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UNITED STATES GENERAL ACCOUNTING OFFICE  
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STATEMENT OF  
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ACTING COMPTROLLER GENERAL  
OF THE UNITED STATES



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BEFORE THE  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE

ON  
IMPROVING THE COLLECTION OF DEBTS  
OWED THE GOVERNMENT

Mr. Chairman and Members of the Committee:

We are here at your request to discuss ways in which Federal agencies can improve their debt collection operations. We appreciate your interest and are pleased to testify in support of the important legislative proposals offered by the Administration.

Debts arise from a host of Federal activities . . . from tax assessments to benefit and administrative overpayments, to overdue student and housing program loans. Most of these debts are paid routinely. However, some are not and amounts owed and being written off as uncollectible are substantial and growing rapidly.

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Federal agencies recently reported that receivables from U.S. citizens and organizations exceeded \$139 billion at the start of fiscal 1981--a 36 percent increase in the last 2 years. As of September 30, 1979, Federal agencies reported that \$24 billion due from U.S. citizens and organizations was delinquent, of which \$13 billion represented delinquent taxes. For fiscal 1979 agencies wrote off as uncollectible receivables totaling more than \$1 billion. Gloomy as these statistics are they are probably understated. The accounting systems of many agencies do not provide accurate information on receivables, expected losses and writeoffs.

{ Before the Government's debt collection problems can be remedied, many actions--administrative and legislative--must be taken. } In general, there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, { debt collection has generally been afforded low priority with emphasis on disbursing funds rather than collecting them. } Second, { present Government collection methods are expensive, slow, and ineffective when compared with commercial practices. Unless Federal agencies are provided with essential collection tools and resources and until they aggressively pursue the collection of debts, hundreds of millions of dollars will continue to be needlessly lost. }

More effective collection efforts also should reduce the number of debts that become delinquent and uncollectible in future years. We have estimated that with a sustained high priority, high intensity effort, including the needed resources, legislative actions and administrative initiatives, as much as \$6.7 billion in delinquent debt can be collected in future years that would not be collected if these actions do not occur. <sup>1/</sup>

#### Regulatory Changes and Legislative Proposals

I will comment briefly on certain regulatory changes and legislative proposals--most of which are addressed by the Administration's proposed bill--on which we have been working with the Administration and Congress.

#### Reporting Delinquent Debts to Credit Bureaus

As a result of our comparison and analysis of the debt collection practices of the public and private sectors, <sup>2/</sup> we initiated an April 1979 revision to the Federal Claims Collection Standards <sup>3/</sup> to require that agencies establish procedures for reporting delinquent debts to commercial credit bureaus. These Government-wide regulations are issued jointly by the Comptroller General and the Attorney General under authority of the Federal Claims Collection Act of 1966. <sup>4/</sup>

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<sup>1/</sup> "Improved Administrative Practices Can Result in Further Budget Reductions," (PAD-81-69 March 30, 1981).

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

<sup>3/</sup> 4 CFR 101-105.

<sup>4/</sup> 31 U.S.C. 951.

[The new provision] for reporting debts to credit bureaus [has not been implemented primarily because a legal issue arose over whether participating credit bureaus,] which are governed by the Fair Credit Reporting Act, 1/ [must also comply with the Privacy Act of 1974.] 2/ Specifically, the Department of Justice has taken the position that a credit bureau that enters into an agreement with a Government agency under which the credit bureau would retain information disclosed by the agency would be maintaining a subsystem of records subject to the Privacy Act.

A spokesman for the credit bureau industry stated that [the industry will not participate with the Government in this effort of recording debts if doing so makes the bureaus subject to the Privacy Act.] Aside from the fact that the industry is already heavily regulated, he expressed the view that modifying bureau systems for recording disclosures and debtor counter-arguments in a manner that would meet Privacy Act requirements would not be cost effective.

[Recently, legislation was enacted that will exempt credit bureaus from the Privacy Act for certain VA 3/ and Department of Education 4/ debts. We supported that legislation; however, we would have preferred legislation providing such exemptions for all Government agencies, as is provided by this proposed bill.]

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1/ 15 U.S.C. 1681.

2/ 5 U.S.C. 552a.

3/ Public Law 96-466 October 17, 1980.

4/ Public Law 96-374 October 3, 1980.

### Use of Social Security Numbers

We know from our collection efforts that [not having a debtor's Social Security number often impedes efforts to positively identify and locate a debtor, thereby resulting in the termination of collection efforts.]

We fully support the provision in the proposed bill which authorizes the use of social security numbers as a collection aid.

