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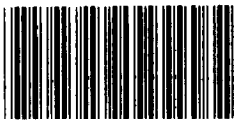
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548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STATEMENT OF
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ASSOCIATE DIRECTOR, HUMAN RESOURCES DIVISION

BEFORE THE
SUBCOMMITTEE ON SPECIAL INVESTIGATIONS 3907
HOUSE COMMITTEE ON VETERANS' AFFAIRS

ON

THE COLLECTION OF DEBTS OWED THE VETERANS ADMINISTRATION 7/6

Mr. Chairman and Members of the Subcommittee, we are pleased to be here today to discuss the collection of debts owed the Veterans Administration (VA). Our testimony will also touch on overall Federal debt collection efforts since many of the factors which impede debt collection efforts within VA have Government-wide applicability.

The amount of money owed the Federal Government is enormous and growing. These 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 total debt will be paid off on a routine basis; however, a large and growing part requires more effective collection action to minimize the amounts that must be written off as uncollectible.

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There are two basic reasons why debt collection has not kept pace with the amount of debts receivable:

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

--Present collection methods used by VA and other Federal agencies are expensive, slow, and ineffective when compared with commercial practices in the private sector.

Furthermore, various Federal agencies, including VA, have raised 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.

In recent years, we have made a number of reviews of the Federal Government's accounts and loans receivable, including how agencies collect these debts. At the present time, we are conducting a multi-faceted review of VA's debt collection efforts at the request of Senator William Proxmire, Chairman, Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations.

In addition, both the legislative and executive branches are taking steps to strengthen debt collection programs. However, a number of unresolved legal and institutional issues continue to hamper these efforts in VA and in other Federal agencies.

REPORTING DEBTORS TO COMMERCIAL CREDIT BUREAUS

Effective April 30, 1979, the Federal Claims Collection Standards (4 C.F.R. 101-105), issued jointly by the Comptroller

General and the Attorney General, were revised to require that Federal 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/ During that review, private-sector credit industry officials told us that the single most powerful motivation for individuals to pay their debt was the stigma of having their credit ratings reflect that they have not paid debts on time. The vast majority of Americans rely on credit to buy the things they need. Industry and credit bureau people we questioned said that when faced with the loss of credit, the majority agree to pay their bills.

Thus far, implementation of this requirement has been slow for several reasons. Some of the problems are largely administrative or procedural in nature and we have been working with industry and Federal Government representatives to resolve these matters. However, the main obstacles to progress are legal issues involving a Department of Justice opinion on the applicability of the Privacy Act of 1974 (5 U.S.C. 552a) to records maintained by credit bureaus, and VA's interpretation of 38 U.S.C. 3301.

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

Justice's interpretation
of the Privacy Act

The Office of Legal Counsel, Department of Justice, 2952 in an October 10, 1979, letter to the Senate Committee on Veterans' Affairs stated that if a credit bureau enters into an agreement with a Government agency, under which it would retain information disclosed by the agency, it would be maintaining a subsystem of records subject to the Privacy Act of 1974. Thus, any agreement providing for reporting debt information to a 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 to do so makes the 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 VA infor- information in a manner that would meet Privacy Act requirements would not be cost effective.

We do not agree that the Governments' providing information on debts and debtors and the bureaus' recording such information would subject credit bureaus to the provisions of the Privacy Act. Our attorneys met with Department

of Justice officials on November 20, 1979, but this issue was not resolved. It appears this 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.
We are now working with the committees considering legislation that would allow VA and HEW's Office of Education to report debt information to credit bureaus, while exempting the bureaus from the Privacy Act.

VA's interpretation and proposed amendments of 38 U.S.C. 3301

Section 3301 states that all files, records, reports, papers, and documents pertaining to claims under any of the laws administered by VA including names and addresses of present and former members of the armed forces and their dependents, in the possession of VA shall be confidential and privileged, and no disclosure of such data shall be made except as provided in this section.

