

GAO

Report to the Honorable Thad Cochran  
U.S. Senate

May 1987

# DEBT COLLECTION

## First Year Collection Efforts Under the GSA Contracts



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

Accounting and Financial  
Management Division

B-220243

May 15, 1987

The Honorable Thad Cochran  
United States Senate

Dear Senator Cochran:

In a February 6, 1986, letter, you asked that we monitor the performance of four private sector collection firms under contract to the General Services Administration (GSA) for the period October 1, 1985 through September 30, 1987, and report periodically to you on the results of our evaluation. You also asked that we compare the GSA contractors' recovery rates with those of other contractors with previous government experience. In addition, you expressed concerns that (1) the fee structure of the GSA contractors may be so low that it would not produce maximum recovery of federal debts and (2) some of the contractors may not have sufficient resources to handle the large volume of government claims. Further, in a briefing on July 31, 1986, your staff asked that we provide you information on the contract award process.

This report summarizes our evaluation of the first-year efforts of the private collection firms and federal agencies under the GSA contracts. In general, we found that federal agencies were initially slow in referring their delinquent accounts to the GSA contractors. Specifically, GSA, using estimates provided by the Office of Management and Budget (OMB), indicated in its bid solicitation that, over the 2-year period of the contracts, as much as \$4.6 billion in delinquent accounts might be referable by federal agencies to the private collection firms. After 1 year under the contracts, \$1.1 billion had been referred and over 94 percent of this was referred during the last 3 months of that period. While agencies made notable progress near the end of the first year, they will need to maintain this progress if they are to approach the volume of accounts that OMB estimated might be referable.

In addition, our review disclosed the following:

- Delinquent accounts referred included accounts that were inappropriate for referral. Specifically, they included debts owed by deceased debtors, debts discharged through bankruptcy, and debts paid in full.
- Delinquent accounts referred also included accounts that were missing the debtors' telephone numbers. According to the GSA contractors, the telephone number is essential to prompt processing of an account.

- At the end of the first year, the GSA contractors collected \$2.7 million in delinquent debts. The contractors also obtained about \$3.2 million in promises from debtors to pay in the future. Collections, in our view, were not greater because federal agencies were initially slow in referring their delinquent accounts, and because the quality of the accounts referred was poor in some instances.
- The fee paid to the GSA contractors if collection is made was not passed on to some debtors.

In regard to your concern that the fee structure of the GSA contractors may be so low that it would not produce maximum recovery of federal debts, your staff indicated that you wanted to know whether the contractors would actively pursue collection of accounts in light of the amounts they are compensated for their efforts. We found that the contractors generally initiated collection actions in accordance with their GSA contracts. Specifically, our review showed that the GSA contractors are using collection techniques such as demand letters and telephone calls to the debtors.

In regard to your concern that some of the contractors may not have sufficient resources to handle the large volume of government claims, we found that this was not the case. As we indicated earlier, the volume of delinquent accounts that OMB estimates might be referable by federal agencies has not yet materialized. The contractors, therefore, have not experienced any major difficulties in handling the volume of accounts referred. However, according to some of the contractors, they can rely on staff resources in other units within their offices or hire additional resources should any large increases in volume occur.

Lastly, you asked that we compare the GSA contractors' recovery rates with those of other contractors with previous government experience. We believe that the contractors have not had sufficient time to work the accounts referred to them for collection in order to make a comparison of this nature meaningful.

In a briefing on November 19, 1986, we discussed the above issues with your staff. A discussion of the GSA debt collection contracts, contract award, collection process, and the details of our evaluation follow. As we agreed, we will continue to monitor activities under the GSA contracts as part of our overall work in the debt collection area. We also agreed to brief the staff of the Subcommittee on Federal Spending, Budget, and Accounting, Senate Committee on Governmental Affairs, where appropriate.

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## Background

To assist federal agencies in managing and collecting their delinquent debts, the Congress passed the Debt Collection Act of 1982 (Public Law 97-365), Section 13 of the act and the Federal Claims Collection Standards (4 CFR 102.6) allow federal agencies to use private collection firms to recover debts owed the federal government.

In January 1985, OMB, as the administration's focal point in the debt collection area, requested that GSA establish a single governmentwide procurement to obtain the services of private collection firms and make them available to federal agencies on a GSA Federal Supply Schedule. On March 29, 1985, GSA issued a bid solicitation for the collection of administrative and loan debts due on commercial and consumer accounts. The solicitation was for eight line items, that is, eight different types of debt by age. (See appendix I for a description of the various types of debt.) In the solicitation, GSA, using OMB estimates, indicated that as many as 1.5 million delinquent accounts valued at about \$4.6 billion might be referable by federal agencies to the private collection firms. (See appendix I.)

The GSA debt collection contracts are the first governmentwide effort to use private collection firms to recover debts owed the federal government. Federal agencies planning to use a private collection firm to recover delinquent debts of \$100 or more have been instructed to use the GSA contractors, with one exception. Federal agencies that currently have contracts with private collection firms have been instructed to use the GSA contractors once their current contracts expire.

The GSA Federal Supply Schedule For Professional Debt Collection Services, effective October 1, 1985 through September 30, 1987, contains guidelines for federal agencies using the GSA debt collection contractors. OMB and the Department of the Treasury also have issued guidelines to the agencies for using the contractors.

The roles and responsibilities of OMB and Treasury in the administration's debt collection initiative, including the GSA contracts, are set forth in a Memo of Understanding, dated October 17, 1986, between OMB and Treasury. Specifically, OMB is responsible for establishing program policy and direction, providing overall guidance, and setting broad priorities. The Financial Management Service within Treasury is responsible for operational policy decisions necessary to assure successful program results. This includes working with federal agencies to implement needed improvements and tracking agency progress against goals.

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As the government's contracting officer on the debt collection contracts, GSA is responsible for monitoring the contractors' performance and ensuring that the contracts' terms are properly carried out. GSA officials, however, indicated that they must rely on the ordering agencies' contracting personnel to administer individual orders and to notify GSA of problems as they arise.

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## Objectives, Scope, and Methodology

Our primary objectives were to monitor and evaluate the contract performance of four private collection firms awarded 2-year contracts by GSA in October 1985. Specifically, we focused on the contract award process and the first-year efforts of the private collection firms and federal agencies under the GSA contracts.

We discussed the efforts of the GSA contractors and federal agencies with debt management officials at OMB and the Department of the Treasury and GSA contracting officials. We reviewed pertinent GSA documents on the contracts award process, such as abstracts of the technical and price evaluations.

We visited the four GSA contractors to discuss their debt collection operations. We also judgmentally sampled the delinquent accounts referred to the contractors to review the contractors' efforts in collecting these accounts. Our judgmental sample consisted of 60 delinquent accounts (15 delinquent accounts per contractor) taken primarily from the 272,526 accounts referred to the contractors as of September 30, 1986. For the accounts in our sample, we obtained information on the contractors' efforts to use collection techniques prescribed in their contracts, such as demand letters and telephone calls to the debtors. And, where available, we reviewed documentation about contractors' reasons for terminating collection efforts.

To obtain the agencies' perspectives on why they were initially slow in referring their delinquent accounts to the contractors, we spoke with debt collection officials at four federal agencies—the Small Business Administration (SBA), Veterans Administration, Department of Commerce, and Department of Agriculture. These agencies were selected because of the dollar volume of their delinquent accounts. We also spoke with SBA officials and officials at the Farmers Home Administration, National Archives and Records Administration, Department of the Interior, and Federal Crop Insurance Corporation about the quality of the accounts they referred to the contractors. We selected these agencies because, according to the contractors, they referred some accounts that

were inappropriate for referral or that were missing essential information about the debtors.

We obtained statistics from OMB, Treasury, and GSA on agency commitments (that is, pledges and promises that federal agencies made to OMB and Treasury) on the number of delinquent accounts they plan to refer to the GSA contractors. We also used statistics maintained by the contractors on agency placements and contractor collections. Placements refer to the number of accounts actually referred to the contractors. We did not attempt to verify the accuracy of statistics provided to us.

Our review was conducted from May 1986 through November 1986. Our work was performed in accordance with generally accepted government auditing standards.

We obtained official agency comments on a draft of this report from the Office of Management and Budget, the departments of the Treasury and Agriculture, and the General Services and Small Business Administrations. We also obtained official comments on draft excerpts of this report from the four GSA debt collection contractors. The agencies' and contractors' comments have been incorporated into the report where appropriate and are included in appendixes VI through XIII.

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## Contract Award Process

Forty-two private collection firms responded to the GSA bid solicitation and submitted technical and price proposals. A review panel comprised of representatives from GSA, SBA, and the Departments of the Air Force and Treasury evaluated the technical proposals using four factors: (1) experience and capacity, (2) plan of accomplishment, (3) management plan, and (4) personnel qualifications. Each proposal was rated on a scale of zero to one hundred.

Of the 42 proposals received, 27 were rated technically acceptable. These offerers were given a second opportunity to provide their best and final price offer. A GSA review panel rated each price proposal using a scale of zero to one hundred. The scores from the technical and price evaluations were then combined to determine the proposal most advantageous to the government for each of the eight line items in the bid solicitation. The technical proposal was weighted more heavily than the price.

On October 1, 1985, GSA awarded 2-year contracts (October 1, 1985 through September 30, 1987) to four private collection firms: (1) Stanley

Tulchin Associates (STA)/Corliss Credit Services (a joint venture), (2) Corliss Credit Services, (3) Datacom Systems Corporation, and (4) Capital Credit Corporation. Appendix II lists the winner of each line item in the bid solicitation and the related contingent fee rate, that is, the rate the contractor will be reimbursed by the federal agency for collections made.

## Debt Collection Process

The GSA contractors use primarily two tools to collect delinquent amounts referred by federal agencies—demand letters and telephone calls. Specifically, the contractors review delinquent accounts from the federal agencies for completeness and accuracy. The accounts are then entered into the contractors' debt collection systems, where demand letters are automatically sent to (1) inform the debtors of amounts owed, (2) provide the debtors an opportunity to repay their debts, and (3) inform the debtors of future actions to be taken if payments are not received.

The GSA contractors generally consider the telephone their primary collection tool. When telephone numbers are provided by federal agencies, the contractors attempt to contact the debtors by using these numbers. When telephone numbers are not provided, the contractors try to obtain them from telephone directories and credit bureaus.

## Agencies Were Initially Slow in Referring Delinquent Accounts to the Contractors

Our review showed that federal agencies were initially slow in referring their delinquent accounts to the GSA contractors but made notable progress near the end of the first year. It also showed that agencies will need to maintain this progress if they are to approach the volume of delinquent accounts OMB estimated might be referable. As we discussed earlier, GSA, using estimates provided by OMB, indicated in its bid solicitation that, over the 2-year period of the contracts, as much as \$4.6 billion in delinquent accounts might be referable by federal agencies to private collection firms. After 1 year under the contracts, federal agencies had referred a total of 272,526 accounts valued at about \$1.1 billion to the GSA contractors. More than 94 percent of the \$1.1 billion referred was made during a 3-month period ending September 30, 1986.

