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U.S. Department of Justice:
Overview of Civil and Criminal
Debt Collection Efforts

Statement of
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Before the Subcommittee on
Government Information,
Justice and Agriculture
Committee on Government Operations
House of Representatives



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DEPARTMENT OF JUSTICE
Overview of Civil and Criminal Debt Collection Efforts

SUMMARY OF STATEMENT BY
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As requested by the Subcommittee on Government Information, Justice and Agriculture, GAO has developed basic information about the Department of Justice's efforts to collect debt owed to the U.S. Government. Specifically, GAO looked into the amount of the debt, its characteristics, and the amount which has been collected. The Subcommittee also asked for GAO's comments on any problems which may impede debt collection. GAO's main concern is whether Justice has adequate systems and plans to collect this aging and growing debt.

Delinquent debt has grown rapidly during the 1980s. Non-tax debts owed to the federal government exceeded \$244 billion at the end of FY 1989. Of this amount, 12% was delinquent for more than 1 year.

The job of collecting delinquent non-tax debt falls upon the Department of Justice, the government's collector of last resort. After a federal department or agency exhausts all reasonable efforts short of litigation to persuade debtors to pay what they owe, the matter is referred to Justice. As of September 1989, these civil debt referrals totaled a cumulative \$6.6 billion. Justice attorneys also collect criminal debts (\$968 million) that are imposed as fines, restitution orders, etc., by judges in federal criminal cases.

The responsibilities to litigate and collect civil debt are shared by the 94 U.S. attorneys' offices and the Justice Civil Division. During FY 1989, these offices collected \$562 million of civil debt carried in the Justice system. U.S. attorney offices are also responsible for collecting criminal debt. During FY 89, they collected \$82 million in outstanding criminal debt.

Justice lacks a system to track civil debt referrals from agencies. While Justice does have information on the \$1.1 billion in debt that has been entered into its collection system, Justice knows very little about the \$5.5 billion which has been referred to various U.S. Attorneys and is still in processing or litigation.

Justice has also had problems collecting debt which has been litigated. Justice officials indicate that, beginning in October of this year, they plan to implement a "long range strategy" to manage the civil debt collection efforts more systematically. However, they lack a written implementation plan. A careful plan is essential to an effort of this magnitude.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here to discuss information we have developed about the Department of Justice's efforts to collect debt owed to the U.S. Government. You asked us to provide information on the amount of the debt, its characteristics, and the amount which has been collected. You also asked for our comments on any problems which may impede debt collection. Our main concern is whether Justice has adequate systems and plans for collecting this aging and growing debt.

The total amount of non-tax debt owed to the government at the end of FY 1989 was \$244 billion. A significant portion of the debt is considered delinquent by the agencies. Furthermore, delinquencies have increased significantly during the 1980s. We have not included tax debts which are primarily collected by the Internal Revenue Service. IRS has its own authority and methods for collecting these debts.

Justice is the government's collector of last resort. After a federal department or agency exhausts all reasonable efforts short of litigation to persuade debtors to pay what they owe, the matter is referred to Justice. This type of debt is referred to as civil debt. In addition to civil debt, Justice attorneys also collect criminal debts that are imposed as fines and restitutions by judges in federal criminal cases. My discussion of Justice's debt collection efforts will focus on these systems.

You also asked us to comment on the potential for Justice to consolidate the collection activities in its 94 U.S. Attorney offices to improve efficiency. We will address this question later in our testimony.

The information that we are presenting today is based on data acquired from existing systems in the Departments of Justice and Treasury and on interviews of officials in those two agencies. The time spent in this brief review did not permit us to assess the accuracy of amounts obtained from the systems, or predict how much of the debt is collectible. Our interviews disclosed that determining the collectibility of the old debt could be very difficult due to gaps in information.

OVERVIEW OF DEBT OWED GOVERNMENT

We have prepared several charts and graphs to illustrate what we are going to present today. This first chart shows the total non-tax accounts receivable, or debt payable to the government, was \$244 billion at the end of fiscal year 1989.

