Office of the Inspector General

July 6, 1999

John R. Dyer
Principal Deputy Commissioner
of Social Security

Acting Inspector General

The President's Council on Integrity and Efficiency Review of Non-Tax Delinquent Debt

The attached final report presents the results of our audit, The President's Council on Integrity and Efficiency Review of Non-Tax Delinquent Debt (A-15-99-52002). The objective of our audit was to determine the Social Security Administration's compliance with the Debt Collection Improvement Act of 1996.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Daniel R. Devlin, Acting Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

Attachment

THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY REVIEW OF NON-TAX DELINQUENT DEBT

July 1999 A-15-99-52002

AUDIT REPORT

Office of the Inspector General

John R. Dyer
Principal Deputy Commissioner
of Social Security

Acting Inspector General

The President's Council on Integrity and Efficiency Review of Non-Tax Delinquent Debt

The Social Security Administration's (SSA) Office of the Inspector General (OIG) conducted an audit of SSA's compliance with the Debt Collection Improvement Act of 1996 (DCIA). This audit, coordinated by the Department of the Treasury's OIG, (Treasury) is part of a governmentwide review of non-tax delinquent debt. Our report, The President's Council on Integrity and Efficiency Review of SSA's Non-Tax Delinquent Debt, as submitted to the Treasury OIG is attached.

Prior to this review, Treasury contracted with PricewaterhouseCoopers, LLP (PwC) to perform an audit of non-tax delinquent debt. As a result of this audit, Treasury seeks to determine the accuracy of delinquent debt amounts as reported by PwC and how agencies are complying with the DCIA. Eighteen agencies, including SSA, participated in this governmentwide audit of non-tax delinquent debt.

Our audit work concluded that SSA is working toward meeting the objectives of the DCIA which are to (1) maximize collections of delinquent debts owed to the Government and (2) reduce losses arising from inadequate debt management activities. Although progress has been achieved**,** improvements can be made regarding SSA's implementation of the DCIA. To ensure that delinquent debt and the associated risk of asset loss is continually minimized, we recommend that SSA:

1. Improve the transfer of delinquent debts to Treasury's Financial Management Service, and

2. Incorporate the application of interest into its debt management program.

If you wish to discuss this final report, please call me or have your staff contact Daniel R. Devlin, Acting Assistant Inspector General for Audit, at (410) 965-9700.

James G. Huse, Jr.

cc:
IOG/ES
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OA Reading File
Subject File
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Report File Fnl99-52002

Attachment

ATTACHMENT

ATTACHMENT

SOCIAL SECURITY ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY REVIEW OF SSA'S NON-TAX DELINQUENT DEBT

May 7, 1999

ATTACHMENT

TABLE OF CONTENTS

Overview

The Social Security Administration (SSA) Office of the Inspector General conducted an audit of the Social Security Administration's compliance with the Debt Collection Improvement Act of 1996 (DCIA). This audit is part of a President's Council on Integrity and Efficiency Governmentwide review of non-tax delinquent debt.

SSA is working toward meeting the objectives put forth by the DCIA which are to (1) maximize collections of delinquent debts owed to the Government and (2) reduce losses arising from inadequate debt management activities. Although progress has been made, SSA can improve its implementation of DCIA. SSA should ensure applicable delinquent debt is transferred to the Department of Treasury for collection that will minimize the risk of asset loss. In addition, SSA should apply the use of interest in its debt management program.

Background

Congress passed the DCIA in 1996, which amended the Debt Collection Act of 1982. The DCIA gives Federal Government Departments and Agencies additional tools for collecting debt. The purpose of the DCIA is to maximize collection of delinquent debt owed to the Federal Government, and consolidate the debt collection function so that costs can be minimized. This Act should improve Government credit management by minimizing delinquency rates.

DCIA designates the Department of the Treasury (Treasury) as the primary collector of delinquent debt for the entire Federal Government. Generally, debts delinquent 180 days or more should be referred to Treasury's Financial Management Service (FMS) for additional collection efforts. FMS receives delinquent debt from Agencies and Departments, and attempts to collect the debts under Governmentwide cross-servicing[1] and the Treasury Offset Program.

Federal agencies, including SSA, are responsible for implementing the policies and procedures in the DCIA. Treasury contracted with PricewaterhouseCoopers, LLP (PWC) to perform an audit of non-tax delinquent debt. As a result of this audit, Treasury seeks to determine the accuracy of delinquent debt amounts as reported by PWC and how agencies are complying

[1] Cross-servicing arose from the DCIA requirement to refer delinquent debt over 180 days to Treasury. Cross- servicing provides a variety of tools to collect debts including issuing demand letters to debtors, negotiating repayment or compromise agreements, using credit bureau reporting and issuing of Form 1099c.

with the DCIA. Eighteen agencies, including SSA, are taking part in this government-wide audit of non-tax delinquent debt.

