HUD implemented new systems to handle its accounting and servicing functions.

While these new accounting systems have improved the accuracy of HUD's receivable information, our review disclosed that further improvements are needed. Primarily, HUD needs to promptly

- identify and apply about \$10 million in collections received to individual accounts,
- apply about \$7.3 million in tax disbursements to individual accounts, and
- enter notes receivable information accurately in its accounting system for defaulted Single Family mortgage notes.

Additionally, recent audits of two HUD revolving funds by CPA firms hired by HUD's Office of Inspector General disclosed significant accounting problems. Specifically, in the Non-Profit Sponsor Assistance Fund, the CPAs could not readily determine the status of more than half of the \$467,929 in loans receivable. In the Rental Housing Assistance Fund, the accounting system did not have the capability to ensure proper recognition and recording of accounts receivable.

## Collections Are Not Promptly Applied to Individual Account Records

As of September 30, 1985, HUD had not applied about \$10 million in collections received to individual accounts. Of this total, approximately \$6.9 million pertained to Multifamily, \$1.4 million to Single Family, and \$1.8 million to title I accounts. By not applying these collections to their respective accounts, many individual account balances are inaccurate.

Unapplied collections often occur because the remitter fails to return the stub with the payment or forgets to record the account number on the check. Other explanations include:

- The payment is received before HUD establishes the case in its accounting system.
- The remitter's name is not the same as the one established in the system due to a change in marital status.

- The payment involves a case which HUD is in the process of foreclosing.

Whatever the reason, HUD must research the payment before it can apply the collection to the proper individual account.

While HUD officials told us every effort is being made to apply collections in a timely manner, many of the unapplied collections we reviewed were more than 2 years old. For example, more than \$2.8 million in Multifamily mortgage note collections, received prior to April 1983, have not been applied to individual accounts. These collections have not been applied because HUD has no record as to whom the collections belong. According to HUD officials, another reason why some collections have not been applied is that the department does not have the staff resources to research the collections received and make the necessary application.

Additionally, we noted many instances where HUD employees made errors while applying title I collections to individual accounts. Many of these errors involved duplicate entries to the accounting system for defaulted title I notes. The system does not have adequate controls to prevent the occurrence of duplicate entries. For example, we noted that duplicate entries often occurred because HUD employees erroneously hit the input key twice. We identified 234 such errors for HUD headquarters as of September 29, 1985. These errors result in inaccurate individual accounts. HUD plans to have its accounting system contractor periodically run a special program to eliminate the duplicate entries.

---

### Tax Disbursements Are Not Promptly Applied to Individual Single Family Accounts

Part of the monthly payments HUD receives from Single Family mortgagors is held in escrow accounts so that funds will be available to pay property taxes as they come due. As of September 30, 1985, HUD had made about \$7.3 million in tax disbursements which had not been applied to individual accounts. These disbursements were made during March 1985 to September 1985, with most occurring in August 1985. By not applying these disbursements to individual accounts, some escrow balances are inaccurate.

HUD officials told us that, in most cases, tax disbursements have not been applied to individual accounts because the department has limited staff resources. HUD plans to contract out the tax disbursement function and to enhance its accounting system by providing it with batch processing capability to handle tax disbursement information from the contractor.



---

### Many Single Family Accounts Contain Posting Errors

HUD field offices enter all initial notes receivable information, such as the loan amount, unpaid principal balance, interest rate, and late charge rate, in the accounting system for defaulted Single Family mortgage notes. However, postaudit verifications performed at HUD headquarters identified many posting errors in the initial information entered by HUD field offices. For example, the third quarter fiscal year 1985 report on field performance in new account input showed that the postaudit staff found errors in 24.5 percent (162) of the 660 accounts reviewed. Approximately 21.7 percent (143) of the accounts had errors which HUD considered "serious" in nature. Serious errors include erroneous paid-to-date, late charge, and interest rate information.

Further, a serious backlog existed in the postaudit function. HUD has not performed postaudit verifications on more than a third of the 45,000 cases recorded in its Single Family accounting system. As of October 18, 1985, there were 16,295 new accounts awaiting a postaudit. Some of these accounts were several years old. HUD officials estimate that it would take at least 18 months to complete postaudits on accounts in the backlog, provided HUD does not take in any more new accounts. Until this verification is completed and considering the error rate on postaudits, the accuracy of these individual accounts is uncertain.

---

### Summation

HUD has historically been faced with problems in collecting billions of dollars in outstanding receivables. Thus, it is imperative that HUD utilize the provisions of the Debt Collection Act. Further, while HUD has implemented new debt accounting systems, it needs to improve the accuracy of individual accounts.

---

### Agency Comments and Our Evaluation

HUD stated that our recommendations to it are not necessary because of its planned debt collection actions. We believe, however, that our recommendations will help provide HUD the impetus needed to carry out these plans. In addition, some of its planned actions, in our opinion, do not fully address the problems we identified.

The department also believes that our report does not properly reflect its accomplishments currently underway in the debt collection area or its reasons for not implementing initiatives in some programs. HUD also expressed concern that the cost of implementing all the debt collection initiatives in all the programs would be too costly compared to the benefits. However, HUD's comments included no data to demonstrate that it had, in fact, fully assessed the cost of specific tools in relation to various

programs. We have incorporated the additional information HUD provided to the extent we consider appropriate and have included HUD's comments as appendix XIV.

HUD indicated that our recommendation to refer information to credit bureaus on Single Family debtors who do not meet their repayment schedule is not valid for two reasons. First, it indicated that the cost to modify its current Single Family Notes Servicing system would be high. We realize that it may be costly to modify the current system to report all debtors who do not meet their repayment schedule and, therefore, recognize that it may not be possible to do this in the immediate future. Second, HUD stated that it plans to include a requirement for credit bureau reporting in its new Single Family Notes Servicing system. However, HUD's comments indicate that this requirement is for those debtors going into foreclosure rather than for all debtors who fail to meet their repayment schedules. In our opinion, HUD should ensure that the new system will be able to report debtors who do not meet their repayment schedule, as well as those who go into foreclosure. We believe that reporting delinquent debtors before foreclosure would help encourage some of them to avoid foreclosure. In addition, reporting such debtors to credit bureaus would help the government as a whole to carry out other credit management tools, such as prescreening and administrative offset.

HUD believes that to comply with our recommendation to implement involuntary salary deductions in the Single Family program would prejudice the department's efforts in foreclosure proceedings. In its comments, HUD did not explain why this would be so. However, HUD contradicts the above position by stating that its new Single Family Notes System will make use of the salary offset procedure more feasible. It also pointed out that it has been very successful in using this initiative in its title I program. HUD does not appear to have a sufficient basis on which to conclude that use of this tool would in fact prejudice the department's efforts in foreclosure proceedings.

Regarding the \$10 million in unapplied collections and \$7.3 million in unapplied tax disbursements, HUD indicated that it has implemented actions to reduce or eliminate these amounts. For example, to address its unapplied collections problem, HUD developed a microcomputer application which links to bank lockbox systems and facilitates matching of collections with accounts. To address its unapplied tax disbursements problem, HUD revised the input process its field personnel perform.

---

**Appendix VIII**  
**Collecting and Accounting for Debts Owed to**  
**the Department of Housing and**  
**Urban Development**

---

While we believe that the above actions will enable HUD to reduce its unapplied collections and tax disbursements, HUD should strive for ways to apply these amounts to individual accounts in a timely manner. This is especially true in those instances involving remitters who fail to return the stub with the payment or who forget to record the account number on their checks.

HUD also said that the postaudit backlog does not prevent it from collecting payments on the accounts. While we agree, we believe that the postaudit backlog results in inaccurate individual accounts. As we discussed in this appendix, postaudit verifications performed at HUD headquarters identified many posting errors with the initial information entered by HUD field offices. Further, inaccurate individual accounts can delay the timely collection of amounts owed.

# Collecting and Accounting for Debts Owed to the Farmers Home Administration

Farmers Home Administration (FmHA) efforts to implement the provisions of the Debt Collection Act and other debt collection initiatives have been slow. FmHA has yet to issue implementing policy regulations in many areas. Further, the agency's long-standing accounting system problems have impaired its ability to accurately report on the status of receivables. FmHA has undertaken a major update of its automated accounting system, which is estimated to cost approximately \$18 million when fully implemented. This system update is critical to implementing the Debt Collection Act and to improving the agency's accounting system. FmHA has experienced slippage in implementing the new accounting system, and, therefore, top management within FmHA must closely monitor this effort to ensure timely completion.

## Background

At the beginning of fiscal year 1986, FmHA programs accounted for about 21 percent of the debts owed the federal government—some \$71.6 billion.<sup>19</sup> FmHA, as lender of last resort in rural areas, makes loans and grants in four basic types of programs: farmer, rural housing, community, and business and industry. FmHA insures or guarantees the many loans through various revolving funds. These funds make loans from borrower receipts, Treasury borrowings, or the sale of certificates of beneficial ownership. The loans are then held in a pool as security for the certificates, which are currently sold to the Federal Financing Bank.

As shown in table IX.1, the amount of receivables FmHA holds has gradually increased from \$60.1 billion in fiscal year 1982 to \$71.6 billion in fiscal year 1985—a growth of about 19 percent. The amount of delinquencies, however, is rising at an even faster rate. For example, in fiscal

**Table IX.1: FmHA Receivables, Delinquencies, and Collections**

	Fiscal year			
	1982	1983	1984	1985
Total receivables	\$60,110	\$62,975	\$66,805	\$71,569
Current Receivables				
Not delinquent	6,826	7,292	5,663	5,852
Delinquent	2,964	4,036	5,247	6,898
Long-term receivables	50,320	51,647	55,895	58,819
Collections	7,475	7,529	6,822	6,711

Note: See note to table 2.1.

<sup>19</sup>This amount includes \$64 billion of FmHA holdings financed through the Federal Financing Bank. FmHA services and guarantees these holdings.

---

year 1982, delinquencies were \$3.0 billion, whereas, in fiscal year 1985, they increased to \$6.9 billion—a growth of 130 percent.

---

---

### Limited Progress Made

FmHA has made limited progress in implementing the Debt Collection Act. The agency has yet to complete some of the basic tasks, such as issuance of regulations. Although the troubled farm economy has had a severe impact upon the rising delinquencies, we believe FmHA needs to make a more concerted effort to implement an improved debt collection program.

---

### Credit Bureau Reporting Not Fully Utilized

FmHA is not reporting information about individuals with delinquent debt to credit bureaus. However, it is referring selected information about its commercial debtors, which include farmer program debtors. Selected information reported for commercial debtors includes name, address, and loan amount. Complete information, including current balance, security, and date of most recent payment, is not reported because FmHA's centralized accounting system does not maintain all the necessary information, and the information which is maintained is not accurate. Much of this information is kept manually at county offices, and delays in reporting payments at these offices affect the data accuracy. FmHA does not expect full reporting to be possible until 1988, when it plans to implement a new accounting system.

---

### Use of Private Collection Firms Needs To Be Expanded

FmHA has not effectively used private collection firms to supplement its own collection efforts. According to agency credit management officials, FmHA plans to use collection contractors, where possible. However, because of other priorities among the various debt collection initiatives, the agency does not plan to issue final regulations on the use of private collection firms until September 1986. According to a FmHA credit management official, the accuracy of this date depends on the debt collection priorities the agency is currently setting.

To evaluate the use of private contractors to collect and service housing program loans, FmHA has been conducting a pilot project in Puerto Rico since 1983. The agency selected Puerto Rico because of its unique characteristics, including its high delinquency rate in comparison to the rest of the United States. FmHA should consider using the GSA contract for private collection firms, where possible.

---

**Interest, Penalties, and  
Administrative Costs Not  
Assessed**

FmHA is not assessing interest, penalties, or administrative costs on delinquent debts because it has not yet made the necessary changes to its regulations and loan agreements. However, given OMB's additional emphasis on improving debt collection, FmHA plans to include such provisions in future loan agreements.

According to FmHA officials, program regulations and loan agreements have not been revised due to other management priorities, such as implementing the President's farm credit program and revising FmHA regulations as a result of recent court decisions. The agency is also concerned that the addition of these charges may result in more bankruptcies in the farm sector. For these reasons, the tools received low priority and have not been implemented.

While FmHA plans to implement these provisions on future loan agreements, the agency believes it cannot raise interest rates or assess penalties and administrative costs on existing loan agreements. Therefore, FmHA does not plan to make changes in these agreements.

---

**FmHA Not Withholding  
Delinquent Debts From  
Employees' Salaries**

FmHA is not withholding part of the salaries of federal employees to satisfy delinquent debts. As a result, the agency has not taken advantage of collection opportunities from employees identified by the Department of Agriculture's Office of Inspector General.

The inspector general identified 7,139 employees who owed delinquent debts of about \$46 million through a match of federal employees with delinquent FmHA borrowers as of December 31, 1982. The inspector general recommended that FmHA review its loan files and begin withholding portions of employees' salaries to collect these debts. However, FmHA did not act because it was waiting for Agriculture to develop departmentwide regulations and procedures for these deductions. In the interim, FmHA requested Agriculture employees to repay their delinquencies through voluntary salary deductions. Although some employees are repaying debts in this manner, the overall response has been minimal.

In May 1985, OPM approved Agriculture's regulations, in accordance with the OPM regulations issued in July 1984. Departmentwide regulations were published on March 17, 1986. FmHA plans to publish its salary offset regulations by June 1986. FmHA then plans to conduct a match of its delinquent debtors with federal employees and to begin taking involuntary deductions from delinquent employees' salaries.

---

FmHA Not Using  
Administrative Offset

FmHA is not currently withholding amounts owed to individuals or businesses for delinquent debts they owe the federal government. FmHA used administrative offset until September 1983, when the Agriculture's Office of General Counsel ordered it to stop because the agency's regulations did not satisfy the procedural requirements of the Debt Collection Act, such as written notice to debtors explaining their rights. According to agency officials, limited resources and other priorities have delayed FmHA from issuing new regulations. FmHA plans to issue regulations by June 1, 1986.

FmHA officials advised us that the agency will not take offsets to collect amounts owed to other federal agencies. However, according to the officials, FmHA will deny loans to borrowers who are delinquent on debts owed to other federal agencies unless the loan is necessary to protect the government's interest.

In our opinion, federal agencies may use administrative offset to collect delinquent debts, pending the issuance of implementing regulations, as long as the procedural requirements of the Debt Collection Act are met. (See appendix XI.) Until FmHA uses administrative offset, it will miss opportunities to increase its collections and reduce its delinquencies.

---

FmHA Conducted Loan Sale  
Pilot Project

Although it has not done so, FmHA would like to sell loans to private investors in order to reduce its workload. However, a major impediment to this effort is the agency's uncertainty about the Secretary of Agriculture's authority to eliminate any further servicing obligation to borrowers when notes are sold. To resolve these concerns, Agriculture and FmHA proposed legislation which we believe will allow the Secretary to sever this servicing responsibility.<sup>20</sup>

FmHA attempted to conduct a pilot project to assess the benefits of non-recourse loan sales. The pilot project was to include farm ownership notes from New Jersey, California, and Iowa. Those from Iowa were dropped because of the increasing sensitivity to the farm crisis to that state. Other problems occurred with notes in the other two states. In California, not enough notes of sufficient quality remained to make the initial offering to private investors. An offering was made in New Jersey, but no satisfactory bids were received. We believe FmHA should further explore loan sales as a debt management tool.