**GAO Agency Records of Non-Tax
Civil Debts - September 1989**

• Accounts Receivable	\$244 Billion
• Delinquent	\$40 Billion
• Over 1 Year Old	\$29 Billion
• Referrals To Justice	\$6.6 Billion

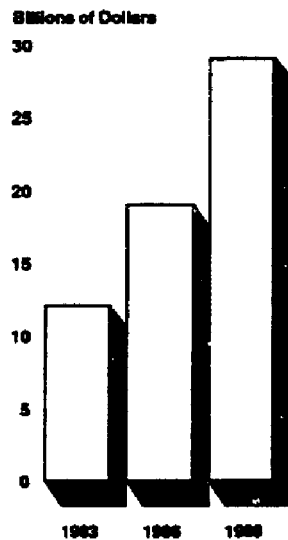
As you can see, of the \$244 billion total, just under one-sixth of it, \$40 billion, is classified as delinquent by the agencies. Agencies generally classify accounts receivable as delinquent if a payment has not been received within 30 days of its due date.

Of the \$40 billion, \$29 billion has been delinquent for at least a year. After a federal department or agency exhausts all reasonable efforts short of litigation to persuade debtors to pay what they owe, the matter is referred to Justice. These referrals are generally made from the \$29 billion of debt which is over 1 year old.

The chart also shows the receivables that agencies reported to Treasury as having been referred to Justice. At the end of FY 1989, this totaled \$6.6 billion. The amount excludes tax debts which IRS is collecting.

The next chart shows the rapid growth in the receivables that have been delinquent for more than 1 year. As you can see, these delinquent receivables have grown by more than \$7 billion for each of the 3 year periods between 1983 and 1989.

GAO Agency Delinquent Receivables Growing Rapidly



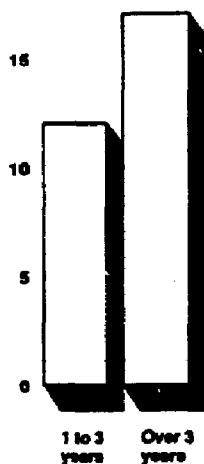
Delinquent Over 1 Year

September 1989

Justice officials told us that debt is often more than a year old before the agencies refer it to them for collection. This is illustrated by the next chart which shows that more than half of the agencies' \$29 billion of delinquent receivables were more than 3 years old.

GAO Most Agency Delinquent Receivables Are Old

20 Billions of Dollars



Delinquent Receivables Over 1 Year = \$29 Billion

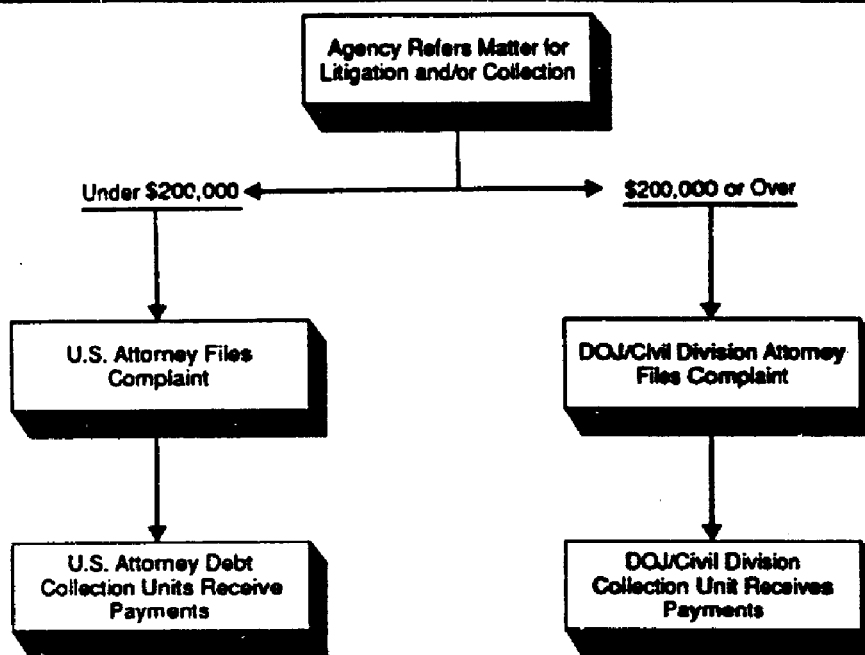
September 1989

This raises the question: How much of this delinquent debt will eventually be referred to Justice for collection? We do not have a basis to predict this, but the upward trend over the past 6 years in delinquent receivables suggests that delinquent debt referred to Justice for collection may increase over the next few years.