The estimates, used in the GSA bid solicitation, on the number of delinquent accounts that might be referable by federal agencies to private collection firms were based on OMB's review of quarterly reports from all agencies on Schedule 9 of Standard Form 220 Status of Financial Condition. OMB uses these reports as a basis for evaluating the performance of



federal agencies' credit management and debt collection efforts. OMB reviewed each agency's Schedule 9 report as of September 30, 1984, and excluded debt that would not be immediately available for collection. Some of the debts excluded were debts owed by foreign governments, debts owed by state and local governments, debts in litigation, and certain kinds of debt based on agency policy decisions.

Based on the above analysis, OMB estimated that agencies might be able to refer as much as \$4.6 billion in delinquent accounts to private collection firms. This figure was provided to GSA for inclusion in the bid solicitation. GSA contracting officials told us that the \$4.6 billion figure covers the 2-year period that the contracts are in effect. We did not attempt to verify the accuracy of the \$4.6 billion figure.

We recognize that one of the reasons federal agencies were initially slow in referring their delinquent accounts to the GSA contractors is that this is the first governmentwide effort to use the services of private collection firms and, as such, will have problems that will need to be resolved. The GSA contractors and federal agency debt collection officials, however, cited a variety of additional reasons why agencies were initially slow in referring their delinquent accounts to the contractors. Reasons cited include

- agencies want to verify the accuracy of their delinquent accounts before referring them to the GSA contractors,
- agencies do not have the staff to identify delinquent accounts for referral,
- agencies do not believe the contractors can successfully collect their delinquent accounts, and
- agencies do not know if they can legally refer certain types of delinquent accounts.

Agencies also were concerned about the lack of guidance on how payments to the contractors should be accounted for. As a result of this concern, OMB and Treasury issued accounting guidance to agencies in March 1986.

Further, the Congress recently passed legislation relating to the Farmers Home Administration's (FmHA) use of private debt collection firms during fiscal year 1987. Section 632 of the Agriculture, Rural Development, and Related Agencies Appropriations Act, 1987 (as included in Public Law 99-591) states: "Unless otherwise provided in this Act, none of the funds appropriated in this Act may be used by the Farmers Home

Administration to employ or otherwise contract with private debt collection agencies to collect delinquent payments” from FmHA borrowers. Elsewhere in that same act, under the heading “Rural Housing Insurance Fund,” there is an express appropriation for FmHA of “not to exceed \$10,000,000 to enter into collection and servicing contracts pursuant to the provisions of [section 13 of the Debt Collection Act of 1982].” FmHA’s Budget Director told us that, as a result of section 632, FmHA has decided not to refer additional delinquent accounts to the GSA contractors during fiscal year 1987. The agency is using much of the \$10 million provided in the act to contract with private firms for “account servicing” and “debt collection” services for FmHA single family housing loans in Puerto Rico and South Carolina.<sup>1</sup>

OMB has on several occasions informed federal agencies that it was disappointed at their lack of progress in using private collection firms. In June 1986, Treasury established three facilitating teams to work with federal agencies in addressing problems and concerns agencies had in using the GSA contractors. The objective of the facilitating teams is to increase the volume of delinquent accounts agencies refer to the contractors and assist agencies in resolving problems which cause them not to use the GSA contractors.

Since the facilitating teams began working with agencies in June 1986, the number of delinquent accounts referred by the agencies has increased noticeably (see appendix III). In our opinion, the efforts of the facilitating teams contributed to these increases. The teams, comprised of Treasury personnel and the GSA contracting officer, work closely with 22 federal agencies in establishing commitments and placing delinquent accounts with the GSA contractors. Appendix IV highlights the commitments and placements of these agencies as of September 30, 1986.

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<sup>1</sup>In our opinion, these provisions of FmHA’s 1987 appropriations authority neither prohibit nor require FmHA to use the GSA debt collection contractors. We also believe FmHA’s authority to use the \$10 million 1987 appropriations to enter into contracts for both delinquent debt collection and nondelinquent account servicing is subject to question. This is because the section of the act which provides for the \$10 million in appropriations mentions both collection and servicing contracts yet refers specifically to section 13 of the Debt Collection Act of 1982. We could not locate anything in the legislative history of the \$10 million appropriations which explains either its intended meaning or scope. However, the Comptroller General has previously concluded that section 13 of the Debt Collection Act of 1982 only contemplates entering into contracts for debt collection services as opposed to nondelinquent account servicing. Debt collection involves actions taken to collect amounts that have been delinquent, while account servicing refers to the provision of such services as billing, accounting, record keeping, and receipt and processing of payments on nondelinquent accounts. See 64 Comp. Gen. 364, 368-70 (1985).

In another effort to aid federal agencies in their attempts to expedite the placement of delinquent accounts with the contractors, GSA, at the request of OMB and Treasury, issued a contract modification to allow the agencies to use the contractors to assist them in determining the status of delinquent accounts and the ability of the debtors to repay. The need to verify the status of the accounts and the lack of agency staff to do so were among some of the reasons cited by agencies for not referring delinquent accounts to the contractors.

We fully support efforts by OMB, Treasury, and GSA to encourage federal agencies to refer additional delinquent accounts to private sector collection firms. We believe efforts by the facilitating teams and the contractors to assist agencies in resolving problems which cause them not to use the debt collection contractors are necessary and must be maintained in the future.

## **Delinquent Accounts Referred Included Some That Were Inappropriate for Referral**

Our review showed that some of the 272,526 delinquent accounts referred to the GSA contractors were inappropriate for referral. Specifically, they included debts owed by deceased debtors, debts discharged through bankruptcy, and debts paid in full. We noted, for example, that:

- SBA referred 15,951 accounts valued at about \$158.9 million to three GSA contractors. Of this total, 842 accounts were bankruptcies;<sup>2</sup> 39 accounts (valued at \$3.4 million) were recalled by the agency for reasons such as the accounts were placed in error and the accounts were paid prior to placement; and 31 accounts (valued at \$121,964) involved deceased debtors. According to agency debt collection officials, the GSA contractors were told that many of the inappropriate accounts referred were old and had been written off as uncollectible. The agency referred the accounts because it hoped that the contractors might be able to collect some of them. Agency officials also told us that many of these accounts were referred without their verifying the accuracy of information about the debtors. The contractors generally acknowledged that they knew some of these accounts were questionable but went ahead and worked on them.
- FmHA referred 17,797 delinquent accounts valued at \$630.3 million. Of this total, 170 accounts (valued at \$5.8 million) were recalled by the agency and 124 accounts (valued at about \$7.5 million) were bankruptcies. An agency debt management official indicated that the reason for

<sup>2</sup>Information was not readily available on the dollar value of accounts discharged through bankruptcy.

recalling some of the agency's accounts was that they involved borrowers who had settlement agreements with county supervisors. Further, the agency's Administrator indicated in a September 18, 1986, memorandum that some of the debt settlement agreements were not recognized prior to placement because the agency did not screen its accounts as thoroughly as it should have.

- The National Archives and Records Administration referred 717 accounts valued at \$211,974 to a GSA contractor during the period February 1986 through July 1986. According to the contractor, after entering 211 of these accounts (valued at \$69,603) into its automated collection system, it determined that almost half of them (valued at \$33,191) had already been paid and were not delinquent. Further, some of these accounts had been paid more than a year ago. As a result of the contractor's findings, the remaining 506 accounts were returned to the agency for further review. An agency debt collection official told us that this situation occurred because the agency's accounts receivable computer program contains a defect which results in erroneous data on old receivables. The agency, however, is in the process of correcting this problem.

These types of accounts delay the contractors' overall collection operations when the contractors unknowingly pursue collections on accounts that are either invalid (accounts that are not delinquent) or uncollectible (for example, debts discharged through bankruptcy) instead of accounts that are appropriate for collections.

We believe agencies can improve future referrals to the GSA contractors by maintaining accurate and reliable accounting systems. We recently completed a major governmentwide review<sup>3</sup> of debt collection activities that disclosed that many agencies do not have systems for producing accurate and reliable information on amounts owed to the government. Our report stated that in order for the full benefits of the Debt Collection Act 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.

In commenting on our report, Treasury and GSA both agreed that some of the delinquent accounts referred to the GSA contractors were inappropriate for referral. Treasury, however, felt we were suggesting that old

<sup>3</sup>Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986).

accounts and written off debts are inappropriate for referral. Also, GSA did not believe invalid account referral is a widespread problem.

We did not intend to suggest that old accounts and written off debts are inappropriate for referral to the contractors for collection. As we indicated in the report, inappropriate accounts were referred because they often were not screened to exclude deceased debtors and debts discharged through bankruptcy. While the referral of invalid accounts may not currently be a widespread problem, it did occur in some instances and was initially a particular problem for two contractors.

### Some Delinquent Accounts Referred Did Not Include Debtors' Telephone Numbers

According to the GSA contractors, when an agency refers an account, information such as the debtor's name, address, account balance, and telephone number is essential for prompt processing of the account. When such information is not provided by federal agencies, the collection process is delayed until the information is obtained. As we discussed earlier, the GSA contractors generally consider the telephone to be their primary collection tool. Also, the GSA contracts require the contractors to contact the debtors by telephone. Some federal agencies, however, may not have known that the debtor's telephone number is important to the contractors because this information is not required in the GSA Federal Supply Schedule.

In discussions with the GSA contractors, we were told that some of the delinquent accounts referred by the agencies did not include the debtors' telephone numbers. For example:

- None of the 17,797 delinquent accounts referred by FmHA included the debtor's telephone number. An agency debt management official told us that while this type of information is on the borrower's loan application, it is not captured in the agency's accounting system.
- The Department of the Interior referred 1,872 accounts (relating to the Office of Surface Mining) valued at approximately \$58.5 million to a GSA contractor. Approximately 1,170 of these accounts (about 700 referred by the Office of the Solicitor and 470 referred by the Office of Surface Mining) did not include the debtor's telephone number. According to an official from the Office of the Solicitor, it was not clear that the Office was supposed to provide this type of information to the contractor. An official within the Office of Surface Mining said that the debtor's telephone number was not maintained on some old receivables.
- The Federal Crop Insurance Corporation referred 2,350 accounts valued at approximately \$5.2 million. None of these accounts included the

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debtor's telephone number. An agency debt collection official told us that the telephone numbers were not available at the time the accounts were referred to the contractor.

