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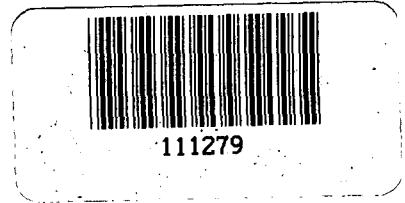
Report To The Congress

OF THE UNITED STATES

Unresolved Issues Impede Federal Debt Collection Efforts --A Status Report

Federal Government debt collection is not keeping pace with the increasing number of debts. U.S. citizens and organizations owed over \$95 billion at the start of fiscal year 1979. Estimates from some Federal agencies show that at least \$3.5 billion will be written off as uncollectible. Losses, however, will probably be greater because not all agencies have reported such data.

GAO has made a number of reviews of debt collection and found that Federal efforts often were not aggressive and that collection methods were expensive, slow, and ineffective. GAO initiated revisions to the Federal Claims Collection Standards to strengthen collection efforts. However, intragovernmental disagreements over several issues are impeding efforts to implement these standards and legislation may be needed to finally resolve them.



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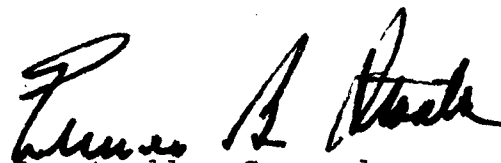
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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses our recent reports relating to debt collection in the Federal Government, our ongoing efforts, and our views on the issues that are impeding collection efforts.

We are not making recommendations in this report. Rather, we are highlighting and summarizing the unresolved issues to provide both the legislative and executive branches with a document that can be used in further efforts to improve debt collection.

Copies of this report are being sent to interested congressional committees; the Director, Office of Management and Budget; the Attorney General; and the Secretary of the Treasury as well as the heads of all other Federal departments and agencies.


Comptroller General
of the United States

D I G E S T

Debt The amount of money owed the Federal Government is enormous and growing. Both the legislative and executive branches are taking steps to strengthen debt collection programs, but a number of unresolved legal and institutional issues have slowed these efforts.

U.S. citizens and organizations owed the Federal Government over \$95 billion at the start of fiscal year 1979 according to Treasury Department reports. Debts are incurred from a host of activities, including Federal housing and student loan programs; overpayments to veterans and annuitants; tax assessments; and sales of Government services and goods. Much of the \$95 billion has been or will be paid routinely.

A large and growing part, however, requires effective collection action to minimize amounts that must be written off as uncollectible. Estimates from some Federal agencies show at least \$3.5 billion of the \$95 billion owed will be written off as uncollectible. Losses will probably be even greater because some agencies have not reported estimated uncollectibles.

FC. There are two basic reasons why debt collection has not kept pace with the number of debts receivable.

- Many agencies have not been aggressive in pursuing collection, and some appear not to devote enough resources.
- Present collection methods are expensive, slow, and ineffective when compared with commercial practices.

Furthermore, there are questions regarding the priority that should be placed on debt collection over conflicting demands for

resources, concerns for personal privacy, and humanitarian and other considerations.

The Federal Claims Collection Act of 1966, implemented by the Federal Claims Collection Standards issued jointly by the Attorney General and the Comptroller General, provides guidance to agencies on debt collection. Because of GAO's initiatives, these standards were amended as of April 1979 to strengthen collection efforts. Agencies are instructed to identify and deal with the causes of overpayments, delinquencies, and defaults. Two important changes--reporting debtors to private credit bureaus and charging interest on delinquent debts--have been at best only partially implemented, however, for legal and institutional reasons.

Reporting debtors to private credit bureaus would help deter payment delinquency; but such reporting has been slow because

--there is no national interlocking network of bureaus;

--a Government market for credit bureau reports has not been fully established; and

--the Office of Legal Counsel, Department of Justice, has taken the position that such reporting would bring credit bureaus under provisions of the Privacy Act, a condition they do not want.

The Privacy Act issue may remain unresolved until clarified by the Congress. If legislation is needed, GAO would prefer a general authorization for agencies to report debtors to credit bureaus while exempting the bureaus from Privacy Act provisions. (See p. 1.)