In July 1979, VA testified before the House Committee on Veterans' Affairs, Subcommittee on Education, Training, and Employment that section 3301 prohibited VA from disclosing information on veterans to consumer reporting agencies. 3908

Subsequently, bills 1/ were introduced in both the House and Senate to amend section 3301 to specifically authorize VA to disclose names and addresses and other information maintained by VA to credit bureaus for certain debt collection purposes.

VA has maintained that, pursuant to subsection (f), the discretionary authority to release VA claimants' names and addresses to third parties applies "only to nonprofit organizations in certain circumstances or to law enforcement authorities charged with the protection of the public health or safety."

It should be noted that for years VA claimants' names, addresses, and debt information has routinely found its way into credit bureau records in certain types of situations.

One situation in which VA claimants' names and addresses have been both directly and indirectly disclosed to credit bureaus is in VA's guaranteed home loan program. Veterans are eligible for this benefit only if they meet certain income and credit standards. Section 1810(b) of title 38 states that no loan will be guaranteed under this

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1/H.R. 4764, H.R. 5288, S. 1518, 96th Cong., 1st Sess. (1979).

section unless the terms of payment bear a proper relation to the veteran's present and anticipated income and expenses, and the veteran is a satisfactory credit risk. Establishing satisfactory income and credit necessarily entails the release of the veteran's name, address, and other data.

Moreover, during the past 35 years, the Congress has been made aware of the VA Loan Guaranty Service's release of names and addresses to check income and credit, either directly or indirectly through potential lenders. Section 3301 notwithstanding, the Congress has not objected to or questioned VA's disclosure of claimant names and addresses to assure compliance with requirements of the loan guaranty program.

Although we support the need to amend 38 U.S.C. 3301, we are concerned about the language of the proposed amendment. Our detail comments and observations on various versions of the proposed amendment have previously been communicated to the House and Senate Veterans' Affairs Committees. We are particularly concerned that the amendment not impose any unique requirements or constraints on credit bureaus which would require them to alter their operating procedures or computer programs,

or otherwise be peculiar to VA. Also, we question the desirability of imposing upon VA, by statute, the detailed debt collection procedures contained in present versions of the proposed amendment. We believe such matters should be handled as an expression of congressional intent in the committee reports accompanying the legislation and in VA's implementing regulations.

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."

The Treasury Fiscal Requirements Manual presently provides for charging interest at a rate equivalent to 9 percent per year on amounts owed the Government which are not covered by contracts, agreements, or other formal payment arrangements.

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 implementing the requirement in a timely manner. 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.

Several agencies, including VA, raised questions about the legality of charging interest on certain types of debts owed the Government. In a January 29, 1980, letter to the Comptroller General, VA reported that interest is presently being charged on all debts based on a contractual obligation between VA and the veteran. However, VA does not charge interest on debts which result from the overpayment of entitlement-type benefits. VA questioned whether interest could legally be assessed on such debts in the absence of specific statutory authority or judicial mandate, and requested a Comptroller General decision on this matter. This question is presently under review by our Office of General Counsel.

See attached decision

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However, we do question whether the interest rates which are presently being charged by VA and other Federal

agencies on debts covered by contracts, agreements, or other formal arrangements are reasonable in light of the Treasury's cost of borrowing. For example, the administratively established interest rate on debts that result from defaulted home loans guaranteed by VA is only 4 percent.

In determining the interest rate which should be charged on debts owed the Government, consideration should be given to full recovery of the Treasury's current cost of borrowing to replace these funds (currently about 15 percent on 1-year Treasury bills). Also, there are other costs associated with the cost of borrowing which should be considered. For example, Treasury incurs administrative costs associated with borrowing and the agencies' incur administrative costs in attempting to collect these debts. A final factor which should be considered is that if interest rates being charged by the Government are substantially lower than interest rates being charged by private-sector creditors, debtors might tend to view it to their advantage to pay off high-cost private-sector debts and ignore low- or no-cost Government debts.

