

121242
24996

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman, Committee On The Budget, House Of Representatives

Significant Improvements Seen In Efforts To Collect Debts Owed The Federal Government

In fiscal 1982, the Office of Management and Budget maintained oversight of the administration's debt collection initiative. Based on its review of six Federal agencies' debt collection programs, GAO found that the increased focus on debt collection resulted in strengthened collection practices and increased collections.

Although prospects seem good for even further improvements in debt collection, continued oversight by the Office of Management and Budget and the Congress is necessary to sustain the level of attention this program is receiving. The ultimate success of the Government's efforts toward better debt collection depends on solving many longstanding--and still existing--problems.



GAO/AFMD-83-57
APRIL 28, 1983

025436



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-211321

The Honorable James R. Jones
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

As requested in your February 24, 1982, letter and as agreed with your staff in later meetings, this report discusses the administration's debt collection initiative. It discusses the overall collection results for fiscal 1982, specific collection activities in six agencies, and prospects for collection in future years.

We have reported many times over a long period of years on agencies' inability to collect debt, especially delinquent debt. In fiscal 1982, OMB directed that agencies place high priority on collecting debt as a way of reducing the budget deficit. We found that this new emphasis resulted in significant improvements in agencies' ability to collect debts owed the Government. Although many longstanding problems affecting debt collection have not been solved, we believe that if OMB involvement and agency management emphasis are sustained, these improvements should continue into future years.

At the request of your office, we did not take the additional time to obtain written agency comments. The matters covered in the report, however, were discussed with officials of OMB and the six agencies we reviewed. Their comments are incorporated in our report where appropriate.

We are sending information copies of the report to the Federal agencies involved in our review. Copies will also be sent to interested congressional committees.

Sincerely yours,


Wilbur D. Campbell
Acting Director

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

D I G E S T

GAO has long called for strengthened debt collection, and the Congress has for many years expressed concern over Federal agencies' lack of prompt and aggressive collection of debts owed the Government. The House Committee on the Budget has been especially interested in improved debt collection as a means of reducing the budget deficit.

At the request of the House Committee on the Budget, GAO has reviewed the administration's efforts to strengthen debt collection by focusing on the six Federal agencies having the highest nontax delinquencies. GAO concluded that the administration, through the Office of Management and Budget (OMB), has

- implemented a program for improving debt collection,
- actually collected more debt than was anticipated by OMB, and
- ensured that in the near future debt collection prospects look good.

At the start of fiscal 1982, receivables due from U.S citizens and organizations totaled \$180 billion, of which over \$33 billion was delinquent. Of this amount, \$13 billion could be attributed to nontax delinquencies. As part of the administration's debt collection initiative, OMB assigned 15 Federal agencies fiscal 1982 dollar targets totaling \$1.3 billion for increasing debt collection. A sixteenth agency, the Internal Revenue Service, was added later, bringing the total target to \$1.5 billion. This amount represented what OMB expected agencies to collect because of improved debt collection practices rather than because of growing levels of receivables. (See p. 3.)

THE ADMINISTRATION, THROUGH OMB,
AGGRESSIVELY PURSUED
IMPROVED DEBT COLLECTION

During fiscal 1982, OMB, through a structured program, maintained oversight of the administration's

debt collection initiative. OMB's Debt Collection Project analysts and budget examiners were instrumental in

- guiding the development of agencies' debt collection improvement plans (see p. 6),
- monitoring agencies' progress in implementing these plans (see p. 7),
- collecting and analyzing data on agencies' receivables (see p. 8), and
- increasing agencies' emphasis on improving debt collection (see p. 9).

OMB is requiring agencies to update their debt collection improvement plans for fiscal 1983 and is continuing to monitor their progress in this area. The plans are to be submitted by April 25, 1983. OMB also assigned new collection targets for fiscal 1983 to 13 of the original 16 agencies. The new targets total \$2.86 billion. (See p. 29.)

In addition to overseeing agencies' actions to improve debt collection, OMB has begun analyzing agencies' accounts receivable information. The analysis is intended to highlight unusual or unwanted trends in such categories as receivables turnover and bad debt writeoffs. Agencies' progress toward their collection targets is also analyzed quarterly.

OMB's financial monitoring has revealed reporting weaknesses, such as inaccurate receivables data reported in financial reports, especially the report to the Treasury on the "Status of Accounts and Loans Receivable Due from the Public" (Schedule 9, Treasury Standard Form 220). Historically, agencies have not had timely, reliable information on their receivables. (See pp. 8 and 9.) The agencies GAO reviewed generally have begun correcting the accounting system problems, but many major improvements will not be completed for several years. Those system problems are longstanding and GAO has addressed them in various reports over the past several years. (See app. II.)

The administration also strongly supported legislation that now gives agencies the kind of collection tools and techniques used by the private sector. GAO was a strong advocate of this legislation and frequently advised the Congress about the merits of

equipping agencies with these tools. OMB worked closely with the Congress to bring about the Debt Collection Act of 1982 (Public Law 97-365), which the President signed on October 25, 1982. Among other things, the act allows agencies to

- report delinquent debtors to credit bureaus,
- charge interest and penalties on delinquent debts,
- use private sector contractors to collect debts owed the Government, and
- offset the salaries of Federal employees having delinquent debts to the Government. (See p. 9.)

As a result of OMB's emphasis on strengthening debt collection, five of the six agencies GAO reviewed increased total collections in at least some of their programs during fiscal 1982. Total collections at the Department of Education declined during fiscal 1982. While all six agencies reviewed developed debt collection plans, OMB was not satisfied with the Small Business Administration's response, and plans to work more closely with this agency during fiscal 1983.