Progress toward charging interest on delinquent debts has been slow. In a November 1979 letter to all executive and legislative agencies, GAO emphasized the need for them to take action on this matter and

requested a status report by mid-December. As of January 1, 1980, most agencies either had not replied or had indicated there would be substantial delays before implementation. GAO and the Department of the Treasury need to take followup action. (See p. 4.)

Collecting debts by offset, another tool for improving debt collection, has also been constrained by legal and institutional issues. In a March 1979 report GAO recommended testing the feasibility of collecting delinquent nontax receivables by reducing income tax refunds due to debtors. Giving agencies additional authority to collect delinquent debts by offset from the salaries of debtors who are Federal employees would also improve debt collection. GAO is considering proposing that the Congress authorize such an offset from current salary. (See p. 6.)

➤ Another way to improve debt collection is to speed up litigation by allowing agencies to refer debts directly to U.S. attorneys for collection rather than through GAO. In recent years, several agencies have done this. Referrals to GAO have consequently declined sharply, and referrals to the Department of Justice have increased. GAO plans to work with additional agencies on this program. (See p. 9.)

X GAO and the Department of Justice are also considering the potential for increased use of agencies to litigate their own debts, thereby reducing the growing backlog of cases referred to U.S. attorneys. The Department of Justice has objected to proposed legislation authorizing agency litigation, stating that this would divest the Attorney General and his staff of their statutory responsibilities to supervise and control Government litigation. Since the Department may permit agency attorneys to litigate debt cases under its auspices, legislation may not be necessary. GAO supports the concept of agency litigation of debts. (See p. 9.)

Obtaining addresses of debtors from IRS without present restrictions on further disclosure would be of great assistance in collecting debts. However, an IRS interpretation of the Tax Reform Act of 1976 prohibits an agency from providing these addresses to credit bureaus to obtain credit reports. This restriction should be removed and GAO plans action toward this end. (See p. 10.)

Government use of private collection agencies also appears to offer potential, especially for collection of small debts. The Congress has authorized the Office of Education to test the use of private agencies. GAO plans to monitor this test and consider the potential for wider use of private collection agencies. (See p. 11.)

In its reviews, GAO has noted that information available on delinquent debts was not adequate to meet the needs of the Congress or agency management. In February 1979, GAO wrote the Secretary of the Treasury suggesting that the Department require each agency to report on the amount of past due debts receivable and the amount it had written off. GAO also wrote to the Director, Office of Management and Budget, suggesting a cooperative effort with the Department. Both agencies have initiated responsive action. (See p. 11.)

The need for the Federal Government to improve its ability to collect debts is now widely recognized by the legislative and executive branches. The Congress is considering several bills and the President's Management Improvement Council has, through its Debt Collection Project, begun a comprehensive study of the Government's management of receivables. The final report is expected in August 1980. GAO has issued a number of reports on Federal debt collection (see app. I) and has several reviews underway. Since this summary report concerns issues previously commented on, GAO did not obtain agency comments.

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
IRS	Internal Revenue Service
OMB	Office of Management and Budget
VA	Veterans Administration

CHAPTER I

CURRENT GOVERNMENT DEBT

COLLECTION ISSUES

The amount of money owed to the Federal Government is enormous and growing rapidly. Both the legislative and executive branches are taking steps to strengthen debt collection programs, but a number of unresolved legal and institutional issues have slowed these efforts. Several relate to revisions, effective April 30, 1979, of the Federal Claims Collection Standards (4 C.F.R. 101-105), which are issued jointly by the Comptroller General and the Attorney General. Two important new provisions--reporting debtors to commercial credit bureaus and charging interest on delinquent debts--are of special concern to us because implementation has been slow. Other new provisions--eliminating causes of overpayments, delinquencies, and defaults; determining collection costs; and using automation--have been less controversial.

U.S. citizens and organizations owed the Federal Government over \$95 billion as of September 30, 1978--the latest date for which data is available. Debts are incurred from a host of Federal activities including various Federal housing and student loan programs; overpayments to veterans and annuitants; tax assessments; and sales of Government services and goods. Much of the \$95 billion has been or will be paid routinely. A large and growing part, however, requires effective collection action to minimize amounts that must be written off as uncollectible.