CIVIL DEBT AT JUSTICE

The next chart depicts the litigation and collection process Justice is to use to collect civil debts, penalties, and damages.

GAO Litigation & Collection Process For Civil Debts



The responsibilities to litigate and collect civil debt are shared by the 94 U.S. attorney offices and Justice's headquarters in Washington, DC. Their involvement begins when an agency that incurred the debt--such as the Department of Agriculture--decides to refer a debt to Justice for collection. If the debt amount is under \$200,000, the referring agency sends the case directly to the U.S. attorney office in the district where the debtor resides. Civil debts involving amounts larger than

\$200,000 are to be collected by attorneys in Department of Justice headquarters.

This next chart summarizes the results of Justice's civil debt collection efforts for FY 1989.

GAO Civil Collections Summary September 1989

- U.S. Attorneys

- Year End Balance \$ 1 Billion
- FY 89 Collections \$216 Million

- Civil Division

- Year End Balance \$177 Million
- FY 89 Collections \$346 Million

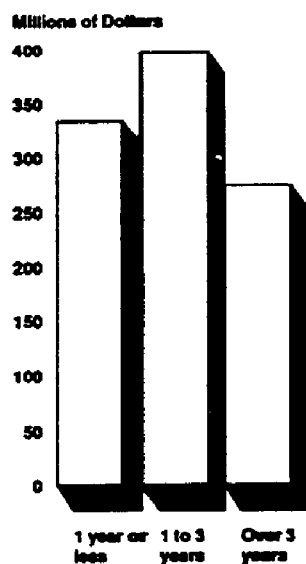
As this chart shows, U.S. attorneys collected \$216 million (27,200 cases) and had a \$1 billion (44,809 cases) balance as of year-end. Justice's Civil Division--the headquarters unit that handles large civil debt cases--collected \$346 million (440 cases) and reported an uncollected balance of \$177 million (134 cases) at the end of the year.

These year-end balances, which total \$1.1 billion, do not include debt that Justice is litigating. Of the remaining \$5.5 billion, some portion is actually being pursued in litigation. We do not know how much of this is awaiting litigation or is being held for other reasons. Justice does not have a system for tracking all referrals.

CIVIL DEBT AT U.S. ATTORNEYS

Next, we will review the characteristics of civil debt that agencies have referred to U.S. attorneys for collection. These are debts of less than \$200,000. The first chart shows how long U.S. attorneys have been attempting to collect \$1 billion of civil debt since the debts were litigated.

GAO Most U.S. Attorney Civil Debt Is Over 1 Year Old



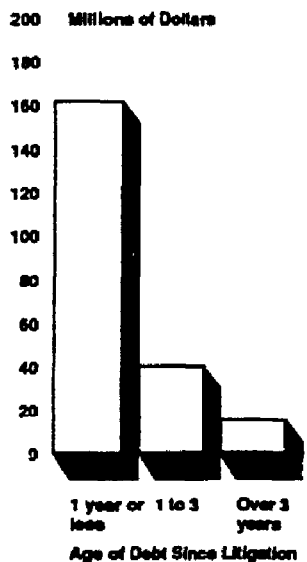
Age of Debt Since Litigation

Civil Debt Balance = \$1 Billion - September 1989

The age reflects the amount of time between the date that Justice started collection action and the end of FY 1989. Of the \$1 billion, about \$332 million is 1 year old or less; \$397 million is from 1 to 3 years old; and the remaining \$274 million is over 3 years old.

The next chart shows that most U.S. attorney civil collections were for debts in the Justice system for 1 year or less. Of the \$216 million in civil debt collected in FY 1989, about \$161 million was for debt that was at Justice for 1 year or less. Another \$40 million was collected for debt at Justice between 1 and 3 years. Nearly \$15 million was for debt at Justice for more than 3 years.

