

GAO

## Testimony

Before the Subcommittee on Government Efficiency,  
Financial Management and Intergovernmental  
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# DEBT COLLECTION IMPROVEMENT ACT OF 1996

## Department of Agriculture Faces Challenges Implementing Certain Key Provisions

Statement of Gary T. Engel  
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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss debt collection initiatives of two major components of the Department of Agriculture—the Rural Housing Service (RHS) and the Farm Service Agency (FSA). As you well know, collecting delinquent debt has historically presented major challenges for federal agencies. It is with this backdrop that the Congress, with a key role played by this Subcommittee, passed the Debt Collection Improvement Act of 1996 (DCIA). Among other things, DCIA requires agencies to (1) notify the Department of the Treasury (Treasury) of debts delinquent over 180 days for purposes of administrative offset against any amounts that might otherwise be due to those persons or entities, and (2) refer such debts to Treasury for centralized collection action known as cross-servicing. In addition, to facilitate debt collection, the act authorizes agencies to administratively garnish the wages of delinquent debtors.

While my testimony today is limited primarily to our work related to RHS and FSA, our audit results are based on a larger body of work, on which I testified before this Subcommittee on October 10, 2001.<sup>1</sup> That work assessed the progress of selected agencies in referring debt for administrative offset and cross-servicing and in implementing certain other key provisions of DCIA—administrative wage garnishment (AWG) and the debtor bar provision. In preparation for this testimony, we reviewed the Department of Agriculture’s (Agriculture) response to this Subcommittee’s October 16, 2001, letter containing questions concerning the agencies’ progress in referring delinquent debt to Treasury’s Financial Management Service (FMS) and mitigating any barriers to complete and timely referrals. This updating work was done in accordance with U.S. generally accepted government auditing standards.

Today, I will discuss (1) difficulties RHS and FSA have experienced identifying and referring eligible debts to FMS, (2) obstacles that have hampered their prompt referral of eligible debts, and (3) whether exclusions from referral requirements were consistent with established criteria. In addition, my testimony will cover Agriculture’s actions and plans in context with information dealing with the extent to which eight other large Chief Financial Officers (CFO) Act agencies and FMS use or plan to use AWG to collect delinquent federal non-tax debt.

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<sup>1</sup>*Debt Collection Improvement Act of 1996: Agencies Face Challenges Implementing Certain Key Provisions* (GAO-02-61T, Oct. 10, 2001).

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First, a few overall comments about DCIA implementation. We testified before this Subcommittee in June 2000 that, although DCIA was enacted in April 1996, the act's cross-servicing provision still had not been fully implemented.<sup>2</sup> We emphasized that on a governmentwide basis, the vast majority of reported debt delinquent over 180 days was being excluded by agencies from referral requirements under exclusions allowed by DCIA or Treasury. However, we cautioned that the reliability of the amounts reported as excluded was not being independently verified. We also stressed that agencies were not promptly referring all eligible debts to FMS. The picture left with your Subcommittee was that agency implementation would have to improve vastly if the debt collection benefits of DCIA were to be more fully realized.

On the other hand, I am pleased to report that FMS, in partnership with agencies, is making steady progress in collecting delinquent federal non-tax debt through the Treasury Offset Program (TOP). As you know, TOP is a mandatory governmentwide debt collection program that compares delinquent debtor data to certain federal payment data. Agencies are required to refer eligible delinquent debt to TOP as soon as it is 180 days delinquent, but may, at their discretion, refer it sooner. When a delinquent debtor record matches a payment record, TOP recovers all or a portion of the delinquent debt by offsetting some or all of the federal payment scheduled to be issued to the debtor. During each of the last 3 years, FMS has reported collecting over \$1 billion of such debt with TOP by offsetting tax refund payments. Tax refund offsets have been FMS' most effective means of debt collection and collections have increased, in part, as a result of systems changes the agency implemented. For example, the TOP system can offset against both the primary and secondary taxpayer, where the previous tax refund system could only offset against the primary taxpayer. In addition, the TOP system can accept new debts or increased debt balances all during the year, whereas the previous tax refund system could only accept them at the beginning of the tax season.