The uncollectible receivables of some Federal agencies were estimated at \$3.5 billion of the \$95 billion owed. Losses will probably be greater because not all agencies have reported estimated uncollectibles.

We have made a number of reviews of the Federal Government's accounts and loans receivable, focusing on how agencies handle these assets and collect debts. Our recent reports on debt collection matters are listed in appendix I. This report summarizes current efforts related to debt collection and discusses a number of unresolved issues.

REPORTING DEBTORS TO COMMERCIAL CREDIT BUREAUS

The Federal Claims Collection Standards, as revised, require that agencies establish procedures for reporting debtors to credit bureaus. This revision resulted from

our comparison of the debt collection practices of the public and private sectors. ^{1/} Problems related to the absence of a national interlocking network of credit bureaus, the Privacy Act, and the need to establish a Government market for credit bureau-type reports have slowed implementation, however, as discussed below.

To report debtors to credit bureaus on a national basis, Government agencies would have to make arrangements with a number of organizations. There is no clearly defined, interlocking national credit bureau network. The industry is dominated by five major companies--TRW Credit Data Company; Chilton Corporation; the Credit Bureau, Inc. of Georgia; Credit Bureau Data Center, Inc.; and Trans Union Corporation. Each, made up of owned or affiliated local bureaus, dominates in different parts of the country. Together, they cover about 75 percent of the Nation. Complete national coverage would require involvement of the smaller independent bureaus. The major companies (except TRW) and most of the independents are, however, loosely affiliated through membership in a trade association and/or a national marketing organization.

The number of organizations and differing systems both within the U.S. Government and the credit bureau industry presents a problem of interfacing that we believe can best be dealt with by using standardized agreements and reporting formats. We have been working with industry and Government representatives to gain general acceptance of a standard reporting format and to develop model agreements. Progress has been hampered, however, by a Privacy Act issue and by the need to establish a Government market for credit bureau-type reports.

The Office of Legal Counsel, Department of Justice, stated in an October 10, 1979, letter to the Senate Committee on Veterans' Affairs that a credit bureau that enters into an agreement with a Government agency under which it would retain information disclosed by the agency would be maintaining a subsystem of records subject to the Privacy Act of 1974 (5 U.S.C. 552a). Thus, an agreement providing for reporting debt information to the credit bureau would have to contain a clause making the credit bureau subject to the provisions of the act.

A spokesman for the credit bureau industry has stated that the industry will not participate with the Government in this effort of recording debts if doing so makes the

^{1/}"The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices," (FGMSD-78-59, Feb. 23, 1979.)

bureaus subject to the Privacy Act. Aside from the fact that the industry is already heavily regulated, he expressed the view that modifying bureau systems for recording disclosures and debtor counter-arguments in a manner that would meet Privacy Act requirements would not be cost effective.

We do not agree that providing information on the debt and debtor by the Government and the bureaus' recording of such information would place credit bureaus under the Privacy Act. Our attorneys met with Department of Justice officials on November 20, 1979, but no agreement was reached. It appears that the issue may remain unresolved until clarified by the Congress. If legislation is needed we would prefer a general legislative authority allowing all agencies to report debts to credit bureaus without making the bureaus subject to the Privacy Act.

In the interim, we are working with the committees considering legislation that would allow two Federal organizations 1/ to report debtors to credit bureaus, while exempting the bureaus from the Privacy Act. This would permit two substantial debt-reporting programs to start.

The principal incentive for the credit bureau industry to include debts owed to the Government in their files is the prospect of selling their credit reports to the Government, but Federal officials tend to rely more on investigative type reports. In most cases, the Government purchases reports to evaluate debt collection potential through legal action, not to evaluate credit standing. Credit bureau reports are relatively inexpensive (about \$1.60); while they often provide considerable credit and employment information, they frequently lack income and asset information. Information on debtors' family income and assets, preferred indicators of collection potential, has been usually sought through more costly (about \$6.00) income and assets reports furnished under contracts with firms specializing in these types of investigations. While many U.S. attorneys may be willing to accept credit bureau reports as an alternative to investigative reports, their use is likely to make the identification of cases with collection potential more subjective.