We believe the processing time at the GSA contractors can be expedited by having the federal agencies provide the debtor's telephone number, if available in the agencies' files, when the accounts are referred. We also believe Treasury, in consultation with the Department of Justice and GAO,<sup>4</sup> can facilitate this effort by developing agency guidelines and formats for referring delinquent accounts to private collection firms. These guidelines and formats should be consistent with the requirements in the Federal Claims Collection Standards.

In commenting on our report, Treasury stated that it realizes that the use of the telephone is an important debt collection tool. However, it further stated that federal agencies should not refrain from referring debt to private collection firms when the telephone number is not readily available in the files, because these firms have efficient systems for obtaining the numbers.

We did not intend to imply that agencies should refrain from referring their delinquent accounts to the contractors if the debtor's telephone number is not in the agencies' files. We believe agencies should provide the telephone number, if available, to the GSA contractors when accounts are referred. Also, as required by OMB Circular A-129, "Managing Federal Credit Programs," agencies should include telephone numbers as part of the standard information to be contained in the loan files on the history and status of each loan.

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## **GSA Contractors Are Using Prescribed Collection Techniques**

The GSA contracts require each contractor to attempt to contact the debtor by telephone or by mail within 14 days after receiving the account from a federal agency. Although not required in the GSA contracts, each contractor has the option of making personal visits to the debtor.

Our review showed that the GSA contractors are using collection tools contained in their contracts such as demand letters and telephone calls to the debtors. The contractors also are timely in issuing initial demand

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<sup>4</sup>Pursuant to 31 U.S.C. 3711(e)(2), the Comptroller General of the United States and the Attorney General of the United States are jointly responsible for prescribing standards for the administrative collection, compromise, termination of agency collection, and referral to GAO, and to the Department of Justice for litigation, of civil claims.

letters to the debtors. Specifically, we reviewed 60 delinquent accounts and found that the average interval between the date the contractors received the delinquent account from the federal agency and the date the contractors sent the debtor the first demand letter was about 9 days.

Although the GSA contracts permit, but do not require, personal visits to the debtors, none of the contractors used this collection tool. Some of the contractors told us they do not consider personal visits to be a cost-effective collection tool. However, in commenting on our report, one contractor, STA/Corliss, stated that it would make a personal visit if needed to make an effective recovery.

## Contractors' Collection Results

At the end of the first year, the GSA contractors had collected \$2.7 million, or about one-fourth of 1 percent of the \$1.1 billion in delinquent accounts referred to them (see appendix V). The contractors also obtained about \$3.2 million in promises from debtors to pay in the future.

In commenting on our report, OMB, Treasury, and GSA proposed an alternative method to the way we computed the contractors' collection rate. Specifically, their method would be to compare collections to the dollar value of delinquent accounts completely processed rather than the dollar value of accounts referred. For example, using February 27, 1987, data, OMB reported that the contractors collected \$9.2 million and completed processing on accounts valued at \$152 million, for a recovery rate of 6 percent.

We believe that collections, regardless of the method used for calculating the contractors' collection rate, were not greater because federal agencies were initially slow in referring delinquent accounts to the GSA contractors. Since over 90 percent of the accounts were not placed until after June 1986, we believe that, at the time of our review, the contractors had not had the accounts long enough to realize much in collections. Also, in our view, the poor quality of the accounts referred contributed to not collecting more debts. The contractors generally agreed that these factors contributed to collections not being greater. One of the contractors also said some of the accounts were very old and should have been written off, while other accounts, as we discussed earlier, included debts owed by deceased debtors and debts discharged through bankruptcy.

## Contractors' Fees Not Passed on to Some Debtors

Contractors are paid a fee by the agencies only if collection is made. If collection is not made, the contractor receives no fee. Further, the Debt Collection Act of 1982 (section 11) and the Federal Claims Collection Standards (4 CFR 102.13(d)) allow the agency to pass the cost of collection to the debtor.

To ensure that the fee paid by the agency is passed on to the debtor, modification number 2 of the GSA contracts states that either the ordering agency or the contractor should add the contractor's contingent fee to the amount of the debt. Specifically, the contractor's contingent fee should be added to the amount of the debt (principal, interest, penalties, and administrative charges) using a prescribed collection formula. The contractors are then paid a percentage of the total amount collected.

Our review showed that three agencies—SBA and the Department of Agriculture's FmHA and Federal Crop Insurance Corporation (FCIC)—did not add the contractor's contingent fee to delinquent accounts referred to the GSA contractors. Furthermore, according to the contractors, the agencies instructed them not to add the fees to the debt amounts.

SBA officials told us that they did not add the contractor's contingent fee to amounts referred because their debt accounting system is not capable of adding on, collecting, tracking, and allocating the fee. To do so would require complex changes to SBA's computer data base, computer processing, and loan accounting records. Also, they said that it would not be cost-effective for them to make these changes to their debt accounting system.

Officials at FmHA and FCIC told us that their loan agreements with the borrowers do not make reference to the borrower's liability for collection costs. These officials said they interpret this to mean they do not have the authority to pass the cost of using the GSA contractors on to the borrower. They also believed that adding the contractor's contingent fee to the amount of the debt would result in lawsuits.

By not adding the contractor's contingent fee to the amount of the debt, the federal agency, as opposed to the debtor, must incur the cost of using the GSA contractors when collections are made. For example, using statistics provided by the contractors, we calculated the contractor's contingent fee on delinquent accounts referred by SBA and determined that the agency may incur costs totaling \$118,485 on collections made by the GSA contractors as of September 30, 1986.



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We believe that SBA may want to rely on the GSA contractors to add on the contractor's contingent fee to amounts referred if the agency's debt accounting system is not capable of doing this and if the agency believes changes to its system would not be cost-effective.

In regard to FmHA and FCIC, we recognize that some agencies may have loan agreements which preclude them from passing the cost of using the GSA contractors to the borrower. However, we do not believe that the absence of a reference in their loan agreements as to the borrower's liability for collection costs necessarily precludes the agencies from passing these costs on to the debtor pursuant to express statutory authority. At the same time, we believe that the agencies should review their loan agreements to determine whether it would be proper to pass the collection costs on to the debtor. We also believe that FmHA and FCIC should amend their future loan agreements with their borrowers, if legally permissible, to include a provision about the borrower's liability for these costs.

In commenting on our report, SBA stated that the contractors may collect the contractor's contingent fee, if possible, but SBA reiterated that its accounting system is unable to add the fees to debts referred. During our review, the three GSA contractors used by SBA told us that SBA officials instructed them not to add the contractor's contingent fees to the debt amounts. Regardless of whether SBA instructed the contractors to do this or not, we believe the contractor's contingent fee should be added to the debt. As we indicated in the report, if SBA's debt accounting system is not capable of doing this, and if the agency believes changes to its system would not be cost-effective, it should ask the contractor to add the fee to the debt.

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## Conclusions

Federal agencies were initially slow in using the debt collection services provided under the GSA contacts. Notable progress, however, was made during the last 3 months of the first year under the contracts. Although we realize that agencies have encountered problems in using the GSA contractors and that problems can be expected with any first-time effort, agencies will need to maintain the progress made at the end of the first year if they are to approach the volume of accounts that OMB estimates might be referable.

In addition, delinquent accounts referred by federal agencies to the contractors included accounts that were inappropriate for referral and accounts that did not contain essential information about the debtor.

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Accurate and complete information would enhance the contractors' efforts in collecting delinquent accounts.

Furthermore, the contractors' fees to collect delinquent accounts were not added to some debts. Consequently, the fees must be paid by the federal government when collections are made.

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## Recommendations

To improve the quality of delinquent accounts referred to the GSA contractors by federal agencies, we recommend that the Secretary of the Treasury direct the Department's Financial Management Service, in consultation with the Department of Justice and GAO, to develop guidelines and formats for referring delinquent accounts to private collection firms prior to the issuance of the next GSA Federal Supply Schedule for debt collection services.

We also recommend that the Secretary of the Treasury, in conjunction with the Administrator of General Services, instruct the federal agencies and GSA debt collection contractors, except where the agencies can justify to the Treasury reasons for not doing so and can reach appropriate agreements with the contractors, to add the contractors' contingent fees to the amount of the debt. In addition, we recommend that the Secretary of the Treasury request agencies with loan agreements that are silent about the borrower's liability for collection costs to amend their future loan agreements, if legally permissible, to include such a provision.

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## Agency Comments and Our Evaluation

OMB, Treasury, GSA, Agriculture, and SBA provided comments on this report. (See appendixes VI, VII, VIII, IX, and X.) OMB and Agriculture stated that they generally agreed with the findings contained in the report. SBA generally disagreed with the findings. While Treasury and GSA provided specific comments on particular aspects of the report, their comments indicated overall concurrence with the report's recommendations.

Treasury generally agreed with our recommendation to develop guidelines and formats for referring delinquent accounts to private collection firms. Treasury stated that it plans to update the current guidelines before the new GSA debt collection contract takes effect on October 1, 1987. The guidelines will include the data elements to be provided by the agencies to the contractors and the methods that may be used for transmitting the data. We believe these guidelines, once issued, should satisfy our recommendation.

Treasury and GSA generally concur with our recommendation that they instruct the federal agencies and GSA debt collection contractors, except where the agencies can justify to the Treasury reasons for not doing so and can reach appropriate agreements with the contractors, to add the contractor's contingent fees to the amount of the debt. OMB, however, felt our report should be more explicit by requiring agencies to pass on the cost of collection to the debtor as provided for in section 11 of the Debt Collection Act, as amended. We believe, as GSA pointed out in its comments on our report, it may sometimes be in the best interests of the government for federal agencies to enter into agreements with the collection contractors to modify the contractual provision requiring that the contractor's contingent fee be added to the debt. For example, GSA stated that such agreements are allowed as an expediency to give the agencies an opportunity to refer a substantial amount of delinquent debt to the contractors for collection.

Treasury also concurs with our recommendation that it request agencies with loan agreements that are silent about the borrower's liability for collection costs to amend their future loan agreements.

Treasury and SBA commented on the estimates, used in the GSA bid solicitation, regarding the number of delinquent accounts that might be referable by federal agencies to private collection firms. Specifically, Treasury stated that an agency's commitment to use the collection firms should not be evaluated by comparing actual debt referrals to 2-year old OMB estimates of potential referrals. Instead, more current estimates should be used. SBA also felt the OMB estimates should not have been used as a basis for expected referrals. SBA stated these estimates led the contractors to bid too low, and the oversight agencies to expect huge volumes of referrals that could not be delivered.