---

<sup>20</sup>The Agricultural Adjustment Act of 1985 (S. 501, 99th Congress) and the Agricultural Act of 1985 (H.R. 1420, 99th Congress).

---

### FmHA Not Reporting Discharged Debts

FmHA has not previously reported discharged debts to IRS because its accounting system did not have this capability. According to FmHA officials, the necessary system changes have been made. The agency began collecting the required information in January 1986 and plans to have a system in place to report discharged debts to IRS in January 1987.

---

### Accounting Problems Continue To Hamper FmHA

FmHA has a history of long-standing accounting system problems. In February 1984, a private contractor reported that the current accounting system, which is based on 1965 requirements, has become obsolete as a result of changing requirements and changing technology over the past 20 years. The contractor also stated that the accounting system cannot be relied upon to produce accurate delinquency reports and information on individual borrowers. Further, pursuant to the Federal Managers' Financial Integrity Act of 1982, FmHA's Assistant Administrator, Accounting, and its Director, Finance Office, reported to the FmHA Administrator in 1984 that, while conversion of FmHA loan and grant program functions to a large-scale computer system has resulted in several internal control improvements, the current system still does not adequately serve the agency's program needs. Agriculture's inspector general also issued several reports from 1982 to 1985 pointing out problems such as untimely and inaccurate data on loan transactions and delinquencies, no reporting of rescheduled debt, incorrect charging of interest on loans, and the inability to generate management reports on collection activity.

Our review showed that the FmHA accounting system cannot ensure that amounts are properly recorded in the general ledger and borrower accounts, nor can the system produce reliable information on receivables.

---

### Inability To Reconcile Collections Received

Since 1973, FmHA has not been able to reconcile collections received and recorded in its general ledger deposit fund with its subsidiary automated file or borrowers' accounts. According to an April 1985 FmHA planning report, this inability to reconcile collections received results in a lack of accountability over

- collections received and not applied to borrowers' accounts,
- collections applied to the wrong borrowers' accounts,
- collections applied to borrowers' accounts for the wrong amount, and
- erroneous refunds on accounts paid in full.



Further, this report stated that these weaknesses have a direct impact on the amounts shown as loans receivable in agency financial reports.

Differences between the general ledger deposit fund and the subsidiary automated file are attributed primarily to computer software problems. These problems include twice applying collections received to borrowers' accounts as well as timing differences, such as differences in time between when deposited funds are recorded in accounts and when the documentation is received, processed, and recorded in the borrower's account. FmHA attempted to reconcile the general ledger deposit fund with the subsidiary automated file in June 1984, but this resulted in an \$86.5 million difference. Of this amount, \$69.5 million was due to computer-software deficiencies. The remaining \$16.9 million could not be identified. Differences between the subsidiary automated file and borrowers' accounts are due to system interface problems, transactions which do not clear the automated file properly, and misapplied payments.

FmHA is in the process of developing necessary system changes so that it can automate the reconciliation process by September 1986. However, since some of the information that is needed to perform the reconciliation dates back to 1973 and is no longer available, it will not be possible to reconcile all differences. As a result, FmHA plans to begin reconciling the general ledger deposit fund to a date in the future instead of the point where it was last reconciled. Specifically, FmHA will not bring forward differences prior to the new reconciliation date. However, it will continue to correct prior errors in borrowers' accounts as they are identified. FmHA has begun reconciling the deposit fund with the borrowers' accounts in five states—Alabama, Georgia, Maine, North Carolina, and Oregon—and expects to begin reconciliation on the remaining states in September 1986.

---

**General Ledger Accounts  
Cannot Be Reconciled With  
Individual Borrower  
Accounts**

FmHA has not been able to reconcile amounts recorded in its general ledger accounts with the individual borrower accounts since September 1980. Borrower payments are recorded in both accounts. The unreconciled differences totaled more than \$1 million as of June 30, 1985. As a result, the accuracy of individual borrower accounts and financial reports is questionable.

Unreconciled differences have been a long-standing problem at FmHA. According to Agriculture's Office of Inspector General, FmHA adjusted its general ledger by \$12.7 million in September 1980 to bring the general

ledger accounts into agreement with the individual borrower accounts. The adjustments related to differences, which due to their age and the lack of documentation, were considered unreconcilable. FmHA officials, however, disputed the amount of adjustments reported by Agriculture's Office of Inspector General. They indicated that the "net" difference is \$27,865. Whatever the amount, differences continue to occur. Unreconciled differences totaled \$180,079 as of July 31, 1984, and increased to \$1,059,861 as of June 30, 1985. However, according to FmHA officials, the differences declined to about \$75,000 as of September 30, 1985, after a computer-software deficiency was corrected.

The FmHA Operations Division Deputy Director told us that the agency has not been able to identify the reason for many of the unreconciled differences, which have to be researched before determining which individual borrower and/or general ledger accounts are affected or need to be corrected. However, FmHA personnel assigned to resolve these differences are not always able to do so because of the large volume of transactions and the cumbersome manual research procedures. Agriculture said that FmHA should be able to reconcile individual borrower accounts with general ledger accounts on a daily instead of monthly basis by July 1986. By doing this, FmHA expects to identify system problems sooner and initiate corrective actions more quickly.

---

### Rescheduled Loans Are Not Identified in Financial Reports

Rescheduled loans are receivables for which the original terms of repayment are revised because the debtor is unable to pay as scheduled or to refinance the loan. Our review showed that FmHA does not report these loans separately in financial reports, as Treasury requires. Instead, these loans, which were previously questionable, are reported as a part of current receivables. FmHA Fiscal Accounting Division officials estimate that several billion dollars in loans might have been rescheduled. By not reporting rescheduled loans separately, the quality (collectibility) of FmHA's loan portfolio can be overstated. Both Agriculture's Office of Inspector General and the President's Private Sector Survey on Cost Control in the Federal Government have reported that FmHA managers need information on rescheduled loans to evaluate debt management activities.

According to FmHA Fiscal Accounting Division officials, the current accounting system is not designed to provide information on rescheduled loans. The director of the FmHA Accounting System Design and Development Division told us that the new accounting system scheduled

to be implemented in 1988 is designed to identify rescheduled debts for financial reporting purposes.

---

### Efforts To Improve Reliability of Accounting System

To correct some of its problems in accounting for receivables for the short-term, FmHA converted its loan and grant program functions to a large-scale computer system and made enhancements to promote accurate transaction processing, resolve material internal control weaknesses, and improve efficiency. For the long-term, FmHA has undertaken a major effort to redesign its current accounting system with a single, automated, integrated system, which is expected to meet the program needs of FmHA through 1995. The new system is also expected to provide FmHA with a centralized system for loan making and servicing, incorporate GAO and Office of the Inspector General requirements, and provide timely and accurate information to management, the public, and the Congress. The system is expected to cost about \$18.7 million by the time it is completed in September 1988.

However, we noted that the scheduled completion date for the new system has slipped over 2 years, from March 1986 to September 1988. An FmHA official told us that the slippage was due to (1) the preliminary nature of the original estimate, (2) budget uncertainties concerning the continuation of FmHA programs, and (3) a longer lead time needed for software development due to the complexity of accounting needs.

---

### Summation

From an overall perspective, FmHA has not implemented several tools which the Debt Collection Act allows. FmHA needs to make greater strides to ensure that regulations are in place and used when appropriate. Although the troubled farm economy may increase the difficulty in collecting its debts, without regulations to govern its debt collection program, FmHA's efforts cannot be institutionalized and some opportunities to reduce its rising delinquencies will be lost.

In addition, FmHA's long-standing accounting problems continued to impair its ability to accurately report on the status of outstanding receivables. FmHA has a long-range system enhancement effort underway that is correcting many of the long-standing problems. Top management at FmHA must ensure that the ongoing system development effort does not experience further significant slippage and that the new system clearly defines and corrects all known problems.

## Agency Comments and Our Evaluation

Agriculture disagreed with our overall conclusion that it had made limited progress in implementing the Debt Collection Act and other debt collection initiatives. Agriculture stated that it was in partial compliance with two of seven Debt Collection Act initiatives and in full or partial compliance with 15 of the 32 initiatives of OMB circular A-129. However, in our opinion, this does not represent significant progress. In addition, Agriculture's comments indicated that most of the Debt Collection Act initiatives were in the planning phase and not yet implemented. We have incorporated additional information Agriculture provided to the extent we consider appropriate and have included Agriculture's comments as appendix XV.

In regard to credit bureau referrals, Agriculture stated that the system used for reporting commercial borrowers cannot be expanded to report individual borrowers. This is primarily because of the need to ensure compliance with the Fair Credit Reporting Act, which requires information reported about each individual to be accurate and periodically updated. In our opinion, the reporting of information on delinquent debtors to credit bureaus is one of the most valuable debt collection tools. As Agriculture points out, the information reported must be correct and current to adequately protect the borrower. We realize that this may be difficult for organizations such as FmHA, which have decentralized operations. However, we believe that the reporting of delinquent debtors to credit bureaus will help agencies accomplish other debt collection initiatives, such as prescreening and use of administrative offset. Because of this, we believe that our recommendation is valid and that FmHA should refer information on delinquent debtors to credit reporting agencies.

Agriculture stated that its field offices will determine those accounts that can be reported to collection agencies and then refer these borrowers to the GSA contractor. However, it stated that with the exception of certain loans, borrowers cannot be referred to private collection agencies until after foreclosure. Agriculture added that, after foreclosure, only borrowers against whom FmHA obtained a deficiency judgment may be referred.

In commenting on the assessment of interest, penalties, and administrative costs, Agriculture stated that its new accounting system, which is planned to be implemented in 3 years, will have the capability to assess these charges. FmHA plans to make the necessary revisions to forms in order to assess these costs by the time the system's development is completed.

---

**Appendix IX**  
**Collecting and Accounting for Debts Owed to**  
**the Farmers Home Administration**

---

Agriculture stated that it is analyzing its loan portfolio and discussing sales with bankers. However, OMB requested that no sales be made until Treasury and OMB prepare sales guidelines. FmHA plans to proceed with these sales when the guidelines are issued and OMB and Treasury approve the sales.

Agriculture conceded that FmHA has some accounting problems, which it is addressing through a short- and long-term system modernization program. Agriculture also acknowledged that rescheduled loans are not reported separately from other loan receivables in financial reports. It also provided additional information on FmHA's system modernization program.

# Collecting and Accounting for Debts Owed to the Veterans Administration

From an overall perspective, the Veterans Administration (VA) has made limited progress in improving its debt collection efforts and in implementing the provisions of the Debt Collection Act. Although it assesses interest and administrative costs on some education and medical debts and makes offsets between programs to collect outstanding debts in some cases, VA's progress in implementing an effective debt collection program has been slow. Additionally, although it has been independently authorized by law since 1980 to refer information on delinquent debts to credit bureaus, it had not done so at the completion of our fieldwork.

In addition, VA's long-standing accounting system problems remain unresolved. These problems include erroneous account balances, failure to recognize and record receivables, and ineffective billing and collection practices. From 1982 to 1985, we issued four reports pointing out that VA medical centers were not routinely recording, billing, and collecting for reimbursable medical care costs. VA's inspector general found similar deficiencies and made similar recommendations in reports issued in 1983 and 1984.

## Background

VA administers a variety of benefit programs which assist veterans and their dependents and survivors. VA's accounts receivable result because the agency

- serves ineligible recipients,
- overpays program participants, or
- experiences loan defaults.

Benefit overpayments are generally caused by recipients' failing to notify VA of changes in their status, VA's late processing of status change notices, and VA's paying for unapproved courses.

In addition to authority under the Debt Collection Act, VA had authority under the Veterans' Rehabilitation and Education Amendments of 1980 (Public Law 96-466) enacted on October 17, 1980. Three of its provisions enable VA to

- charge interest on delinquent debts and recover administrative costs of collection from debtors,
- use its attorneys to litigate certain debt cases, and
- report delinquent debts to credit reporting agencies.

**Appendix X**  
**Collecting and Accounting for Debts Owed to**  
**the Veterans Administration**

As shown in table X.1, since fiscal year 1982, the amount of receivables has remained stable. In the 4-year period—fiscal years 1982 to 1985—outstanding receivables have increased from \$4.3 billion to \$4.5 billion, whereas delinquencies have grown from \$1.3 billion to \$1.6 billion.

**Table X.1: Veterans Administration Receivables, Delinquencies, and Collections**

	Dollars in millions			
	Fiscal year			
	1982	1983	1984	1985
Total receivables	\$4,275	\$4,207	\$4,112	\$4,478
Current receivables				
Not delinquent	223	120	119	133
Delinquent	1,260	1,340	1,416	1,555
Long-term receivables	2,792	2,747	2,577	2,790
Collections	1,546	2,351	1,659	1,314

Note: See note to table 2.1.

**VA Needs To Take Additional Action To Implement the Act**

As of the completion of our fieldwork, VA had not yet established procedures to implement the various provisions of the Debt Collection Act or VA's independent statutory authority to refer delinquent debtors to credit bureaus. Without a viable debt collection program, which would include using the Debt Collection Act's tools, VA's efforts to improve its debt collection activities will be minimized.

**Credit Bureaus Are Not Utilized**

The Veterans' Rehabilitation and Education Amendments of 1980 authorized VA to provide information about a delinquent debtor's account to credit reporting agencies—more commonly known as credit bureaus. By the completion of our review, no referrals had been made although VA began sending notification letters to about 275,000 delinquent debtors advising them of its intent to report them to credit bureaus unless they took action to make their accounts current. (In commenting on our draft report, VA stated that it has started to refer information to credit bureaus. See appendix XVI.)

According to VA debt collection officials, several reasons exist for the delay in referring information to credit bureaus. These consist of placing a higher priority on other debt collection efforts, uncertainties concerning credit bureaus' willingness to accept VA's type of debt, and modifying VA's accounting system to capture necessary data.

---

We believe that referring information to credit bureaus is a valuable aid in encouraging delinquent debtors to repay their debts. Although VA has recently given this initiative higher priority, we believe that it should have begun making credit bureau referrals much earlier.

---

**VA Evaluating Use of  
Private Collection Firms**

VA is not using private agencies to collect its delinquent debts. However, the director of VA's Debt Management Staff is evaluating the feasibility of using private collection agencies. His study is to be completed in May 1986. VA plans to begin actual referrals by the end of fiscal year 1986.

Although VA has not previously performed any studies on the effectiveness of private collection firms, officials are concerned that these agencies may be unable to effectively and efficiently collect VA debts, which they characterize as sensitive and complex. They believe private contractors would experience difficulties in trying to collect benefit-related debts from veterans and beneficiaries who do not understand or agree with the debt. In addition, VA is concerned that collection agencies may focus on the easier cases and return the more difficult ones to VA.

We believe VA should proceed as quickly as possible with its evaluation of the feasibility of using collection agencies. The evaluation should include actual experience gained in using the GSA collection contractors. This will provide specific information as to the viability of using such agencies for collecting its delinquent debts.

---

**VA Does Not Disclose IRS-  
Provided Addresses**

Although VA obtains addresses of delinquent debtors from IRS, these addresses are only used internally for such purposes as sending collection letters to the debtors. VA does not disclose these addresses to its agents because it believes the Internal Revenue Code prohibits such disclosure unless the addresses are independently verified. VA also prohibits disclosure of unverified, IRS-obtained addresses to its district counsels or the Department of Justice for use in litigating cases. VA officials maintain that, since court documents are generally part of the public record, IRS-provided addresses might be disclosed to the public, which they feel would violate IRS regulations.