In general, the six agencies tackled such long-standing debt collection problems as loan supervision and servicing, effective use of personnel resources, training of field personnel, and proper control and reporting of financial information. (See pp. 10-16 and apps. III-VIII.) Although specific actions taken within each agency differed according to the nature of its programs, agencies generally

- adopted policies that placed more emphasis on servicing loans than on making them,
- improved training of collection staff,
- augmented collection staff with temporary employees or private sector collectors,
- used the computer to match lists of debtors with lists of other groups such as Federal employees, and
- improved accounting system support for debt collection activities.

The Schedule 9 quarterly financial reports submitted to OMB for monitoring purposes varied in

reliability from agency to agency. This was primarily due to agencies' longstanding accounting system problems, which have resulted in inaccurate and incomplete data on receivables. Although some agencies improved their Schedule 9 reporting during fiscal 1982, others still have significant error rates. Inspectors General at the Departments of Housing and Urban Development, Education, Agriculture, and Health and Human Services plan to conduct audits of Schedule 9 accuracy during fiscal 1983. (See p. 9.)

1982 DEBT COLLECTION
EXCEEDS OMB TARGETS

The 16 agencies monitored by OMB during fiscal 1982 reported on Schedule 9 that they increased their debt collection by \$8.6 billion over the fiscal 1981 level. OMB calculates that \$2 billion of this total should be attributed to agencies' more aggressive collection actions; therefore, the agencies exceeded the \$1.5 billion collection target by \$500 million. The remaining \$6.6 billion was attributed to a \$17.6 billion growth in total receivables for the 16 agencies during fiscal 1982. Less encouraging is that delinquent debts rose during fiscal 1982 by \$10 billion, or 36 percent. Judging by increased collections, though, OMB's target-setting exercise seems to have been successful.

Some agencies did not achieve the collection rate OMB expected in fiscal 1982 and others achieved it in unusual ways. Of the six agencies GAO reviewed, only the Department of Education and the Social Security Administration did not meet their OMB-assigned collection targets. Because of increased delinquencies and staff reductions, Education missed its \$225 million target by \$266 million.

GAO found that the remaining four agencies met or exceeded their targets and were aided in doing so by such practices as

- selling parts of their loan portfolios;
- employing temporary workers to collect delinquent debts; and
- collecting debt from sources not believed to have potential for collection at the outset of fiscal 1982. (See pp. 10-16.)

GOOD PROSPECTS FOR DEBT COLLECTION
DURING FISCAL 1983-1985

GAO concludes that the prospects for further improvements in debt collection look good for fiscal 1983-1985. The administration plans to continue its emphasis on debt collection and its efforts will be enhanced by implementation of the Debt Collection Act of 1982. A series of administrative tasks, however, will prevent full implementation before the latter part of fiscal 1983. (See pp. 27-29.)

The effect of future improvements is tied somewhat to the continuing commitment of agency management to improved debt collection. Recognizing the importance of this commitment, OMB is requiring that agencies develop updated collection plans in fiscal 1983, routinely monitor the status of accounts receivable, automate debt portfolios, and assess the ramifications of extending credit and selling agency debt portfolios. To ensure that debt collection becomes part of the budget process, OMB Circular A-11, "Preparation and Submission of Budget Estimates," requires that agencies, before developing a final budget, provide information on the status of their debt collection efforts and on the resources allocated to debt collection. By monitoring agency efforts in these areas, OMB will be acting to ensure that Federal managers place higher priority on improving their agencies' debt collection programs. (See p. 30.)

Also, in a broad program of management initiatives called "Reform 88," OMB is decentralizing the development and management of Federal credit policy. While retaining the policy formulation and oversight role, OMB is assigning various agencies specific responsibilities for developing pilot projects for issues such as the development of credit standards and automated collection systems. Projects are to be implemented by December 31, 1983. (See p. 30.)

Meeting the administration's future collection goals will require OMB's continued attention, as well as sustained improvement in Federal agencies' collection efforts. Because debt collection problems did not develop overnight, resolving such longstanding needs as better accounting systems will take time. A great deal remains to be done, especially regarding the need to design new automated accounting systems. GAO believes OMB's continued oversight is imperative to ensure that debt

collection receives sustained, high priority attention. Continued oversight by the Congress is also most important. (See page 32.)

AGENCY COMMENTS

Because of time constraints, GAO did not obtain official agency comments regarding the results of our review. The matters covered in the report, however, were discussed with OMB and agency officials and their comments were considered in preparing the report.

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Objectives, scope, and methodology	3
2	INCREASED EMPHASIS HAS IMPROVED DEBT COLLECTION	6
	OMB is providing leadership and direction	6
	Agencies made progress toward resolving longstanding debt collection problems	10
3	FISCAL 1982 DEBT COLLECTION SURPASSED OMB'S FORECASTS	17
	Collections increased faster than receivables during fiscal 1982, but delinquencies also increased	17
	Overall, agencies surpassed OMB collection targets	18
4	NEW TOOLS AND CONTINUED EMPHASIS MEAN GOOD COLLECTION POTENTIAL IN FISCAL 1983-1985	26
	Implementation of the Debt Collection Act of 1982	26
	OMB seeks agency management commitment by requiring improvements, setting new targets, and budgeting for debt collection	28
APPENDIX		
I	February 24, 1982, letter from Chairman of the House Budget Committee	33
II	GAO reports concerning debt collection	34
III	Improving debt collection at the Farmers Home Administration	37
IV	Improving debt collection at the Social Security Administration	44
V	Improving debt collection at the Veterans Administration	50