While we did not verify the accuracy of the OMB estimates, we believe the estimates are a good initial benchmark for evaluating an agency's use of the GSA debt collection contractors. Specifically, the OMB estimates, used in the GSA bid solicitation, were based on statistics provided by the agencies on Schedule 9 of Standard Form 220 Status of Financial Condition. As SBA points out, these estimates were then used by the contractors in determining their bids. The contractors consequently expected this volume of referrals. While we believe the OMB estimates are a good initial benchmark, we recognize that other comparisons can be used during the course of the GSA debt collection contracts to measure agency performance.

SBA commented that our report suggested that SBA, along with other federal agencies, resisted the administration's policy of using collection agencies. This was not our intent. As we stated in the report, agencies were initially slow in referring their delinquent accounts, and both the agencies and the contractors provided a variety of reasons for this occurrence. Further, appendix IV of our report recognizes that SBA is one of the more active users of the contractors' debt collection services in terms of the number and dollar amount of accounts referred.

SBA believed that all the debts that it referred were appropriate. We disagree. As indicated in our report, SBA did not screen out some of its accounts of deceased debtors and debts discharged through bankruptcy. As such, these accounts were inappropriately referred to the contractors.

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## Contractor Comments and Our Evaluation

Three of the four GSA debt collection contractors provided us written comments to draft excerpts of the report relating to the contractors' activities under the GSA contracts. (See appendixes XI, XII, and XIII). Datacom Systems Corporation did not provide us any written comments to the report.

In general, the GSA contractors agreed with the accuracy of the information contained in the excerpts we provided to them for comment. Three collection contractors provided additional information on specific aspects of the report.

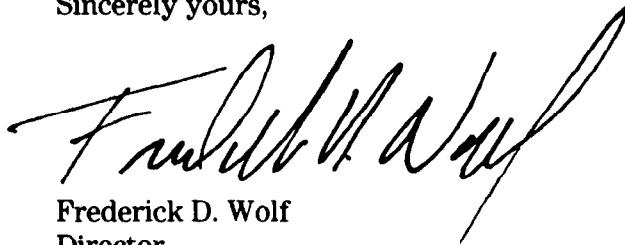
Also, one contractor, STA/Corliss, provided some suggested changes and additions to the report along with some overall views on the federal agencies' efforts to refer delinquent accounts to the GSA contractors. For example, STA/Corliss believes that the agencies "continue to resist" placing accounts for collection with the contractors, especially commercial debt. The contractor also indicated that it is difficult to identify individual agencies' reasons for not referring more delinquent accounts. Further, the contractor stated that most agencies "continue to allege that there are no debts available to be placed for collection."

As we indicated in the report, federal agencies have cited a variety of reasons why initial referrals to the GSA contractors were slow. While some agencies are more active than others in using the contractors, we believe current efforts by OMB, Treasury, and GSA to work with the agencies in referring additional delinquent accounts to private sector collection firms will help remove any remaining barriers in this effort.

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Unless you publicly announce its contents earlier, we will not distribute copies of this report until 30 days after it is issued. At that time, we will send copies to the Director of the Office of Management and Budget, the Administrator of General Services, the Secretary of the Treasury, the four GSA contractors, interested Congressional Committees, and other interested parties. Copies will also be made available to others on request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frederick D. Wolf". The signature is written in a cursive style with a large, sweeping initial "F".

Frederick D. Wolf  
Director

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**Abbreviations**

FCIC	Federal Crop Insurance Corporation
FmHA	Farmers Home Administration
GAO	General Accounting Office
GSA	General Services Administration
OMB	Office of Management and Budget
SBA	Small Business Administration
STA	Stanley Tulchin Associates





# Volume of Business Projected for Each Line Item by GSA

Dollars in millions			
Line item no.	Type and age of debt <sup>a</sup>	Number of accounts	Value of accounts
1	Administrative debt, Commercial debtor (1 year and less)	16,480	\$64.4
2	Administrative debt, Consumer debtor (1 year and less)	261,007	333.3
3	Loan debt, Commercial debtor (1 year and less)	15,819	676.3
4	Loan debt, Consumer debtor (1 year and less)	58,224	483.9
5	Administrative debt, Commercial debtor (over 1 year)	30,642	159.2
6	Administrative debt, Consumer debtor (over 1 year)	1,002,175	799.6
7	Loan debt, Commercial debtor (over 1 year)	35,336	1,585.4
8	Loan debt, Consumer debtor (over 1 year)	47,640	466.9
<b>Total</b>		<b>1,467,323</b>	<b>\$4,569.0</b>

Note: The figures in this appendix and definitions below were taken from GSA's solicitation for professional debt collection services, "FGA-N1-XU248-N," issued on March 29, 1985. We did not attempt to verify the accuracy of these figures.

<sup>a</sup>Definitions:

Administrative debt refers to debts from overpayments and double payments; funds owed by former employees; delinquent accounts from sale of goods and services; and fines, penalties, forfeitures, interest, and fees.

Loan debt refers to debts resulting from delinquent repayment of loans either granted by the government or on which the government was a third-party guarantor.

Commercial debtor refers to a person or parties having an obligation to pay for goods sold or leased, services rendered, or moneys loaned for use in the conduct of a business or profession.

Consumer debtor refers to a person or parties having an obligation other than commercial debts.

# Line Items by Type of Debt, Contractor, Age of Account, and Contingent Fee Rate

Line Item	Type of debt	Contractor	Age of account (months)	Contingent fee rate* (percent)
1	Administrative debt, Commercial debtor	STA/Corliss	0 - 6 7 - 12	5.00 10.00
2	Administrative debt, Consumer debtor	Corliss	0 - 6 7 - 12	12.00 19.00
3	Loan debt, Commercial debtor	STA/Corliss	0 - 6 7 - 12	4.00 8.50
4	Loan debt, Consumer debtor	Corliss	0 - 6 7 - 12	6.75 10.50
5	Administrative debt, Commercial debtor	STA/Corliss	over 12	14.50
6	Administrative debt, Consumer debtor	Datacom Systems	over 12	24.00
7	Loan debt, Commercial debtor	Capital Credit	over 12	8.95
8	Loan debt, Consumer debtor	Corliss	over 12	12.00

Note: The information in this appendix was taken from the GSA Federal Supply Schedule For Professional Debt Collection Services, effective October 1, 1985 through September 30, 1987.

\*The rate the contractor is paid by the federal agency for collections made.

# Number of Delinquent Accounts Placed by Federal Agencies With Contractors From October 1, 1985 to September 30, 1986

	Quarters				Total
	October 1 through December 31	January 1 through March 31	April 1 through June 30	July 1 through September 30	
Contractors	1st	2nd	3rd	4th	
Corliss	0	3,555	9,318	9,720	<b>22,593</b>
STA/Corliss	287	292	2,509	2,364	<b>5,452</b>
Datacom Systems	0	2,633	3,683	219,159	<b>225,475</b>
Capital Credit	0	1	0	19,005	<b>19,006</b>
<b>Total</b>	<b>287</b>	<b>6,481</b>	<b>15,510</b>	<b>250,248</b>	<b>272,526</b>

Note: The figures in this appendix were based on statistics maintained by the GSA contractors. We did not attempt to verify the accuracy of these figures.

# Status of Selected Agency Commitments and Placements With GSA Contractors as of September 30, 1986

Agency	Committed through 9/30/86		Placed as of 9/30/86	
	No. of Accounts	\$ Value	No. of Accounts	\$ Value
Department of Agriculture	38,362	\$663,587,000	20,391	\$636,816,382
Department of Commerce	194	6,575,000	84	6,442,599
Department of Defense	22,433	28,169,000	23,530	29,648,880
Department of Education	39	6,878,000	17	6,412,701
Department of Energy	11	289,000	11	288,724
General Services Administration	67	278,000	10	5,285
Department of Health and Human Services	59	697,000	14	171,421
Department of Housing and Urban Development	2,000	10,000,000	0	0
Department of Interior	1,247	32,995,000	1,978	59,086,355
Department of Labor	1,623	5,676,000	142	2,139,418
Office of Personnel Management	147	632,000	147	632,245
National Aeronautics and Space Administration	2	18,000	2	20,114
National Archives and Records Administration	806	252,000	244	92,468
Overseas Private Investment Corporation	6	217,000	5	215,514
Railroad Retirement Board	1,600	2,100,000	0	0
Small Business Administration	15,364	112,500,000	15,951	158,874,309
Department of State	310	230,000	298	324,860
Department of Transportation	730	1,501,000	125	322,373
Department of the Treasury	313	209,000	313	205,831
Veterans Administration	249,896	479,170,000	209,230	212,427,008
Federal Emergency Management Agency	32	23,000	32	27,390
National Endowment for the Humanities	2	7,000	2	7,293
<b>Total</b>	<b>335,243</b>	<b>\$1,352,003,000</b>	<b>272,526</b>	<b>\$1,114,161,170*</b>

Note: The figures for commitments in this appendix were taken from data provided by the Department of the Treasury, while the placed figures were based on statistics maintained by the GSA contractors. We did not attempt to verify these figures.

\*The amount shown in this appendix for total dollar value placed differs from the amount shown in appendix V by \$1 due to rounding.

# Delinquent Accounts Placed and Collected as of September 30, 1986

<b>Contractors</b>	<b>Amount placed</b>	<b>Amount collected</b>	<b>Collection as a percent of placement</b>
Corliss	\$60,779,570	\$870,471	1.43
STA/Corliss	107,639,414	760,938	0.71
Datacom Systems	224,206,918	493,201	0.22
Capital Credit	721,535,269	547,896	0.08
<b>Total</b>	<b>\$1,114,161,171</b>	<b>\$2,672,506</b>	<b>0.24</b>

Note: The figures in this appendix for amounts placed and collected were based on statistics maintained by the GSA contractors. Using these statistics, we calculated collection as a percent of placement. We did not attempt to verify statistics provided by the contractors. Also, see page 13 of this report for a discussion on an alternative method for calculating the contractor's collection rate.

# Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear in appendix XIV.



DEPARTMENT OF THE TREASURY  
WASHINGTON

March 13, 1987

Dear Mr. Wolf:

I would like to thank you for the opportunity to comment on the Proposed General Accounting Office Report "Debt Collection: First Year Collection Efforts Under the GSA Contracts (GAO-AFMD-87-23)." The Report provides a good summary of the problems with the collection contracts.

One modification that I feel is appropriate concerns how agencies are evaluated on this initiative. An agency's commitment to the use of collectors should not be evaluated by comparing actual debt referrals to two year old Office of Management and Budget estimates of potential referrals. During the elapsed time, agency efforts, such as in-house collections, and collection initiatives, such as Tax Refund Offset, have reduced the number of seriously delinquent accounts that formerly would have gone to collectors. As a result, agencies with active debt collection programs will score poorly under this evaluation criteria. I propose that any evaluation be based on more current estimates.