A Government market for credit bureau reports could come about by the use of the industry's locator assistance services. Further, expanded use of credit bureau reports by agencies litigating debts under \$600 (see p. 10) could create

1/These organizations are the Veterans Administration (VA) and the Office of Education in the Department of Health, Education, and Welfare (HEW). The Office will be part of the Department of Education.

an additional market. Our support for these actions, along with resolutions we are seeking to other problems, should encourage credit bureaus to record debts owed to the Government.

CHARGING INTEREST ON
DELINQUENT DEBTS

The Federal Claims Collection Standards as revised, effective April 30, 1979, require in section 102.11 that:

"In the absence of a different rule prescribed by statute, contract, or regulation, interest should be charged on delinquent debts and debts being paid in installments in conformity with the Treasury Fiscal Requirements Manual."

In conjunction with this requirement, the Department of the Treasury by transmittal letter 267 dated May 7, 1979, revised chapter 8000 of the Fiscal Requirements Manual to provide in section 8020.20b that:

"Initial notifications of amounts due the Government, not covered by contracts, agreements, or other formal payment arrangements, will inform the debtor of the basis for the indebtedness, the date by which payment is to be made (due date), and the requirement concerning additional charges for payments received after the due date. Charges for late payments will be at the rate of 3/4 of 1% (.0075) of the overdue payment for each 30-day period or portion thereof that the payment is delayed." 1/

Because of our concern that little was being done to implement this requirement, on November 7, 1979, we sent a letter to all executive and legislative agencies emphasizing the need for them to cooperate in its timely implementation. We also asked each agency for a report on the status of its efforts by December 14, 1979. Several agencies have either already implemented this requirement or have plans to do so early in 1980. As of January 1, 1980, however, a majority of the agencies either had not replied, or had indicated that there will be substantial delays before implementation. These agencies include most of those with large receivable balances. This shows that the Department of the Treasury and our Office need to continue followup action.

1/This equates to an annual interest rate of only 9 percent.

We also question whether the interest rate that is being charged on some debts covered by contracts, agreements, or other formal arrangements is reasonable in light of the Treasury's cost of borrowing. For example, the administratively established interest rate on debts that result from VA home loan defaults is only 4 percent.

We plan to do further work on this subject and to consider recommending that interest rates charged be more in line with the Treasury's cost of borrowing.

PREVENTING OVERPAYMENTS

The Federal Claims Collection Standards, as revised, direct agencies to identify and deal with causes of overpayments. We are continually looking for ways to prevent overpayments. Many of our reports dealing with agency programs which generate overpayments contain recommendations addressing their prevention (see app. I). These recommendations have often led to a reduction in the indebtedness problem. For example, in March 1976, we reported that approximately 21 percent of educational assistance overpayments made by the VA had resulted from the prepayment and advance payment provisions of the VA educational assistance law. In August 1976, the Congress abolished the prepayment provisions of the law and toughened the criteria for receiving advance payments. In an ongoing review of debts of separated members of the military services, we have been concentrating on ways to eliminate the causes of these debts.

The Air Force Accounting and Finance Center has devised a relatively simple and inexpensive method to identify and reduce overpayments. The Center's computer system associates debt type with the installation at which it arose and, monthly, the Center sends each installation a listing of the number and type of overpayments which were generated. This listing distinguishes between preventable and system overpayments and thus provides each installation with the opportunity to take corrective action. Although this method has some limitations, the Air Force believes, and we agree, that it can lead to a significant reduction in overpayments.

The Federal agency in which a debt arises has primary responsibility for preventing the overpayment. Although ways to detect causes of overpayments need to be tailored to the different agencies, we believe that agencies with significant overpayment problems should have systematic procedures for analyzing their debt claims and initiating corrective action. We intend to determine whether systematic analyses such as the Air Force's are being made by

other agencies and whether efforts are being made to eliminate the causes of overpayment.