GAO Most U.S. Attorney Civil Collections Are For Recent Debts

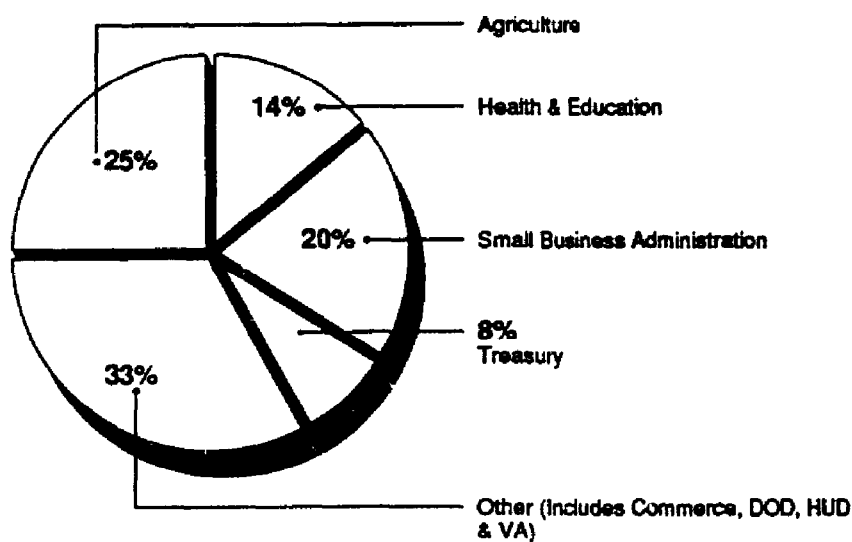


Civil Debt Collected = \$216 Million

September 1989

Where did the \$1 billion of civil debt referred to the attorneys come from? Our next chart shows that five agencies referred two thirds of the uncollected receivables to Justice for collection.

GAO Most U.S. Attorney Civil Debt Is Referred By Five Agencies



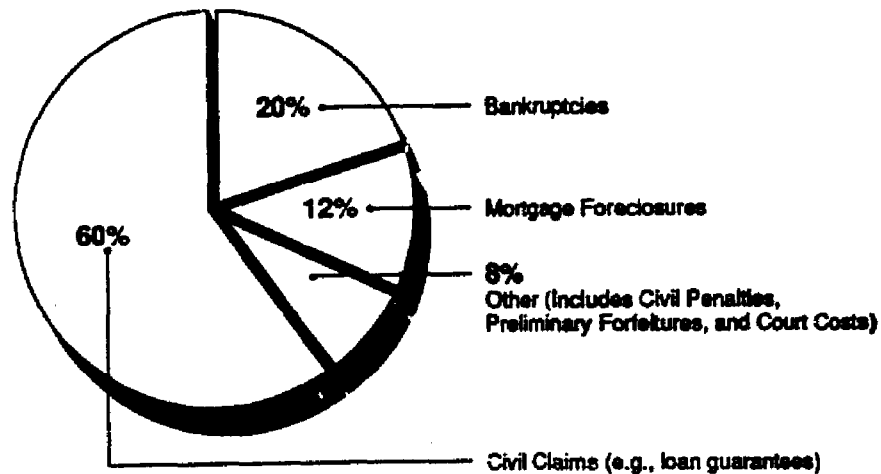
Civil Debt Balance - \$1 Billion

September 1989

As the chart shows, Agriculture sent 25 percent of the total and the Small Business Administration accounted for 20 percent. The Departments of Health and Human Services, and Education referred another 14 percent and Treasury referred 8 percent. As you can see, the uncollected balances for referrals to attorneys from all the remaining agencies represented 33 percent of the total.

Another way of looking at the source of the debt is to examine the type of claim that created the debt.

GAO A Large Part of U.S. Attorney Civil Debt Is For Three Types Of Claims



Civil Debt Balance = \$1 Billion

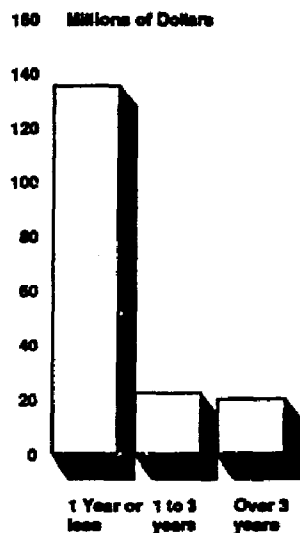
September 1989

According to Justice's records, the three largest categories were civil claims (e.g., guaranteed student and veteran loans), 60 percent; bankruptcies, 20 percent; and mortgage foreclosures, 12 percent. Other type of claims, such as civil penalties, preliminary forfeitures, and court costs represented the remaining 8 percent.

CIVIL DEBT AT JUSTICE HEADQUARTERS

Earlier, I noted that Justice's Civil Division is responsible for civil debt exceeding \$200,000. Justice records for this debt shows that this is relatively new debt, with about \$135 of the \$177 million being 1 year old or less. The Civil Division focuses on relatively large debt cases, and often collects the debt soon after the completion of litigation.