Because of the continuing impact of enhanced agency lending and collection practices, I prefer to refer to the "commitments" (Page 12, Line 7) as more current estimates. The objective of good credit management is to minimize delinquent debt that must be referred for stronger collection action. As Federal credit management is strengthened, less should be referred to collectors. Some of the debts included in estimates of referable debt will be collected before the referral is actually made.

The Financial Management Service has several comments on technical matters. The Director of the Credit Administration Division will be contacting you directly to discuss them.

Sincerely,

Jill E. Kent  
Deputy Assistant Secretary  
for Departmental Finance  
and Management

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

See comment 1.

Now on p 8

See pp. 30-33.



DEPARTMENT OF THE TREASURY  
FINANCIAL MANAGEMENT SERVICE  
WASHINGTON, D.C. 20226

March 27, 1987

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

Dear Mr. Wolf:

Your staff has sent this office a copy of a draft report entitled Debt Collection: First Year Collection Efforts Under the GSA Contracts (GAO-AFMD-87-23) for comment. We appreciate the opportunity to review and comment on the report before it is in final.

I wish to commend the audit team on a very thorough and objective review of the Government's use of private collection agencies in reducing delinquencies and increasing collections. We feel the report provides valuable insight and we plan to take the comments and recommendations into consideration as we proceed to improve the Federal agencies' debt collection practices.

Following are our comments on the draft report:

- ° In discussing the referral of accounts by Federal agencies, the report states that only \$1.1 billion of the original estimate of \$4.6 billion had been referred to private collection agencies by September 30, 1986. It should be noted that in October, 1986, the Congress included a provision in the Continuing Resolution, H.J. Res. 738, which prohibits the use of funds by the Farmers Home Administration (FmHA) to contract with private collection agencies to collect delinquent FmHA debt. Had this provision not been adopted, we would have made more significant progress toward the \$4.6 billion target for referrals to private collection agencies. As of February 27, 1987, Federal agencies have referred more than \$1.8 billion in debt to the private collectors.

See comment 2.



Appendix VI  
Comments From the Department of  
the Treasury

page 2 - Frederick D. Wolf

Now on p. 8.  
See comment 3.

° Page 11 of the report states that the Office of Management and Budget (OMB) established the facilitating teams to work with the Federal agencies in resolving issues related to the referral of debt to private collection agencies. The Treasury's Financial Management Service (FMS), as lead agency for credit management and debt collection, established the facilitation teams utilizing its own resources with some staff support from the General Services Administration (GSA).

Now on p. 9.  
See comment 4.

° Page 12 of the report indicates that GSA has the responsibility for modifying the contract to allow agencies to make use of contractor services in determining the status of delinquent accounts. As a point of clarification, GSA is the contracting agency responsible for obtaining qualified vendors to provide debt collection services. Program responsibility, determining how and when private collection agencies are used as well as the type of services to be provided by the contractor, rests with OMB and FMS.

Now on p. 9.  
See comment 5.

° Page 13 of the report states that some of the accounts referred to the GSA contractors were inappropriate for referral under the contract. Section 5.A., Ordering Agency Responsibilities, of the Federal Supply Schedule states that "accounts eligible for transfer will be those with an outstanding principal balance of \$100 or more, where you (the ordering agency) have either determined that the debtor is refusing to pay or where you (the ordering agency) have been unable to make a determination regarding the debtor's ability to pay." While we agree that the Federal agencies should screen out accounts of deceased debtors, debts discharged through bankruptcy and debts paid in full, we disagree with the suggestion that old accounts and written-off debts are inappropriate for referral given the definition of eligible accounts in the Federal Supply Schedule. We consider the referral of debts to private collection agencies as a mechanism for assessing the collectability of Government debts or for determining which of the accounts should be written off or closed out. This would lead to more accurate reporting on the true financial condition of agency receivables.

Now on p. 11.

° Page 15 discusses the benefits of providing telephone numbers when referring debts to private collection agencies. We realize, of course, that the use of the telephone is an important tool in collecting debts. For this reason, OMB Circular A-129 includes telephone numbers as part of the standard information to be contained in the loan files on the history and status of

page 3 - Frederick D. Wolf

See comment 6.

each loan. However, Federal agencies should not refrain from referring debt to private collection agencies when the telephone number is not readily available in the file. It is also important to note that private collection agencies have efficient systems for obtaining telephone numbers and current addresses. When telephone numbers and addresses are not readily available to the agencies, it may be more efficient to make use of the contractor's capabilities.

Now on p. 12.  
See comment 7.

- The last paragraph on page 16 should be changed to: "We believe that the processing time at the GSA contractor can be expedited by having the Federal agencies provide the telephone number when the debts are referred."

Now on p. 13.

- On page 18, the report states that the GSA contractors collected \$2.7 million, or about 1/4 of 1% of the \$1.1 billion of the delinquent debt referred to them. Comparing the collections to total referrals does not accurately reflect the effectiveness of the contractors. A more accurate expression of the effective collection rate would be achieved by reporting collections as a percentage of the total accounts having undergone the complete processing cycle by the contractor. As of February 27, 1987, collections totaled \$9.2 million out of a total of \$161 million in accounts that had either been collected or returned to agencies. This equates to a collection rate of 5.6%.

See comment 8.

Now on p. 14.  
See comment 9.

- The first paragraph of page 19 states that the collector's fee is determined by applying the contractor's contingent fee rate to the amount of the debt (principal, interest, penalties and administrative charges). The report should also indicate that the contractor shall be paid the contingent fee rate on the total amount collected, including the contractor's fee that is added to the debt and collected.

See comment 10.

The report recommends that FMS, in consultation with the Department of Justice and GAO, develop guidelines and formats for referring delinquent debt to private collection firms before the next contract is issued. With respect to the recommendation in the report, we have issued guidelines to Federal agencies on the use of the GSA Federal Supply Schedule for private collection services. These guidelines provide instruction for: computing the collection fees under the contract, processing the collections made by the contractor, accounting for the collections, reconciling the contractor's invoices, and paying the contractor for services rendered.

Appendix VI  
Comments From the Department of  
the Treasury

page 4 - Frederick D. Wolf

See comment 11.

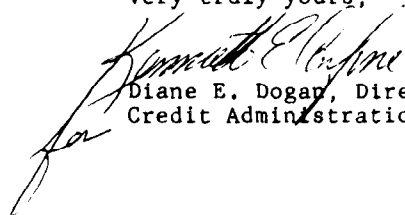
We plan to update the current guidelines before the new GSA debt collection contract takes effect on October 1, 1987. The guidelines will include the data elements to be provided by agencies to contractors and the methods (e.g. paper files, tapes) that may be used for transmitting the data. Since we do not anticipate that these guidelines will conflict in any way with the Federal Claims Collection Standards, we do not currently plan to submit the guidelines to GAO or the Department of Justice for formal clearance.

See comment 12.

The report also recommends that the Secretary of the Treasury, in conjunction with the Administrator of GSA, instruct the Federal agencies to add the contractor's contingent fee to the debt. As the guidelines already direct agencies to add the contingent fee to the debt, we concur with the recommendation. FMS is working with OMB to ensure that agencies add the contractor's contingent fee to the debt, and where appropriate, amend future loan agreements to include such a provision.

If you or your staff require additional information or have questions, please do not hesitate to contact me.

Very truly yours,



Diane E. Dogan, Director  
Credit Administration Division

# Comments From the General Services Administration

Note: GAO comments supplementing those in the report text appear in appendix XIV.



Administrator  
General Services Administration  
Washington, DC 20405

March 16, 1987

Dear Mr. Bowsher:

Thank you for the opportunity to review the February 25, 1987, draft report entitled "Debt Collection: First Year Collection Efforts Under the GSA Contracts" (GAO-AFMD-87-23).

Comments on some of the report findings and the report recommendation addressed to the Administrator of General Services are provided in the enclosed statement. I request that these comments be considered and appropriate changes made in the report prior to its final issuance.

Sincerely,

*TC Golden*  
Terence C. Golden

The Honorable  
Charles Bowsher  
Comptroller General  
of the United States  
General Accounting Office  
Washington, DC 20548

Enclosure

Appendix VII  
Comments From the General  
Services Administration

GSA Comments on the GAO Report,  
"Debt Collection: First Year Collection Efforts  
Under the GSA Contracts" (GAO-AFMD-87-23),  
dated February 25, 1987

Now on p. 4.

GAO Finding (page 5)

GAO comments that GSA is responsible for monitoring the contractors' performance and ensuring that the contracts' terms are properly carried out.

Comment

While it is true that GSA has the ultimate responsibility for contract administration on the debt collection contracts, it should be pointed out that under Federal Supply Schedule requirements contracts, ordering agencies are responsible for contract administration of their own purchase orders against the schedule contracts. Ordering agencies must, in the first instance, determine whether performance meets the contract terms (48 CFR 1-8.405; 41 CFR 101-26.403-1). GSA has and will continue to monitor contractor performance in a general sense but cannot track the contractors' progress on each individual order. The GSA contracting officer must rely on ordering agency contracting personnel to administer individual orders and surface problems as they arise.

See comment 13.

Now on p. 9.

GAO Finding (page 12)

GAO states that it supports efforts by the facilitation teams, which were established by the Office of Management and Budget, in conjunction with the U.S. Treasury, to encourage Federal agencies to refer delinquent accounts and assist them in resolving problems which cause the agencies not to use debt collection contractors.

Comment

GSA strongly agrees that these efforts are necessary and must be maintained. For this reason, GSA encourages GAO to address a recommendation to the Secretary of the Treasury to continue the efforts of the facilitation teams.

See comment 14.

-2-

Now on pp. 9-11.

GAO Finding (pages 13 and 14)

GAO discusses delinquent accounts referred to GSA contractors that were inappropriate for referral. GAO concludes that these types of accounts delay the contractors' overall collection operations when the contractors unknowingly pursue collections on accounts that are either invalid or uncollectable instead of accounts that are appropriate for collection.

Comment

See comment 15.

GSA agrees that initially there were some debt portfolios referred to GSA contractors that had not undergone sufficient internal administrative review to identify accounts which should not have been referred under the terms of the contract. Regardless of the sophistication of any agency's accounting system, there would normally be a small percentage of such occurrences as there are in private sector debt collection arrangements. While invalid account referral has been a problem in some specific portfolio referrals, it has not been a widespread problem and most of the contractors report that the incidence of invalid referrals on the whole has not been much above industry norms.

See comment 16.

A more important circumstance delaying overall collection operations is the age of accounts referred. When accounts age, they are correspondingly harder to collect, mostly because what the debtor information agencies have on file is less likely to be current and accurate. One of the purposes of establishing the first round of GSA contracts was to clean up the huge backlog of Government delinquent debt, so delays caused by age of debt should not have been unexpected. It is GSA's belief that GAO should not use the term uncollectable debt in the context of types of accounts that delay contractors' overall collection operations. Difficulty in the collection of delinquent debt, especially given the age of the debts under discussion, is the rule rather than the exception and both the Government and the contractors were well aware of this fact when the contracts were awarded.