COLLECTING BY OFFSET

One way of collecting many debts currently written off as uncollectible is to reduce future payments to the debtor by the Government. The Federal Claims Collection Standards require agencies to collect debts by offset when feasible. The right of the Government to do so is grounded in common law and has been affirmed many times by the courts. In practice, due to legal and institutional constraints, offset has been used in only certain circumstances such as offset from (1) continuing entitlements to the same benefits originally overpaid 1/; (2) civil service retirement annuities or contributions; (3) final salary, lump-sum leave payments, and severance pay of Federal employees; (4) amounts due indebted contractors of the United States; and (5) judgments against the United States.

Offset of Federal tax refunds

In March 1979 we issued a report to the Congress recommending that, on a test basis, delinquent nontax receivables be collected by reducing future income tax refunds due the debtors. (See app. I.) We concluded that no Federal statute prohibits offset of a tax refund against a nontax debt and emphasized that this offset procedure would be resorted to only after traditional collection efforts have failed. We also said that this collection method would be highly effective. Based on a sample of 613 accounts valued at \$431,309 on which collection action had been previously terminated, we found that up to \$153,583 or 36 percent could conceivably have been collected by reducing tax refunds over a 2-year period.

The Internal Revenue Service (IRS) expressed reservations about the desirability and practicality of such a program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws. We recommended that the Congress provide funding for IRS to further test and adopt this debt collection method. A provision to support such a test by providing \$1 million to fund 30 positions was proposed as a part of IRS' fiscal year 1980 appropriations bill. This provision was not enacted.

1/VA now offsets debts owed the VA from disability compensation and pensions and also withholds approval of VA-guaranteed home loans.

Some Members of the Congress, however, are interested in pursuing legislation on this point, and we are continuing to develop related information. We are, for example, evaluating a program used by the State of Oregon to collect uncontested delinquent debts by reducing State tax refunds.

Offset of Federal salaries

Our Office has held that under present legislation, the current salary of a Federal employee may not be withheld to satisfy general debts owed to the Government. At present, a Federal employee's salary may only be withheld to satisfy erroneous payments made by an agency to its own employees or travel or transportation advances paid to employees since there is specific statutory authority for the collection of these debts against current salary. (See 5 U.S.C., sections 5514, 5705, and 5724(f).) Any other offsets are contingent on obtaining employee consent.

The alternatives to collecting general debts from the current salary of Federal employees include legal action, collection from pay entitlements upon separation from Federal employment, collection from civil service annuities, or disciplinary action (which is rarely exercised) under Executive Order 11222, 30 F.R. 6469. These alternatives have proven to be largely ineffective, costly, and/or time-consuming.

Under the current system, many debts are referred to the Office of Personnel Management for offset from annuities, lump-sum withdrawal of employee retirement contributions, or payments for salary or lump-sum leave. Several recent Federal court cases have dramatized the problems which arise in collecting debts from retired Federal employees. By the time the Government begins to collect the debt by offset, the claim is often stale, the facts are forgotten, court action is barred, and collection may impose a significant financial hardship on the annuitant. In addition, the debt may be greatly increased by interest charges. As a result, the courts seem to be favorably inclined towards lack of due process arguments which have been raised by annuitants faced with offset actions.

We believe that authority to collect general debts by offset from a Federal employee's salary would improve the debt collection operations of the Government.

In February 1978, HEW identified 6,600 Federal employees with defaulted student loans. By June 1979, only 689 employees had repaid their debts in full; 2,960 employees had begun or promised to begin repayment;

and 592 debts had been sent to the Department of Justice for litigation. Those persons with most of the remaining defaulted loans were no longer employed by the Government.

Other agencies would also benefit from offset authority, especially the VA, which has a large number of overpayment accounts. (Many Federal employees are veterans because, other things being equal, a veteran is more likely to obtain Federal employment than a nonveteran due to veterans' preference regulations.)

We are considering proposing that the Congress authorize involuntary offset from current salary. Such legislation would permit the Government to collect any general debts while the employee was still earning a salary. If an employee contests the debt, the agency and the employee could attempt to resolve their differences while the relevant documents and witnesses are more readily available. If the dispute could not be resolved, the employee could file a claim with us or sue in Federal court.