**GAO Most DOJ Civil Division Debt
Is Less Than 1 Year Old**

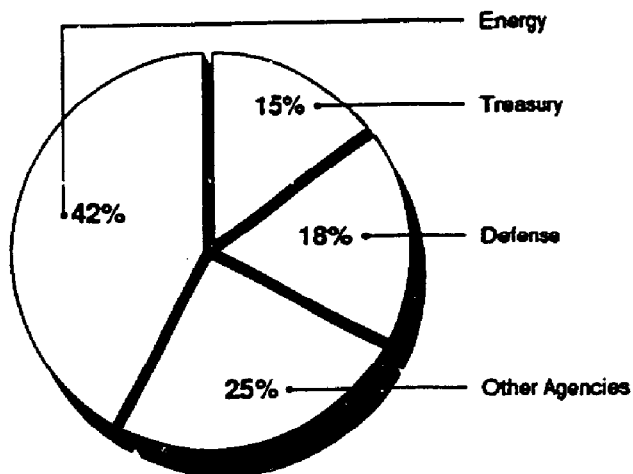


Age of Debt

Debt Balance = \$177 Million - September 1989

This next chart shows that most of the Civil Division debt balance came from three agencies.

GAO Most Civil Division Debt Is Referred By Three Agencies

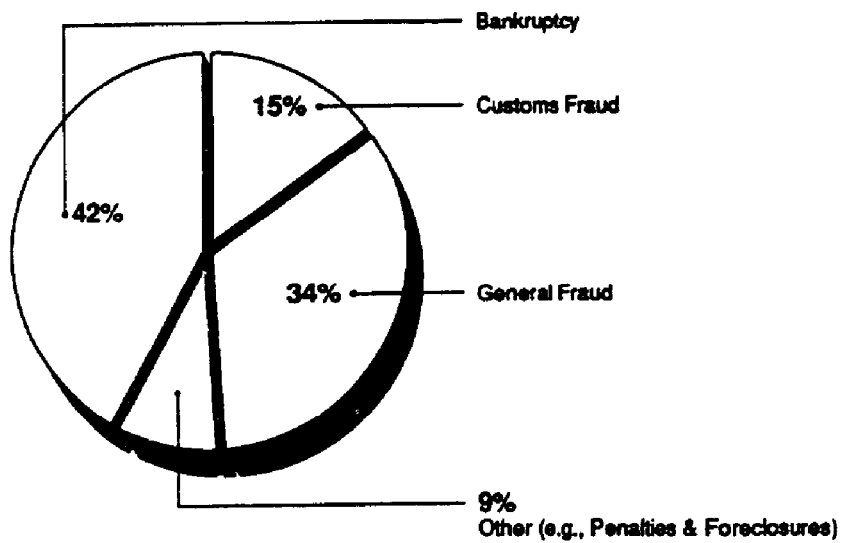


Debt Balance = \$177 Million

September 1989

The next chart provides information about the types of referrals made to the Civil Division.