		<u>Page</u>
VI	Improving debt collection at the Department of Housing and Urban Development	55
VII	Improving debt collection at the Department of Education	60
VIII	Improving debt collection at the Small Business Administration	66
IX	Changes in 16 agencies' total receivables, collections, and delinquent receivables from fiscal 1981 to 1982	71
X	OMB's formula for calculating Federal agency collection increases due to strengthened debt collection programs	73

ABBREVIATIONS

AID	Agency for International Development
FmHA	Farmers Home Administration
GAO	General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
NDSL	National Direct Student Loan
OMB	Office of Management and Budget
SBA	Small Business Administration
SSA	Social Security Administration
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Debts owed the Government are enormous and growing each year, with billions of dollars delinquent. Federal agencies reported that at the start of fiscal 1982, receivables due from U.S. citizens and organizations exceeded \$180 billion, over \$33 billion of which was delinquent. This delinquent amount represents a 37 percent increase over fiscal 1980. Nontax delinquencies amounted to over \$13 billion. By the end of fiscal 1982 total receivables and delinquencies from U.S. citizens and organizations had further increased to approximately \$200 billion and \$38 billion, respectively, with nontax delinquencies totaling about \$14 billion.

The House Budget Committee has been especially interested in improved Federal debt collection as a means of reducing the budget deficit. As part of the Committee's continuing evaluation of the administration's efforts to achieve savings through management efficiencies, Chairman James R. Jones requested that we provide the Committee with more information on this subject. (See app. I.) After discussions with the Chairman's office, we agreed to analyze the administration's efforts to strengthen debt collection and assess the basis of projected budgetary savings from increased collections.

GAO has long called for strengthened Government debt collection. In October 1978, we reported on the results of a Government-wide review which pointed out that the Government was not doing an effective job of accounting for and collecting its debts.¹ This review identified Federal agencies' lack of prompt and aggressive collection action on delinquent debts and inaccuracies in accounting for and reporting accounts receivable. In a 1979 report, we noted that the Government's collection methods were slow, expensive, and ineffective when compared with commercial practices.² Recommendations resulting from these studies included the need for better financial reporting and for adopting certain private sector collection practices. (See app. II for a list of selected GAO reports on debt collection.) In a March 1981 report to the House Budget Committee, we estimated that billions of dollars of budget savings were possible through strengthened debt collection. We noted then that achieving these savings would require a "sustained high priority, high intensity effort to put in place much stronger

¹"The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public" (FGMSD-78-61, Oct. 20, 1978).

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

policies, procedures, and systems and to operate them aggressively once they are installed."³

In response to our work and to congressional interest in improved Government debt collection, the Debt Collection Project was established in August 1979 within the Office of Management and Budget (OMB) for the purpose of identifying and recommending solutions to Government-wide problems which impede agency collection efforts. The Debt Collection Project, which was made up of private and public sector representatives, reviewed Federal agencies' debt collection policies and procedures. The programs reviewed in these agencies accounted for 95 percent of the debt owed the Government. In January 1981, the Project issued its "Report on Strengthening Federal Credit Management" which included a series of recommendations for strengthening credit management and debt collection.

Recognizing the need for improved financial management, the administration made debt collection a management priority. In an April 23, 1981, memorandum, the President directed the heads of executive branch agencies and departments to develop and implement an aggressive debt collection program by:

- Designating an official with responsibility and authority for debt collection. Twenty-four major departments and agencies have designated such an official.
- Reviewing current debt collection issues and preparing action plans for improved debt collection, to be approved by OMB.
- Submitting periodic progress reports to OMB on the status of planned actions.

OMB is responsible for monitoring agency efforts to comply with the President's directive and for providing a focal point in the debt collection area. Agencies were given targets for increased collections for fiscal 1982 and were required to report quarterly to OMB on the status of receivables and collections. As shown below, increased nontax collections were targeted at \$1.31 billion for fiscal 1982 with collection increases in fiscal 1983 and 1984 estimated at \$1.350 billion and \$1.375 billion, respectively.

³"Improved Administrative Practices Can Result in Further Budget Reductions" (PAD-81-69, Mar. 30, 1981).

Agency Debt Collection Targets

	<u>Fiscal year</u>		
	<u>1982</u>	<u>1983</u>	<u>1984</u>
	------(millions)-----		
Agriculture.....	\$ 250	\$ 250	\$ 250
Commerce.....	30	30	30
Defense.....	35	35	35
Education.....	225	225	225
Energy.....	35	35	35
Health and Human Services.....	155	155	155
Housing and Urban Development.....	75	125	150
Interior.....	25	25	25
Labor.....	45	75	75
State.....	20	5	5
Transportation.....	5	5	5
Agency for International Development..	35	35	35
National Aeronautics and Space Administration.....	125	25	25
Small Business Administration.....	100	175	175
Veterans Administration.....	<u>150</u>	<u>150</u>	<u>150</u>
 Total (note a)	 <u>\$1,310</u>	 <u>\$1,350</u>	 <u>\$1,375</u>

a/The fiscal 1983 and 1984 targets were revised by OMB during fiscal 1982. See p. 29, ch. 4, for the revised numbers.

In concert with our earlier recommendations, the administration also introduced in April 1981 comprehensive debt collection legislation which provided for many of the collection tools available in the private sector, such as the use of private collection firms to augment agency collection personnel. This legislation became the Debt Collection Act of 1982 (Public Law 97-365)--signed by the President on October 25, 1982.