While there has been important progress, our follow-up work at selected agencies, including Agriculture, over the past several months has not allayed our concerns about the priority agencies have placed on implementing DCIA. As I will highlight today, Agriculture has not yet taken

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<sup>2</sup>*Debt Collection: Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative* (GAO/T-AIMD-00-213, June 8, 2000).

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effective actions to ensure that all eligible delinquent debt is promptly referred to FMS for collection action. For example,

- As of September 30, 2000, RHS reported that it had referred to TOP \$201 million of direct single-family-housing (SFH) loans but had not referred any amounts to FMS for cross-servicing, primarily due to systems limitations. According to RHS officials, the agency will refer 100 to 200 loans a month to FMS until the systems limitations are rectified. Also, RHS' reported delinquent direct SFH loans eligible for TOP might have been understated by about \$348 million because it did not report all amounts that were due and payable.
- FSA did not have an adequate process or sufficient controls to adequately identify and report direct farm loans eligible for referral to FMS as of September 30, 2000. In addition, a large portion of the approximately \$400 million of delinquent direct farm loans that became eligible for TOP during calendar year 2000 likely was not promptly referred because the agency refers debts to TOP only once annually, during December. Further, FSA did not refer co-debtors for the \$934 million of delinquent farm loans previously referred to TOP because of systems limitations that had existed for years. Moreover, the agency had referred only \$38 million of direct farm loans to FMS for cross-servicing because it suspended cross-servicing referrals pending development and implementation of its new cross-servicing policy. According to an Agriculture official, the first referral to FMS under this new policy was made in September 2001.
- RHS and FSA have not referred to FMS for collection action any losses on their guaranteed SFH and farm loans, respectively, even though through September 30, 2000, they have experienced losses of about \$132 million and about \$293 million, respectively, on such loans since the enactment of DCIA.

Also, Agriculture and other agencies still have not utilized AWG as authorized by DCIA to collect delinquent non-tax debt even though experts have testified before this Subcommittee that AWG can potentially be an extremely powerful debt collection tool.

As stated in my testimony on October 10, 2001,<sup>3</sup> if the government is going to make significant progress in collecting the billions of dollars of

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<sup>3</sup>[GAO-02-61T](#), Oct. 10, 2001.

delinquent non-tax debt, expedient and effective implementation of the debt collection provisions of DCIA must be given a high priority by agencies. This has not been the case at the agencies we reviewed. In many cases, the agencies continue to show extended milestones for needed corrective actions years in the future, even though substantial amounts of eligible delinquent debt have still not been referred.

## RHS' Direct Single-Family-Housing Loan Program

RHS administers a direct SFH loan program to help low-income individuals or households purchase homes in rural areas. As of September 30, 2000—the most recent fiscal year end for which agency-certified reporting exists for Agriculture—RHS reported having about \$17 billion outstanding in direct SFH loans. As shown in table 1, RHS reported \$383 million of direct SFH loans over 180 days delinquent, including debts classified as Currently Not Collectible (CNC) on its Treasury Report on Receivables Due From the Public (TROR) as of September 30, 2000.<sup>4</sup>

**Table 1: RHS' Direct SFH Delinquent Loans as of September 30, 2000**

	Debt amounts (in millions of dollars)
Debts more than 180 days delinquent, including debts in CNC	\$383
Less: exclusions allowed by DCIA <sup>a</sup>	182
Debts eligible for Treasury offset	201
Debts referred to Treasury for offset	201
Debts referred to Treasury for cross-servicing	0

<sup>a</sup>Exclusions were for bankruptcy, forbearance/appeals, and foreclosure.

Source: TROR fourth quarter 2000 (September 30, 2000).

RHS excluded \$182 million of this delinquent debt from referral to FMS for TOP and cross-servicing. In addition, RHS had not referred any debts to FMS for cross-servicing as of September 30, 2000, based, in part, on an exemption proposal which RHS stated, in its TROR as of the same date, had been approved by Treasury. However, Treasury officials told us that Treasury never approved a proposal to exempt RHS loans from cross-servicing. Accordingly, opportunities to collect these loans through Treasury's cross-servicing program are being missed.