We estimate that VA's failure to charge interest on its present balance of $600 million of educational assistance overpayments will cost the American taxpayers

about $90 million this year in unrecovered interest (based upon the current market rate of about 15 percent on 1-year U.S. Treasury Bills). This does not include any administrative costs associated with VA's debt collection efforts.

A question has been raised as to whether VA should use the current interest rates being charged pursuant to section 6621 of the Internal Revenue Code of 1954 or section 427(b) of the Higher Education Act of 1965 which are 12 1/ and 7 percent per year, respectively. In view of the Treasury's current cost of borrowing, we do not believe a legislative proposal requiring VA to charge interest on overpayments should be tied to these rates.

DEBT LITIGATION BY AGENCIES

Making agencies totally responsible and accountable for collection of debts, including litigation, could result in more timely recovery action, intensified pre-litigation collection efforts, and better management of programs to prevent overpayments and reduce loan defaults.

In addition it would relieve the Department of Justice of a rapidly increasing backlog of debt litigation cases. During fiscal year 1979, for example,

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1/ The interest rate charged by I.R.S. was increased from 6 to 12 percent effective February 1, 1980.

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. Also, 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 in 10 VA regional offics.

The test was authorized because of the ineffectiveness of VA's administrative collection actions on over $186 million in terminated educational assistance overpayments (accounts on which collection action has been terminated). The majority of these accounts are under $600, thus VA was generally precluded from referring the accounts to Justice for litigation.

To date, as far as collections are concerned, the litigation test has gotten off to a slow start. Also, only 5 of the 10 test stations are currently participating in the test. Since collection actions began on a sample of terminated accounts in October 1979, $23,459 had been collected as of February 29, 1980, or an average of $1,173 per month for each of the 5 test stations pursuing collection. The total cash collection represents about 8 percent of the value of potentially recoverable accounts.

One possible reason for this slow start is the difficulty encountered by VA in formulating an effective working relationship with Justice concerning litigation in Federal District Courts. Justice agreed to delegate to VA the authority to use Federal District Courts in March 1979, but a final working relationship was not consummated until November 1979. Under the delegation, VA district counsels had to, or still have to, set up working relationships with local U.S. Attorneys. For example, during a February visit to the Los Angeles VA district counsel's office, we learned that agreements with the local U.S. Attorney on filing VA suits in Federal District Court had still not been reached.

In addition to working relationships with Justice, intra-VA relationships had to be established. The VA

assistant district counsel in San Francisco told us that formulating working agreements with the regional office finance and adjudication divisions was a time-consuming process.

Another reason the test has proceeded slowly is that VA has not been able to provide additional overpayment cases to its district counsel offices. At the start of VA's test, we provided VA information on about 800 terminated education overpayment accounts totalling about $328,000 that we used during our debt collection review for Senator Proxmire. These accounts were allocated for collection to 5 of the 10 litigation test stations. To be able to provide district counsel offices more accounts, the VA subsequently concentrated its efforts on establishing an account referral system from its Centralized Accounts Receivable System (CARS). This system is expected to become operational in May 1980 and current rather than terminated accounts will be referred to district counsels. Because extensive time was spent developing this referral system, the remaining 5 test stations will not begin collection until about June when about two-thirds of fiscal year 1980 will have passed. Also, the referral system will not be used for over $186 million in terminated accounts which

were cited in the Senate Appropriations report 1/ as justification for the litigation test.

Despite the slow start, we continue to support the litigation test and believe the test will be successful from a cost-effectiveness standpoint. We believe VA should have the same collection tools, including litigation, as private sector creditors. We further believe litigation or the threat of litigation is necessary to compel some veterans to repay educational assistance overpayments under $600.

COLLECTING BY OFFSET

One way of collecting delinquent debts or accounts written off as uncollectible is for the Government to reduce or withhold future payments or benefits from the debtor. 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

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1/ S. Rep. No. 258, 96th Cong., 1st Sess. (1979).

benefits originally overpaid; (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. We believe consideration should also be given to other types of offsets.