IRS officials advised us that VA is interpreting IRS safeguard requirements too stringently. We believe VA should disclose these addresses to its agents. This would save the time and expense of independently verifying addresses and would allow VA to make better use of this tool. Data provided by IRS show that in fiscal year 1984 IRS provided addresses for



82 percent of the names VA referred, while in fiscal year 1985 the match rate was 79 percent.

---

### Employee Salaries Not Withheld To Satisfy Debts

VA does not currently—unless the employee agrees—withhold portions of its employees' salaries to satisfy debts they owe. VA is in the process of developing regulations to implement this tool to collect debts owed both by its employees and by other federal employees; VA anticipates that salary offset may be initiated beginning in November 1986. While VA is working to finalize its regulations, it has obtained a data tape from OPM to match federal employees against its files of delinquent debtors. VA has had concerns about using salary offset. They include the cost-effectiveness of using this tool and the lack of administrative law judges or other hearing officials to conduct hearings as required by the Debt Collection Act. According to officials, VA has discussed its concerns with OMB during the past 2 years.

A major concern of VA officials is the Debt Collection Act requirement that, before salary offset may be taken, employees who dispute their debts be given an opportunity for a hearing to be conducted by a person who is beyond the control or supervision of the agency head to which the debt is owed.<sup>21</sup> VA plans to rely on its existing Board of Veterans Appeals to hear benefit-related debt cases, and it believes administrative law judges would have to conduct hearings on employee appeals of nonbenefit-related debts. Since VA does not have administrative law judges, it has requested OMB's assistance in resolving this problem. An additional barrier to immediate implementation will be the time required to reprogram VA's Centralized Accounts Receivable System (CARS) to execute this initiative. CARS tracks the majority of VA's delinquent receivables.

We found other agencies that were successfully using salary offset procedures. We believe, therefore, that VA should expedite efforts to make such deductions. We also believe that OMB, in conjunction with OPM, should assist VA in resolving some of its concerns.

---

### Offsets Made Between VA Programs but Not Agencies

VA is making deductions between programs, when possible, to collect delinquent debt. However, according to VA budget and finance officials, the amount of these offsets is not readily available. VA does not request

---

<sup>21</sup>The Debt Collection Act mentions administrative law judges as an example of persons who might be used to conduct these hearings.

other agencies to make these offsets for VA debts. This is due to the difficulty in determining if a debtor is receiving payments from other federal agencies from which offsets might be made. Also, because VA benefits are exempt from offset under most circumstances, VA will not offset veteran benefits to collect debts owed other federal agencies.

---

### **VA Sells Loans With Recourse**

Although OMB directed agencies not to sell loans with recourse, VA continues to use this sales technique for guaranteed loans in the Home Loan Program. The Deficit Reduction Act of 1984 allows VA to make such sales if the Administrator determines that they are necessary to maintain the "effective functioning" of the program. These sales are from the vendee and direct loan portfolios. Vendee loans occur when VA "buys back" defaulted guaranteed home mortgage loans from the holders and finances sales of the foreclosed properties. Once the transaction is completed, these loans can be sold. In fiscal year 1984, VA sold 34,702 vendee loans for a net of \$853.7 million; in fiscal year 1985, it sold 16,287 loans for a net of \$688.0 million. In the same fiscal years, however, VA also repurchased loans from private sector buyers: 2,773 loans for \$82.3 million in fiscal year 1984, and 3,420 loans for \$111.5 million in fiscal year 1985. Historically, according to VA loan officials, the agency repurchases about 15 percent of the loans it has sold because they go into default. Direct loans provide mortgage money to paraplegic veterans or veterans in rural or remote geographic areas. However, few direct loans have been made in recent years, according to VA loan officials.

VA plans to continue selling guaranteed loans in the Home Loan Program with recourse. According to VA loan officials, the marketability of vendee loans would be greatly reduced if they were offered for sale without recourse. The officials believe there would probably be few interested buyers and offers would be very low.

---

### **VA Does Not Assess Penalties on Delinquent Debts**

VA assesses simple interest, based on the average Treasury rate, on delinquent debts resulting from ineligible medical treatment, education benefit overpayments, and education loans. It also assesses administrative costs based on actual costs as tracked by CARS on the same types of debts. However, VA does not currently assess interest on other types of delinquent debt, such as compensation and pension benefit overpayments. In addition, VA does not assess penalties on delinquent debts, nor does it currently plan to assess such penalties.

As VA regulations require, the interest rate charged against delinquent debts is based on the Department of the Treasury's rate. However, the interest rate on defaulted home loan guarantees has remained at 4 percent since the Administrator set it at that level in the 1940's. We believe that this rate of interest is inadequate and VA should raise it to reflect current experience.

Administrative costs are calculated annually based on data CARS accumulates. VA assesses administrative costs on the same types of debts (such as ineligible medical care) for which VA charges interest.

VA does not assess penalties on delinquent debts because, according to VA's general counsel and debt collection officials, this authority is not contained in the Veterans' Rehabilitation and Education Amendments of 1980, which authorized it to charge interest and administrative costs. This legislation does not discuss penalty charges, only interest and administrative costs. Therefore, VA officials maintain that the Debt Collection Act provision requiring that penalties be charged does not apply to VA.

The Federal Claims Collection Standards (FCCS) require agencies to follow the Federal Claims Collection Act and the Debt Collection Act, except as otherwise required by law. Since the Debt Collection Act was intended to improve governmentwide collection efforts and because the VA-specific legislation does not address penalties, an argument can be made that VA should assess penalties on its delinquent debt in accordance with the Debt Collection Act. After this report was drafted, VA formally submitted a request for our opinion regarding its specific legal arguments. For this reason, we are temporarily withholding recommendations on this issue until we can respond to VA's request.

---

### VA Should Obtain Taxpayer Identification Numbers

VA does not obtain taxpayer identification numbers at the time it receives applications for loan programs. In August 1984, VA issued proposed regulations concerning its intent to obtain these numbers from loan applicants. According to VA, it plans to finalize and publish the regulations by September 1986. Pending this action, VA has not amended the loan forms to obtain these numbers.

The Debt Collection Act requires agencies to obtain taxpayer identification numbers from all applicants for certain federal loans. In addition, OMB requires agencies to obtain taxpayer identification numbers for

existing loans if collection action is contemplated. The taxpayer identification number, which for most noncommercial loans is generally the social security number, is a basic data item for credit management and debt collection. It is used for such purposes as verifying the applicant's identity and tracing and locating delinquent debtors (through IRS files or credit bureau reports). In addition, the number is needed, or useful, in pursuing offsets from delinquent debtors' IRS tax refunds and in referring cases to credit reporting bureaus.

We believe VA should expedite its efforts to obtain the taxpayer identification number because it is an important item of information in the debt collection process. Furthermore, obtaining the number would bring VA into compliance with the law.

---

### VA Reports Discharged Debts to IRS

VA began reporting discharged debts to IRS as income to the debtor in 1985. OMB emphasized the need to report such actions to IRS through memoranda sent to the agencies in November 1983 and November 1984. VA is to send a tape to IRS each January, beginning in January 1985. Thus far, VA has reported 1,958 cases worth \$4.2 million to IRS.

---

### Accounting Problems Still Persist at VA

VA has made limited progress in correcting many of its long-standing accounting problems. Our review of VA's accounting systems for receivables disclosed that it still needs to

- promptly identify and record all accounts receivable,
- centralize its accounting for receivables, and
- reflect interest and administrative collection costs in financial reports.

These problems must be corrected before VA can have accounting systems that produce reliable financial reports and accurate information on amounts it is owed.

---

### Accounts Receivable Need To Be Promptly Identified and Recorded

By law, VA is entitled to recover the costs of medical care for a veteran with a nonservice-connected disability under certain circumstances. However, we and the VA inspector general have reported on numerous occasions that VA is not recovering all medical care costs to which it is entitled. These costs relate to care provided veterans, their dependents, and military retirees. These reports noted that VA medical centers reviewed but did not routinely record, bill, and collect for reimbursable medical care.

## Accounting for Receivables Is Decentralized

VA does not have a consolidated accounts receivable system. Instead, VA relies upon its automated Centralized Accounts Receivable System and various VA facilities for information on amounts the agency is owed. Specifically, VA's Centralized Accounts Receivable System records accounts receivable arising from overpayments to veterans who are no longer receiving compensation, pension or education benefits, who received education benefits, or who have defaulted on their housing loans. VA regional offices record accounts receivable arising from overpayments to claimants who are still eligible to receive compensation or pension benefits or who have since died. VA medical centers record accounts receivable arising from reimbursable medical care costs. In our recent report, Veterans Administration Financial Management Profile (GAO/AFMD-85-34, September 20, 1985), we noted that the decentralization of accounts receivable information does not permit VA adequate control over accounts receivable generated by certain overpayments to VA beneficiaries and by reimbursable medical care.

Further, the decentralization of this information can result in inaccurate reporting. For example, we found a \$13 million difference when we traced readjustment benefit receivables (education overpayments) as of September 30, 1984, through the VA accounting systems from the Centralized Accounts Receivable System; to the Hines, Illinois, data processing center; to the Austin, Texas, data processing center; and finally to the report of receivables to Treasury. The Austin data processing center developed the consolidated trial balance, based on information from the 58 regional offices and the Hines data processing center. The consolidated trial balance showed \$548 million in education overpayments. On the other hand, the Hines trial balance, based on accounts receivable information in the Centralized Accounts Receivable System and the regions, except for the Manila regional office, showed \$535 million in education overpayments. Some of the \$13 million difference can be attributed to the fact that some VA regions reported education receivables to Austin which were not included in the Hines trial balance. For example, some regions report to Austin, but not to Hines, overpayments to schools for books, supplies, and tuition and overpayments to claimants who have since died. A VA headquarters official was unable to explain most of the \$13 million difference in education receivables. However, financial officers in two regions told us that \$3.2 million of their receivables should not have been reported to Austin as education overpayments.

In commenting on our report, VA said that it reviewed the individual regional office trial balances as of February 28, 1986, and found a difference of \$2,562,867 between the Austin and Hines trial balances. Of this total, \$889,971 related to improper recording of school liability receivables by three regional offices. According to VA, these regional offices have been instructed to correct their accounting records.

---

**Interest and Administrative  
Collection Costs Are Not  
Reflected in Financial  
Reports**

As discussed previously, VA assesses interest and administrative collection costs on overdue receivables arising from overpayments of education benefits. It does not, however, reflect these charges as receivables in financial reports to Treasury. At the close of fiscal year 1985, VA accrued interest of about \$106 million on education receivables of about \$511 million.

---

**System Enhancement  
Efforts**

VA's automated data processing plans for fiscal years 1985 to 1989 call for a redesign of the automated Centralized Accounts Receivable System to include chapter 30 education overpayments and the charging of interest and administrative collection costs on compensation and pension overpayments.

However, to date, VA has made little progress in redesigning the Centralized Accounts Receivable System. For example, VA has made no decision on the location or type of equipment to be used. Further, VA has not developed nor defined criteria for such requirements as the data base.

---

**Summation**

VA has progressed rather slowly in enhancing its debt collection program. A number of the Debt Collection Act provisions have not been implemented and long-standing accounting system problems remain unresolved. Without an aggressive debt collection program and an effective accounting system, VA is losing opportunities to collect amounts owed the government.

Although VA's receivables have remained constant over the past 4 years, its inventory of delinquent debts increased by about 23 percent over the same period. To date, VA has not demonstrated the aggressive action needed to collect these amounts and to preclude them from rising in the future. For example, VA has not yet issued all the regulations necessary for the act to be implemented. Further, VA was given the authority to use credit bureau reporting in 1980 but, at the completion of our review, had not used this valuable debt collection tool. In addition, the

accounting system problems discussed are not new; rather, they are long-standing. Again, VA has not displayed the aggressive action needed to correct these problems.

Until VA firmly commits itself to improving its debt collection program, these problems will persist. In order to reduce its outstanding delinquencies, it is imperative that VA take full advantage of the Debt Collection Act and devote the resources necessary to improve its accounting system.

---

## Agency Comments and Our Evaluation

VA agreed with five of the seven recommendations dealing with debt collection initiatives addressed to it. However, it reserved concurrence with the recommendations to charge penalties on delinquent debts and to disclose IRS-provided addresses to VA's agents. VA also expressed concern that we did not accurately portray improvements in its debt collection program made in fiscal year 1986. Our review work was completed in November 1985, when much of the activity VA noted was in the early stages. While we did not conduct additional audit work to evaluate the agency's efforts since completion of our review, we believe that VA overstated some of its improvements, as discussed later in this section. We have incorporated additional information provided by VA to the extent we consider appropriate and have included VA's comments as appendix XVI.

With respect to the charging of penalties on delinquent debts, VA stated that the agency has not previously been challenged about this matter and has now submitted a formal request for our opinion regarding specific legal arguments on this matter. However, it did agree to raise the 4 percent interest rate charged on defaulted home-loan guaranty cases to the governmentwide prescribed rate. Concerning our recommendation that VA disclose IRS-provided addresses to its agents without additional verification, VA responded that it is preparing a request for an IRS ruling on this matter.

Many of VA's stated improvements are in the planning stage or in the early stages of implementation. While progress may have been made, in our view, much additional effort is necessary before substantial improvements in its debt collection program will occur. Of the seven initiatives addressed in VA's comments, only one—reporting information on delinquent debts to credit reporting agencies—had been started. VA plans to implement four of the other six initiatives later in this fiscal

year or in fiscal year 1987. For example, actual referrals to private collection agencies are not planned to begin until the end of fiscal year 1986. Such referrals will also be dependent on the results of the Debt Management Staff's study of the issue which is scheduled for completion in May 1986. With respect to federal employee salary offsets, while initial efforts may be complete, actual salary offsets are not scheduled until November 1986. Furthermore, the computer matches for identifying delinquent DOD and Postal Service employees who may be eligible for such offsets have not yet been made. Obtaining taxpayer identification numbers will not begin until after publication of regulations, scheduled by September 1986.

While we are encouraged by VA's recent efforts to improve its debt collection program, we believe that a considerable amount of work remains to be done. Creation of the Debt Management Staff coupled with top level agency emphasis are necessary steps towards improvement. However, we believe that top level management's attention and support must continue to ensure that this momentum will continue.

In addition to its formal comments, VA also provided us an internal status report which summarizes its progress in pursuing debt management initiatives during fiscal year 1986. This "Debt Management Executive Summary," dated April 7, 1986, is available from us, upon request. Except for referrals to credit bureaus and offsetting delinquent debts against tax refunds, most of the initiatives discussed in this document are in the planning stages.

Although VA's response to our report stated that credit bureau referrals are now made, its initial attempt to do this was not successful. In late February 1986, a VA debt collection official informed us that information was sent to credit bureaus after the 60 day waiting period (after debtors were notified) expired. However, because much of the information was inaccurate, VA withdrew this information from the credit bureaus. Collections through the tax refund offset program totaled \$4.4 million through April 4, 1986. (See chapter 1.)