Appendix VII  
Comments From the General  
Services Administration

-3-

Now on p. 13

GAO Finding (page 18)

The report discusses contractors collection results and the figure used for collections is one-fourth of 1 percent of the \$1.1 billion in delinquent accounts referred as of September 30, 1986.

Comment

See comment 17.

GSA objects to the use of this figure, both within the text as well as in Appendix V. It would be more appropriate to compare collections to the dollar value of accounts that have been completely processed rather than to the dollar value of accounts referred. This is especially true since 93 percent of the dollar value of accounts referred through September 30, 1986, were not given to the contractors until the last 6 weeks of the period in question. If GAO uses the collections versus dollar value of accounts completely processed, the collection rate becomes approximately 9 percent.

Recommendation

The Secretary of Treasury, in conjunction with the Administrator of GSA, instruct the Federal agencies and GSA debt collection contractors, except where they can justify to the Treasury reasons for not doing so, to add the contractors' contingent fees to the amount of the debt.

Comment

See comment 18.

The General Services Administration (GSA) believes this recommendation is improperly stated. GSA is the contracting arm of the Government in the effort to collect delinquent debts through private collection firms; in that capacity, GSA entered into contracts with four firms in October 1985, for professional debt collection services. It is a provision of these contracts that the contractors' contingent fee be added to the debt. Not adding the fee to the debt results in a lower fee paid to the contractors in the event they collect the debt.

The recommendation states that if agencies can justify to the U.S. Treasury reasons for not adding the fee to the debt, the fee not be added. However, the Government does not have the unilateral right to order the debt collection contractors to perform work at a lower fee than what was agreed to in the contract.

The General Accounting Office (GAO) cites three instances where agencies did not want the contingent fee added to the debt. By not adding the contingent fee to the debt, a Federal agency is

-4-

effecting a de facto compromise of each debt collected since the contractors' fee has to be paid out of collections. On the other side, a contractor is receiving a diminished fee since the amount of the debt, against which the contingent fee is applied, is reduced.

In the three instances cited, the Federal agency and the contractor entered into bilateral agreements to change the contractual provision requiring the addition of the contingency fee to the debt. Each party agreed to accept the consequences (compromised debt/diminished fee). GSA allowed these bilateral agreements modifying the contractual provisions as an expediency to give the agencies an opportunity to refer a substantial amount of delinquent debt to the contractors for collection.

GSA will continue to enforce the contractual provision requiring that the contingent fee must be added to the debt. GSA also recognizes that it may sometimes be in the best interests of the Government for Federal agencies to enter into bilateral agreements with the contractors to modify that provision.



# Comments From the Office of Management and Budget

Note: GAO comments supplementing those in the report text appear in appendix XIV.



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

MAR 18 1987

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

Dear Mr. Wolf:

Thank you for sharing the draft report on the General Services Administration (GSA) debt collection contracts. We are in general agreement with the findings contained in the report. However, we have several comments which should be taken into account in the final report:

- o On page 16, the report indicates that use of private collection firms can be facilitated by developing agency guidelines and formats for referring delinquent accounts to be used by agencies.

There is basic information that should be provided in a consistent manner to the collector involving a valid name, address, telephone number, and taxpayer identification number. For the larger, more complex commercial accounts, additional documentation is needed. The report should be circumspect on encouraging issuance of further guidance and formats. Consultations with the contractors should be proposed to minimize adding complex instructions and requests for information not germane to the actual collection of the debt.

- o On page 18 and Appendix V, the presentation and the chart respectively, reflect collection as a percent of total placement to date to measure performance. That statistic does not provide a particularly useful indication of program performance.

The report correctly points out that 90% of the placements to the collection firms occurred after June 1, 1986, and that the firms could not realize much in terms of collections in the report's time frame. The report includes the statistic that only .24 percent of the amount placed has been collected. This is misleading and OMB proposes an alternative measurement; the amount collected as a percent of the total value of those delinquent accounts completely processed by the collection firms. For example, using February 27, 1987, data, the collection firms have completed processing accounts valued at \$152 million, collecting \$9.2 million for a recovery rate of six percent.

Now on p. 12.

See comment 19.

Now on p. 13.

See comment 20.

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

Now on pp. 14-15.

- o On page 19 and 20, the report discusses the add-on of the contractor's contingent fee to delinquent accounts referred for collection.

See comment 21.

We agree that the agencies should add on the collection fee. The report should be more explicit, requiring the add-on fee. Short of a legal opinion to the contrary, agencies should pass on the cost of collection to the debtor as provided for in Section 11 of the Debt Collection Act as amended. The report should take a broader view and recommend that all credit agencies should amend future loan agreements to include specific provisions for charging fees for the cost of collection, including the contingency fee.

See comment 22.

Your report does not mention the congressional action prohibiting the Farmers Home Administration from using 1987 appropriated funds to support private collection firms. This action effectively limits the Government's ability to reach the number of referrals originally estimated under the GSA contract.

Your report accurately describes the successful intervention of the Treasury facilitation team to accelerate the placement of accounts. This OMB/Treasury teamwork will continue to produce results in overseeing the implementation of the credit management program.

GSA, Treasury, and OMB are working on the design of the Request For Proposal for a new set of contracts to follow the present arrangement. The GAO Report has helped us in developing a better definition to the scope of work.

Thank you.

Sincerely,

  
Gerald R. Riso  
Associate Director  
for Management

# Comments From the Department of Agriculture

Note: GAO comments supplementing those in the report text appear in appendix XIV.



DEPARTMENT OF AGRICULTURE  
OFFICE OF ASSISTANT SECRETARY FOR ADMINISTRATION  
WASHINGTON, D.C. 20250

MAR 16 1987

Mr. J. Dexter Peach  
Director, Resources, Community  
and Economic Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Peach:

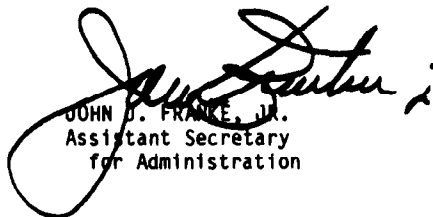
Thank you for the opportunity to review the GAO Draft Report AFMD-87-23, dated February 1987, Entitled, "Debt Collection: First Year Collection Efforts Under the GSA Contracts."

We are concerned that the draft report does not mention some of the public policy aspects of the debt collection initiative. For instance, the 1987 Continuing Resolution prohibits the Farmers Home Administration from using appropriated funds to pay private debt collection firms during fiscal year 1987. We understand that a paragraph will be added to the report highlighting the effect of the Continuing Resolution.

Another concern is that the age and relatively poor condition of the accounts referred to the General Services Administration (GSA) contractors might distort comparisons between recovery rates of other contractors with previous Government experience or the experiences of the private sector. The initial group of accounts referred to the GSA contractors may not be representative of the age and condition of future account referrals.

In general, the Department of Agriculture concurs with the draft report's findings and recommendations.

Sincerely,

  
JOHN J. FRANKE, JR.  
Assistant Secretary  
for Administration

See comment 23.

See comment 24.

# Comments From the Small Business Administration

Note: GAO comments supplementing those in the report text appear in appendix XIV.



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

MAK 20 1980

Mr. J. Dexter Peach  
Assistant Comptroller General  
Resources, Community and Economic  
Development Division  
General Accounting Office  
Washington, D. C. 20548

Dear Mr. Peach:

This is in response to your request for our comments on a GAO draft report entitled, "Debt Collection: First Year Collection Efforts Under the GSA Contracts".

We have reviewed the report and our specific comments on particular aspects of the report are outlined below. However, in addition to these comments, we believe that since the completion of your work additional information is now available which we believe should be considered prior to your writing the final report.

The attached Exhibit A demonstrates SBA's intensive effort to use the three GSA contractors handling SBA loans. You should note that SBA has now referred over 22,000 loans totaling nearly 600 million dollars. We understand that this ranks SBA second in both number and dollar amount among all government agencies using the contracts.

To further demonstrate SBA's intent to use all of the tools Congress has provided, SBA is taking an active role in the formulation of the Statement of Work for the contract that will replace the existing contract. Personnel involved in the use of the current contract are continually meeting with Treasury, OMB and GSA officials toward this end.

SBA feels that the present contract present two problems. First, statistics extracted from Schedule 9 of the Standard Form 220, "Status of Financial Condition", should not have been used as a basis for expected referrals. This led to contractors bidding too low, and the oversight agencies expecting huge volumes of referrals that could not be delivered. Later efforts to determine agency-by-agency commitments have proved to be an accurate benchmark.

See comment 25  
See comment 26.

See comment 27.

Page 2

Second, SBA has always had collection systems and policies in place which were being implemented by field offices in every state. It is questionable whether mass referral of our entire delinquent portfolio, which is being actively pursued by 1,200 trained personnel, would benefit the government. To illustrate this point, a control portfolio, identical to the portfolio referred to the contractors in July 1986, was serviced by SBA. Exhibit B (attached) shows that SBA has generated double the collections on the control portfolio through January 1987. Although the volume of SBA's referrals has resulted in the second largest dollar return to the collectors, they have only collected 1/2 of one percent of what we have referred to them.

The following are our comments to the specific findings and recommendations made in the report:

Finding: Agencies were initially slow in referring delinquent accounts to the contractors.

Comment: The GAO report suggests that SBA, along with other Federal agencies, resisted Administration policy to use collection agencies. This was not the case with SBA. Shortly after the contract was signed, SBA began to meet with the contractors to establish technical and policy parameters for referrals. Time was required to develop the automated systems and procedures required for referral, collections processing, accounting and reporting, fee invoice payment and return of SBA loans. Instructions and procedures for use by the Agency's field offices were also required. In fact, SBA should have proceeded more deliberately in referring loans to collection agencies. Acceleration of the referral process did cause some of the problems which the GAO report identified.

The SBA was also implementing its procedures and systems for IRS offset of delinquent borrower's tax refunds during this period of time. Other Administration credit management initiatives were also in process (automated collection system development, credit bureau reporting).

Finding: Delinquent accounts referred included some that were inappropriate for referral.

Comment: We believe that all the debts that SBA referred were "appropriate" and of a quality commonly referred in the collection industry. The purpose of such contracts is to help creditors profile their

See comment 28.

See comment 29.

See comment 30.

See comment 31.