Offset against continuing or future payments to debtors

In recent years, VA has substantially improved its effectiveness in collecting educational assistance overpayments by offset against future education, compensation, and pension benefits. Our review of a random sample of 1,200 terminated overpayment accounts disclosed that VA had taken advantage of potential offsets against these benefits in over 99 percent of the cases.

In fact, about 90 percent of the collections reported by CARS are made through offset, compared to 10 percent cash collections, according to a September 1979 CARS report.

However, we have reason to believe that amounts reported by VA as educational assistance overpayments and subsequent collections through offset are inflated to some degree because of the way certain transactions are processed. We are currently examining collections through offset to determine to what extent they may represent "paper transactions" rather than valid overpayments and collections, and the implications of these offsets on the collection system efficiency.

Checking VA guaranteed home loan applicants for indebtedness

During the past year VA has made significant cash collections of delinquent and terminated overpayment accounts by checking for indebtedness when veterans apply for VA guaranteed home loans. Originally, VA officials told us that VA could not withhold this benefit from veterans who had refused to repay their overpayment accounts. However, VA subsequently issued instructions to its regional offices to begin checking applicants for guaranteed home loans for educational assistance overpayments and/or defaulted education loans. Applications or purchase offers are not approved until debts are paid in full or VA receives an acceptable repayment plan. From May 1979 through February 1980, VA collected about $5.4 million in cash from this program.

Despite the program's success, we believe VA could improve the program in two areas. One area involves the authority of commercial lenders to automatically commit VA to guaranteeing a mortgage without prior VA approval. For these applications, VA has directed commercial lenders to ask veterans if they have any education indebtedness. According to VA instructions, when the veteran acknowledges indebtedness, the lender is not to

close the loan unless the veteran presents evidence the debt has been paid or a current repayment plan exists. From January through June 1979, about 17 percent of the loans VA guaranteed were closed on an automatic basis.

We visited three VA regional offices and found that the voluntary disclosure procedure was not an adequate method of detecting veterans' indebtedness. In the three regions, we noted 77 cases where loans were closed but the veterans had not repayed a total indebtedness of $35,190. These 77 cases represented about 6 percent of the loans we examined.

Some examples of veterans who were indebted to VA and obtained a guaranteed mortgage follow.

--In August 1979, a veteran in the Denver region purchased an $88,500 home with the help of a $78,500 loan guaranteed by VA. The veteran signed a statement for the lender denying VA indebtedness, even though he had an education overpayment of $1,090.

--A Los Angeles region veteran with a $145 overpayment purchased a $108,000 home with the help of an $83,000 VA guaranteed loan. He signed the following statement for the lender, "I do not presently have outstanding any education-related indebtedness to the Veterans Administration."

--A final example pertains to a veteran in the Philadelphia region who acknowledged to the lender that he had an overpayment but indicated he had an agreement with VA to repay $20 monthly. Based on this agreement, his loan for $25,900 was closed in May 1979. A check of the veteran's record in late September, however, showed the last payment on the $1,488 overpayment was also made in May. The VA regional office had sent the veteran a letter, to no avail, in June strongly recommending that he pay or arrange to pay the indebtedness.

The second area we believe needs change deals with repayment plans for education indebtedness. Once an indebted veteran agrees to a repayment plan and obtains a VA mortgage guarantee, VA no longer has the leverage of withholding the benefit to make certain the veteran honors the repayment plan.

In two VA offices visited, we found veterans were defaulting on repayment plans. At the Los Angeles regional office, of a sample of 30 repayment agreements, in only 4 cases had veterans paid in full or made payments as agreed. For the remaining 26 account payments were delinquent or had not been made at all. A similar situation existed at the Philadelphia regional office. Of 22 repayment plans established in June 1979, veterans' payments were delin-

quent for 10--or 45 percent--at the time of our inquiry. For example, one veteran with a $1,273 terminated education overpayment signed an agreement in July 1979 to repay $50 a month. By the end of October the account was delinquent 2 months. He had paid only $75, reducing the debt to $1,198 with the last payment having been made in August.