OBJECTIVES, SCOPE, AND METHODOLOGY

Because of continuing concern over the ability of Federal agencies to improve the collection of debts owed the Government, the Chairman, House Committee on the Budget, requested that we evaluate the administration's efforts to strengthen debt collection. Our objectives were to

- (1) review and evaluate OMB's efforts to direct and monitor the administration's debt collection initiative;
- (2) determine the status and adequacy of agencies' fiscal 1982 debt collection improvement plans, the resulting improvement in agency debt collection programs, and the nature of agencies' financial reporting on receivables to OMB and the Treasury Department; and

(3) provide our opinion on the potential for improving debt collection in the near future.

As agreed with the Chairman's office, our review covered the following six agencies.

- Department of Agriculture (Agriculture)
- Veterans Administration (VA)
- Department of Education (Education)
- Department of Housing and Urban Development (HUD)
- Small Business Administration (SBA)
- Health and Human Services (HHS)

To the extent possible, we focused on the loan or benefit programs having the largest share of delinquent debt within each agency. For instance, at HHS we concentrated on the Social Security Administration (SSA); at Agriculture, on the Farmers' Home Administration (FmHA).

As agreed with the Chairman's office, our review covered non-tax receivables owed by U.S. citizens and organizations and did not include an assessment of the Internal Revenue Service's (IRS') efforts to collect delinquent taxes.

To determine the adequacy and status of each agency's debt collection plan, we interviewed officials responsible for the agency's debt collection initiative--at both agencywide and program levels. We discussed the problems presented in the plan and the ability of the agency to implement planned tasks (aimed at resolving problems) and to meet projected completion dates. We also spoke with these officials about improvements agencies have made that were not included in their plans.

With OMB's debt collection project analysts and budget examiners assigned to the agencies in our review, we discussed OMB's monitoring of agencies' debt collection efforts and gained insight into specific methods of tracking progress. We reviewed pertinent agency and OMB documents, including the agencies' debt collection plans and "Status of Accounts and Loans Receivable due from the Public";⁴ and internal, inspector general, and OMB assessments of agencies' debt collection activities. As agreed with the Chairman's office, we relied on agency, OMB, and inspector general assessments of accounts receivable accuracy and did not independently verify the accuracy of the financial reports.

⁴Sched. 9 of Treasury's Standard Form 220.

Our field work was conducted from August 1982 to January 1983 and was performed in accordance with generally accepted government auditing standards. The work is part of our continuing effort to review debt collection in the Federal Government. We are currently engaged in additional studies covering areas such as credit and cash management and accounting systems at several agencies-- Agriculture, SBA, VA, and HUD--which, when completed, will contribute to our overall understanding of the debt collection issue and its effects on the budget process.

Because of time constraints, we did not obtain official agency comments regarding the results of our review. However, the matters covered in the report were discussed with OMB and agency officials, and their comments were considered in preparing the report.

CHAPTER 2

INCREASED EMPHASIS

HAS IMPROVED DEBT COLLECTION

One of the keys to improving debt collection in the Federal Government has been the increased emphasis placed on the problem by the administration through OMB. Beginning with the establishment of the Debt Collection Project, OMB has analyzed the problem of excessive delinquent debt owed the Government, determined its causes, and taken steps to increase collections.

The six agencies we reviewed made progress in strengthening debt collection during fiscal 1982. Many actions toward this end are completed, underway, or planned. Top management has been involved and, with the exception of SBA, appeared committed to the debt collection initiative. Also, implementation of the Debt Collection Act of 1982 will further strengthen collection programs by providing additional collection tools.

Much, however, remains to be done. The Government's debt collection problems did not develop overnight and resolving them will take time. So that the current momentum is not lost, OMB needs to maintain a strong monitoring role, continue collecting and analyzing agencies' receivables data, and adhere to an aggressive position of oversight and coordination in debt collection matters. Also, the current emphasis by top agency management must be sustained.

OMB IS PROVIDING LEADERSHIP AND DIRECTION

In making debt collection a management priority, OMB has sought to stem the growth in debts owed the Government, reduce delinquencies, and improve Federal credit management and debt collection policies and procedures. For fiscal 1982, OMB mandated the development of comprehensive agency debt collection improvement plans, established collection goals and reporting requirements, and monitored agency performance and accomplishments. Also, OMB played a key role in the passage of the Debt Collection Act of 1982.

Development of debt collection improvement plans

OMB Bulletin 81-17, dated April 27, 1981, required 24 major departments and agencies to designate a high-level official with responsibility and authority for debt collection. These officials were charged with preparing a detailed action plan describing

- each major debt collection problem or issue in the agency,
- the specific steps to be taken to correct the problems, and

--a timetable for each step.

These plans were to be submitted to OMB by June 15, 1981. To give agencies more time, however, OMB granted them an extension until the start of fiscal 1982. OMB worked closely with agencies to ensure that the plans adequately addressed the major problems. For the six agencies we reviewed, OMB was not satisfied with the initial plan submitted; it required revisions to provide greater detail on needed actions and milestones for completing key tasks.

In our opinion, the revised plans approved for Agriculture, VA, HHS, Education, and HUD were well organized and adequately addressed the longstanding issues and problems identified by agency, OMB, and GAO studies. The plans generally included the elements essential to a good management tool: specificity, accountability, milestones, feedback, and ways to measure results.

For example, the HUD and Education plans were divided into subplans for each major program having a substantial amount of debt. Detailed tasks were described with corresponding milestones for expected achievements. Both plans listed specific program personnel who were responsible for achieving tasks.