VA agreed with us that agency accounting and control systems should conform to the Comptroller General requirements and those of OMB circular A-129. VA also indicated that corrective actions have been taken to address the problems we cited in our past reports on VA efforts to recover medical care costs. Regarding the difference between the data reported on the Austin, Texas, data processing center consolidated trial balance and that reported on the Hines, Illinois, data processing center



---

**Appendix X**  
**Collecting and Accounting for Debts Owed to**  
**the Veterans Administration**

---

trial balance, VA said that the two trial balances are not expected to match because the Hines data processing center does not maintain all accounts receivable. We recognize that the Austin and Hines trial balances are not expected to match. However, as we discussed in this appendix, by not centralizing accounts receivable information, VA does not have adequate control over certain receivables, and this can result in inaccurate reporting. VA, however, agreed that this difference should not have approached the \$13 million figure we cited in this appendix.

# Summary of Debt Collection Initiatives

This appendix provides short summaries concerning three key aspects of selected debt collection initiatives: the legislation behind the initiatives, the guidance agencies have received concerning the initiatives, and the status of implementation in each agency reviewed, as of the completion of our review.

## Use of Credit Reporting Agencies

The Debt Collection Act (section 3) authorizes federal agencies to provide information on delinquent debtors to commercial credit bureaus. VA and Education have separate statutory authority to do this under the Veterans' Rehabilitation and Education Amendments of 1980 (Public Law 96-466) and the Education Amendments of 1980 (Public Law 96-374), respectively. The Federal Claims Collection Standards (FCCS) (4 CFR 102.5) require all agencies to develop and implement procedures for providing such information. The FCCS have had such a provision since 1979.

OMB circular A-129, issued in May 1985, requires all accounts in excess of \$100 that have been delinquent more than 31 days be reported to a credit bureau. Use of this tool is intended to encourage delinquent debtors to make their accounts current, discourage current debtors from becoming delinquent, and provide information to federal credit granting agencies to identify applicants who are already delinquent on federal loans.

**Table XI.1: Status of Implementation:  
Use of Credit Reporting Agencies**

<b>Agency</b>	<b>Status</b>
Department of Education	Uses extensively
Veterans Administration	VA was sending initial notification letters to debtors at the time we completed our review (actual referrals began in 1986, see page 114)
Department of Housing and Urban Development	Notification letters sent to some title I debtors
Farmers Home Administration	Not used, but plans a pilot test

**Private Collection Firms**

The Debt Collection Act (section 13) and the Federal Claims Collection Standards (4 CFR 102.6) allow federal agencies to contract for collection services. In addition, through circular A-129, OMB requires collection agencies to be used for all accounts 6 or more months past due. The use of collection contractors allows federal agencies more resources for improving their debt collection capability and to take advantage of private sector expertise. The FCCS have authorized the use of debt collection contractors since 1981.

**Table XI.2: Status of Implementation: Private Collection Firms**

<b>Agency</b>	<b>Status</b>
Department of Education	Using extensively
Veterans Administration	Not yet using, but evaluating use of such firms
Department of Housing and Urban Development	Does not use, but plans title I pilot test
Farmers Home Administration	Conducted a pilot test of housing loans in Puerto Rico

## Disclosure of IRS Addresses

The Debt Collection Act (section 8) and the Federal Claims Collection Standards (4 CFR 102.18) allow federal agencies to disclose IRS-provided addresses to their officers, employees, and agents for debt collection purposes.

**Table XI.3: Status of Implementation:  
Disclosure of IRS Addresses**

<b>Agency</b>	<b>Status</b>
Department of Education	Using extensively
Veterans Administration	Obtains addresses, but only uses them internally
Department of Housing and Urban Development	Obtains and uses them and internally; not applicable for disclosure outside HUD
Farmers Home Administration	Not obtaining addresses because of usage restrictions

## Salary Offset

The Debt Collection Act (section 5) allows federal agencies to take involuntary deductions, also known as salary offsets, from the salaries of federal employees (after certain procedures have been followed) in order to collect delinquent debts. Office of Personnel Management (OPM) regulations and the FCCS prescribe standards applicable to making salary offsets. Additionally, OMB circular A-129 requires salary offsets to be used to collect delinquent debts owed by federal employees in accordance with the OPM regulations. This circular also instructs the agencies to match biennially their delinquent debtor files against federal personnel files, including those of OPM, the Department of Defense, and the U.S. Postal Service, to identify present and retired employees owing delinquent debts to the government.

Table XI.4: Status of Implementation:  
Salary Offset

Agency	Status
Department of Education	Using extensively
Veterans Administration	Not yet using, finalizing regulations
Department of Housing and Urban Development	Using for title I debt
Farmers Home Administration	Not yet using, finalizing regulations

## Administrative Offset

The Debt Collection Act (section 10) and the Federal Claims Collection Standards (4 CFR 102.3 and 102.4) allow federal agencies to perform administrative offsets. OMB circular A-129 requires agencies to implement administrative offset in accordance with FCCS.

Administrative offsets allow federal agencies to withhold payments due under one program to satisfy delinquencies owed to the United States under another program, as well as under the same program.

The Debt Collection Act and FCCS generally require agencies to issue regulations governing the use of administrative offset. A September 1985 GAO decision concluded that the government is entitled to a reasonable period of time in which to promulgate such regulations. Therefore, provided that agencies accord debtors the substantial equivalent of the procedural rights prescribed by the act and FCCS (including notice and an opportunity for administrative review), offset activities may begin before regulations are finalized, so long as the agency is making reasonable progress toward issuing its regulations.<sup>22</sup>

**Table XI.5: Status of Implementation:  
Administrative Offset**

Agency	Status
Department of Education	Not yet using, finalizing regulations
Veterans Administration	Offsetting between own programs
Department of Housing and Urban Development	Offsetting between own programs
Farmers Home Administration	Not yet using, finalizing regulations

<sup>22</sup>For additional discussion of this issue, see the section entitled "Offsets Between Programs Delayed" in appendix VII.

## Loan Portfolio Sales

OMB circular A-129 requires agencies to consider the sale of direct loans or defaulted guaranteed loans. According to the circular, agencies must

- sell loans for cash without recourse, repurchase agreement, or other federal guarantees;
- report each proposed sale to OMB and Treasury so that they can jointly decide how to maximize revenue and minimize the sale's effect on Treasury's financing activity; and
- review present and proposed statutory and regulatory provisions governing loan programs, and propose removal of any impediment to loan sales on a nonrecourse basis.

Table XI.6: Status of Implementation:  
Loan Portfolio Sales

Agency	Status
Department of Education	Has not sold loans, but conducting an asset valuation analysis
Veterans Administration	Selling loans with recourse as authorized under the Deficit Reduction Act of 1984
Department of Housing and Urban Development	Discontinued sales in one program because of nonrecourse requirement, not used in other programs, but plans a Multifamily sale in March 1987
Farmers Home Administration	Currently evaluating the results of a pilot test

**Assessment of Interest, Penalties, and Administrative Costs on Delinquent Debt**

The Debt Collection Act (section 11) and the Federal Claims Collection Standards (4 CFR 102.13) require federal agencies to assess penalties, administrative costs, and interest on delinquent debts. OMB circular A-129 directs federal agencies to assess interest, penalties, and administrative costs in accordance with FCCS. The FCCS have addressed the assessment of interest on delinquent debt since 1966.

For debts created under statutory loan programs or contractual provisions, the rate of interest charged is often established by the statute that governs the program or the contract under which the debt arose. For other types of debt, the minimum rate charged should normally equal the average investment rate for Treasury tax and loan accounts, which is published in the Federal Register. Penalties assessed on delinquent debts should normally be 6 percent per annum, and the amount of administrative cost applied should cover the costs to process and handle the delinquent account.

**Table XI.7: Status of Implementation: Assessment of Interest, Penalties, and Administrative Costs on Delinquent Debt**

<b>Agency</b>	<b>Status</b>
Department of Education	Not implemented
Veterans Administration	Assesses interest and administrative costs on certain debts, does not assess penalties
Department of Housing and Urban Development	Assessment dictated by loan agreement, generally assesses additional charges
Farmers Home Administration	Not using, regulations and loan agreements must be changed



## Reporting Discharged Debts to the Internal Revenue Service

The Internal Revenue Code and its implementing regulations require taxpayers to include some debts that are discharged (i.e., not collected due to write-off, compromise, or waiver) in their calculations of gross income. This requirement includes debts discharged by federal agencies.

In a November 1983 memorandum, OMB reminded federal agencies to report discharged debts to IRS. In circular A-129, OMB specified that the agencies report discharged debt annually to IRS.

IRS and OMB instructions contain some guidance on how to identify those discharged debts eligible for reporting to IRS. According to IRS, when reporting such debts, an agency should include only delinquent, undisputed debts greater than \$600 which meet the following criteria: the debt was not discharged as the result of a title 11 bankruptcy case, and the applicable federal statute of limitation has expired or there is a formal compromise agreement discharging the debt.

Table XI.8: Status of Implementation: Reporting Discharged Debts to the Internal Revenue Service

Agency	Status
Department of Education	Not yet implemented
Veterans Administration	Implemented
Department of Housing and Urban Development	Implemented
Farmers Home Administration	Not yet implemented, plans to begin in 1987

## Income Tax Refund Offset

The Deficit Reduction Act of 1984 requires the Secretary of the Treasury to reduce a debtor's income tax refund as a means of collecting delinquent debts owed the government. For a 2-year test period, agencies are to refer debts to IRS for offset after they have exhausted other collection efforts available to them. This initiative is similar to procedures already used by IRS to collect delinquent child support payments for the Department of Health and Human Services.

Five agencies are participating in the first year of the pilot program.<sup>23</sup> All of the agencies that we reviewed referred accounts to IRS beginning in early 1986 for the 1985 tax year. According to IRS, additional agencies will be allowed to participate in the second year of the pilot. Following the pilot period, the Congress will decide, based in part on information provided by IRS on the effects of refund offsets on taxpayer compliance, whether the program should be continued. Because IRS had not begun offsetting refunds during the time of our review, we did not assess actual operations or results of the IRS program.

OMB circular A-129 requires that accounts be referred for offset as detailed by IRS and OMB guidance. IRS published the guiding regulations in the Federal Register on September 30, 1985. The IRS regulations specify that eligible, past-due, legally enforceable debt must

- have been delinquent for a minimum of 3 months but no longer than 10 years;
- be uncollectible through deductions of a federal employee's salary or ineligible for administrative offset;
- have been previously disclosed to the debtor, who was given notice and an opportunity for an appropriate hearing on the amount and existence of the debt;
- have been first disclosed to a consumer reporting agency (for debts referred to IRS after June 30, 1986); and
- be valued at no less than \$25.

In addition, the agency must make reasonable efforts to notify the debtor at least 60 days prior to referral to IRS.

<sup>23</sup>Department of Education, Department of Housing and Urban Development, Department of Agriculture/Farmers Home Administration, Veterans Administration, and Small Business Administration.

**Screening of Loan Applicants Against IRS Tax Accounts**

The Debt Collection Act amended the Internal Revenue Code and authorized agencies to screen loan applicants against delinquent IRS tax accounts. The Internal Revenue Code, as amended, specifies that this service is available to agencies administering any "included federal loan" program identified by OMB in a Federal Register announcement. OMB required agencies to use the IRS screening service in circular A-129.

**Table XI.9: Status of Implementation: Screening of Loan Applicants Against IRS Tax Accounts**

Agency	Status
Department of Education	Not implemented; Education believes that this initiative is inapplicable to its student loan programs
Veterans Administration	Not implemented; VA does not believe IRS can respond quickly enough and also has some concerns about IRS' procedural requirements
Department of Housing and Urban Development	Not implemented; HUD believes this initiative is inapplicable to its title I and Multifamily programs and is concerned about IRS response time if used for Single Family program
Farmers Home Administration	Not implemented; FmHA believes that IRS cannot respond in required time for processing loans

# Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

APR 28 1986

Honorable Charles A. Bowsher  
Comptroller General of the  
United States  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Bowsher:

This is in response to a draft report from your Accounting and Financial Management Division on agency implementation of the Debt Collection Act of 1982.

We have reviewed the report and findings with the four lending agencies whose programs are covered by the report. The four agencies will be commenting separately.

As the report points out, in 1981, OMB published a "Report on Strengthening Federal Credit Management" that proposed a comprehensive reform of credit policies and practices. The Congress joined with us to provide statutory authority for that reform. Not only did we achieve passage of the Debt Collection Act, but also the Federal Managers Integrity Act that tightened controls over all Government programs and the Deficit Reduction Act that included authority for income tax refund offset. These statutes became important components of the President's Management Improvement Program: Reform '88.

The GAO report focuses on specific requirements of the Debt Collection Act and our Circular A-129, "Managing Federal Credit Programs." Unfortunately, it overlooks broader and more significant credit management issues.

A sound credit management program must control growth in credit programs, reduce the Government's subsidy and administrative costs, improve collections, and reduce defaults and losses. The draft report could be strengthened considerably by expanding its perspective to reflect a broader understanding of credit management reform and what must be done to achieve it. The Debt Collection Act by itself cannot correct long-standing problems in program design, hidden subsidies, and overlapping and inconsistent statutes. We take particular exception to the report's contention that improved debt collection practices by themselves will reduce the deficit significantly and thus avoid the need to cut back programs.

See comment 1.

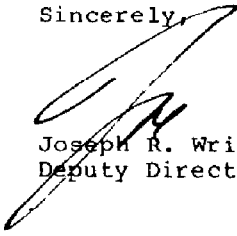
See comment 2.

**Appendix XII  
Comments From the Office of Management  
and Budget**

2

Specific comments on particular aspects of the report are enclosed. We appreciate the opportunity to comment.

Sincerely,



Joseph R. Wright, Jr.  
Deputy Director

Enclosure

Enclosure

Specific Comments

Agencies slow to implement act

See comment 3.

A major criticism in the report is that agencies have been slow in implementing the provision of the Debt Collection Act of 1982. We too are concerned about the pace at which agencies are implementing the act. However, the agencies have accomplished much more in a shorter period of time than the report indicates. Each of the four agencies is providing GAO an update of the report's analysis for the period since November 1985 when GAO's research ended.

See comment 4.

A major source of delay, which prevented agencies from moving ahead with implementation, was the long time required by the General Accounting Office and the Justice Department to issue the required implementing regulations. These were not issued until March of 1984, some 16 months after the Debt Collection Act passed. As a result, agencies have had less time to issue their own implementing regulation, redesign their systems, and educate their headquarters and field staff on the implementation of the new legislation.

Progress has been made Government-wide

We recognized early in 1981 that there were serious problems throughout the entire credit cycle from initial screening of an applicant to ultimate collection. A Government-wide reporting system was established to provide data on aging of delinquent debt. The Debt Collection Act of 1982 gave agencies new authorities, and 1984 and 1985 were spent in implementing the new authorities. At this point, we have in place a comprehensive credit management framework that establishes standards for the screening, award, servicing, and collection of all loans and accounts receivable. The next phase will be to establish performance standards against which agencies will be measured.

Here are some examples of substantial progress.