We believe VA should require full payment of any indebtedness prior to guaranteeing applications for home loans. For home loans automatically guaranteed we believe VA should require lenders to verify with VA whether the veteran has any indebtedness to VA before closing the loan.

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. We concluded that no Federal statute prohibits offset of a nontax debt against a tax refund and emphasized that this offset procedure should be resorted to only after traditional collection efforts had failed. We also said that this collection method would be highly effective. Based on a sample of 613 terminated accounts totalling about $431,000, we found that up to $153,583 or 36 percent could conceivably have been collected over a 2-year period by reducing tax refunds.

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. IRS' fiscal year 1980 appropriations bill contained a provision for $1 million to fund 30 positions for such test. However, the provision was not enacted.

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.

COLLECTION FROM FEDERAL EMPLOYEES

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 be withheld only 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. 1/ Any other offsets are contingent on an employee's consent.

1/ See 5 U.S.C., sections 5514, 5705, and 5724(f).

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 11122, 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 final payments for salary or lump-sum leave when an employee leaves Federal service. 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 through 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 referred 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.

VA efforts to identify debtors employed by the Federal Government

Under VA's current collection system, identification of Federal employees is generally confined to those having indebtedness of $600 or more because the only systematic identification method used is investigative credit reports. These credit reports are requested by VA to obtain information on debtors' assets and income for possible referral of accounts to Justice. VA may also identify a debtor as a Federal employee if the debtor sends in a financial status report showing Federal employment. Since the majority of education overpayments are under $600, the majority of Federal employees indebted to the Government are not identified.

Also, veterans might not be identified because they might not be a Federal employee when CARS receives their investigative credit reports, but later may secure Federal

employment. An investigative credit report may also simply fail to identify a debtor as a Federal employee.

Some examples noted in our review in which VA did not identify the debtor as a Federal employee follow:

--A Federal employee who is a veteran had a $774 overpayment on which collection action had been terminated in September 1977 because VA could not locate him. We obtained a credit bureau report for this veteran which showed in September 1978 he was employed at a VA hospital and we verified his employment in May 1979.

--VA terminated collection action in June 1978 on a $999 overpayment. The VA investigative credit report and a VA field exam did not yield information on employment or assets. However, we obtained a credit bureau report on the veteran that indicated he worked at a Navy shipyard in California and had favorable credit entries dating back to 1973.

We believe VA needs to adopt a systematic process for identifying Federal employees indebted to the Government. The VA has developed but not yet implemented a computerized match of VA's employee salary file and CARS master file. Also, about 1 year ago, VA contacted the Office of Personnel Management (OPM) regarding a match of its files with OPM's Central Personnel Data file to identify Federal employees. According to VA this effort

has not been pursued further because of the priority VA has given to the litigation test. The matches proposed by VA are a step in the right direction and we would also urge VA to consider matching terminated education overpayment accounts with its salary file or the OPM file.

Limited effectiveness of collection methods for Federal employees

At CARS, we selected a judgmental sample of 62 delinquent overpayment accounts which VA had attempted to collect from Federal employees. Our review of these revealed that in at least 26, or 42 percent, of the cases, assistance from the Federal employer was not effective and the accounts had to be referred to a U.S. Attorney for further collection. Since March 1978, when CARS started referring accounts directly to Justice, through August 1979, we estimate that 557 Federal employee accounts totaling $636,000 had been referred to U.S. Attorneys. Obviously, the current procedure of writing the Federal employer for cooperation in collection did not work in these cases.