Debt owed to SSA results primarily from overpayments to beneficiaries, which often occurs because of untimely reporting of changes in beneficiary eligibility to SSA. In addition, a small portion of the debt is from overpayments to employees and contractors.

SSA has established systems of debt management and collection. There are three major information systems tracking SSA's debts. The Recovery of Overpayment Accounting and Reporting system tracks Title II[2] debts. Title XVI[3] debts are tracked by the Overpayment Underpayment Process System. The External Collection Operation (ECO) system identifies debt that qualify for transfer to FMS, tracks debts sent to FMS and reimbursements received from FMS.

SSA has a complex debt collection process. Recipients and beneficiaries who have received overpayments have extensive rights of review and appeal. By law, SSA cannot start collecting debts until the recipient or beneficiary has the opportunity to exercise these rights. Further, these individuals have the right to request a waiver of the debt. Reviews of waiver requests can take up to 2 years to complete. If the waiver request is denied, the individual can appeal the decision to the Office of the Hearings and Appeals and then to Federal Courts.

[2] Title II represents the Old-Age, Survivors and Disability Insurance programs. These programs are commonly referred to as Social Security and provide a comprehensive package of protection against loss of earnings due to retirement, disability and death.

[3] Title XVI represents the Supplemental Security Income program. This program is a means-tested program designed to provide or supplement the income of aged, blind or disabled individuals with limited income and resources.

Objective, Scope and Methodology

The objective of our audit was to evaluate SSA's compliance with DCIA. To accomplish this objective, we:

- Reviewed the DCIA, SSA's Program Operations Manual System and other SSA polices concerning debt management.

- Interviewed personnel at SSA Headquarters in Baltimore, Maryland. Also interviewed staff and examined case files at SSA field offices in Frederick, Essex and Columbia, Maryland and the Debt Collection Center in the Mid-Atlantic Program Service Center located in Philadelphia, Pennsylvania.

- Reviewed SSA debt management reports.

Treasury provided an audit program to all agencies participating in this audit. We modified this program based upon SSA's debt structure. Most changes to the audit program were deletions of references to loans.

We conducted our audit in accordance with generally accepted government auditing standards. Fieldwork was conducted from November 1998 through March 1999.

Audit Results

Finding 1 Progress Has Been Made Toward Implementing the Provisions of the DCIA

SSA is working toward meeting the objectives put forth by the DCIA which are to (1) maximize collections of delinquent debts owed to the Government and (2) reduce losses arising from inadequate debt management activities.

Public Law 104-134 section 31001 (a) (1)(B) (b) (1) states the first purpose of DCIA is ". . . to maximize collections of delinquent debts owed to the Government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools."

For example, SSA has implemented the ECO system to identify and transfer delinquent debts to Treasury's FMS. As a result, the November 12,1998 ECO status report showed that $531 million[4] of delinquent debt had been transferred to FMS for collection. However, the audit identified other areas where improvements could be made.

Finding 2 All Delinquent Debts Are Not Being Sent To FMS

Delinquent debts are not always referred to Treasury for collection. We reviewed 204 overpayment cases. Of the overpayment cases reviewed, 200 cases were in proper collection status[5]. However, we found 3 cases that should be have been referred to FMS for collection and one case that should have been internally offset against future payments. In these 3 cases, all of the recipients' review and appeal rights had been exhausted, and 180 days had past since recipients' rights to appeals had been exhausted.

On May 30, 1997, SSA requested designation as a debt collection center from Treasury. Status as a debt collection center exempts an agency from the requirement to transfer debt over 180 days delinquent to

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[4] The total amount of SSA outstanding receivables as of November 18, 1998 was $4,725 million.

[5] The collection status for these cases were determined as: (A) SSA is currently collecting the debt, (B) debt has been fully collected, (C) repayment agreement made with SSA, (D) debt was referred to FMS, (F) debtor in "due process", (G) debt to be written-off, (H) debt waived, (I) not a overpayment, and (J) miscellaneous.

Treasury. However, Treasury has not yet designated SSA as a debt collection center.

As a result of the four cases cited previously, SSA should have referred an additional $11,800 of debt to FMS for further collection activity and $5,597 should have been offset against future payments.

Finding 3 DCIA Tool Not Incorporated Into SSA's Debt Management Program

SSA has not incorporated the application of interest into its debt management program. With some exceptions,[6] DCIA allows SSA to apply interest to delinquent debt.

Section 204(f)(1) of the Social Security Act states,

> ". . . with respect to any delinquent amount, the Commissioner of Social Security may use collection practices described in sections 3711(e), 3716, 3717, and 3718 of title 31, United States Code (U.S.C.), and in section 5514 title 5, U.S.C., as in effect immediately after the enactment of the Debt Collection Improvement Act of 1996."