While the amount of delinquent debt has increased since 1982, the rate of growth in delinquencies has decreased as the following trend data show:

**Appendix XII  
Comments From the Office of Management  
and Budget**

2

Trends in delinquent receivables

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Total Delinquent	\$29,772	\$42,745	\$43,276	\$49,614	\$59,190
Growth	--	43.57%	1.24%	14.65%	19.30%
Total Delinquent	\$29,772	\$42,745	\$43,276	\$49,614	\$59,190
Less IRS	<u>\$18,117</u>	<u>\$27,310</u>	<u>\$26,358</u>	<u>\$29,746</u>	<u>\$35,584</u>
Nontax Delinquent	\$11,655	\$15,435	\$16,918	\$19,868	\$23,606
Growth	--	32.43%	9.61%	17.44%	18.81%
Nontax Delinquent	\$11,655	\$15,435	\$16,918	\$19,868	\$23,606
Less USDA	<u>\$ 2,196</u>	<u>\$ 3,637</u>	<u>\$ 4,893</u>	<u>\$ 6,235</u>	<u> 9,165</u>
Remaining Delinquent	\$ 9,549	\$11,798	\$12,025	\$13,633	\$14,441
Growth	--	23.55%	1.93%	13.37%	5.93%

The eleven Federal agencies that identified debt collection as a material, internal control weakness in their 1984 reports under the Financial Integrity Act were unable to implement the Debt Collection Act because of delays in issuance of the Federal Claim Collection Standards by the General Accounting Office and Department of Justice. When the standards were issued in March 1984, rapid implementation began.

- Interest and penalty fines on delinquent debt are being charged by all agencies except where there is a statutory impediment or existing contractual agreement that precludes additional charges.
- Salary offset authority is being implemented by all agencies. About 135,000 Federal employees owing \$275 million have been identified. Over \$13 million has been collected.
- Automated debt servicing is becoming commonplace. HUD, SBA, and IRS have automated collection systems in place.
- Five agencies have referred 750,000 accounts to IRS for offset of income tax refunds. About \$150 million will be recovered in the first year. Plans are underway for the second year to include five to six more agencies and double the number of the referrals.
- As a last resort, written-off individual debt is being reported to IRS to be considered as income for the debtor.

- See comment 9.
- Sixteen agencies have sent 2.3 million accounts to credit bureaus. These credit records make it difficult for an individual delinquent on a loan from one agency to secure additional credit from another.
  - GSA has awarded contracts to four collection agencies to provide services for all agencies. About 32,000 accounts, valued at \$160 million, have been placed so far, and we expect the placements to increase significantly in the months ahead.
  - The 1987 Budget proposes a pilot test of the sale of selected loans assets to see if loan sales are effective. Thirteen loan programs will sell assets with a face value of \$4.4 billion in fiscal year 1987.

See comment 11.

Management incentives

The report suggests that incentives could be provided by:

- holding managers more accountable for attaining debt collection objectives and targets; and
- making substantial cash awards available to managers who contribute significantly to improved debt collection activities.

See comment 12.

Legislation to provide these kinds of incentives is unnecessary. Contributions of staff with debt collection responsibilities can be recognized under existing procedures for evaluating and awarding performance. As the draft report points out, OMB Circular No. A-129 already specifies that achievement of debt collection program objectives and performance measures be considered in the performance appraisal of individuals with credit management responsibilities.

See comment 13.

The draft report recommends using a portion of any collections in excess of debt collection targets for administrative services associated with collecting the debts. In certain cases, for example, where revolving funds are used, collections are available for purposes specifically authorized by law. However, in other cases, it is a matter of basic law (31 U.S.C. 3302) and OMB policy that such monies be deposited in the general fund of the Treasury. This preserves the full range of options of the President and the Congress in allocating resources through the budget and appropriations process. This flexibility is essential to maintaining control over the size and scope of programs and determining priorities for use of limited budgetary resources.



The draft report also recommends tying collections to program appropriations and lending authorizations. Under this recommendation, agencies might be required to use a percentage or specified amount of their collections as a way of funding programs or increasing lending levels. Failure to meet collection targets might result in a reduction of funds available for agency programs.

This option is similar to the one discussed above, and we have the same concerns about bypassing the budget and appropriations processes. We agree with GAO that this proposal involves far-reaching and complex issues including the impact on program participants, the extent to which programs should be subject to these types of restrictions, and the impact on congressionally established program limitations. We believe that these issues must be addressed on a case-by-case basis and in the context of Government-wide budget priorities. We oppose any across-the-board requirement that would authorize some portion of collections to be used outside the appropriations process.

Amending Debt Collection Act

Information on the status of debt collection activities is already provided in the Management Report transmitted to the Congress with the budget. Should additional information be needed, it can be provided without legislating a new reporting requirement. For example, it could be included in agency budget justifications transmitted to the Congress.

Writing off debt

There is an inference in the report that writing off debt is to be avoided. On the contrary, we believe that it is good business practice to recognize non-performing assets and account for them properly. That is why we establish in Circular A-129 a policy of reclassifying debt after six months and then applying more stringent collection efforts through work-out arrangements, private collection agencies, and litigation. Failing to recover debts through these means, income tax refund offset, administrative offset, or salary offset should be pursued. Finally, uncollectable accounts should then be closed out and when appropriate, reported to IRS as taxable income to the defaulted debtor.

see comment 14.

see comment 15.

see comment 16.

---

The following are GAO's comments on the Office of Management and Budget's letter dated April 28, 1986.

---

## GAO Comments

1. We do not agree that the report overlooks the broader and more significant credit management issues. See agency comments section of chapter 2.
2. We agree with OMB's position that improved debt collection practices will not avoid the need to cut back programs. However, improved debt collection will lessen the impact of these reductions. See agency comments section of chapter 2.
3. Discussed in agency comments section of chapter 2.
4. Discussed in agency comments section of chapter 2.
5. We do not agree that Agriculture's delinquencies should be excluded when determining trends in delinquent receivables. See agency comments section of chapter 2.
6. All agencies do not charge interest and penalties. See agency comments section of chapter 2.
7. All agencies do not use salary offset. See agency comments section of chapter 2.
8. Information provided is included on page 12.
9. No change to report. This is additional information provided by OMB.
10. No change to report needed. Use of GSA contractors to collect debts is discussed on page 13.
11. No change made to report. This is additional information provided by OMB.
12. Discussed in agency comments section of chapter 2.
13. Discussed in agency comments section of chapter 2.
14. This matter is not discussed in the final report.

---

**Appendix XII**  
**Comments From the Office of Management**  
**and Budget**

---

15. We believe that the importance of debt collection issues justifies the type of reporting we are recommending. See agency comments section of chapter 2.

16. We do not intend to infer that write-offs are to be avoided. See agency comments section of chapter 2.

# Comments From the Department of Education

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

APR 25 1986

Mr. Frederick D. Wolf  
Director, Accounting and Financial  
Management Division  
U.S. General Accounting Office  
Washington, D.C. 20548

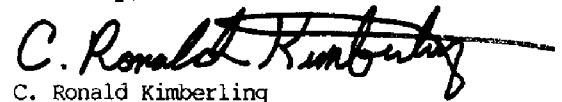
Dear Mr. Wolf:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Debt Collection: Billions are Owed While Collection and Accounting Problems are Unresolved", GAO/AFMD 86-39.

The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely,

  
C. Ronald Kimberling  
Assistant Secretary

Enclosure

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202

**Appendix XIII**  
**Comments From the Department**  
**of Education**

Proposed Response to GAO Draft Audit Report  
Entitled, "Debt Collection: Billions are Owed While  
Collection and Accounting Problems are Unresolved",  
GAO/AFMD 86-39, dated April 3, 1986

Overview

We have completed our review of the draft audit report. We find the specific conclusions, though accurate at the time the audit was conducted, to be outdated. Furthermore, although the report does note the Department's substantial achievements in Debt Collection, it fails to consider the dramatic progress made by this Department recently and downplays the program-related factors which make successful student loan debt management especially difficult. Also, in accessing agency progress, more significant consideration should be given to the constraints imposed by the limited resources available.

See comment 1.

In addition, major legislative progress was made in the Consolidated Omnibus Budget Reconciliation Act 1985 (RA), which included measures the Department had proposed to prevent or lessen the damages caused by defaults rather than dedicate even scarcer resources to the recovery of debts. These steps include:

See comment 2.

- requiring that Guaranteed Student Loans be disbursed in multiple payments;
- mandatory delivery of GSL checks through schools;
- authority for the Secretary to require assignment of NDSL debts to ED in cases of poor loan program administration; and
- authority to charge NDSL defaulters for collection related costs.
- a requirement that all new GSL borrowers, as well as all defaulters, be reported to consumer credit bureaus;
- prohibition of further student aid (at any school) to individuals in default or owing refunds on Federal student aid;
- authority for education institutions to voluntarily assign NDSL defaults to the Education Department at any time after "due diligence" collection efforts are exhausted (under prior law schools had to wait two years before assigning NDSL defaults).

Beyond these measures the Department has proposed the following debt collection amendments in the draft bill reauthorizing the Higher Education Act which was submitted to the Congress on April 7, 1986:

- a requirement on notification to educational institutions of all GSL defaulters;
- five year extension of the IRS refund offset authority for student loan defaults (the current authority expires at the end of FY 1987);
- elimination of all State and Federal statutes of limitations as applied to NDSL and GSL debts;

**Appendix XIII  
Comments From the Department  
of Education**

- authorization for the Secretary to sell Department-held student loans as well as higher education institutional loans when it is in the interest of the Government to do so;
- require total prospective student loan debt burden counseling by the educational institution;
- authorization of GSL lenders to charge PLUS borrowers a \$25 fee to cover borrower credit history checks;
- reduction of GSL lender insurance against borrower default from 100 percent to 90 percent to encourage improved lender collection diligence;
- similar reduction in GSL guarantee agency reinsurance from 100/90/80 percent to 90/80/70 percent (depending on default experience) to encourage greater State-level default collection and prevention efforts;
- restructuring the NDSL program into an Income-Contingent Student Loan (ICL) program, with repayment periods and amounts based on debt level and borrower income—but without taxpayer subsidization of interest (interest would accrue at T-bill rate plus 3 percent);
- extension of the maximum repayment period from 10 to 15 years in both GSL and (regular) NDSL programs (no limit on repayment period for proposed ICL program);
- authority for multiple program student loan consolidation, with repayment extended up to 25 years, but without Federal interest subsidies (borrower's interest set by lender).

See comment 3.

Further, the Department of Education is, by far, the agency most active in the offset of Federal income tax returns, having already recovered \$74 million from 137,534 debtors with expectations on this project approximating \$116 million in calendar year 1986.

It is critical that the final GAO audit report reflect the dedication of ED debt collection resources to projects that result in the recovery of money which in turn serves to offset the Federal deficit. The opinion of those responsible for debt collection within the Department is that the productivity of this effort should be measured in dollars and that management decisions should reflect that priority. It is also imperative that the implementation of marginally productive innovations be set aside to address maximized recoveries now.

Summarization of ED Comments

1. Education's Debt Collection Program Needs Continued Emphasis

Comments

Education continues to place a very high priority on the continued success of its debt collection program. New innovations are constantly being investigated and implemented as budget and personnel resources allow.

See comment 4.

**Appendix XIII  
Comments From the Department  
of Education**

See comment 5

2. Education Reports Information to Credit Bureaus

Comments

Education continues to report new debts to consumer credit bureaus and is constantly seeking both authority and financial resources to increase the use of this tool to include other older debts which were not reported prior to the time Education assumed responsibility. As of February 15, 1986, Education has reported more than 408,000 FISL and NDSL accounts valued at approximately \$702 million.

The Department received a statutory amendment which permitted Credit Bureaus to report older defaulted loan debts which prior law had prevented them from reporting. Thus, ED was precluded from referring such older debt's to Credit Bureaus for reporting.

See comment 6.

3. Education Uses Private Collection Firms

Comments

Education continues to expand its use of private collection agencies in light of ever decreasing financial and personnel resources.

See comment 7.

4. Education Obtains IRS Addresses

Comments

Education continues to make extensive use of the IRS Address Locator Service and finds it to be the most productive and reliable service available.

See comment 8.

5. Employee Salaries Withheld to Satisfy Debts

Comments

Education has carried out the salary offset program despite personnel restraints and has found it to be one of the most difficult collection projects that Department personnel have ever undertaken.

See comment 9.

6. Authority for Salary Offset for Routine Pay Adjustments (recovery of routine salary overpayments)

While we are in general agreement that the OPM procedures established to implement the amendments to Section 5 of the Debt Collection Act are somewhat cumbersome and do indeed burden the collection process, we have a concern about the GAO proposal to postpone the due process until after offset has been made.

We would suggest that the proposal be modified to allow for notice to the employee prior to the offset, which would contain the following specific information:

- (1) the amount of the overpayment;

Appendix XIII  
Comments From the Department  
of Education

- (2) the period of time during which the overpayment occurred;
- (3) the projected date when the offset proceedings will begin;
- (4) the amount of the offset;
- (5) the duration of the offset process; and
- (6) the availability of the waiver request process wherein an employee may file a request to have collection of the overpayment waived.

Since there are situations which warrant a waiver approval, institution of offset proceedings before the waiver request has been adjudicated may very well result in the withheld monies being returned to the employee -- another burdensome process.

7. Offsets Between Programs Delayed  
Comments

Education expects to issue rules governing collection of debts by administrative offset in the near future. Education has maintained that the Debt Collection Act did not limit or abrogate its pre-existing common law authority, as a government agency, to collect debts by administrative offset. However, that act does, by its express terms direct agencies to promulgate regulations regarding aspects of the offset process before collecting debts by offset. Education considered the routine use of administrative offset to collect debts owed to it, but concluded that if it did so, the risk of judicial challenge was high, and the likelihood of adverse rulings which might not only bar use of offset without promulgation of regulations described in that act, but would contain either as dicta or holding statements limiting the use of offset even after the regulations were adopted, sufficient to justify deferring routine use of offset until those regulations are adopted. Nevertheless, Education concluded in two instances that the benefits to be gained by offset justified the litigative risk. Judicial challenge to these efforts resulted in adverse judicial opinions. The first of these rulings, in ABA v. Department of Education, C.A. No. 84-1455 (D.D.C. 1985), was issued only days after receipt of the GAO opinion which upheld use of offset before issuance of regulations; the second, LTV Education Systems v. Bennett, C.A. No. 3-80-0125F (N.D. Tex. 1986), was issued after the GAO opinion was presented to the court. Appeals have been taken from both these rulings, which Education believes to be wrongly decided.

Finally, for debts other than student loan receivables, Education has instituted a standard practice of including in repayment agreements a provision that allows the Department to offset funds from other program payments in the event the debtor defaults.

8. Loan Sales Are Not Made  
Comments

Private sector interest in the purchase of defaulted student loans has been minimal; however, private investors have shown a significant level of interest in purchasing College Housing Loans. Officials continue to pursue the possibility of selling loans.

See comment 10.

See comment 11.



9. Additional Interest and Penalty and Administrative Costs Not Assessed  
Against Defaulted Student Loans

Comments

Additional Interest and Penalties

It is our position that we do not have the authority to assess interest and penalties in the manner described in the Debt Collection Act since the interest rate and penalties (late charges) on student loans are set by statute for the duration of the loan, and by the promissory notes. We will consider requesting legislative changes which will allow us to charge penalties and interest.

Administrative Costs

We requested the authority for all holders of Title IV loans, including ED to pass administrative (collection) costs on defaulted loans to debtors regardless of provision of statute. The Reconciliation Act of 1985 provides this authority which we intend to implement by the end of the year.