Federal agencies normally do not compel an employee to pay although a few court actions have resulted in the dismissal of employees for failing to meet financial obligations. 1/ Outside of rare instances of employee

1/McEachern v. Macy, 341 F.2d 895 (4th Cir. 1965); Jenkins v. Macy, 357 F. 2d 62 (8th Cir. 1966); Dennis v. Blount, 497 F. 2d 1305 (9th Cir. 1974).

dismissal and possible court action, an agency can do little to force an employee to pay a Federal debt. An exception is collection of delinquent taxes from an employee's salary when an IRS tax levy is served on the employing agency. Under 26 U.S.C. 6331, a levy may be made upon the accrued salary or wages of any officer, employee, or elected official of the United States to collect taxes. Therefore, some types of Federal debts may be involuntarily collected from an employee's salary but not others.

The VA and other Federal agencies can refer Federal employee debts to Justice for further collection, but one of the most forceful collection tools--wage garnishment--cannot be used against Federal employees. Recently, however, a U.S. Attorney determined that U.S. Postal Service employees may have their wages garnished where allowed by State law. The Department of Justice can attach a civilian Federal employee's assets, such as a savings account, with a default judgment and may also appeal to the Federal employer for cooperation in collecting a debt.

We believe that authority to collect general Federal debts by offset from a Federal employee's salary would improve the debt collection operations of the VA and other Government agencies. As a result, we are considering proposing that the Congress enact legislation which would provide for involuntary offset from current salary of

any general debts owed the Government so long as the person is employed by the Federal Government. If an employee contests the debt, the agency and the employee could attempt to resolve their difference. If the dispute could not be resolved, the employee could file a claim with GAO or sue in Federal court.

USING IRS LOCATOR ASSISTANCE

One of the major debt collection problems faced by VA and other Federal agencies is the inability to locate significant numbers of debtors. One of the more effective and least costly ways of locating delinquent and defaulted debtors is through the IRS' locator service. The Tax Reform Act of 1976, as amended (26 U.S.C. 6103 (m)(2)) states that:

> "* * *the Secretary may disclose the mailing address of a taxpayer to officers and employees of an agency personally and directly engaged in, and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such proceeding) pertaining to the collection or compromise of a Federal Claim against such taxpayer in accordance with the provisions of section 3 of the Federal Claims Collection Act of 1966."

IRS has been providing addresses to various Federal agencies, including VA, pursuant to this provision. However, in 1977 IRS stopped providing taxpayer addresses to VA for debt collection purposes because VA was turning this data over to a credit investigation contractor. The contractor, acting as an agent for VA, used the addresses to gather debtor income and asset information VA needed in order to refer its delinquent/defaulted overpayment

accounts to the Department of Justice for litigation under the Federal Claims Collection Act of 1966.

We believe the debt collection purpose for which the taxpayer address data was being used by VA and its credit investigation contractor is clearly consistent with the intent of 26 U.S.C. 6103 (m)(2). The point at issue is whether this provision prohibits VA from using a third-party contractor to act as its agent in carrying out a portion of this debt collection purpose.

IRS interprets the provision as prohibiting VA from redisclosing taxpayer address data to its credit investigation contractor even though the contractor (1) uses the data solely for VA debt collection purposes, (2) is subject to the Privacy Act, and (3) is required to destroy all information accumulated by virtue of the contract after reporting its findings to VA.

However, we believe the IRS interpretation of 26 U.S.C. 6103(m)(2) may be too restrictive because (1) it tends to defeat the debt collection purpose cited therein, (2) the provision does not contain any specific references to whether a Federal agency could use a third-party agent, such as a credit investigation contractor, to aid the agency in carrying out its debt collection responsibilities, (3) the word "solely", as used in the provision, appears to pertain more to the purpose for which the address data would be used rather than to the persons using the data, and (4) the credit investigation con-

tractor would have no way of knowing that the address data provided by VA came from the debtor's Federal income tax return.

We believe use of IRS address data to assist in collecting Federal debts should not be restricted and, accordingly, GAO plans to work with the Department of Justice and OMB on this problem. Also, because the provision is subject to different interpretations, we will consider the need for a legislative proposal to resolve the matter.

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This concludes our statement. We will be happy to respond to any questions you or other Members of the Subcommittee may have.