If the Congress does enact legislation authorizing collection of debts by offset of current Federal salary, matching programs like HEW's would be needed by other Federal agencies to identify Federal employees who are in debt to them. In March 1979, OMB issued guidelines to help agencies conduct computer matching programs. These guidelines were issued to help them balance the Government's need to collect debts with an employee's right to privacy. Although the justification and documentation requirements impose a burden on an agency proposing a matching program, we understand that some matching efforts are underway. We plan to look into the potential for additional matching programs and to consider whether changes to the guidelines would be advisable.

Statute of limitations and offset

Another development could seriously affect the Government's ability to collect debts from retirement benefits. In September 1978, a memorandum opinion from an Assistant Attorney General to the Chairman of the Civil Service Commission (now Office of Personnel Management) held that the 6-year statute of limitations (28 U.S.C., section 2415) on actions for money filed by the Government prevents the Government from collecting debts more than 6 years old by means of offset.

In May 1979, we issued a decision (B-189154) that was in direct disagreement with the memorandum opinion. If the Department of Justice prevails on this question, the feasibility of collecting debts by offsetting retirement

benefits will be severely limited because entitlement to such benefits often accrues more than 6 years after a debt is incurred.

On November 1, 1979, the Department of Justice wrote our Office endorsing its original position. Consequently, congressional action may be needed to resolve this issue. The Department also stated, and we agree, that collection of debts from current salary would be a more effective method.

REFERRING CLAIMS DIRECTLY TO JUSTICE

During the past 2 years, we have authorized several agencies to refer debts directly to U.S. attorneys for collection rather than through us. ^{1/} We have helped these agencies develop the capability to select and document appropriate claims for direct referral to U.S. attorneys. These efforts were initiated because we did not believe that extensive direct involvement in the collection of executive agency debts was the most effective way to carry out our role under the Federal Claims Collection Act of 1966.

Direct referral has many advantages. It shortens the collection pipeline because all appropriate collection actions, except legal action, are carried out by the agency in which the debt arose. The ability of the agency to refer debts directly to U.S. attorneys and to notify debtors of this possibility greatly strengthens its ability to deal with recalcitrant debtors and provides continuity of collection actions.

The volume of debts referred to us has consequently declined significantly. Total debt referrals for fiscal year 1980 probably will not exceed 2,000 whereas during fiscal year 1977 we received over 47,000 referrals.

LITIGATING DEBTS BY AGENCIES

Making agencies responsible and accountable for collection of debts, including a major litigation role, could

^{1/}The VA, General Services Administration, all military services, and the Office of Education and Health Care Financing Administration of HEW are now referring most of their litigable debts directly to the U.S. attorneys. We also are working with the Social Security Administration and Public Health Service of HEW and will be working with other agencies on this program.

result in more timely recovery action, intensified prelitigation collection efforts, better management of programs to prevent overpayments and reduce loan defaults, and fewer cases being referred to U.S. attorneys. During fiscal year 1979, for example, VA referred 33,643 cases totaling \$39.1 million to the Department of Justice for collection action. During this same period the Department disposed of only 8,715 VA accounts totaling \$11.5 million through litigation, negotiation of voluntary repayment plans, compromise settlements, waivers, and other means. We have been informed that the Office of Education has referred about 24,000 Guaranteed Student Loan default cases to the Department of Justice for enforced collection. Many of these were referred recently.

Another benefit of agency litigation is that debts under \$600 not now referred to U.S. attorneys could be considered for litigation by the agencies' own attorneys. We have been working in conjunction with VA and the Department of Justice on a test utilizing agency personnel to litigate cases under \$600. The Congress appropriated \$742,000 and authorized 30 staff positions for VA to conduct this pilot project. It is being conducted in 10 VA regions and appears to be off to a good start.

The House Committee on Veterans' Affairs has proposed legislation that would give the VA authority to employ or retain legal counsel to pursue the collection of educational assistance overpayments and defaulted educational loans regardless of the amount of the debt. The Department of Justice objected to this legislation on the basis that it would divest the Attorney General and his subordinates of their statutory responsibilities to supervise and control Government litigation. The Department told the Committee on Veterans' Affairs on November 8, 1979, that despite a great increase in the number of claims for collection, it had made significant progress in collecting the debts. It also stressed the need for the Department to control the conduct of litigation and appeals so that positions of law and policy would be consistent.