10. Discharged Debts not Reported to IRS

Comments

Education plans to implement the reporting of discharged debts to IRS for inclusion in the debtor's taxable income as soon as the financial resources are available.

11. Education's Debt Accounting Problems Remain Unresolved

Comments

The Department recognizes that receivable and collection accounting problems exist. To improve Education's debt accountability, several initiatives are underway. These initiatives include the following tasks which will result in improvements to General Ledger Accounts and adjustments to receivable balances, where appropriate:

- Review of internal and external reporting requirements.
- Design and coordination of internal reporting requirements.
- Design of receivable and collection reports for FMS and Program Offices.
- Transmission of collection transactions to NFC for reconciliation purposes and automated SF-224.

These initiatives were delayed because of the emphasis placed on the implementation of ED's new Payment System and improvements to ED's Accounting System. These efforts are in compliance with GAO's comment on page 94 of the Report concerning the need to improve the accounting system

See comment 12.

See comment 13.

See comment 14.

See comment 15.

Appendix XIII  
Comments From the Department  
of Education

at ED. Progress on these projects has reached a point where resources can be redirected to address debt accounting problems. Thus it is anticipated that the review of debt accounting will be completed within the next few months and corrective actions taken.

12. Reports on Debts Owed Are Unreliable

Comments

The Department concurs with the findings that at the time of the review there were discrepancies in Education's financial reporting. However, since the review the following initiatives have either been implemented or are underway to correct the above deficiencies:

- Implementation of an automated Cash Reconciliation System between Treasury records and source documents (SF-215s, Deposit Tickets; and SF-5515s, Debit Vouchers).
- Development of interim instructions for direct entry of collection documents to ED's Accounting System.
- Confirmation of the College Housing Program loan balances was completed by Federal Reserve Bank (FRB) in December, 1985.
- Development of policies and procedures by OPE, with assistance from FMS, for the resolution of the \$4 million on the Suspense File.

13. Accounting Records Are Poorly Maintained

Comments

The Department acknowledges that this deficiency exists. Since the implementation of the Cash Reconciliation System in October, 1985, the reconciliation of deposit transactions is being addressed and additional improvements in this area will be implemented based on a review of the Department's loan programs.

When FMS agreed to accept Treasury's help, FMS was aware that reconciliation would be a large job, and that FMS had few resources to perform the reconciliation. FMS had the understanding that Treasury would provide resources to assist in sorting the documentation. After reviewing the level of effort needed, Treasury realized that they did not have the available resources to complete the project.

14. Individual Account Balances Are Inaccurate

Comments

We believe that GAO has overstated the magnitude of this problem. ED has accumulated \$2.7 million in unidentified payments during the time it has been collecting defaulted student loans (through 3-31-86). The \$4 million reported by GAO as of June 1985 appears to be greatly overstated. During that same period of time, payments which have been identified and applied

See comment 16.

See comment 17.

See comment 18.

Appendix XIII  
Comments From the Department  
of Education

to the proper accounts totalled approximately \$563 million. Unidentified payments represent less than .5% of the total dollars collected. We agree that any unidentified payments are a problem, but we hardly agree that they constitute a serious problem for ED.

These payments have not been identified primarily because debtors have submitted payments over the years without proper identification on the payment instrument (lack of social security number and/or name). ED's billing statements and dunning letters now contain multiple notices to debtors asking them to include their social security number on their checks. Also, Treasury Fiscal Requirements Manual (TFRM) Part 6, Section 3000 defines unidentified payments greater than one year old as "unclaimed money". The TFRM requires agencies to account for these payments separately. ED is in the process of estimating the cost of bringing its Student Loan Receivables (ADP) System into compliance with the TFRM. Although precise figures are not available, we estimate a large percentage of the \$2.7 million in unidentified payments should be classified as unclaimed moneys in accordance with the TFRM - payments which can never be matched to the appropriate debtor because of a lack of basic identifying information. Once these payments are classified in the manner prescribed by Treasury, the dollar value of unidentified payments which can realistically be identified, using resources available to ED, will be greatly reduced. Also, because of the precautions cited above, we anticipate a further reduction in the amount of unidentified payments to be received by ED in the future.

15. Enhancement Efforts Underway

Comments

FMS acknowledges that the development of summary level tapes for FISL and NDSL collections has not been completed. Higher priority was placed on either designing and/or modifying the Interest Payment System to implement changes to it, mandated by Congress. As a result of this emphasis, the Interest Payment System currently transmits summary level data to the general ledger. Efforts are under way to manually enter FISL and NDSL collections into the accounting system until summary level data (tapes) can be generated.

Also, as part of the Department's overall efforts to improve the accountability of its receivables, a number of Education's detailed receivable records are currently maintained by NFC on an automated receivables system, resulting in reliable reports.

In addition, the Department is reviewing the following options to improve upon the accountability of College Housing, the Higher Education Facilities Loan Program, and other receivables.

- o Transferring the accounting to the National Finance Center (NFC);
- o Transferring the accounting to the Federal Reserve Bank; or
- o Using a standard off-the-shelf accounting software package.

See comment 19.

Appendix XIII  
Comments From the Department  
of Education

See comment 20.

16. Receivables, Delinquencies, and Write-Offs

Comments

The National Direct Student Loan receivables (\$5,132.5) appear to be overstated while the delinquencies (\$451.5) appear understated. Please review these amounts before issuing this report in final. Corrected figures should read \$5,072 for receivables and \$561 for delinquencies.

---

The following are GAO's comments on the Department of Education's letter dated April 25, 1986.

---

## GAO Comments

1. We believe that our conclusions are still relevant. See agency comments section of appendix VII.
2. Selected examples of Education's new and proposed authority are discussed in agency comments section of appendix VII.
3. Information added to report. See page 13.
4. No change to report needed.
5. No change to report needed.
6. No change to report needed.
7. No change to report needed.
8. No change to report needed.
9. Discussed in agency comments section of chapter 3.
10. Discussed in agency comments section of appendix VII.
11. No change to report needed.
12. Discussed in agency comments section of appendix VII.
13. Discussed in agency comments section of appendix VII.
14. Report changed to reflect Education's current plans. See page 79.
15. Discussed in agency comments section of chapter 4.
16. Discussed in agency comments section of chapter 4.
17. Discussed in agency comments section of chapter 4.
18. Discussed in agency comments section of appendix VII.

---

**Appendix XIII  
Comments From the Department  
of Education**

---

19. Discussed in agency comments section of appendix VII.

20. Report changed. See appendix V.

# Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-3000

OFFICE OF THE ASSISTANT SECRETARY  
FOR ADMINISTRATION

April 24, 1986

Mr. Frederick D. Wolf  
Director, Accounting and Financial  
Management Division  
General Accounting Office  
Washington, DC 20548

Dear Mr. Wolf: *Fred*

We have reviewed your draft report on agency implementation of the Debt Collection Act of 1982 and appreciate the opportunity to provide our written comments.

Collecting the debts due the Government has always been one of my highest personal priorities for the Department. In the last several years, we have made substantial improvements in our debt management procedures and have successfully collected millions of dollars.

I am disappointed that your draft report does not properly reflect our accomplishments and significant efforts currently under way. The report states that we and other agencies have been slow in implementing the debt collection tools but fails to recognize that, while the Debt Collection Act was passed in 1982, the guidelines for Federal agencies to follow in implementing the Act were issued by the General Accounting Office (GAO) and the Department of Justice in March 1984. As a result, the Office of Management and Budget (OMB) could not issue their guidelines for agencies to follow in managing Federal credit programs until May 1985. These delays provided little time for agencies to implement the required debt collection procedures before the completion of your audit in November 1985. Since issuance of the guidelines, we have aggressively implemented applicable requirements of the Act.

Also, I agree that our debt collection and reporting policies should be consistent with commercial practices in order to maximize our collections and properly reflect our program costs. However, our collection efforts already involve extensive time and data processing resources, and I am concerned that the cost of implementing all the collection initiatives provided by the Act for every debt program may exceed the benefits. For example, substantial additional resources would be required to comply with your suggestion to report to credit bureaus those mortgagors who fail to meet revised repayment schedules. This would require us to provide 60-day advance notice to debtors, submit information to credit bureaus, and then update this information when debtors bring accounts current. This paperwork burden is one of the reasons private mortgage companies do not regularly report the status of delinquent accounts to credit bureaus.

See comment 1.

See comment 2.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

2

See comment 3.

I believe OMB should be consulted on the cost effectiveness of your proposed recommendations, particularly those requiring major and immediate changes in policies, procedures, and automated systems. Otherwise, we cannot implement a total debt management strategy that focuses resources and sets goals for cost-effective accounting and collection methods for each of the various types of debts owed the Government.

In addition, there are a number of misstatements of fact and of our position on various policy matters. I have enclosed comments on our specific concerns with the content of your report.

Finally, while I support your recommendation that Congress clarify the guidance given agencies, I also believe that your report should recognize the initiatives currently under way at OMB to study various aspects of debt management, such as asset sales, which will improve agencies' policy and operating decisions.

Sincerely,



Judith L. Tardy  
Assistant Secretary

Enclosure



**Appendix XIV  
Comments From the Department of Housing  
and Urban Development**

HUD COMMENTS ON AFMD DRAFT REPORT  
GAO/AFMD-86-39

PAGE 25

We do not believe that ". . . HUD has delayed implementation . . ." HUD has implemented or is implementing all applicable initiatives. In addition, HUD had adopted an innovative automated debtor calling system for our Title I debts. It has proven very successful and is being extended to our Single Family Notes. OMB has recommended that several other agencies consider similar systems or use HUD's system. See the following sections for additional information on HUD efforts.

PAGES 26-27

Table 2.7  
Debt Collection Initiatives  
Not Implemented by HUD

Initiative not implemented	Reason(s) not implemented
Reporting delinquent debtors to credit bureaus	<p>After a year of resolving legal and interagency issues between Treasury, OMB, and the private credit bureau contractor, Title I debtors received the required 60-day notices in March 1986. The first information will be sent to the credit bureau in May 1986.</p> <p>We have developed a Request for Proposal (RFP) for a new contract to replace our Single Family Notes System and have included credit bureau reporting as a required feature. In addition, Single Family Notes which have been foreclosed will be reported to credit bureaus starting in April 1986.</p> <p>Finally, while legal contract clauses prevent debt collection from individuals involved in our Multifamily program, we are exploring whether or not there are any benefits to reporting delinquencies to credit bureaus.</p>
Use of private collection firms	<p>We continue to maintain that we can do as well as any private firms--at lower cost in collecting delinquent debts while providing collateral services. However, we are piloting 2,000 Title I cases in May 1986 to determine the effectiveness of</p>

Now on p. 28.

See comment 4.

Now on p. 29.

See comment 5.

See comment 6.

See comment 7.

See comment 8.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

2

		private collection agents. Expansion of this initiative will be based on the effectiveness of the collections.
See comment 9.	Withholding of employee salaries to satisfy debts	We have implemented this initiative where appropriate. We have been very successful in offsetting salary payments in the Title I Program.
See comment 10.	Requesting other Federal agencies to offset non-salary delinquent debt	We are awaiting guidance from OMB and Treasury before requesting other Federal agencies to offset nonsalary delinquent debt.
See comment 11.	Assessment of penalties and administrative charge	We currently assess fees and penalties, and collect administrative charges in both our Single Family and Multifamily Programs. We will begin assessing in the Title I Program in May 1986 at the time we begin referring cases to collection agencies.
See comment 12.	Screening loan applicants against IRS accounts	Screening of loan applicants against IRS accounts is not feasible because Single Family and Title I loans are written by private organizations, with HUD merely guaranteeing the loans. In addition, Multifamily projects are almost always developed by a new entity with a new tax ID. It would be difficult or impossible to cross reference the new tax IDs to related entities or persons. If IRS reported to credit bureaus, then our lenders would be able to screen loan applicants.
See comment 13.	Reporting discharged debt	We currently report to IRS discharged Single Family, Multifamily, and Title I debts.
See comment 14.	Portfolio sales	We have scheduled a Multifamily sale for March 1987. We are exploring the feasibility of Single Family and Title I Notes sales.
See comment 15.	<u>Overall, we do not believe the table accurately presents HUD's accomplishments and does not accurately explain reasons for lack of implementation in some programs.</u>	

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

3

PAGES 27-28 (Following Table)

Single Family HUD-Held mortgages are secured loans, under payment agreements, and our performance is subject to legal scrutiny. Contracting out would not avoid responsibility. Even if done in a blind test, it would subject us to charges of differing applications of policy, more so than the present case of operating out of our various Field Offices.

The bulk of the portfolio of Single Family HUD-Held mortgages is under individual forbearance/workout agreements and, as such, is excluded from the reporting requirements while they are performing. If the mortgagor does not meet the repayment schedule, foreclosure is the alternative. Reporting will then occur consistent with appeal requirements.

If a mortgagor is in compliance with the workout agreement then involuntary salary deductions are unnecessary. On the other hand, if the mortgagor is not in compliance, and foreclosure is the alternative, involuntary salary deductions funneled into the account would prejudice our efforts to acquire the property and recover our investment. Using it, even "prior to foreclosure," could further exacerbate our potential losses through delay.

With regard to the use of private collection firms, we are piloting the collection of 2,000 Title I loans with a private collection agency.

The system that we use for Single Family Notes is a private sector system shared by HUD and commercial users under contract. Modification of such a package at this late date in the contract would clearly not be advised. The implementation schedule for any modifications, such as referrals to consumer reporting agencies, is also impractical. We have already included this requirement in the RFP for the replacement system.

With regard to computer matching of Single Family cases with Federal employee records, the lack of social security numbers for cases dating from the 1960s to 1980 would make such a process impractical. We have made major efforts to obtain social security numbers and are currently entering them into our system. We have also included requirements in our RFP for a new contract to make this matching practical.

The paragraphs on Pages 27-28 should be revised substantially to reflect the foregoing matters.

PAGE 36

While management performance can be linked to debt collection achievements, the level of debt collection goals may be limited by budget constraints not controlled by management.

Now on pp. 29 - 30.

See comment 16.

See comment 17.

See comment 18.

See comment 19.

See comment 20.

See comment 21.

Now on pp. 29 - 30.

Now on p. 35.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

4

A negative aspect of incentives for exceeding goals is that subtle pressure is brought to bear to increase the amounts required under payment plans in an effort to collect more. This can create secondary defaults when demand exceeds ability.

Now on p. 36.

PAGE 37 (First Paragraph)

Collections of FHA debts reimburse those insurance funds which were disbursed for payment of claims. The service charge associated with the payments covers the normal administrative costs of debt collection. Penalties and late charges cover the exceptions. Perhaps, and only to the degree that the insurance funds are first reimbursed, interest collected in excess of Treasury borrowing rates could be used for one of the cited activities.

Now on p. 36.

PAGE 37 (Second Paragraph)

This variation would be counter productive to debt collection activities. It proposes to cut the resources available to perform debt collection activities by some proportion of the collection shortfall.

There is no direct correlation between the size of the portfolio and the units being currently insured. The collections should be obligated for the reimbursement of the insurance funds.

Now on p. 39.

PAGE 42

We do not believe that the recommendations for HUD are necessary or applicable because:

--Starting in April 1986, we are reporting Single Family Notes which have been foreclosed to credit bureaus. Notices have been sent to Title I debtors that they will be reported starting May 1986.

--We have included the credit bureau reporting feature in our request for a new contract for Single Family Notes.