<sup>4</sup>CNC debts are debts the agency has written off for accounting purposes but has not discharged. Collection action can still be taken on such debts.

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## Support for Not Referring a Significant Amount of Delinquent Direct SFH Loans Not Maintained

DCIA requires federal agencies to refer all legally enforceable and eligible non-tax debts that are more than 180 days delinquent to Treasury for collection through administrative offset and cross-servicing. We found that RHS did not maintain supporting documentation for direct SFH loans it excluded from such referral as of September 30, 2000. Consequently, we were not able to determine whether the agency's exclusion of \$182 million of delinquent debt was based on relevant legislative and regulatory criteria. FMS officials told us that it is their expectation that agencies would retain the applicable data needed to justify not referring delinquent debt for collection action. Further, the Comptroller General's *Standards for Internal Controls in the Federal Government* states that all transactions and other significant events need to be clearly documented and that the documentation should be readily available for examination.<sup>5</sup>

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## Systems Limitations Hampered Referral Activity

According to RHS officials, since implementing a new automated centralized loan servicing system in fiscal year 1997, RHS has been unable to readily identify direct SFH loans that are eligible for referral to FMS for cross-servicing. Essentially, the system does not contain sufficient data to differentiate loans eligible for cross-servicing from those that are not. Although RHS plans system enhancements for the third quarter of fiscal year 2002, which the agency believes will facilitate loan identification for cross-servicing, RHS officials advised us that relatively few referrals to FMS will likely be made in the near term. While we were performing our fieldwork, RHS began an interim process to manually identify such loans eligible for cross-servicing. According to RHS' debt referral plan, because the interim process is tedious and labor intensive, only about 100 to 200 loans were to be referred per month to Treasury, beginning in May 2001. RHS officials said that all direct SFH loans eligible for TOP will have to be reviewed for cross-servicing eligibility. RHS reported 23,032 direct SFH loans eligible for TOP as of September 30, 2000. The agency intends to refer about 30 percent of eligible direct SFH loans for cross-servicing in fiscal year 2002.

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## Exemption Request Denied

According to RHS officials, nothing had been done prior to our review to manually identify delinquent direct SFH loans for referral to FMS for cross-servicing because the agency had requested a Treasury exemption

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<sup>5</sup>*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, Nov. 1999).

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from cross-servicing for direct loans made under the SFH loan program. RHS had requested that it be allowed to continue to internally service the loans for up to 1 year after liquidation of the collateral, which, in some cases, could be years after the loans became delinquent. Treasury officials told us that Treasury had not approved the request, either formally or informally, and stated that Treasury discouraged RHS from making the request, which was not submitted to Treasury until November 2000. Treasury formally denied RHS' exemption request for the direct SFH loan program on May 14, 2001. The declination was based, in part, on the fact that similar loans were being referred for cross-servicing by other agencies and RHS had not identified any new or unique collection tools applicable to direct SFH loans.

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### RHS May Have Significantly Understated Direct SFH Loans Eligible for Referral

When a debtor becomes delinquent 91 days on an installment payment for a direct SFH loan, RHS notifies the debtor via certified mail that the entire debt balance is accelerated and is due and payable. As shown in table 1, RHS reported \$201 million of direct SFH loans as eligible for TOP as of September 30, 2000. However, this amount may have been understated by about \$348 million because it only included the delinquent installment portion of the loans. According to FMS, the entire accelerated balance of the debt should be reported as delinquent and, absent any exclusions allowed by DCIA or Treasury, should be reported as eligible for referral to FMS for collection as well.

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### FSA's Direct Farm Loan Program

FSA provides, among other things, temporary credit to farmers and ranchers who are high-risk borrowers and are unable to obtain commercial credit at reasonable rates and terms. FSA reported having about \$8.7 billion in direct farm loans as of September 30, 2000, and as shown in table 2, the agency reported about \$1.7 billion of direct farm loans over 180 days delinquent, including debts in CNC status as of September 30, 2000.