We support the concept of agency litigation of debts and and the provision of additional litigative resources for debt collection. Since the Department of Justice may administratively permit agency attorneys to litigate debt cases under its auspices, legislation may not be necessary.

USING IRS LOCATOR ASSISTANCE

The Federal Claims Collection Standards require that debts forwarded to us or the Department of Justice for further collection action be accompanied by reasonably current credit data (which may be in the form of a commercial

credit report). IRS however, contends that an address obtained from its files cannot be provided to a credit bureau in order to obtain a credit report under provisions of the Tax Reform Act of 1976 (Public Law 94-455). Compliance with this interpretation largely reduces the availability of IRS locator assistance to debts that are not to be forwarded to us or to the Department for further collection action.

Use of IRS locator assistance is more effective and less costly (11 cents for each address) than any alternative technique. We believe use of IRS address data to assist in collecting Federal debts should not be restricted and, accordingly, we plan to work with the Department of Justice and OMB on this problem. We will consider proposing legislative action.

USING PRIVATE COLLECTION AGENCIES

Under special legislative authority, the Office of Education has contracted with two private collection agencies, in two regions, to test the effectiveness of using such organizations to help collect its heavy volume of debts. The results of this test cannot yet be fully evaluated. However, there are indications that private collection agencies could be effective, especially for those debts which would otherwise be written off as uncollectible because they are too small to be considered for litigation.

We are monitoring the Office of Education test and plan to consider the potential for wider use of collection agencies to help collect Federal debts. New legislative authority would be required before other Government agencies could use private collection agencies.

REPORTING DEBT DATA TO TREASURY

In a February 1, 1979, letter to the Secretary of the Treasury we suggested that Treasury require each agency to report periodically

- the portion of its accounts and loans receivable that are past due and an aging schedule of delinquent accounts, and
- the amount it wrote off or otherwise stopped trying to collect.

In addition, we urged the Secretary to remind agencies that they are required to make and report reasonable estimates of allowances for uncollectible amounts.

These reports should allow Treasury, in cooperation with OMB, to monitor, analyze, and followup to ensure that agencies are doing all they can to collect debts. Once the agencies begin to report this information regularly, Treasury could, for example

- determine which agencies have large past due amounts and writeoffs;
- identify trends, such as steady or rapid buildups of past due amounts and writeoffs, and large increases in claims arising from overpayments;
- evaluate the adequacy of allowances for uncollectibles in relation to total amounts owed and amounts past due; and
- determine whether a comprehensive review of an agency's collection activities appears necessary either by internal auditors or by an external organization, such as Treasury or OMB.

We also wrote the Director, OMB, suggesting a close cooperative effort with Treasury to assure that the Government has an aggressive and effective debt collection program.

The Department of the Treasury has taken steps to implement our suggestions for reporting. Agencies are to provide this information for the first time when reporting on fiscal year 1979 activities. The OMB Director has stated that, in collaboration with the Department, OMB will be reviewing the reports and following up with the agencies on remedial measures.

CONCLUSIONS

The need for the Federal Government to improve its ability to collect debts is now widely recognized by the legislative and executive branches. The Congress has several bills under consideration. The President's Management Improvement Council has, through its Debt Collection Project, begun a comprehensive study of the Government's management of its receivables. It expects to issue a final report in August 1980. Also, we have several reviews underway that deal with the aspects of debt collection discussed in this chapter.

Debt collection in the Federal Government has not kept pace with the number of debts receivable because:

- Many agencies have not been aggressive in pursuing collection, and some appear not to devote enough resources.

- Present collection methods are expensive, slow, and ineffective when compared with commercial practices.

Furthermore, there are questions about the priority that should be placed on debt collection over conflicting demands for agency resources, concerns for personal privacy, and humanitarian and other considerations. A number of problems are impeding improvement efforts.