GAO A Large Part Of Civil Division Debt Is For Fraud & Bankruptcy



Debt Balance = \$177 Million

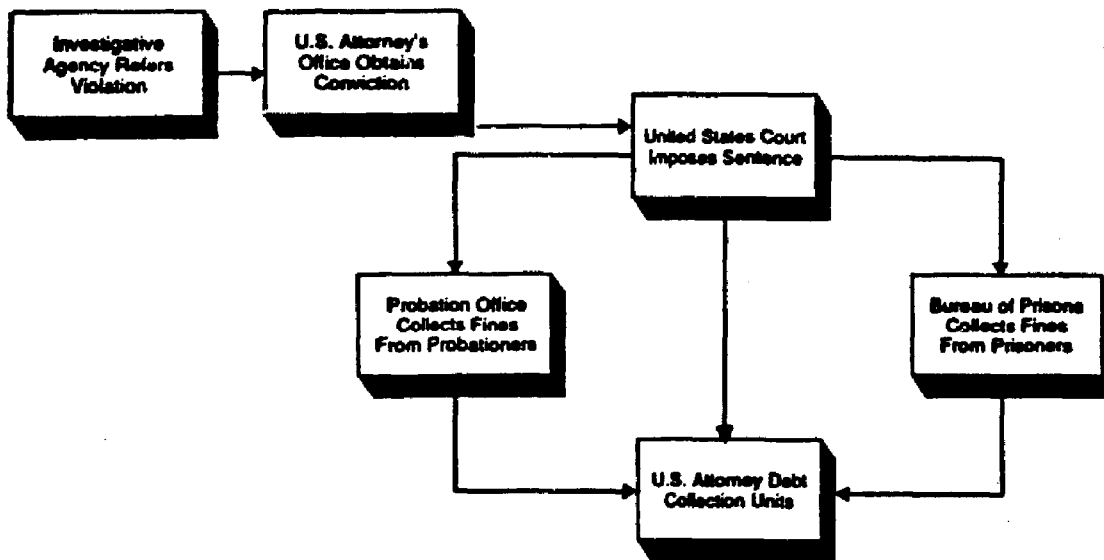
September 1989

CRIMINAL DEBT AT U.S. ATTORNEYS

Now, I would like to move to the other category of debt that Justice is involved in--criminal debt.

This first chart depicts the origin of criminal debt and how Justice attorneys get involved in its collection.

GAO Prosecution And Collection Process For Criminal Fines



Agencies such as the Federal Bureau of Investigation and the Drug Enforcement Agency investigate violations of federal law and refer the results of their investigations to their local U.S. attorney. If the U.S. attorney obtains a conviction and the judge approves a payment plan for a fine, the attorney's office is to establish a criminal debt record. Personnel from either the probation office or the Bureau of Prisons are to assist in getting the money to the court clerk. The clerk is to deposit the money in the bank and notify the U.S. attorney's office of the collection.

The next chart summarizes the criminal debt activities for FY 1989.

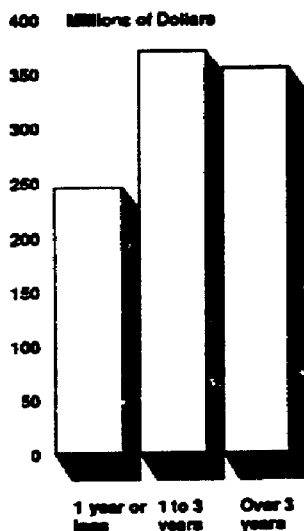
GAO Criminal Collections Summary September 1989

- U.S. Attorneys
 - Year End Balance \$968 Million
 - FY 89 Collections \$ 82 Million

The year-end balance for criminal debt according to Justice's accounting records was \$968 million. During FY 1989, U.S. attorneys collected \$82 million.

The next chart shows the age of the debt based on the date that the judge imposed the fine. It shows that a large percentage of the criminal debt is over 1 year old.

GAO Most Criminal Debt Is Over 1 Year Old



Aged From Date Of Judgment

Criminal Debt Balance = \$968 Million - September 1989

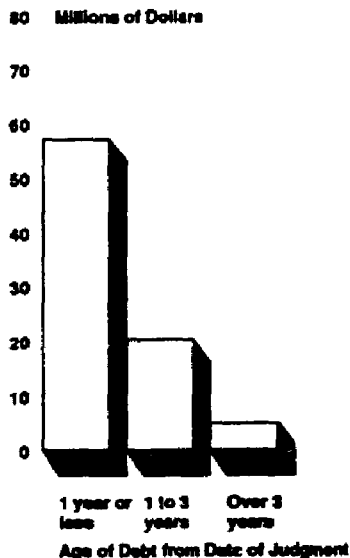
According to Justice officials, payment problems can arise because defendants spend their money on attorneys, who usually are paid up-front, and often have some portion or all of their other assets seized by the government because they were acquired

through criminal activity. By the time fines are imposed, the defendants may have no assets left for making payments.

As you can see, about \$250 million is less than 1 year old. Almost one-half of the remaining \$718 million is over 3 years old. According to DOJ officials, some of the debt is actually 10 to 20 years old. Old criminal debt is still on Justice's collection records because criminal fines cannot be written off the financial records for 20 years unless the debt is forgiven by a court order or the debtor is deceased.

The next chart shows that most collections in FY 89 were for recent fines and penalties.