SBA's plan, on the other hand, did not clearly address the problems facing the agency in strengthening debt collection. OMB officials said that SBA's plan did not compare favorably with the other agencies' plans and we found that the plan did not meet the expectations of Bulletin 81-17. The plan covered only three major debt collection issues: staffing, computer systems support, and training. For these issues, the corrective actions shown were broad and often did not have specific completion milestones. For instance, under the allocation of resources issue, four of the six listed tasks did not have milestones. In another case, a task under the training issue simply stated "To design group training and individual training techniques for collection. Action to begin now." Also, as a management tool, VA's debt collection plan could have been improved. For example, debt management and collection responsibilities were not delegated to specific employees, and measurable goals were not established.

OMB has required agencies to update their plans for fiscal 1983. (See ch. 4.) Officials believe that by building on their experience of fiscal 1982, agencies will be in an even better position to accomplish administration objectives for the coming year.

Monitoring agency actions to implement planned changes

OMB actively monitored agency efforts to implement planned improvements in debt collection programs. In fiscal 1982, it focused on 82 programs/activities at 16 agencies which accounted for about 70 percent of the debt owed the Government. One of the 16 agencies was the IRS. OMB developed an automated tracking system to record agency progress in implementing improvements and worked closely with the agencies, including top management, during the year.

OMB analysts met monthly with debt collection and other officials of each agency it was tracking. We were told that OMB budget examiners frequently attended these meetings. Reports generated by the automated tracking system list the key issues, tasks, and milestones set out in the agency's debt collection plan. The system does not track every agency debt collection initiative, but by focusing on the major issues it gives a good idea of overall progress.

With OMB oversight, most agencies updated their plans throughout the year. We were told by OMB that of the six agencies we reviewed, only SBA resisted OMB assistance and considered its plan a final product.

Establishment and monitoring of collection targets

As discussed in chapter 1, OMB established collection targets, which for the nontax debt totaled \$1.31 billion for fiscal 1982. The targets as well as other data on receivables were monitored throughout the year by OMB, which established an automated system to track receivables information.

Under Schedule 9, agencies are required to report quarterly such data as the amount of current, delinquent, and rescheduled receivables; collections; writeoffs; and interest and penalties on delinquencies. OMB's analysis of these data includes determining collection trends, calculating receivables turnover rates, and comparing agencies' increased collections to the established targets. Because fiscal 1982 was the first year in which Schedule 9 reporting was required, comparable information was not available for prior years, and OMB was not able to perform trend analysis between periods. Quarter-to-quarter comparisons during fiscal 1982 were of minimal value because of seasonal variations in agency collection patterns. As fiscal 1983 data become available, comparative analysis should help reveal strengths and weaknesses in agency collection practices.

Several problems with Schedule 9 reporting during fiscal 1982 involved timeliness, aggregation, and accuracy. In some cases agencies have not been able to submit actual data on receivables until 3 to 4 weeks after the end of the quarter. Therefore, adding time for analysis, conclusions and feedback on first quarter data were not available until almost the third quarter. Also, data submitted on a single Schedule 9 may be an aggregation of many dissimilar programs. For instance, HUD consolidates many different Federal Housing Administration programs on one Schedule 9. While all are housing programs, they are operated differently and this has a direct bearing on collectibility.

Finally, there were questions about the accuracy of Schedule 9 reporting during fiscal 1982. Historically, agencies have not had timely, reliable information on their receivables. Our 1978

report¹ identified widespread problems in accounting for receivables--problems that were confirmed by the Debt Collection Project in its January 1981 report. OMB and agency officials are concerned with not being able to report accurately in the next few years. At Education, for example, officials cite a 25-percent error rate in receivables data. They also point to long term accounting system improvements as the key to more accurate data. Indeed, most agencies we visited are designing new automated systems to account for receivables. These systems are supposed to improve accuracy and are targeted for completion in the mid-1980s. Recognizing potential data accuracy problems, inspectors general in SSA, Education, HUD, and Agriculture plan to review Schedule 9 data during fiscal 1983.

Passage of the Debt Collection Act of 1982

In addition to establishing the policies governing the debt collection initiative and overseeing agency corrective actions, OMB served as the administration's focal point for the Debt Collection Act of 1982. On April 23, 1981, the Director of OMB, in testimony before the Senate Committee on Governmental Affairs, proposed comprehensive legislation to eliminate certain disincentives in the Government's debt collection process; to make available essential collection tools and techniques commonly used in the private sector; and to provide for increased efficiency and effectiveness in the way the Government grants credit and services and collects its receivables. OMB worked closely with the Congress and on October 25, 1982, the President signed into law the Debt Collection Act of 1982. Among other things, the act

- allows agencies, except the IRS and SSA, to disclose information about an individual's debt to credit bureaus;
- authorizes agencies to collect overdue payments from Federal employees through deductions from their paychecks;
- permits agencies to redisclose to debt collection contractors current addresses of individuals owing money to the Government when the addresses were obtained from the IRS;
- authorizes the IRS to disclose to a requesting agency whether an applicant for a Federal loan has a delinquent tax account;
- extends to 10 years the 6-year statute of limitations applicable to agencies in collecting debts by administrative offset;

¹"The Government Needs To Do A Better Job of Collecting Amounts Owed By The Public" (FGMSD-78-61, Oct. 20, 1978).

- requires agencies to charge a minimum rate of interest, as well as penalties and administrative charges on delinquent nontax debts; and
- authorizes agencies to contract for debt collection services.

Implementation of the act will undoubtedly increase collections by giving Federal agencies tools already widely used in the private sector. However, as discussed in greater detail in chapter 4, OMB will have to work closely with the agencies during fiscal 1983 to minimize problems that might arise in implementing the act and to ensure that agencies use the new tools effectively.