### Collection by Offset from Federal Employees' Salaries

[We strongly support the proposed amendment] of 5 U.S.C. 5514 [to allow offset of general debts against current salaries of Federal employees.]

[Under present legislation, the current salary of a Federal employee may be withheld only to satisfy an erroneous payment the agency made to the employee or to recover travel or moving expense advances paid to the employee. Current salary may not be withheld to satisfy general debts owed the Government.]

Obtaining payment depends on the voluntary cooperation of the debtor and cooperation of agency officials in counseling employees about their debts. When an employee refuses to pay, the collection process is lengthened, accounts become old, and they may ultimately have to be referred to the Department of Justice.

In a recent review of the Veterans Administration's debt collection program, 1/ for example, we found that most employing agencies were not very aggressive in counseling their employees concerning payment of their debts to VA and, consequently, VA was having to send many of the debts to Justice for enforced collection. The Departments of Labor and Education were having similar problems in collecting from Federal employees.

In the past agencies even have had a problem in ascertaining that a debtor was a Federal employee. Computer matching programs, however, are making these determinations more feasible--VA recently matched its debt files against files maintained by the Office of Personnel Management and identified 66,000 Federal employees indebted to VA for \$37 million.

[ Legislation allowing involuntary collection from a Federal employee's salary should materially strengthen the collection programs at these and other Federal agencies. ]

Our Office and Justice have agreed on an amendment to the Federal Claims Collection Standards requiring that agencies establish regulations for administering offset authority. The agency regulations must provide debtors an opportunity for a pre-offset hearing whenever there is a question of veracity concerning the existence of a debt. These new procedures should minimize any potential abuse of offset authority.

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1/ "Legislation Plus Aggressive Action Needed to Strengthen VA's Debt Collection," (HRD-81-5 Feb. 13, 1981).

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#### Using IRS Locator Assistance

Locator assistance available through IRS is more effective and less costly (currently only 11 cents for each address) than any alternative locator technique. Enactment of the proposed bill would remove a present restriction on the redisclosure of an address obtained from IRS to credit bureaus or other contractors who are assisting in the collection effort. We strongly support the passage of this provision.

#### Offset of Federal Tax Refunds

Federal tax refunds are routinely made to many individuals who have not paid debts owed the Government. In March 1979 we reported to the Congress <sup>1/</sup> that of a sample of 613 terminated debts totaling \$431,000, up to \$153,000, or 36 percent, could have been collected over a 2-year period by reducing the debtors' tax refunds. We recommended that, on a test basis, delinquent nontax receivables be collected by reducing future income tax refunds due the debtors.

IRS expressed reservations about the desirability and practicality of such a program when balanced against the value of concentrating IRS resources and expertise on the administration of tax laws as well as the potential negative effect on

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<sup>1/</sup> "The Government Can Collect Many Delinquent Debts by Keeping Federal Tax Refunds as Offsets," (FGMSD 79-19, March 9, 1979).

the taxpayer withholding system. A provision in the fiscal 1980 IRS appropriations bill to fund 30 positions for such a test was not enacted.

Several Members of Congress, however, were interested in pursuing legislation on this point, and we have continued to develop related information. In response to a request from Senator Sasser, as Chairman of the Legislative Appropriations Subcommittee, we issued a report 1/ last July that pointed out that in 1979 alone, the State of Oregon was able to collect by offset from tax refunds over \$2.4 million in delinquent debts that most likely would have been lost to the State. The State spent only about \$200,000 to collect this amount, while at the same time establishing strict controls to ensure that debtors' rights to due process are protected and that tax refunds are not arbitrarily offset.

In supporting this type of offset we wish to make clear that the necessary safeguards to protect debtors against arbitrary offset actions can and must be instituted. In this regard the procedures for IRS offset should be thoroughly tested prior to full implementation.

Determination of the Rate of Interest for  
IRS Debts

In a report to the Congress in October 1980, 2/ we pointed out that IRS assessed interest on delinquent taxes is generally lower than the rate available in commercial money markets--thus

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1/ "Oregon's Offset Program for Collecting Delinquent Debts Has Been Highly Effective," (FGMSD 80-68, July 17, 1980).

2/ "New Formula Needed to Calculate Interest Rate on Unpaid Taxes," (GGD-81-20, October 16, 1980).



discouraging prompt payment. } Adjustments to the interest rate charged are made every other year. [ We recommended that the rate be determined semiannually based on the Government's cost of financing and administering unpaid taxes. }

The amendment to the IRS Code provided for in this proposed bill would raise the interest rate to 100 percent of the prime rate, rather than the present 90 percent, and would provide for an annual adjustment. We support this proposal.