**Table 2: FSA's Delinquent Direct Farm Loans as of September 30, 2000**

	<b>Debt amounts (in millions of dollars)</b>
Debts more than 180 days delinquent, including debts in CNC	\$1,666
Less: exclusions allowed by DCIA <sup>a</sup>	732
Debts eligible for Treasury offset <sup>b</sup>	934
Debts referred to Treasury for offset	934
Debts referred to Treasury for cross-servicing	38

<sup>a</sup>The vast majority of the reported exclusions were for bankruptcy, forbearance/appeals, foreclosure, and Department of Justice (DOJ)/litigation.

<sup>b</sup>In addition, other exclusions from referrals to FMS for cross-servicing, including internal offset, were reported by FSA as of September 30, 2000.

Source: TROR fourth quarter 2000 (September 30, 2000).

FSA excluded substantial amounts of this debt from referral to FMS for TOP and cross-servicing. In addition, FSA officials told us that only \$38 million was referred to FMS for cross-servicing as of September 30, 2000, because FSA suspended all cross-servicing referrals in April 2000 pending development and implementation of new cross-servicing guidelines for the agency.

## Effective Process and Controls Lacking for Determining Eligibility for Referral of Direct Farm Loans

FSA did not have a process or sufficient controls in place to adequately identify direct farm loans eligible for referral to FMS. Certain types of debts were automatically excluded from referral without any review for eligibility. In other cases, FSA's Program Loan Accounting System did not contain information from the detailed loan files located at the FSA field offices that would be key to determining eligibility for referral. In addition, FSA did not have any monitoring or review procedures in place to help ensure that FSA personnel routinely updated the detailed debt files. Consequently, amounts of direct farm loans FSA reported to Treasury as eligible for referral were not accurate.

Excluded amounts for bankruptcy, forbearance/appeals, foreclosure, and Department of Justice (DOJ)/litigation totaled about \$694 million, or about 95 percent of the \$732 million that was excluded from referral to FMS for TOP and cross-servicing. Of this amount, \$295 million was for DOJ/litigation and was comprised of judgment debts. According to FSA officials, deficiency judgments—court judgments requiring payment of a sum certain to the United States—are eligible for TOP and should be referred to FMS. However, FSA's Finance Office in St. Louis automatically excluded all judgment debts for direct farm loans from referral to FMS



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because automated system limitations precluded staff from identifying deficiency judgments. Our inquiries caused FSA officials to initiate a special project in May 2001 to identify all deficiency judgment debts for direct farm loans so that such debts could be referred to FMS.

Determinations as to whether direct farm loans are in bankruptcy, forbearance/appeals, or foreclosure and, therefore, excluded from referral to FMS, are made by FSA personnel in numerous FSA field offices across the country. Personnel in the FSA field offices we visited did not routinely update the eligibility status of farm loans in FSA's Program Loan Accounting System, as was evident by the selected excluded loans we reviewed. Using statistical sampling, we selected and reviewed supporting documents to determine whether farm loans that selected FSA field offices in California, Louisiana, Oklahoma, and Texas had excluded from referral to FMS were consistent with established criteria dealing with bankruptcy, forbearance/appeals, foreclosure, and DOJ/litigation.<sup>6</sup> Based on the results of our sample, we estimate that about 575, or approximately one-half of the excluded loans in the four selected states, had been inappropriately placed in exclusion categories by FSA as of September 30, 2000.<sup>7</sup> Because of these numerous errors, we did not test other reported exclusions from referral to FMS for cross-servicing, such as loans being internally offset.

One of the most frequently identified inappropriate exclusions pertained to amounts discharged in bankruptcy, which should not have been included in delinquent debt. Fifty-two bankruptcies that we reviewed as part of our sample had been discharged in bankruptcy court prior to September 30, 2000. In fact, many had been discharged several years prior to that date. For example, one loan with a balance due of about \$325,000 was reported as a delinquent debt over 180 days and excluded from referral requirements because of bankruptcy. However, a review of the loan file at the FSA field office showed that a bankruptcy court discharged the debt in 1986 and, therefore, the debt should not have been included in either the delinquent debt or exclusion amounts reported to Treasury as of September 30, 2000.