AGENCIES MADE PROGRESS TOWARD RESOLVING LONGSTANDING DEBT COLLECTION PROBLEMS

Problems as serious and longstanding as those in many agencies' debt collection systems are not all overcome in one year. While plans can be developed, top management commitment enlisted, and task forces appointed in a relatively short time, other actions require much more time and effort. Creating new or even enhancing existing automated accounting and financial systems, changing operational practices, and identifying and contacting hundreds of thousands of individual debtors are multiyear projects. Nevertheless, progress can be expected and, for the six agencies we reviewed, progress was made during fiscal 1982, though in varying degrees.

While we summarize the agencies' progress below, we caution that, because fiscal 1982 was the debt collection initiative's first year, agencies will need to sustain their commitment beyond the near future if the most serious obstacles to effective debt collection are to be overcome. A more detailed discussion of each of the six agencies' actions to strengthen debt collection is contained in appendixes III-VIII.

Farmers Home Administration

During recent years, FmHA's debt collection performance has been plagued by a troubled economy, accounting and financial systems problems, and an agency policy that did not favor debt collection. During fiscal 1982, FmHA took three basic actions to improve its debt collection ability. First, it changed its policy toward debt collection. More emphasis was placed on loan supervising than on loan making so that supervising would receive higher priority and more resources.

Secondly, progress was made in achieving the tasks outlined in FmHA's debt collection improvement plan. For example, the agency

- tightened requirements in certain loan programs, thus restricting participation but reducing the risk that a loan

will default and working toward reducing total debt in the future, which is one of the administration's objectives;

- developed new regulations and requests for proposals which lay the groundwork for implementing the Debt Collection Act of 1982;
- sent program assessment teams from FmHA headquarters to monitor county office adherence to agency instructions regarding debt collection; and
- completed a study of loan reamortization and rescheduling practices, which resulted in recommendations for establishing loan terms that relate more to repayment ability, and for training to emphasize the costs and benefits of reamortization.

Thirdly, FmHA established a development plan for automated accounting and management systems which, if effectively implemented, will provide more accurate, timely, consistent, and detailed information on debts and debtors. Completion of the new system is not targeted until March 1986, however, and, as we have reported before (see p. 41, app. III), FmHA has had problems designing new systems. Therefore, this work demands careful oversight.

While some progress has been made in improving FmHA's procedures and systems, problems still remain at the county and State office level. Although in 1981 we reported inadequate staffing in these offices, FmHA's debt collection improvement plan listed no tasks for improving the staffing in its county offices. In addition, little progress was made during fiscal 1982 toward improving county office ability to adequately make financial analyses of farmers' loan requests. The FmHA Administrator said that if this problem is not corrected, the agency will be unable to reverse its trend of rising delinquencies. (See app. III for more detail on FmHA's debt collection efforts.)

Social Security Administration

SSA made progress toward better debt collection by improving its ability to (1) manage debt collection, (2) identify debt, (3) distinguish collectible from uncollectible debt, and (4) automate collection procedures. For example, SSA

- rewrote its debt collection operating instructions so that it can begin requesting repayment of 100 percent of benefit overpayments;
- used computer matches to compare beneficiaries' earnings reports, thereby discovering more than \$200 million in overpayments during fiscal 1982; and

--developed a methodology for determining the collectibility of its overdue debt.

While SSA made several debt collection management improvements during fiscal 1982, in our view the agency's most important achievement has been to focus its attention on clearing debt--separating the debt that is worth trying to collect from that which, because of deceased debtors or low amounts, is not worth collecting. SSA used over 8,000 staff-years to clear debt in fiscal 1982, an effort that assisted in the collection of almost \$1 billion.

To avoid this large manual effort in the future, SSA recognizes that it needs a new, automated accounts receivable system. An internal SSA study showed that hundreds of thousands of SSA's accounts receivable are probably not as collectible as once thought. Such data inaccuracy affects the reliability of the agency's collection estimates for future years. Solving this problem will become an important task in fiscal 1983. SSA has begun working directly with the General Services Administration to formally define its automatic data processing needs and contract with a private sector firm to design the required systems. In the meantime, an interim billing and followup system is to be implemented in fiscal 1983.

SSA's debt collection program received a setback when the agency was excluded from the Debt Collection Act of 1982. SSA had planned to use private collection agencies and other provisions of the new law, but cannot pursue these plans. This will inhibit SSA's ability to collect debts in the future. (See app. IV for more detail on SSA's debt collection efforts.)

Veterans Administration

With the enactment in 1980 of Public Law 96-466, VA's debt collection program was given a legislative headstart over other agencies. This law gave it several important tools: the ability to offset a veteran's future benefits by the amount owed on a delinquent debt; the right to litigate certain debt cases; and the ability to use credit bureaus and private collection agencies to assist in collecting delinquent debts.

To take advantage of these tools and to initiate other tasks for enhancing collection, VA developed under OMB guidance a plan for improving its overall debt collection ability. The plan generally responds to VA's long history of fragmented recordkeeping, benefit overpayments, and ineffective overpayment identification. In accordance with its plan for fiscal 1982, VA completed the following:

- Added 120 positions to VA's General Counsel for litigating debt.
- Implemented procedures for offsetting benefits.

--Reactivated over 700,000 terminated accounts, although only a few thousand were actually placed in repayment status.

The agency also used computer matching efforts during the year. This resulted in the identification of 66,000 Federal employees owing \$37 million in delinquent VA debt, \$20 million of which has been collected as of January 1982, and in the collection of over \$12 million in education benefit overpayments from persons with VA guaranteed loans.