31 U.S.C. Section 3717 (a) states,

> ". . . The head of an executive, judicial or legislative Agency shall charge a minimum annual rate of interest on an outstanding debt on a United States Government claim owed by a person that is equal to the average investment rate for the Treasury tax and loan accounts of the 12-month period ending on September 30 of each year, rounded to the nearest whole percentage point."

As a result of not applying interest to the applicable delinquent debts, the Government is losing potential revenue on delinquent debts. Because of the limited scope of this audit, we did not determine the cause of this

[6] For example, interest cannot be applied to Title II debts occurring when the debtor is under the age of 18.

problem or the significance of lost interest revenue to the Government. However, SSA informed us that it is working on incorporating this tool into its debt management program.

Conclusion and Recommendations

Although progress has been made, SSA can improve its implementation of DCIA. In a separate report, we will recommend that SSA:

1. Improve the transfer of delinquent debts to FMS.

2. Incorporate the application of interest into its debt management program.

Appendix 1

SSA's COMMENTARY

The following are SSA's comments to this report in their entirety.

SOCIAL SECURITY ADMINISTRATION'S COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL'S REPORT "PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY REVIEW OF SSA'S NON-TAX DELINQUENT DEBT"

Comments on Finding 1-"Progress has been made Toward Implementing the Provisions of the DCIA"

We believe that finding 1 should provide a more complete description of what SSA has already done and what it plans to do in order to improve its debt management program.

In addition to implementing the ECO system, SSA has successfully completed four other major debt collection initiatives in the 1990s. In 1992, SSA began reporting its delinquent title II debts to the Internal Revenue Service for tax refund offset (TRO). In 1995 and again in 1998, SSA expanded its TRO program to include additional groups of delinquent debts; i.e., debts that are delinquent but not yet written off and title XVI debts. In 1998, SSA began reporting its delinquent title II debts to credit repositories (Equifax and Trans Union) as a way of influencing debtors to repay their debts. Also in 1998, SSA began using administrative offset (of Federal payments other than tax refunds) to collect delinquent title II debts.

Currently, SSA is focusing its debt collection improvement efforts on two tools that are expected to yield direct collections. The first tool, cross-program recovery, will enable SSA to collect title XVI debts owed by former recipients from any title II benefits to which they are entitled. The other tool, administrative wage garnishment, will enable SSA to collect delinquent debts from the wages of former title II beneficiaries and former title XVI recipients. SSA then plans to implement the remaining debt collection tools-interest charging, Federal salary offset, and private collection agencies.

SSA's COMMENTARY (continued)

Comments on Finding 2 --"All Delinquent Debts Are Not Being Sent to FMS"

Finding 2 confuses two major debt collection programs created by DCIA. The two programs at issue are the Treasury Offset Program (TOP) and cross servicing. They are separate and distinct programs with different legal provisions, regulations and systems formats.

TOP enables SSA and other Federal agencies to collect delinquent debts via the offset of Federal payments-most notably tax refunds but also other payments such as vendor/miscellaneous payments. SSA has participated in TOP since its first year of operation in 1998. Prior to TOP, SSA had participated in its predecessor, the Tax Refund Offset program, since 1992. OIG found that SSA did not send to FMS for collection via TOP 3 out of 204 cases it reviewed. In the three cases, it appears that human error, not any defects in SSA's system for controlling TOP cases, prevented the cases from being selected for TOP. Accordingly, we believe that the third paragraph of finding 2 should be reversed with the second paragraph. This will make clear to the reader that the $11,800 in debt that should have been referred to Treasury was in relation to TOP, and not to cross servicing.

Cross servicing is a program under which FMS acts as a collection agency for recovering debts. In this program, FMS takes several collection actions, including sending letters requesting repayment from debtors and reporting debtors to private collection agencies. The Secretary of the Treasury can exempt agencies from participating in cross servicing for various reasons, such as when agencies are designated by the Secretary to be a debt collection center for purposes of collecting their own debts.

In accordance with Treasury's guidelines and as stated by OIG in finding 2, SSA requested to be designated as a debt collection center on May 30, 1997 for purposes of collecting its own debts. That application is still pending. If the ultimate decision is to not grant SSA debt collection center status, SSA plans to work with FMS to develop a referral process for cases where referral for cross servicing is practical and to seek exemption under the statute where it would not be practical.

SSA’s COMMENTARY (continued)

Comments on Finding 3--"DCIA Tool Not Incorporated Into SSA's Debt Management Program"

As noted under our response to finding 1, SSA agrees that the application of interest is an important tool, and we would note that it is included in the Agency's 5-year Systems Plan.

Appendix 2

MAJOR CONRIBUTORS TO THIS REPORT

The Office of Audit, Financial Management Audits Team in Baltimore prepared this audit report, under the direction of Shirley E. Todd, Acting Director. Audit staff included:

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