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<sup>6</sup>Field offices in these four states serviced about \$272 million, or about 39 percent, of the total debts excluded from referral to FMS as of September 30, 2000, for bankruptcy, forbearance/appeals, foreclosure, or DOJ/litigation.

<sup>7</sup>We estimate that 48.5 percent  $\pm$  15.7 percent of the population were inappropriately reported as exclusions from referral to TOP. When projecting these errors to the population of 1,187 loans, we are 95 percent confident that the errors in the population are between 389 and 761 loans.

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According to Farm Loan Managers in some of the FSA field offices we visited, they have not written off many direct farm loans discharged in bankruptcy because making new loans has been a higher-priority use of their resources. In addition, FSA did not provide sufficient oversight to help ensure that field office personnel adequately tracked the status of discharged bankruptcies and updated the loan files and debt records in the Program Loan Accounting System. Also, it is important to note that delays in promptly writing off discharged bankruptcies not only distort the TROR for debt management and credit policy purposes, but also distort key financial indicators such as receivables, total delinquencies, and loan loss data. This makes the information misleading for budget and management decisions and oversight. Aside from erroneously inflating reported receivables and delinquent loans, failure to process loan write-offs delays reporting closed-out debt amounts to the Internal Revenue Service as income to the debtor.<sup>8</sup>

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## Referrals of Direct Farm Loans for Cross-Servicing Suspended

As previously mentioned, only \$38 million of direct farm loans were reported by FSA as having been referred for cross-servicing because the agency suspended such referrals in April 2000 pending development and implementation of a new policy to refer to FMS for cross-servicing only debts where the 6-year statute of limitations has not expired. FSA issued revised guidelines in July 2001 to incorporate the 6-year statute of limitations, and the agency is now reviewing loans at over 1,000 FSA field offices to determine eligibility for referral to Treasury under the new policy. According to an Agriculture official, the first referral to FMS under this new policy was made in September 2001.

According to FSA officials, FSA decided to adopt the new policy because it believed that FMS informed them that accounts for which the 6-year statute of limitations had expired should not be referred for cross-servicing. However, FMS officials told us that FMS had not provided such guidance to FSA. FMS officials emphasized that FMS will accept debts that are older than 6 years because, although the debts cannot be referred to DOJ for litigation, collection can still be attempted through other debt collection tools such as referral to private collection agencies.

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<sup>8</sup>The Federal Claims Collection Standards—which were last updated in November 2000—and OMB Circular A-129 both require agencies, in most cases, to report closed-out debt amounts to the Internal Revenue Service as income to the debtor.

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## Co-Debtors Not Referred for TOP

Even though FSA reported having referred \$934 million of direct farm loans to FMS for TOP as of September 30, 2000, the agency has lost and continues to lose opportunities for maximizing collections on this debt because it does not refer co-debtors. According to FSA officials, the vast majority of direct farm loans have co-debtors, who are also liable for loan repayment. However, FSA's automated loan system cannot record more than one debtor because the system modifications necessary to accept Taxpayer Identification Numbers (TINs) for multiple debtors have not been made. According to an FSA official, the need to have co-debtor information in the system to facilitate debt collection was initially determined in 1986. However, we were told that to date, higher-priority systems projects have precluded FSA from completing the necessary systems enhancements to allow the system to accept more than one TIN per debt. In other words, although FSA recognized years ago the need to take action, the agency has not considered this to be a high enough priority. According to FSA officials, FSA has now incorporated this requirement in the new Farm Loan Program Information Delivery System scheduled for implementation in fiscal year 2005.