In addition, the future of VA's debt collection program depends on several important long-term tasks and program improvements. Among these are expanding VA's computer system so that interest and administrative costs can be charged and information can be shared with private consumer credit agencies. Also, because the VA Inspector General found that benefit overpayments were increasing faster than collection in fiscal 1982, he recommended that the agency establish a more aggressive program for reducing overpayments. He also recommended that VA determine the practicality of using private collection agencies. (See app. V for more detail on VA's debt collection efforts.)

Department of Housing and Urban Development

Faced with serious loan servicing and accounting problems, HUD developed a comprehensive debt collection plan and pursued the plan's tasks during fiscal 1982. HUD's debt collection efforts have received the support of the Department's top management.

During fiscal 1982, HUD's actions to improve debt collection included issuing toughened policies on revising payment plans, and using contractors--on a pilot basis in one region--for complete loan servicing and accounting of HUD-held mortgages. These are areas on which we have reported in the past.² HUD also acted to implement a nationwide contract for the servicing and accounting of HUD-held mortgages. HUD expects this to increase collections during fiscal 1983.

While HUD's debt collection problems are far from being solved, the actions taken by HUD enabled the Department to appreciably exceed the collection target set by OMB. As discussed in chapter 3, much of the increase in collections can be attributed to a \$225 million collection of single family mortgage insurance premiums which had been held in escrow accounts by banks.

As a result of the debt collection initiative, HUD has also improved the accuracy of its accounts receivable information. The agency has historically been hampered by an accounting system that does not provide accurate and timely information. This longstanding problem was highlighted by OMB and Treasury's quarterly

²"HUD Should Strengthen Mortgagee Monitoring to Reduce Losses," (CED-81-108, June 9, 1981.)

requirement for Schedule 9 reports during fiscal 1982. The requirement focused attention on the inadequacy of agency records and prompted HUD to assess its accounting problems. In the multifamily mortgage program, for instance, HUD has been attempting to improve its data accuracy by crosschecking records maintained in the field against the corresponding files in headquarters. Differences are traced and reconciled.

Although many problems remain, especially regarding the need for improved automated systems, HUD has improved its debt collection program. Continued commitment is needed. HUD's Inspector General is currently conducting an audit of the agency's debt collection program and of Schedule 9 accuracy. (See app. VI for more details on HUD's debt collection efforts.)

Department of Education

During fiscal 1982, Education acted to resolve longstanding debt collection problems and in doing so increased its oversight of schools administering student loans. Education's debt collection plan assisted in organizing the agency's debt collection efforts. Debt servicing and collection issues addressed by the Department included

- improving the accuracy of information systems for the Guaranteed Student Loan and National Direct Student Loan (NDSL) programs,
- improving the control and reporting of financial transactions, and
- augmenting Education's collection staff with private sector collectors and temporary employees.

In addition, the agency created a credit management board which, according to Education officials, has succeeded in enhancing communication between program and administrative personnel regarding credit management issues.

Despite Education's efforts to improve debt collection, as we discuss in chapter 3, it fell \$266 million short of its fiscal 1982 collection target. Education officials explain this shortfall by noting that the agency's internal collection resources were reduced by 700 positions. They add that, while private sector contractors are to replace the in-house capability, the contractors have not had enough time to reach their peak collection efficiency.

The contractors maintain they cannot properly follow through on the accounts assigned to them--all of which were delinquent when assigned--because they cannot directly bring suit against a debtor. Instead, the contractors must return the accounts to Education which, in turn, refers them to the Justice Department for litigation. Education was working with OMB on a regulatory proposal that

would have allowed Justice to delegate its litigative authority to private contract collectors and allow them to bring suit on behalf of the Government. However, it was rejected by Justice. According to OMB officials, Education now plans to seek legislative authority to contract with private attorneys. Because of this and other related problems, it is too soon to predict the future performance of the contractors or the ability of the agency to rely on them as replacements for internal resources.

Education continues to be hampered by problems with its automated systems and its accounting and reporting procedures. Although actions have been taken to alleviate these problems, much remains to be done. During the 1986-1987 academic year, the agency expects to install an information system capable of handling collection for all its loan programs. Ultimately, if properly designed and implemented, this system will improve the reporting and control of financial information. While this system may well be operational by the established deadline, we caution that Education has a history of unsuccessful attempts to develop and operate an automated information system for its Guaranteed Student Loan program. For the time being, The Department is struggling to issue a reliable Schedule 9--one that accurately reflects the true status of its receivables. (See app. VII for more detail on Education's debt collection efforts.)

Small Business Administration

Although SBA took several actions to increase its collections during fiscal 1982, questions remain about the long-term effect of many of these actions. As discussed earlier, SBA's debt collection plan did not clearly address the specific problems and issues confronting the agency and generally did not set out specific tasks or deadlines for the few issues the plan addressed. Moreover, OMB officials expressed concern over SBA's apparent lack of top management support for the debt collection initiative during fiscal 1982.

According to OMB, the lack of emphasis and inadequacy of planning resulted in a disorganized debt collection program. We had difficulty determining what has actually been done to improve debt collection at SBA, and even more difficulty predicting how certain planned initiatives might affect the agency's future ability to prevent, collect, and monitor debt. These problems are compounded by internal disagreement over the results of an SBA task force report on debt collection. Coordinated by SBA's Inspector General, the report offers many recommendations and concludes that debt collection is one of the most underrated problems at the agency. Yet, these findings were discounted during fiscal 1982 by the SBA officials responsible for planning and implementing changes in debt collection practices.