--We are currently assessing interest, penalties and administrative costs in both Single Family and Multifamily Programs. We will begin assessing the Title I Program in May 1986.

--We are piloting 2,000 Title I cases in May 1986 to determine the effectiveness of private collection agents. Required 60-day notices have been sent to the debtors.

--We have scheduled a Multifamily sale for March 1987. We are exploring the feasibility of Single Family and Title I Notes sales.

See comment 22.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

5

low on pp. 44 and 50.

PAGES 44 and 52

see comment 23.

GAO recommends legislation which would make certain debt collection tools mandatory, e.g., the use of collection contracts working on a contingency basis. The report states that private contractors entail essentially no cost to the Government because the cost of collection is added to the amount due from the debtor. This may be true for unsecured loans but not for secured loans. With secured loans, noncollection results in a foreclosure cost and acquisition of the security which is then sold. If a private collection agency collects, it skims proceeds and, if it fails, we still incur the costs of foreclosure.

low on p. 46.

PAGE 53

see comment 24.

GAO recommends use of private sector attorneys to litigate debt. Where applicable, we have been using private sector attorneys to litigate delinquent debts in the Single Family and Multifamily Programs by foreclosing on the mortgage.

low on pp. 53 and 89.

PAGES 56-57

see comment 25.

Section 312 loans are serviced by a private contractor. The audit problem relates to internal fund accounting by HUD for information going back to the 1960s. We currently have under way a review to correct procedural and accounting problems and improve internal controls.

The other audit problems mentioned are caused by program requirements. Basically, recipients of funds must determine themselves and report to HUD any overpayments or other amounts due back to HUD. We are currently developing improved controls to ensure that timely reports are received from recipients.

low on p. 55.

While we did report in our Federal Managers' Financial Integrity Act Report to Congress for Fiscal Year 1985, that improvements were needed in our accounting systems, we do not believe, as indicated in Enclosure D page 2 of this report, that we have not properly accounted for all material assets.

PAGE 59 (First Paragraph)

see comment 26.

We have established allowances for losses for our receivables under the Single Family, Multifamily, and Title I Programs. These allowances are generally based on actuarial studies of historical collection experience with due consideration for the state of the real estate market.

low on p. 55.

PAGE 59 (Second Paragraph)

see comment 27.

Our classification and reporting of delinquent debts are in accordance with the guidelines of Schedule 9.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

6

Now on pp. 56, 89, and 90.

PAGE 60

See comment 28.

The unapplied collections of \$10 million and the unapplied tax disbursements of \$7.3 million are relatively minor amounts in relation to our total loan portfolio of \$4.2 billion and represent merely timing delays. We are constantly working to improve procedures to eliminate delays, but given the volume of our accounts, delays cannot be avoided. We do not believe delays have negatively impacted controls over our accounts or debt collection efforts.

Now on p. 58.

PAGE 66 (First Paragraph)

See comment 29.

Over the past few years, we have contracted out the operation and maintenance of our debt collection systems. While contracting permitted us to modernize economically and correct shortcomings cited in earlier GAO reports, it does somewhat restrict our ability to adapt the systems to debt collection initiatives. The systems modifications must be precisely identified and their cost and schedules must be negotiated and eventually formalized with the contractor. Only then can the design and programming commence. In our case, these steps are often burdensome because we adopted standard commercial systems rather than waiting for contractors to design systems specifically for our special applications. As these contracts expire, we are procuring systems with greater flexibility.

Now on p. 60.

Page 66 (Second Paragraph)

See comment 30.

While we agree that agencies should prepare required reports on their debt, we question the need for legally mandated audits. Agencies are already aware of the need for improvements and have actions under way. Audits will be time-consuming and expensive. Experiences in the private sector show that audited financial statements do not prevent corporations from experiencing debt collection problems and from going into bankruptcy. We believe that requiring audited financial statements is not the most effective use of limited resources to improve debt collection.

Now on p. 60.

PAGE 66 (Third Paragraph)

See comment 31.

See our comments above on accounting systems. Also, we believe that the guidelines of OMB Circular A-127 should be considered in requiring agencies to strengthen their debt accounting and control systems.

Now on p. 84.

PAGE 96

See comment 32.

We believe that the text should highlight the reductions which we have accomplished in both delinquent debt and in long-term receivables.

We believe the following accomplishments should be added to the list:

1. Use of automated debtor calling system for Title I loans.
2. Use of private service contractors for billing and collection of loans.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

7

3. Use of Treasury lockboxes for collections.
4. Use of contractors for property foreclosures.
5. Assessment of late charges, bad check fees, interest, and administrative costs.
6. Use of a skip-tracer contractor to obtain addresses and a private sector agent to obtain social security numbers.
7. Requiring holders of guaranteed loans to report delinquent debtors to credit agencies before submitting claims to HUD.

low on p. 85.

PAGE 97

As discussed above, we have developed an RFP to replace the standard commercial package that we acquired to process Single Family loans. We have incorporated credit bureau reporting and other features in the new system to improve collection and debt management.

See comment 33.

low on p. 86.

PAGE 98

As discussed above, we are piloting the use of a private sector collection agency and will evaluate the results to determine if the effort should be extended.

See comment 34.

See comment 35.

Also, as noted above, the new Single Family Notes System will make more feasible the offset of Federal salaries as we presently are able to offset Title I debt against Federal military and civilian, active and retired, salaries and annuities.

low on pp. 87 - 88.

PAGE 100

A Multifamily sale has now been scheduled for March 1987. We are exploring options for Single Family and Title I Notes sales.

See comment 36.

low on p. 88.

PAGE 101

WE DO NOT BELIEVE THAT CONDUCTING SALES TO DETERMINE THE PRACTICALITY OF SELLING LOANS IS A REASONABLE RECOMMENDATION. THERE ARE SUBSTANTIAL COSTS AND ADMINISTRATIVE BURDENS WHICH ARE INCURRED.

low on p. 88.

PAGES 101-102

This section should recognize that we already assess late payment penalties, fees for bad checks, and administrative costs; Title I being the latest with an implementation date of May 1986.

See comment 37.

low on p. 89.

PAGES 103 (First Paragraph)

See previous comments on Page 56 on these accounting matters.

Appendix XIV  
Comments From the Department of Housing  
and Urban Development

8

Now on pp. 89 - 90.

PAGES 103-105

See comment 38.

The \$10 million unapplied cash, which represents about 1.4 percent of our average monthly cash flow, results largely from debtors' failure to include remittance advice with their payments. We have developed an innovative microcomputer application which links to bank lockbox systems and facilitates matching of collections with accounts.

We eliminated the unapplied \$7.3 million in tax disbursements. In addition, we revised the input process performed by Field personnel to prevent the cited input problems in Single Family Notes.

Now on p. 91.

PAGE 106 (First Paragraph)

See comment 39.

The post audit backlog does not prevent HUD from collecting payments on these accounts.

Now on p. 91.

PAGE 106 (Last Paragraph)

The comment that HUD has "historically been faced with problems in collecting . . ." is unfair. HUD receivables can be reduced by foreclosing on mortgages. The auditors should consider the implication of foreclosures. Both the social and economic costs of foreclosure are extremely high. When ownership is transferred to HUD, upon completion of the foreclosure process, the receivable is liquidated, but the value of the asset has depreciated and the Government must either spend sums to restore the project or sell it at a considerable loss. Foreclosure is a last resort. For this reason, receivables are high.

Now on pp. 116 - 125.

PAGES 135-145

See comment 40.

These schedules should be updated for our comments on credit bureau reporting for Title I and Single Family foreclosures, use of collection agency as a pilot, and sale of Multifamily properties scheduled for March 1987.



The following are GAO's comments on the Department of Housing and Urban Development's letter dated April 24, 1986.

---

## GAO Comments

1. Discussed in agency comments section of chapter 2.
2. Discussed in agency comments section of appendix VIII.
3. OMB reviewed and commented on our draft report. See appendix XII.
4. Many of the initiatives have not yet been implemented but are still in the planning phase.
5. Revised report to reflect planned target date.
6. Discussed in agency comments section of appendix VIII.
7. Report changed to reflect this additional information.
8. Report changed to reflect HUD's plans to pilot test private collection firms.
9. Although HUD uses this tool in the title I program, it is not used in other programs. See agency comments section of appendix VIII.
10. Report changed to reflect this additional information.
11. Report changed to reflect HUD's planned actions.
12. No change to report needed.
13. Report changed to reflect status of this initiative.
14. Report changed to reflect target date for planned portfolio sales.
15. We believe the table accurately presents reasons why HUD did not implement the debt collection initiatives.
16. No change to report needed.
17. Discussed in agency comments section of appendix VIII.
18. No change to report needed.

19. Report changed to reflect HUD's plans to pilot test private collection firms.
20. Discussed in agency comments section of appendix VIII.
21. Report changed to reflect this additional information.
22. We believe our recommendations are necessary and will provide HUD with the impetus to carry out its plans. See agency comments section of appendix VIII.
23. No change to report needed.
24. No change to report needed.
25. Report changed to reflect this additional information.
26. No change to report needed.
27. No change to report needed.
28. Discussed in agency comments section of appendix VIII.
29. No change to report needed.
30. Discussed in agency comments section of chapter 4.
31. No change to report needed.
32. No change to report needed.
33. Discussed in agency comments section of appendix VIII.
34. Report changed to reflect HUD's plans to pilot test private collection firms.
35. Discussed in agency comments section of appendix VIII.
36. Report changed to reflect target date for planned portfolio sales.
37. Report revised where appropriate.
38. Discussed in agency comments section of appendix VIII.

---

**Appendix XIV**  
**Comments From the Department of Housing**  
**and Urban Development**

---

39. Discussed in agency comments section of appendix VIII.

40. Report revised where appropriate.

# Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON, D. C. 20250

April 24, 1986

Mr. Frederick D. Wolf  
Director  
Accounting and Financial  
Management Division  
U. S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Wolf:

Thank you for the opportunity to comment on the GAO draft report Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved.

We disagree with the overall report findings and wish to comment on each of the thirteen GAO conclusions listed by order of topics in Appendix IX. More general comments regarding the Department's overall debt management activities will be covered in a separate letter.

GAO concludes:

1. FmHA has made limited progress in implementing the Debt Collection Act.

FmHA has made significant progress in implementing the initiatives in both OMB Circular A-129 and the Debt Collection Act. Circular A-129 contains 32 initiatives of which FmHA is either in full or partial compliance with 15. FmHA is in partial compliance with 2 of the 7 Debt Collection Act initiatives. As discussed in greater detail below, action is currently underway on administrative and salary offsets, sale of assets, assessment of fees, and use of collection firms. The Single Family Housing Program has decreased its delinquency rate from 26.4% five years ago to 14.3% in March 1986 indicating significant progress in debt collection in this program area alone. For the Water and Waste Disposal and Community Facilities Programs, the current delinquency rate is approximately 1.2 percent. From the inception of these programs, less than \$1.7 million has been written off.

2. Expanded Use of Credit Bureaus.

FmHA uses 150,000 credit reports per year to screen Single Family Housing Applicants and has been using them since 1971.

See comment 1.

See comment 2.

**Appendix XV  
Comments From the Department  
of Agriculture**

Mr. Frederick D. Wolf

2

FmHA reports selected information on commercial borrowers to credit bureaus. The system used for this reporting cannot be expanded to consumer borrowers. Commercial borrowers are not protected under the Fair Credit Reporting Act and information is extracted from borrower files maintained in the Finance Office and reported. Consumer (Single Family Housing) borrowers are protected by the Fair Credit Reporting Act and all information reported about each individual must be accurate in every respect and updated regularly. Further, unlike commercial borrowers, consumer borrowers may not be reported unless they are delinquent. Therefore, county offices must review and update information concerning each borrower reported each month.

Consumer borrowers are entitled to due process notification before being reported and the county office must also track notices to ensure compliance with this requirement.

Most mortgage bankers, except for foreclosures, do not bulk report account information to credit bureaus. Instead, requests on individual accounts are answered on a case by case basis.

3. Expanded use of private collection firms.

FmHA staff analyzed this issue and discussed the findings with the Office of the General Counsel (OGC). FmHA and OGC agree that, with the exception of non-program loans, borrowers may not be referred to collection agencies until after foreclosure. After foreclosure, only borrowers against whom FmHA obtained a deficiency judgment may be referred. Field offices will be asked to review all collection-only accounts and non-program borrowers to determine those that can be reported. We will refer these borrowers to the GSA contractor for collection.

4. Assessment of interest, penalties and administrative costs on delinquent debts.

The capability to assess interest, penalties and administrative costs is being developed in the new accounting system which should be available within 3 years. In addition, all FmHA notes, mortgages, etc. must be redesigned to incorporate appropriate language. The forms revisions will be accomplished by the time the systems development is completed.

Since documents executed by existing borrowers do not incorporate the necessary language, no action is possible concerning them.

5. Withholding delinquent debts from employees' salaries.

Departmental salary offset regulations were published in the Federal Register on March 17, 1986. FmHA has drafted internal salary offset regulations and they will be published by June 1986.

See comment 3.

See comment 4.

See comment 5.

See comment 6.

Appendix XV  
Comments From the Department  
of Agriculture

Mr. Frederick D. Wolf

3

FmHA has received a tape from OPM to match against its delinquent debtors for use in salary offsets. Salary offset will be initiated in accordance with USDA regulations.

See comment 7.

6. Using administrative offset for withholding amounts owed to individuals or borrowers for delinquent debts they owe to the Federal Government.

FmHA has drafted and circulated administrative offset regulations. Publication is expected by June 1, 1986.

7. FmHA should be prepared to use loan sales as a debt management tool when the farm economy stabilizes.

See comment 8.

During FY 1985 FmHA conducted a pilot sale of farm loans and sold 12 loans with a face amount of \$309,000. Due to the present state of the farm economy no further farm loans sales are planned at this time.

The President's proposed 1987 Budget calls for FmHA to sell \$100 million from both its Rural Housing and Community Program portfolio. FmHA has been asked by OMB to make no sales until Treasury and OMB prepare sales guidelines. FmHA is analyzing its portfolio and discussing sales with bankers. The Agency will be ready to proceed when the guidelines are issued and after sales are approved by OMB and Treasury.

See comment 9.

8. FmHA Not Reporting Discharged Debts.

FmHA will have a system in place to report discharged debts to IRS as of January 1987 for the 1986 tax year.

See comment 10.

9. Accounting problems continue to hamper FmHA.

We seriously question the fairness of GAO's statement that our current accounting system is not designed to handle the 1.5 million borrowers and 30-plus programs that fall under FmHA. This statement implies that FmHA cannot reliably account for and report on receivables of over \$70 billion. Such an inference is grossly misleading. While we concede that we do have some accounting problems, which we are addressing, we wish to point out that FmHA has made significant strides in improving accounting operations.

In the early 1980's, FmHA launched an extremely aggressive high profile modernization program. The short-run portion of the program called for conversion of our program accounting system from medium-scale computers in St. Louis to a large-scale computer system in Kansas City, development of the Automated Discrepancy Processing System terminal system, acquisition and deployment of displaywriters and terminals to State Offices, deployment of 200-plus additional terminals to the Finance Office, increased deployment of Four-Phase Systems equipment, and the implementation of cash management improvements, including the use of electronic funds transfer. FmHA has also decentralized the input and correction of 27 accounting transactions to State Offices.