This report, by summarizing unresolved issues, is intended to help both the legislative and executive branches define and bring about changes needed to improve debt collection.

RECENT GAO REPORTS ON DEBT COLLECTION

<p>FGMSD-79-32 Aug. 22, 1979</p>	<p>Department of Health, Education, and Welfare--Health Services Administration</p> <p>Review of accounting systems for accounts receivable, including billing and collec- tion practices, and improvements needed in the accounting, billing, and collection system.</p>
<p>FGMSD-79-41 Aug. 16, 1979</p>	<p>Department of Housing and Urban Development</p> <p>Weaknesses in servicing and accounting for home mortgages held by HUD.</p>
<p>FGMSD-79-24 Apr. 13, 1979</p>	<p>Department of the Interior--Geological Survey</p> <p>Oil and gas royalty collections--serious financial management problems need con- gressional attention.</p>
<p>FGMSD-79-14 Mar. 14, 1979</p>	<p>Department of Housing and Urban Development</p> <p>Action being taken to correct weaknesses in the Rehabilitation Loan Program.</p>
<p>FGMSD-79-19 Mar. 9, 1979</p>	<p>Internal Revenue Service</p> <p>The Government can collect many delin- quent debts by keeping Federal tax re- funds as offsets.</p>
<p>FGMSD-78-59 Feb. 23, 1979</p>	<p>Government-wide</p> <p>The Government can be more productive in collecting its debts by following com- mercial practices.</p>

HRD-79-31
Jan. 17, 1979

Department of Health, Education, and
Welfare--Social Security Administration

The Social Security Administration should improve its recovery of overpayments made to retirement, survivors, and disability insurance beneficiaries.

HRD-79-21
Jan. 16, 1979

Department of Health, Education, and
Welfare--Social Security Administration

The Social Security Administration should improve its collection of overpayments to Supplemental Security Income recipients.

FGMSD-78-61
Oct. 20, 1978

Government-wide

The Government needs to do a better job of collecting amounts owed by the public.

FGMSD-78-50
Aug. 21, 1978

Department of the Treasury--U.S. Customs
Service

Import duties and taxes: improved collection, accounting, and cash management needed.

HRD-78-112
May 11, 1978

Veterans Administration

Improvements needed in VA's educational loan program.

HRD-78-94
May 2, 1978

Department of Health, Education, and
Welfare--Office of Education

Status of Office of Education's National Direct Student Loan funds at selected post secondary education institutions.

HRD-78-45
Feb. 17, 1978

Veterans Administration

Further action needed to resolve Veterans Administration's educational assistance overpayment problem.

FGMSD-77-66
Feb. 3, 1978

Department of the Interior

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

CED-78-14
Dec. 12, 1977

Department of Housing and Urban Development and Department of Defense

The unnecessary practice of requiring DOD to pay mortgage insurance premiums on Wherry and Capehart family housing properties owned by DOD and insured by HUD.

FGMSD-77-89

National Aeronautics and Space Administration

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

CED-77-134
Oct. 7, 1977

Department of Agriculture - Farmers Home Administration

Letter report to the Secretary of Agriculture concerning improving FmHA's practice of charging either a standard fee or nothing for credit reports for evaluating the credit history of loan applicants

FGMSD-77-46
Sept. 16, 1977

Department of Defense

Weaknesses in billing and collection for foreign military sales

FGMSD-77-41
Sept. 15, 1977

Civil Service Commission

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

FGMSD-77-33
Sept. 8, 1977

Department of Housing and Urban Development

Millions of dollars in delinquent mortgage insurance premiums should be collected by HUD.

FGMSD-77-32
Sept. 6, 1977

Social Security Administration

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing and collection system.

HRD-77-131
Aug. 23, 1977

Social Security Administration

Supplemental security income overpayments to Medicaid nursing home residents can be reduced.

FGMSD-77-30
Aug. 17, 1977

Department of Labor

Review of accounting systems for accounts receivable, including billing and collection practices, and improvements needed in the accounting, billing, and collection system.

CD-77-1
Aug. 11, 1977

Department of Health, Education, and Welfare--Office of Education

Collection efforts not keeping pace with growing number of defaulted student loans.

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