GAO Most Criminal Debt Collections Reflect Recent Offenses



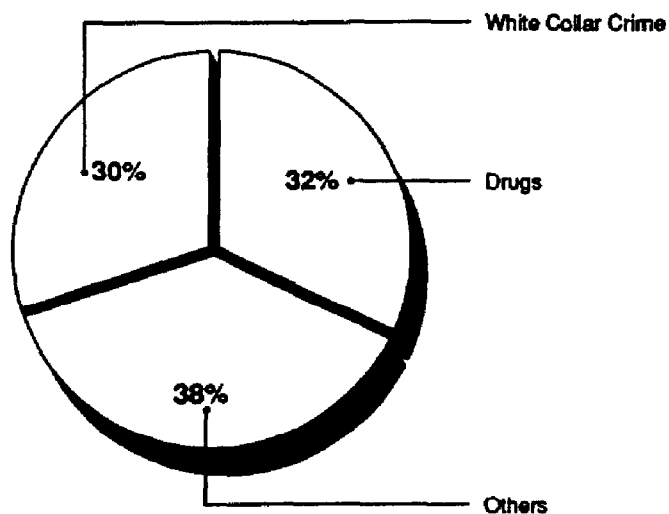
Criminal Debt Collected = \$82 Million

September 1989

About \$57 million, or 69 percent of the \$82.3 million in criminal debt Justice collected during FY 1989, was for debt 1 year old or less. Another \$20 million, or 25 percent, collected was for debt between 1 and 3 years old, and less than \$5 million, or 6 percent, was for debt over 3 years old. Some of the criminal debt is collected under payment plans established by the courts which imposed the fines.

What created this \$968 million of criminal debt? According to Justice's records, most of the debt came from two types of criminal offenses as the next chart shows.

GAO Most Criminal Debt Reflects Two Types of Offenses



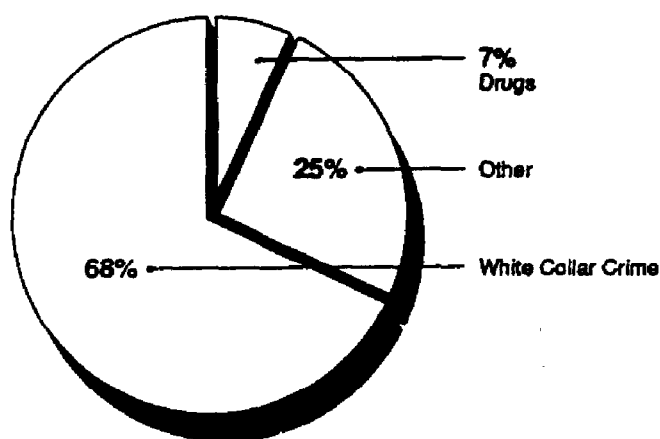
Criminal Debt Balance = \$968 Million

September 1989

As you can see, drugs and white collar crime made up 62 percent of the \$968 million of debt that was on the books at the end of FY 1989.

Our final chart in the criminal debt area depicts the categories of offenses for which the \$82.3 million in collections were made.

GAO Most Collections Were For White Collar Crime



Criminal Debt Collections - \$82 Million

September 1989

As you would expect, most collections came from two categories of crime that generated most of the debt--white collar crime and drugs.

PAST DEBT COLLECTION PROBLEMS

Over the past decade, we have looked at Justice debt collection efforts several times. Each time that we have reviewed Justice's debt collection activities, including our work in preparing for this testimony, we have found that Justice was experiencing similar problems. For example:

- tracking system problems; information needed to determine the status of referred debt often was not available.
- lack of debt collection staff; U.S. attorneys say they have an insufficient number of trained staff to aggressively follow up and enforce collections.
- law impediments; state laws present obstacles to enforcing collections and federal bankruptcy laws can delay the recovery of money owed to the government.

ACTIONS TO IMPROVE COLLECTIONS

There are some proposed actions which reduce collection problems, backlogs and costs. These actions are shown on the following chart.

GAO Actions To Improve Collections

- Improve tracking systems
- Greater use of private attorneys to collect some civil debts
- Enact uniform federal debt collection standards
- Consolidate debt collection units

The first area where improvement is already underway, is in management tracking systems which identify and follow the progress of debt cases through litigation and collection. Justice officials told us that they plan to improve their tracking system for civil debts which government agencies refer to Justice as well as the debts which U.S. attorneys are collecting. Within the judicial branch, the Administrative Office of the U.S. Courts, which assists Justice in collecting fines, is developing a tracking system for the criminal debts which the courts collect. Administrative Office officials advised us they are working with the courts to implement the

system, and that the information from the system will also be available to the U.S. attorneys who maintain records on the criminal debt and collections.