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## Eligible Debt Not Promptly Referred to TOP

According to data provided by FSA officials, about \$400 million of new delinquent debt became eligible for TOP during calendar year 2000. Although FSA officials stated that the debts became eligible relatively evenly throughout the year, debts eligible for TOP are referred by FSA only once annually, during December. Consequently, a large portion of the \$400 million of debt likely was not promptly referred when it became eligible. As we have previously testified, industry statistics have shown that the likelihood of recovering amounts owed decreases dramatically with the age of delinquency of the debt.<sup>9</sup> Thus, the old adage that "time is money" is very relevant for referrals of debts to FMS for collection action. FSA officials told us that the agency agrees that quarterly referrals could enhance possible collection of delinquent debts by getting them to Treasury earlier and has plans to start a quarterly referral process in fiscal year 2003.

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<sup>9</sup>[GAO/T-AIMD-00-213](#), June 8, 2000.

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## RHS and FSA Have Not Referred Losses on Guaranteed Loans to FMS

Since DCIA was enacted in April 1996, RHS and FSA have also missed opportunities to potentially collect millions of dollars related to losses on guaranteed loans. As of September 30, 2000, neither RHS nor FSA treated such losses resulting from the SFH program and the Farm Loan Program, respectively, as non-tax federal debts. Consequently, neither agency had policies and procedures in place to refer such losses to Treasury for collection through FMS' TOP or cross-servicing programs.

According to RHS and FSA officials and reports provided by the agencies, guaranteed SFH loans and farm loans, as well as related losses, have been significant since the inception of the guaranteed programs. The RHS guaranteed SFH program has been expanding in recent years. The outstanding principal due on the guaranteed SFH portfolio grew from about \$3 billion in fiscal year 1996 to over \$10 billion as of September 30, 2000. Through September 30, 2000, RHS had paid out losses of about \$132 million on the guaranteed SFH program since fiscal year 1996. The outstanding principal due on guaranteed farm loans was about \$8 billion as of September 30, 2000. Through September 30, 2000, FSA had paid out about \$293 million in losses since fiscal year 1996.

In January 1999 and June 2000, Agriculture's Office of Inspector General (OIG) first reported that RHS' and FSA's guaranteed losses, respectively, were not being referred to Treasury for collection. The OIG recommended that both agencies recognize the losses as federal debt and begin referring such debt to FMS for collection.

Although RHS has recently initiated action to begin developing policies for referring losses on guaranteed loans to FMS for collection action in the future, its efforts to make necessary regulatory and policy changes have not been fully completed, resulting in continuing missed opportunities to potentially collect losses on guaranteed loans. FSA, on the other hand, has recently initiated action to begin implementing new policies for referring losses on all new guaranteed loans to FMS for collection action. Because these guaranteed loan programs are significant to RHS and FSA, the agencies' development and implementation of policies and procedures to promptly refer eligible amounts to Treasury for collection action are critical.

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## Agriculture and Most Other Agencies Have Not Used AWG to Collect Delinquent Debt

DCIA authorizes both federal agencies that administer programs that give rise to delinquent non-tax debts and federal agencies that pursue recovery of such debts, such as FMS, to administratively garnish up to 15 percent of a debtor's disposable pay until the debt is fully recovered.<sup>10</sup> Agriculture and the other eight CFO Act agencies we surveyed had not yet used AWG as authorized by DCIA to collect delinquent non-tax debt as of the date of completion of our fieldwork, over 5 years after DCIA went into effect. Eight of these nine agencies, including Agriculture, have expressed the intent to implement AWG to varying degrees over the next 5 years. Given the possible added collection leverage afforded through the availability and use of AWG, timely implementation would seem prudent. As of September 30, 2000, the eight agencies we surveyed that intend to implement AWG reported holding a total of about \$23 billion in consumer debt,<sup>11</sup> which typically consists of debts by individuals, many of whom are employed.<sup>12</sup> This is not to imply that AWG could be used to collect all such consumer debt because circumstances such as bankruptcy or appeals could limit the application of this debt collection tool.

Agencies, including Agriculture, identified various reasons for the delay in implementing AWG, including the need to focus priorities on the mandatory provisions of DCIA and develop the required regulations or administrative hearing procedures to implement AWG. This is disappointing in light of the large population in the country's labor force and the fact that debt collection experts testified before this Subcommittee in 1995, prior to the enactment of DCIA, that AWG can be an extremely powerful debt collection tool, as the mere threat of AWG is often enough to motivate debtor repayment.