Page 3

portfolio, and to collect debt. We accurately described the portfolio to the contractors in terms of percentage bankrupt, percentage deceased, etc. One batch was preselected as weak because even the IRS addresses were no longer valid. The contractors indicated that, in spite of the problems, they were anxious to receive the referrals as soon as possible. The contract clearly contemplated such referrals and stated how uncollectable accounts were to be handled, identified, and returned. Referrals are commonly made on this basis throughout the industry. Similarly, accounts are commonly referred without telephone numbers; lack of telephone numbers should not be considered an issue. We do realize the value of the telephone number, and would have provided it if it had been available. However, we state again, the contractors were notified of this fact and they eagerly wanted the accounts referred on an "as is" basis.

See comment 32.

**Finding:** Contractors' fees not passed on to some debtors.

**Comment:** Regarding the issue that the collection fee should be passed on to the borrower, we are attaching Exhibit C. Contrary to the comments in the draft, we stated that the contractors may collect it if possible, but we are not capable of providing it as data in a referral record. The figure cited in the draft report of \$118,485 is misleading even if the fee were added. The fee only becomes relevant to total collection if the loan is collected in full. We would like to point out that of 558 loans collected in full by the contractors, none have included their contingency fee. Therefore, we maintain that it is not cost effective for the government or the contractors to develop capabilities to handle the transaction if the fee is not collected in most cases. Furthermore, adding on the collector's fee would require modification of SBA's loan accounting system. The fee amount would have to be added to the loan record. Collection processing would require modification to credit a proportional share of a loan payment to the fee amount owed. The return check processing would also need modification. The chargeoff transaction would need to be modified. The modifications required would be expensive, perhaps as much as \$400,000, according to an informal estimate by SBA's computer department.

See comment 33.

See comment 34.

Page 4

The addition of the fee amount causes other problems. Does the collection agency get a fee on the portion of a collection attributed to the fee amount due? If they do, the contractor has received a fee on the fee, and the borrower's account can never be repaid. If they do not, the contractor is not compensated for the effort to collect the fee amount.

For the above reasons, SBA does not currently add the fee amount to the loan balance referred. Future referrals should not do so either.

Omissions in the GAO Report

Information was provided to the GAO auditors during their review, on problems SBA was having in its administration of the GSA contract related to collections processing, collection data furnished to SBA, incorrect fee invoices from the contractors and the poor quality of the computer systems used by the contractors. These comments should have been included in the GAO report, but were not. They are as follows:

Collections processing by the lockbox bank has not been acceptable. The lockbox bank has too frequently credited receipts or returned checks to the wrong Federal agency. Although the lockbox bank improved its performance after gaining experience with Federal payment processing, this learning process required nine months, which was entirely too long and created an unacceptable amount of additional work by SBA personnel.

In fact, lockbox, we believe, is not the correct collection mechanism for the type of collections received under the GSA contract. This was told to OMB, Treasury Department, and GSA personnel in 1985 by SBA, other Federal agencies and the private collection contractors. However, OMB and Treasury officials insisted on the use of lockbox.

After the Treasury Department mandated the use of lockbox to Federal agencies, it did not follow up to properly implement the lockbox. Treasury should have arranged for officials from the Federal agency, lockbox bank and private collection contractor to meet in order to discuss lockbox processing. This was not done, therefore, the lack of familiarity with each others' systems, documents, and type of payments to be received caused problems which could have been avoided.

See comment 35.

See comment 36.

Page 5

Work is now underway to develop a successor to the original GSA contract as it expires in October 1987. As part of this effort, the Treasury department has requested input from Federal agencies. During the development of the original GSA contract, OMB and GSA officials did not seek the advice of Federal agencies. This was due in part to the incorrect perception that Federal officials did not know how to collect government loans. Lockbox will not be used in the new GSA contract. Instead, the private collection contractor will directly receive collections, process them and make deposit in a Treasury account at a local bank.

Collections processing by the collection contractors has not been acceptable. The contractors have made too many errors in posting repayment data supplied by the lockbox bank. Payments are initially posted to the wrong loan, double posted to a loan account, or not posted at all. This indicates a lack of adequate controls over collections processing on the part of the collection contractors.

Collection data supplied to SBA by the contractors has been of poor quality. The SBA requested that collection detail be provided monthly via magnetic computer tape. Tapes provided by the contractors have at times omitted one half of the month's collections and at other times included the previous, as well as the current month's collections. The format of the data on the tape has many times been changed without notifying SBA. This has caused SBA needless extra work, and also delayed collections processing by weeks.

Fee invoices are incorrect. The incorrect fee percentage is used at times by the contractors. The fee percentage depends on the size of the loan amount referred, the degree of delinquency, and the type of loan referred. The contractors are incorrectly including accrued interest in determining the amount referred for fee rate determination. They are also incorrectly including current payments along with delinquent payments referred in determining the fee percentage. The SBA has pointed out these problems but the contractors have been unable to fix their computer systems to correct the problems. The SBA, as a result, pays the contractors' fees based on its own reports of the fee amount due.



Appendix X  
Comments From the Small  
Business Administration

Page 6


The computer systems used by the contractors are not adequate. The contractors are unable to easily modify their systems to meet GSA contract processing requirements. This is due to the fact that the systems have been designed to meet the needs of large commercial users, and are not flexible enough to allow for easy modification. The lack of adequate computer systems has in turn contributed to the above problems with collection data and fee invoices.

Finally, we direct your attention in greater detail to Exhibit C. This letter was sent to GSA in order to outline problems that existed in November 1986. All of the problems continue to exist, especially in the areas of payment processing and reconciliation, and CCLR preparation. Documentation of these issues is being updated now, and will be provided to the GAO staff in March, as well as to Treasury, OMB and GSA.

We assure you that SBA will continue its efforts to use this contract and will continue to assist Treasury and GSA in the development of the new contract. We have done everything we could to make this contract a successful collection tool.

We appreciate the opportunity to comment on the report and if you need any additional information, please do not hesitate to contact us.

Sincerely,



John F. Moffitt  
Acting Associate Deputy Administrator  
for Management and Administration

Attachments

# Comments From Capital Credit Corporation

Note: GAO comments supplementing those in the report text appear in appendix XV.



Regional Administrative Office • 1320 Fenwick Lane, Suite 410 • Silver Spring, Maryland 20910 • (301) 495-1100

March 11, 1987

Mr. Frederick D. Wolf  
Director  
U.S. General Accounting Office  
Washington, D.C. 20548

Re: Draft of Proposed Report

Dear Mr. Wolf:

On behalf of the entire Capital Credit organization I would like to express our appreciation to you and your staff for providing us with an opportunity to comment on the subject proposed report. Generally, we agree with the findings but we do have several comments which we would like to offer.

It is true that many of the accounts placed with us did not contain information that would enable us to expeditiously process and collect the accounts. The debtor's telephone number, which we consider to be of great importance and which might have been known to the ordering agency, was rarely provided. While each of the contractors has the ability to develop this information, it is time consuming to do so and a great many debtors do not have published numbers.

We do not feel the fee structure has severely restricted the time and effort we could invest to work the accounts. The average balance of the accounts placed with us, coupled with the anticipated recoveries, allowed for the level of collection effort which would maximize the recoveries.

The volume of accounts expected by us has simply not materialized. In the RFP it was estimated that 35,337 accounts might be referred to us over the course of the contract. To date, only 24,603 accounts have been placed. While we not only have the capacity to handle the volume originally projected, we have capacities far greater than this. As the report suggests, with 12 offices and well over 450 employees Capital can handle a virtually unlimited volume of accounts.

The conclusion that has been reached relative to the recovery rates is accurate-- we have not had the accounts sufficiently long to determine the exact extent of our effectiveness. Accounts were not placed with us until late July 1986, some ten months after the contract was signed. Further, the sensitive nature of the FmHA accounts placed with us dictated that the accounts be handled in a "low key" manner. While continuing to adhere to the terms of the contract, it was necessary that undue problems not be created for FmHA and this has had an adverse effect on the recoveries. Since virtually fifty percent (50%) of the accounts placed with us were from FmHA, (\$630 million), this has had a meaningful

See comment 1.

Appendix XI  
Comments From Capital Credit Corporation

Mr. Frederick D. Wolf  
March 11, 1987  
Page 2

impact on our overall results. Incidentally, FmHA has recently exercised its right because the accounts have been with us for over 180 days and many will now be returned to FmHA as uncollectible. We do feel, however, if given an opportunity to do so we could collect a significant number of these accounts.

Specific reference has been made to SBA and the fact that some of their accounts were "questionable". We do not feel this applies to SBA any more than it does to other clients in either the government or the private sector. Generally, their accounts have been without dispute and have been found to be valid.

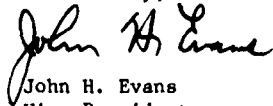
The comments relative to the collection techniques being utilized are accurate. We are attempting to maximize the recoveries and are following the work plan outlined in our proposal. We believed these procedures to be sound when they were proposed and we still believe them to be.

While commented upon previously in this letter and the report, we think reference should also be made on Appendix V to the fact that most of the accounts were not placed until after June 1986 and the figures incorporated in this report are as of September 30, 1986. We are concerned that in reviewing the report this fact, which we consider to be critical, may be overlooked and an erroneous impression of the success of the debt collection initiative may be obtained.

While we have the opportunity to do so, we would like to commend your staff on their cooperation and assistance in making this project a successful one. Specifically, these comments are directed to Mrs. Helen Lew and Mr. Hodge Herrie. We have had the pleasure of meeting and speaking with them on numerous occasions and in each instance they have impressed us with their knowledge of the program, their interest in seeing it succeed and their willingness to assist the contractors as well as the federal government.

Again, we appreciate having this opportunity to respond to your letter and we hope you will feel free to again contact us if we can be of service to you.

Yours truly,



John H. Evans  
Vice President  
Sales Administration

JHE/hl

cc: Michael Strauss  
Narinder K. Mehta  
Robert M. Haynie  
Deborah L. Stowe

# Comments From Corliss Credit Services

Note GAO comments supplementing those in the report text appear in appendix XV



809 Main Street East Hartford Connecticut 06108

Telephone 203 282 0371

March 10, 1987

Ms. Helen Lew  
Government Accounting Office  
441 "G" Street, N.W., Room 6025  
Washington, D.C. 20548

Dear Ms. Lew:

Let me thank you for giving me a chance to respond to the draft for debt collection. I feel the information we were privy to is generally correct (see attached), and your conclusions were well founded. We look forward to the report in whole before making any final judgements.

My reply will not address the factual part of the draft, but will focus on the three questions asked by Senator Cochran. Although answered satisfactorily in the draft, these three questions were the initial reason for the report being prepared and deserve further comment.

Some of the contractors may not have sufficient resources to handle the large volume of government claims.