#### Clarification of Statute of Limitations

The proposed bill amends the Statute of Limitations (28 U.S.C. 2415) to make clear that it does not bar administrative offset of debts owed to the Government. [ We favor the unrestricted authority to collect by offset. ] In our opinion the statute of limitations does not currently bar administrative offset of debts. The Department of Justice has taken a contrary view and we, therefore, support the amendment as a means of resolving the differences between us.

#### Charging Interest

[ We support the proposed amendment that would make the charging of interest on delinquent debt a requirement of law, reinforcing the regulatory requirement now contained in the joint GAO and Justice claims collection standards. ] Agencies have been slow in complying with this regulatory requirement. VA was required by Public Law 96-466 to develop regulations by January 1981 for charging interest on benefit overpayments, but to date such charges are not being made.

Currently, many of the nontax debts owed the Government, especially those arising from overpayments of benefits or of pay and allowances, do not accrue interest. In our recent report on VA's debt collection efforts, 1/ we pointed out that given the present state of the Nation's economy, particularly the high inflation rate, tight money, and interest rates being charged for consumer-type credit, VA's failure to charge interest on such accounts gives veterans a financial incentive to not repay their debts to VA. When a debtor is given the choice of using available funds to pay existing debts--one interest bearing (e.g., consumer credit) and one not (e.g., VA overpayment) -- the financially attractive choice is obvious. VA's failure to charge interest on a balance of \$600 million of educational assistance overpayments would cost the American taxpayers an estimated \$90 million a year in unrecovered interest based upon the Government's cost of borrowing in 1980.

#### Obtaining Better Information on Debts

[The proposed bill also provides for improved accounting for agencies' debt activities.]

Our past reviews of the debt collection programs of several agencies have shown that available information was not adequate to meet the needs of the Congress or executive

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1/ HRD-81-5, Feb. 13, 1981.

branch management. In February 1979, we sent a letter to the Secretary of the Treasury suggesting that his department expand agency reporting requirements to include amounts of accounts and loans receivable past due, aging schedules of delinquent accounts, and amounts written off during specified periods. In addition, we urged Treasury, in cooperation with OMB, to take an active role in monitoring, analyzing, and following up on the information reported to ensure that agencies do as much as they can to collect amounts owed. At the same time we wrote to the Director, OMB, suggesting a close cooperative effort with Treasury to assure that the Government has an aggressive and effective debt collection program.

Treasury issued special requirements for fiscal 1979 financial reports. However, differing agency policies, procedures and accounting systems resulted in compliance problems and the information reported was not complete and accurate. The requirements were suspended for fiscal 1980, pending study and revision.

The need for improving the reporting system received considerable attention during a Government-wide study made by OMB's Debt Collection Project staff and revised reporting requirements are being planned. This proposed bill, if enacted, would provide further assurance, however, that the information needed by the Congress and executive branch management will be produced and that agencies will be more accountable for their collection activities.

## Contracting for Collection Assistance

[A change to the Federal Claims Collection Standards, initiated by GAO] and agreed to by Justice, effective April 17, 1981, [encourages Federal agencies to contract with private collection agencies, where appropriate, to supplement existing collection programs.] We believe that this is one way the Government can reduce the amount of its uncollected debts, especially those considered too small for legal action.

## Additional Interest Issues

[In some Federal programs, favorable interest rates are prescribed by law or administratively established. These rates are below the Government's cost of financing and administering its receivables.] Unless there is a specific prohibition in the law, it is our view that [agencies should include in their loan agreements a provision allowing for the rate of interest to be increased to the prescribed Treasury rate if delinquency occurs.] This would provide an incentive to Government debtors to keep their payments current.

## CONCLUSIONS

As is evidenced by these hearings, as well as activity in the House of Representatives, [progress is being made in developing an improved statutory framework for strengthening the Government's debt collection efforts. However, in order for Government collections to keep pace with the growing amounts owed and to reduce losses agencies must be provided with needed tools and resources and held accountable for their collection performance.]

Increased attention to these concerns is evidenced by establishment of the Council on Integrity and Efficiency in OMB which will give high priority to strengthening Federal debt collection. Expensive, slow, and ineffective collection methods must be improved or replaced--in some cases by using the resources and techniques of private industry. Also, higher priority should be placed on debt collection in relation to conflicting concerns.

This proposed bill would provide Federal agencies with effective tools for improving their collection programs. We strongly support these efforts and assure this committee that we will continue to recommend legislative and/or regulatory action needed to resolve other debt collection issues as they are identified.

This concludes my statement. We will be happy to respond to any questions you or other members of the committee may have.