**Appendix XV  
Comments From the Department  
of Agriculture**

Mr. Frederick D. Wolf

4

The conversion project was more than a straight conversion from Burroughs to IBM; it also included significant technical improvements. Some of the key items accomplished by the conversion project follow.

- converting over 1,000 programs in excess of 1 million lines of code from Burroughs COBOL-68 to ANS-74;
- converting the Burroughs conventional major master files to Cullinet's IDMS Data Base Management System (DBMS) using the Cullinet Integrated Data Dictionary (IDD) as well;
- restructuring the major update programs into a modular design format;
- doing a complete rewrite of on-line system capabilities using a standardized telecommunications monitor (IDMS-DC);
- reformatting all programs using the METACOBOL optimizer product;
- running all programs through the CAPEX optimizer product;
- renaming data elements to minimize redundancy;
- establishing system operating procedures to operate remotely in lieu of the prior over-the-counter batch processing;
- incorporating the use of an automated job scheduling system; and
- procuring remote operating hardware and high-speed communications facilities to handle high-volume batch processing.

OIG conducted a postimplementation review of the converted system. While OIG concluded that the system continued to have weaknesses, they also concluded that FmHA accomplished its major objective of providing additional computer capacity to ensure timely processing of loan making and servicing actions for FmHA borrowers while the APDS is being designed and developed.

Subsequent to conversion, over 400 enhancements have been made to the system to implement legislation, promote accurate transaction processing, resolve material internal control weaknesses, and significantly improve efficiency. Some of the major enhancements completed included the farm credit initiatives, farmer program moratoriums, development of direct budget allocation input, and numerous other enhancements to make the system more efficient and effective.

The long-run portion of the modernization program is the design and development of a new loan and grant accounting system. While the original preliminary implementation date has slipped, we do not believe GAO's statement is a fair presentation of the status of the development of the new accounting system. At the conclusion of the

Appendix XV  
Comments From the Department  
of Agriculture

Mr. Frederick D. Wolf

5

planning phase, this strategic program was broken into two distinct pieces for management purposes. One piece, office automation, is moving more quickly than the core accounting system. It will utilize multifunction work stations as stand-alone computers, as a file transfer device, as a terminal, and as a device for Agencywide electronic mail. FmHA plans to have hundreds of these work stations in field offices this fiscal year. The decentralized input and correction of 27 accounting transactions currently assigned to State Offices will be further decentralized to field offices when the work stations are installed and other technical requirements are met.

10. Inability to Reconcile Collections Received.

See comment 11.

With respect to reconciling collections received and recorded in the deposit fund with the borrowers' accounts, we began reconciliation of the deposit fund for the 5-state test in March 1986 and expect to meet our goal of reconciling the fund on a nationwide basis beginning September 1986, as indicated in our April 1985 management plan.

11. General Ledger Accounts Cannot Be Reconciled with Individual Borrower Accounts.

See comment 12.

With respect to developing the capability to reconcile individual borrower accounts with general ledger accounts on a daily basis, the May 1986 scheduled implementation date mentioned by the FmHA Operations Division deputy director has been revised to July 1986.

12. Rescheduled Loans Are Not Identified in Financial Reports.

See comment 13.

With respect to rescheduled loans, we acknowledge that they are not reported separately from other loan receivables in financial reports. The existing accounting system does not distinguish loans which have been rescheduled. A modification to the system to provide this capability has not been implemented. GAO recognizes that the design of APDS provides the capability to identify rescheduled loans for reporting purposes. We anticipate APDS will be available in 3 years.

13. Efforts to Improve Reliability of Accounting System.

See comment 14.

In summary, the GAO report details give the impression that FmHA must implement APDS soon in order to survive. This simply is not true as the IEM conversion positioned the Agency to both accommodate workload growth and incorporate changes/enhancements to the system in the intervening period that APDS is being developed. The conversion to the IEM system and enhancements completed since conversion have significantly improved the reliability of the accounting system to account for and report on the status of outstanding debts. In concrete testimony to this statement is the fact that production transaction processing backlogs have been eliminated and that the number of discrepancies (rejected transactions) are at the lowest levels in the Agency's history.



**Appendix XV  
Comments From the Department  
of Agriculture**

Mr. Frederick D. Wolf

6

As stated in FmHA's annual report to the Department, FmHA's accounting system is generally adequate in terms of the principles, standards, and related requirements prescribed by the Comptroller General. The report is based on our evaluation of the accounting system pursuant to section 4 of the Federal Managers' Financial Integrity Act (FMFIA). Although the system is generally adequate, the fiscal year 1985 evaluation disclosed deviations from the principles and standards. As required by FMFIA, a corrective action plan was set forth to correct the deviations identified.

In designing the APDS, all of the accounting principles and standards contained in revised Title 2, Accounting, General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, were considered. The design documents how the new system will conform to all applicable accounting principles and standards or indicates that additional guidance is needed from the central guidance agencies; e.g., specific reporting requirements from Treasury. Also, we believe the APDS design meets the requirements of OMB Circular A-129.

With respect to GAO's recommendation that FmHA closely monitor its efforts to develop and implement a new debt accounting system, oversight over major system development efforts in FmHA continues to be maintained by the Agency head and interested Department officials. FmHA has successfully completed conversion of its accounting system from a medium-scale Burroughs computer system in St. Louis to a large-scale IBM computer system in the Kansas City Computer Center. This provided the capability to input selected accounting transactions by FmHA State Offices providing faster service to the public and permitted closing of the St. Louis Computer Center, a long-term goal of the Department.

Further, FmHA has completed a redesign of its accounting system. The new system will provide a modern, state-of-the-art system which will meet the program needs of FmHA through 1995 and will meet Reform '88 objectives. This system will:

- provide a centralized system for loan making and loan servicing for FmHA loan and grant activities;
- provide up-to-date and accurate information to the public, FmHA managers, Congress, and other Government entities;
- incorporate GAO requirements, OIG recommendations, and Office of Management and Budget (OMB) requirements concerning the adequacy of internal controls to prevent fraud, waste, and abuse;
- provide interfaces to Departmental common administrative systems; and

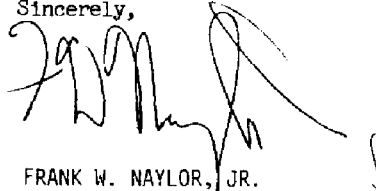
Appendix XV  
Comments From the Department  
of Agriculture

Mr. Frederick D. Wolf

7

--provide interfaces to the Department of Treasury and other  
Government agencies.

Sincerely,



FRANK W. NAYLOR, JR.  
Under Secretary  
for Small Community  
and Rural Development

---

The following are GAO's comments on the Department of Agriculture's letter dated April 24, 1986.

---

## GAO Comments

1. Agriculture's general comments are not included here but were considered in finalizing this report. They are available from us upon request.
2. We do not agree that FmHA has made significant progress in implementing debt collection initiatives. See agency comments section of appendix IX.
3. We realize that reporting delinquent debtors to credit bureaus may be difficult due to FmHA's decentralized operations. However, because of the potential benefits to be derived by the government, we believe FmHA should undertake such reporting. See agency comments section of appendix IX.
4. Discussed in agency comments section of appendix IX.
5. Discussed in agency comments section of appendix IX.
6. Report changed to reflect planned date.
7. Report changed to reflect planned date.
8. Discussed in agency comments section of appendix IX.
9. Report changed to reflect planned date.
10. Report changed.
11. Report changed.
12. Report changed.
13. No change to report needed.
14. Report changed.

# Comments From the Veterans Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Office of the  
Administrator  
of Veterans Affairs

Washington DC 20420



**Veterans  
Administration**

**APR 24 1986**

Mr. Frederick D. Wolf  
Director, Accounting and Financial  
Management Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Wolf:

This responds to your request that the Veterans Administration (VA) review and comment on the General Accounting Office (GAO) April 3, 1986 draft report "DEBT COLLECTION: Billions Are Owed While Collection and Accounting Problems Are Unresolved." The report addresses four agencies' implementation of the Debt Collection Act of 1982.

Please note that the report does not accurately portray the current status of the VA's debt collection program since it does not include vast improvements made in fiscal year (FY) 1986. I encourage you to consider those improvements in the preparation of the final report which should objectively portray the VA's compliance with the Debt Collection Act of 1982.

Our comments on the report recommendations addressed to this Agency appear in Enclosure I. Enclosure II is an internal status report summarizing progress in VA's debt management initiatives during FY 1986. It reflects a rapid turnaround achieved through Agencywide emphasis on debt management since August 1985.

Sincerely

A handwritten signature in black ink, appearing to read "Thomas K. Turnage".

THOMAS K. TURNAGE  
Administrator

Enclosures 2

See comment 1.

See comment 2.

ENCLOSURE I

VETERANS ADMINISTRATION RESPONSE TO THE GAO DRAFT REPORT  
'DEBT COLLECTION: BILLIONS ARE OWED WHILE COLLECTION  
AND ACCOUNTING PROBLEMS ARE UNRESOLVED'

Chapter 2 Recommendations:

To improve their debt collection and credit management efforts, GAO recommended that the Secretary of Housing and Urban Development (HUD) and the Administrator of VA require managers of programs which are not using private collection agencies to use the General Services Administration (GSA) contractors.

The VA concurs in this recommendation. We are currently developing a plan to strategically place the private collection agencies with whom GSA has contracted into a total debt collection system which makes optimum use of all collection tools at the lowest cost to the Government. Meetings are being conducted with the private collection agencies, and we will begin actual referrals by the end of FY 1986.

GAO also recommended that the Administrator of VA ensure that

-- taxpayer identification numbers are obtained from loan applicants,

We concur. Regulations have been amended and are undergoing internal review. Final approval, including publication in the Federal Register, is anticipated by September 1986.

-- information on delinquent debtors is referred to credit reporting agencies,

The VA concurs. Information on delinquent debtors is referred to credit reporting agencies on a monthly basis. We are developing procedures for referring information on delinquent portfolio loan borrowers as well.

-- penalties are charged on delinquent debts,

We believe GAO made this recommendation because penalties are provided for in the Debt Collection Act of 1982 and the legislation "was intended to increase the efficiency of governmentwide efforts to collect debts by providing additional debt collection procedures." At the time the Debt Collection Act was passed, we had recently completed developing our interest- and cost-charging system pursuant to Public Law No. 96-466. Our method of charging interest and costs on delinquent debts owed to this Agency is legislatively mandated in section 3115 of title 38, United States Code. Additional implementing instructions are contained in regulations which may be found in section 1.919 of title 38, Code of Federal Regulations. These regulations were initially published in December 1981 and are amended annually to incorporate new rates.

See comment 3.

See comment 4.

See comment 5.

See comment 6.

ENCLOSURE I

2.

We have not previously been challenged on the continued applicability of this law and the regulations as being contrary to the Debt Collection Act. We believe there is support for the conclusion that the provision for interest and costs on VA cases contained in section 3115 of title 38, United States Code, being more specific as it applies only to VA debts, is properly the controlling law. Accordingly, before directing a costly and time-consuming revision of the accounting system to comply with the Debt Collection Act, we will present this subject to the Comptroller General for a ruling.

-- and the salary offset provision of the Debt Collection Act is implemented.

The VA concurs. A number of legal issues was involved in the development of VA Federal Employee Offset Regulations. This included the need to provide fundamental due process and the Administrator's finality authority contained in section 211(a) of title 38, United States Code. The regulations, which are in the final review and concurrence process, should avoid most of the legal difficulties. The actual offsets will begin by November 1986.

A match, which did not include the Department of Defense (DOD) or the Postal Service, was accomplished earlier with the Office of Personnel Management. We are about to conduct simultaneous computer matches with DOD and the Postal Service to identify their indebted employees. In the interim, we are developing program specifications for implementing the federal salary offset.

GAO also recommended that the Administrator of VA

-- raise the 4 percent interest rate currently charged on defaulted home loan guaranty cases,

We concur and will raise the interest level to the governmentwide prescribed rate. This will be accomplished in conjunction with the charging of interest and administrative costs on compensation and pension debts since the accounts are maintained in the same computer system.

-- and expeditiously disclose Internal Revenue Service-provided addresses to third parties.

We must defer our concurrence or nonconcurrence on this recommendation. The VA policy is based on our legal interpretation of the Internal Revenue Code, and we do not believe there should be a change in VA policy without an opinion from the Internal Revenue Service. We are preparing a request for a ruling on this matter.

See comment 7.

See comment 8.

See comment 9.

ENCLOSURE I

3.

Chapter 4 Recommendations:

Based on the results of their review, GAO recommended that the Secretaries of Education and HUD and the Administrators of the Farmers Home Administration (FmHA) and VA strengthen their debt accounting and control systems in order to produce accurate and reliable information on the amount of debt owed to the Government. This should be done by ensuring that systems that account for and control debt conform to the Comptroller General requirements and those of OMB Circular A-129.

Additionally, GAO recommended that the Secretary of Education and the Administrators of FmHA and VA closely monitor efforts to develop and implement new debt accounting systems. This would help ensure that known problems are corrected and development efforts are completed without significant slippage of established milestones.

The VA agrees that Agency accounting and control systems should conform to the Comptroller General requirements and those of OMB Circular A-129. In fact, the VA has made every effort to conform to the Comptroller General requirements and to implement the A-129 provisions dealing with debt control systems. Corrective actions were promptly taken on the specific problems cited in the four GAO reports mentioned in Appendix X of this draft report. We will continue to impress upon all field stations that all valid debts must be recorded, billed, and collected.

Insofar as the difference between the data reported on the Hines Data Processing Center (DPC) trial balance and that reported on the Austin DPC consolidated trial balance (See Appendix X), we do not expect the two trial balances to match as the Hines DPC does not maintain all the accounts receivable. Regional offices are responsible for recording and taking collection action on some minor miscellaneous receivables which are not entered into the Hines DPC systems. However, we agree that this difference should not have approached the \$13 million figure cited by GAO. We have reviewed the individual regional office trial balances as of February 28, 1986, and determined that the difference between the Hines and Austin trial balances was \$2,562,866.61. Of this total, we found that three stations had improperly recorded school liability receivables with a net total of \$889,971.49. These three regional offices were instructed to correct their accounting records. The remaining accounts receivable, which are on individual station accounting records but are not in the automated records at the Hines DPC, are proper station accounts receivable.

See comment 10.

See comment 11.

The following are GAO's comments on the Veterans Administration's letter dated April 24, 1986.

---

## GAO Comments

1. Comment information, where appropriate, is included in chapter 2 and in appendixes X and XI. However, many of VA's stated improvements are planned activities. See agency comments section of appendix X.
2. Enclosure II is not included in this report; however, information presented in it was considered in finalizing our report. Copies are available from GAO upon request.
3. Report changed to reflect planned date.
4. Report changed to reflect planned date for publication of regulations.
5. Report changed to show that VA recently began referring delinquent accounts to credit bureaus.
6. No change to report needed. Discussed in agency comments section of appendix X.
7. Report changed to reflect planned date for making offsets.
8. No change to report necessary.
9. Discussed in agency comments section of appendix X.
10. Discussed in agency comments section of appendix X.
11. Report amended. Discussed in agency comments section of appendix X.



---

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

---

United States  
General Accounting Office  
Washington, D.C. 20548

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100

Official Business  
Penalty for Private Use \$300

Address Correction Requested

---