When the line items were initially awarded, O.M.B. stressed we "gear up personnel and resources" so we could handle the large volume of debt that would be coming to us in the next thirty days. Plans were implemented to hire extra collection help and to be ready for the first of the \$3 billion debt that would shortly be in our possession. Unfortunately, we quickly learned that the federal agencies were not ready to place and the debt dollars quoted to us were not the true reflection of the debt to be placed. We resigned ourselves to the fact that the personnel and systems we currently had would be more than enough to handle the volume of debt referred to us.

The fee structure of G.S.A. contractors may be so low that it would not produce maximum recovery of the Federal Debt.

See comment 2

March 10, 1987  
Ms. Helen Lew  
Government Accounting Office  
Page 2



The fees, although lower than fees we normally charge the private sector, would be more than sufficient had the volume of the debt promised been turned over and the Credit Claim Litigation Report (C.C.L.R.) form been used.

Regarding volume, the dollars taken off the Scheduled 9 did not provide a true reflection of the actual debt that conformed to placements within the requirements of the contract. Also, the reluctance of the agencies to use the contract (despite the efforts of O.M.B. and Treasury) continues to frustrate the collection agencies. H.U.D., V.A., Fm.H.A., and F.C.I.C. are a few examples of the larger agencies restricting placements or placing just part of their available debt.

C.C.L.R. forms should have been used by all agencies and would have helped the contractor (\$40 fee) and provided the federal agencies a means to recover the monies due them. Unfortunately, only a few of the agencies had the resources and the desire to pursue the C.C.L.Rs. Frustration arrives when the contractor hasn't any recourse (C.C.L.Rs.) to reply to a debtor who admits he owes the money but just refuses to pay.

Compare the U.S.A. contractors' recovery rates with those of other contractors with previous government experience.

Corliss is one of the agency that had prior experience in the collection of federal agency debts. Our rate of recovery on the prior contract was significantly higher due to ...

- 1) The federal agency knows its receivables and places "good paper".
- 2) The federal agency wants to work with the collection agency.
- 3) Competition with other collection agencies (within the contract) is used as a tool to spur better collection results through competition.
- 4) C.C.L.R. fees and a resolution fee are paid to the collection agency.

Appendix XII  
Comments From Corliss Credit Services

March 10, 1987  
Ms. Helen Lew  
Government Accounting Office  
Page 3



Answers to all these questions (and more) were presented by me at a meeting in January. It is my hope that my ideas will be given consideration prior to the solicitation of the next R.F.P. Should the same or similar R.F.P. be drafted, major problems are sure to continue. However, with the proper guidance of the collection agencies and the welcomed input of knowledgeable government debt collection officials, a successful contract could be forthcoming. Of course, I am always available should you have any questions or comments.

Sincerely,

Leo Bonetti  
President  
CORLISS CREDIT SERVICES

Attachment

See comment 3.

# Comments From STA/Corliss

Note: GAO comments supplementing those in the report text appear in appendix XV.

Connecticut Office: 809 Main Street East Hartford, Connecticut 06108 203-282-0371 800-228-1426  
New York Office: 591 Stewart Avenue Garden City, New York 11530 516-222-2750 800-782-7297



CORLISS

March 6, 1987

U.S. General Accounting Office  
Accounting & Financial Management Div.  
Washington, DC 20548

Att: Frederick D. Wolf  
Director

Dear Mr. Wolf:

Pursuant to my discussion with Helen Lew, of your office, we have reviewed the draft of a proposed report concerning debt collection; "first year collection efforts under the GSA contracts," and suggest the following changes and additions:

page 4, paragraph 2, second sentence, "if during this period the contractors are unsuccessful in collecting the full amount owed or establishing a repayment schedule, etc," may I respectfully request a sentence change as follows, "if during this period the debtor's remain evasive and/or refuse payment, despite the contractor's best efforts in collecting the full amount owed or in establishing a repayment schedule, that they recommend that the federal agencies writeoff the debt, obtain approval from the federal agency to accept a compromise on the debt owed or prepare a Claims Collection Litigation Report for referral to the Department of Justice for appropriate legal proceedings."

page 7, paragraph 2, when you say the contractor's told us they do not consider personal visits to be a cost effective collection tool, I strenuously object to that statement. STA/Corliss considers personal visits a very effective collection tool, although a more costly one to employ. We most certainly would make a personal visit when necessary to make an effective recovery. Your statement as is, is not consistent with our collection strategy.

page 8, as a contractor, we had several discussions with SBA, and it was their decision not to include collection fees as part of the accounts referred. Apparently the nature of the SBA debt is such that the collection fee would change on a monthly basis, and in the cases where the total amount was placed for collection, but the debt not accelerated, the collection fee could only be based on the amount past due. SBA indicated that there would have

A Government Services Corporation

See comment 4.

Now on p. 13.

See comment 5.

Now on p. 14.

See comment 6.

Appendix XIII  
Comments From STA/Cortiss

to be massive programming changes to properly apply funds received in the event collection fees were added on. In view of the complexity of their debt, they concluded that adding on collection fees was impractical.

note page 6, paragraph 2, 63% of Department of Interior, Office of Surface Mining including Department of Justice accounts referred were without telephone numbers.

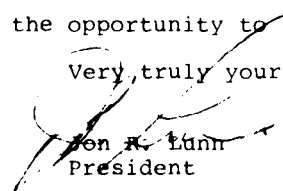
That concludes our comments relative to the material submitted, however, while we are not privy to other sections of the report that may be submitted in your final report, I am compelled to call your attention to the following: the government ordering agencies continue to resist placing accounts for collection with contractors. While there has been some mild acceptance in placing consumer debt, there is extensive resistance on the part of ordering agencies in placing commercial debt for collection.

It is difficult to identify in each agency the reason for this resistance, our experience indicates that reasons vary and include everything from concern for job security, in the event we're successful, to lack of internal controls and personnel to accumulate the data necessary to identify the debt, in order to place it for collection. In the case with the Department of Agriculture or FCIC, there has been a stop order on all future placement activity. Placement of commercial debt is almost at a standstill.

Despite the best efforts of the Office of Management & Budget & Treasury, agencies continue to ignore the prudent credit and collection policies outlined in OMB Circular, A129. Those agencies that do attempt to comply, do so reluctantly, and accordingly look for the oldest and most uncollectible accounts to place, so as to doom the entire collection effort to failure proving that there's no point in placing the accounts in the first place. A self-fulfilling prophecy is what sabotaged the collection effort from the outset, and continues to manifest itself whenever we inquire as to future placements. In fact, the overwhelming majority of agencies contacted continue to allege that there are no debts available to be placed for collection, and that the estimated delinquency used as the basis for the original requests for proposal was totally inaccurate and a misstatement of the facts.

We appreciate your giving us the opportunity to respond.

Very truly yours,

  
Jon R. Lunn  
President

JRL:FS

cc: Mr. Leo Bonetti

Now on p. 11  
See comment 7.

See comment 8.



# GAO's Comments on the Agencies' Comments

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## GAO Comments

The following are GAO's comments on the Department of the Treasury's letters dated March 13, 1987 and March 27, 1987; General Services Administration's letter dated March 16, 1987; Office of Management and Budget's letter dated March 18, 1987; Department of Agriculture's letter dated March 16, 1987; and Small Business Administration's letter dated March 20, 1987.

1. Discussed in agency comments section of report.

2. Report amended to reflect legislation passed by the Congress relating to FmHA's use of private debt collection firms during fiscal year 1987. See pp. 7 and 8.

3. Report changed.

4. Report changed.

5. Information provided is discussed on pp. 10 and 11 of report.

6. Information provided is discussed on pp. 11 and 12 of report.

7. Report changed.

8. Report amended to reflect an alternative method for calculating the contractors' collection rate.

9. Report changed.

10. No change to report needed.

11. Discussed in agency comments section of report. Also, while Treasury stated that it does not plan to submit updated guidelines to GAO for formal clearance, in subsequent discussions, it said that GAO will be consulted on the guidelines. Specifically, Treasury plans to provide the guidelines to GAO and other interested parties for comment.

12. Discussed in agency comments section of report.

13. Report amended to reflect GSA's reliance on the ordering agencies' contracting personnel to administer individual orders and to notify GSA of problems as they arise.

14. No change to report needed.

15. Information provided is discussed on pp. 10 and 11 of report.

16. We believe our use of the term "uncollectible debt" is proper. As indicated in the report, these types of accounts were referred because the agencies did not screen them to exclude deceased debtors and debts discharged through bankruptcy.

17. Report amended. See comment 8.

18. Recommendation amended to reflect need for the federal agency and the GSA debt collection contractor to reach appropriate agreements to change the contractual provision requiring the addition of the contractor's contingency fee to the debt. See p. 16.

19. No change to report needed.

20. Report amended. See comment 8.

21. Report amended. Also, discussed in agency comments section of report.

22. Report amended. See comment 2.

23. Report amended. See comment 2.

24. No change to report needed. Discussion on p. 13 indicates that collections were not greater because agencies were initially slow in referring delinquent accounts to these GSA contractors and that, in some instances, the quality of the accounts referred was poor.

25. SBA's exhibits are not included here but were considered in finalizing this report. They are available from us upon request.

26. No change to report needed.

27. Discussed in agency comments section of report.

28. We believe the initial effort to collect delinquent debts lies with the agency. OMB Circular A-129 requires that all accounts 6 or more months past due be referred to a collection agency.

29. SBA's exhibits are not included here. See comment 25.

30. Discussed in agency comments section of report.

31. Discussed in agency comments section of report.

32. No change to report needed. We did not state that SBA was not providing the GSA contractors the debtors' telephone numbers, if available in the agency's files.

33. SBA's exhibits are not included here. See comment 25.

34. Information provided is discussed on p. 15.

35. As discussed on p. 14 the contractors are paid a percentage of the total amount collected. If appropriately applied, the contractor's contingent fee would have been added to the amount of the debt using a prescribed collection formula.

36. We referred these problems to the appropriate oversight agencies once SBA informed us of them. At that time, Treasury officials advised us that they, along with GSA, had efforts underway to work with SBA and the contractors to resolve the problems. We intend to monitor these efforts in our future work.

# GAO's Comments on the Contractors' Comments

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## GAO Comments

The following are GAO's comments on Capital Credit Corporation's letter dated March 11, 1987; Corliss Credit Services' letter dated March 10, 1987; and STA/Corliss' letter dated March 6, 1987.

- 1.No change to report needed.
- 2.No change to report needed.
- 3.Corliss Credit Services' attachment is not included here but was considered in finalizing the report. It is available from us upon request.
- 4.This matter is not discussed in the final report.
- 5.Report changed.
- 6.Information provided discussed on p. 15.
- 7.Report changed.
- 8.Discussed in contractor comments section of report.

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U.S. General Accounting Office  
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