A second initiative is the use of private attorneys to help U.S. attorneys collect civil debt. The goal of this program, authorized by the Debt Collection Amendments Act of 1986, was to reduce backlogs of debt cases and cost effectively collect delinquent debt. The legislation required Justice to establish a pilot project to test the concept. The implementation of the pilot project was delayed for various reasons but is now underway. The potential which Congress perceived for using private attorneys to accomplish debt litigation and collection is still not known.

A third initiative, proposed by Justice for several years, is enacting legislation to remove impediments created by different states laws, e.g., the provisions for wage garnishment and homesteads. Uniform Federal debt collection criteria would establish uniform judicial enforcement remedies and uniform property exemptions to ensure that federal debtors are treated the same in federal court actions. This would enable Justice to simplify the varied collection processes its staff must deal with because of differences among state laws. It would also open the door for standardized procedures and forms that could make for more efficient processing of debt cases. Justice officials, including the U.S. attorneys, and GAO have strongly supported the enactment of such legislation, an example of which (S.84) is now before the House.

A final area may have potential for improving the effectiveness of Justice's debt collection activities is the consolidation of debt collection functions into regional offices or a national office. Mr. Chairman, in your letter requesting us to testify today, you pointed out that 94 U.S. attorney offices are involved

in debt collection. You said that the opportunity must exist for Justice to perform the debt collection task more efficiently through consolidation and automation. The consolidation of debt collection activities in the 94 U.S. attorney offices into a national office or several regional offices may provide an opportunity to improve operations through specialization of work and elimination of redundant tasks. Consolidation may open up greater opportunities for using automation to process and control collections.

The Office of Management and Budget (OMB) recognized the need to consider consolidation of debt collection activities. OMB's report, Fiscal Year 1990 Management of the United States Government, stated that Justice would "Evaluate the feasibility of consolidating U.S. Attorney debt collection functions on a multi-office or regional basis..." and would report on it by the end of fiscal year 1989. OMB and Justice officials recently told us that the consolidation study was not made.

Instead, Justice officials said they plan to implement a "long range strategy" to manage and track debt collection efforts better. The strategy is to funnel all debts the agencies send to Justice through a "central door" where they can be screened, counted, and distributed for litigation and collection. In June 1990, OMB reported that Justice never has accurate and current data on the number and value of debts sent to them. Justice officials advised us they plan to start implementing this "central door" concept in October 1990.

Justice's strategy would provide centralized control over debt collection cases, and could be a first step toward consolidation. The "central door" idea could provide for better control over the tracking of debt cases. The concept, however, still results in the referral of debt cases to as many government attorney offices as now.

Justice has already partially implemented the idea of a "central door" facility to receive all agency referrals. They did this as part of their private attorneys pilot project. For example, the automated system for the pilot project records debts received from agencies and tracks cases referred to government and private attorneys in the pilot districts. It also provides some automated support, such as the preparation of various letters and forms to assist attorneys in their collection activities. To that extent, the pilot project is actually providing a limited test of the benefits of automating the debt collection and tracking process. Justice has thus far implemented the pilot system in 6 of the 10 districts selected for the pilot project. We believe it is too soon to realistically assess how well these measures are working.

Finally, it is important that we point out that the "central door" approach that Justice is planning to implement nationwide will involve changes to both manual and automated systems. We talked to Justice officials about their plans for these changes. They also told us that they are now in the process of identifying the requirements for systems changes. They did not have a written plan for making the required changes. It is not clear whether they plan to include all referrals in the system changes they intend to implement. They told us, however, that they plan to establish a capability to receive and refer all agency debt cases to U.S. attorney offices by October, and to implement other changes over the next 3 years.

We are concerned about whether Justice's informal planning approach will be successful. We believe that a formal plan is needed to ensure that overall objectives are identified, requirements of various users are analyzed, and that the objectives and needs are met. Sound plans are essential to ensure that system development goals are met without costly

mistakes, which is especially important when developing automated systems. Such planning is essential also for ensuring that good management tracking systems are implemented to effectively manage the debt collection process.

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This concludes my prepared statement. We would be pleased to respond to any questions you may have.