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<sup>10</sup>Disposable pay means that part of the debtor's compensation (including, but not limited to, salary, bonuses, commissions, and vacation pay) from an employer remaining after the deduction of health insurance premiums and any amounts required by law to be withheld.

<sup>11</sup>The agencies held over \$25 billion in debts classified as CNC, which were not broken out by consumer and commercial debts on the agencies' TRORs. Although CNC debts are written off by the agencies for accounting purposes, AWG could be applicable to significant amounts of such debts.

<sup>12</sup>Consumer debt is more likely to be subject to AWG because the debtor is often an individual who is employed. Certain commercial debts could involve individual debtors, guarantors, or co-debtors, and AWG may be applicable to such debtors.

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## Agriculture's Implementation of AWG

In responding to our survey, Agriculture said it would rely exclusively on FMS to implement AWG as part of cross-servicing, including identifying the debtors' employers and sending notices and garnishment orders. At the time of the completion of our fieldwork, Agriculture had not established specific dates for implementing AWG and was among the five surveyed agencies intending to implement AWG that did not have a written implementation plan. Agriculture subsequently stated that it planned to implement AWG during fiscal year 2002. Given the extent of agency or contractor effort needed to carefully administer such processes, we believe agencies will need fairly detailed implementation plans. These plans should include a clear description of and strategy for how the agency will actually perform AWG and when AWG will be fully implemented. The plans should cover the types of debts subject to AWG and the policies and procedures for administering AWG. Also, agencies should identify the processes they will use to conduct hearings for debtor appeals. Consequently, it is not presently clear when Agriculture will be able to fully incorporate AWG into its debt collection processes.

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## Certain Factors Could Limit FMS' Use of AWG

FMS has been working with its private collection agency contractors to incorporate AWG into its cross-servicing program. Although FMS' incorporation of AWG into the cross-servicing program would undoubtedly improve collection success and make the FMS collection program more comprehensive, certain factors could limit its use. An important consideration is that much of the delinquent debt reported by agencies as eligible for cross-servicing is not currently being promptly referred to FMS. For example, the four agencies we surveyed that plan to rely exclusively on FMS for AWG implementation, including Agriculture, together reported having referred only \$288 million of about \$690 million of all types of debt that were reported as eligible for cross-servicing as of September 30, 2000.<sup>13</sup>

Although implementation of AWG under DCIA is still largely in its infancy, the extent to which the larger CFO Act agencies, such as Agriculture, refer all eligible delinquent debt in a timely manner will be a major factor in FMS' ability to make AWG fully successful. As discussed previously, RHS and FSA have not identified and promptly sent debts to FMS for cross-

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<sup>13</sup>According to FMS' Performance Summary Report for July 2001, only 63 percent of debt reported by federal agencies as eligible for cross-servicing governmentwide as of September 30, 2000, had been referred to FMS.

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servicing. Consequently, if AWG were to have been attempted using only those delinquent debts reported as referred for cross-servicing for fiscal year 2000, substantial amounts of delinquent debt would not have been subject to this debt collection tool.

The ability to efficiently handle requests for hearings will also be important. FMS has assigned responsibility for holding AWG hearings to the agencies that use AWG as a collection tool—whether in-house, through FMS, or both. Therefore, these agencies need to develop and acquire the capacity to manage the hearings process expediently.

In summary, as we have discussed, Agriculture, along with other agencies, has not demonstrated a sense of urgency in integrating certain provisions of DCIA into its debt collection processes. Challenges lie ahead for Agriculture to successfully implement such provisions of the act. As a result, until these provisions are fully implemented, Agriculture will continue to miss opportunities to collect millions of dollars of delinquent federal non-tax debt. To assist in addressing such challenges, we will be separately providing recommended actions to Agriculture.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

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## Contacts and Acknowledgments

For information about this testimony, please contact Gary T. Engel at (202) 512-3406. Major contributors to this testimony include Arthur W. Brouk, Richard T. Cambosos, Michael S. LaForge, and Kenneth R. Rugar.