On the positive side, however, SBA has recently taken an initiative which may prove successful in fiscal 1983 and which has been strongly endorsed by OMB. This is a pilot program intended to improve the servicing of business loans. In effect, the loans will

be serviced by the banks that hold them instead of by SBA. Initially, six banks will be involved. If successful, the initiative will be implemented nationwide. SBA will be monitoring the banks' progress to determine the cost effectiveness and potential for increased collections. (See app. VIII for a discussion of the pilot program.) Also, OMB officials believe that new SBA debt collection officials have displayed a commitment to improving collection that was lacking during fiscal 1982.

Although SBA's debt collection program seemed not to meet its potential in fiscal 1982, SBA was still able to meet--and in fact exceed by about \$34 million--the \$100 million target set for it by OMB. SBA's success is not agencywide, however. Collections on the business loans program fell far short of target. Moreover, SBA's ability to meet its agencywide target hinged almost entirely on the use of temporary help to collect on disaster loans. According to OMB, although using temporary employees to collect debt in fiscal 1983 will not be approved, about 100 positions (that were restored to SBA after a fiscal 1983 budget cut) will be earmarked specifically for debt collection. (See ch. 3 for further discussion of SBA's progress toward its targets.)

CHAPTER 3

FISCAL 1982 DEBT COLLECTION

SURPASSED OMB FORECASTS

During fiscal 1982, the 16 agencies monitored by OMB collected \$46.4 billion--an increase of \$8.6 billion, or 23 percent, over fiscal 1981. While most of this increase is due to program growth, OMB's analysis shows that \$2.0 billion of the actual increase, compared to a targeted \$1.5 billion increase, is due to more aggressive debt collection practices by the agencies. Included in the \$2.0 billion figure is a shortfall of over \$1.1 billion in uncollected tax debt during fiscal 1982, which means the administration's initiative resulted in \$3.1 billion in additional nontax collections during the year.

OMB established collection targets to measure agency progress during the year. Nine of the 16 agencies met their targets; 7 fell short. As discussed in chapter 2, they relied on many different means of improving debt collection. While improved collection procedures and enhanced automated systems were among the most common program improvements, agencies used techniques to increase collections in fiscal 1982 that we believe may not be sustainable over succeeding years. This chapter summarizes the collection experience of the 16 agencies tracked by OMB and highlights collection data for the 6 agencies we reviewed.

COLLECTIONS INCREASED FASTER THAN RECEIVABLES DURING FISCAL 1982 BUT DELINQUENCIES ALSO INCREASED

During 1982, receivables owed to the 16 agencies tracked by OMB grew by about \$17.6 billion, or 10.9 percent. Two agencies accounted for 91 percent of the fiscal 1982 growth--Agriculture with \$9.1 billion and IRS with \$6.8 billion. Receivables in five agencies decreased; most notable was the debt owed the National Aeronautics and Space Administration which decreased from \$183.3 million to \$2.4 million.

In addition to the growth in receivables during fiscal 1982, delinquent debt in the 16 agencies rose, by about \$10 billion--a 36-percent increase over the prior year. Five of the 16 agencies accounted for 97 percent of this increase. Delinquent debt increased in Agriculture by \$1.2 billion, in Education by \$400.9 million, in SBA by \$678 million, in IRS by \$6.9 billion, and in VA by \$429.5 million.

We are encouraged, however, by the fact that collections also increased in fiscal 1982 by \$8.8 billion, or 23 percent. Twelve of the 16 agencies tracked by OMB increased their collections while 4 agencies realized decreases. As discussed later in the chapter, OMB attributes most of the rise in collections to the increase in agencies' receivables; however, it attributes a significant amount

of the increase to agencies being more aggressive toward debt collection. Appendix IX includes details on the 16 agencies' receivables, collections, and delinquencies at the close of fiscal 1981 and 1982.

OVERALL, AGENCIES SURPASSED
OMB COLLECTION TARGETS

As discussed previously, to measure collection rates and provide quantitative incentives to agencies for improving their collection practices, OMB assigned each agency a collection target. For each quarter of fiscal 1982, OMB measured agencies' progress against these targets. It used a straightforward formula to separate the effects of program growth from improved collection practices. At the end of the year, it summarized the agencies' collections against their targets. Results showed that the fiscal 1982 debt collection initiative was responsible for \$2.0 billion of the \$8.6 billion change in collections from fiscal 1981 to 1982.

The formula OMB used to measure attainment of collection targets is based on the increase in collection rate from one year to the next. If an agency collected 15 percent of its total receivables in one year and 20 percent the next, the 5-percent increase would be applied to the total receivables during the current year to determine the amount to be credited to the target. In other words, measuring collections with the formula shows the difference between what was actually collected during the current fiscal year and what would have been collected applying the immediate past year's collection rate.

We believe the formula adequately accomplishes its purpose, however, it has sometimes yielded questionable results. For example, VA's calculated collections toward its target seem to be inflated (see p. 24) while SSA's collections may have been understated (see p. 22). (App. X provides a more detailed discussion of the formula and includes an example of the calculations.)

Shown below are the 16 agencies' targets and the corresponding collections credited toward the targets, using the OMB formula and fiscal 1982 data submitted by the agencies.

<u>Agency</u>	<u>Target</u>	<u>Collections credited to target</u>
	----- (thousands) -----	
Agriculture	\$250,000	\$747,140
AID	35,000	56,167
Commerce	30,000	18,814
Defense	35,000	540,250
Education	225,000	-41,008
Energy	35,000	409,092
HHS	155,000	212,874
HUD	75,000	492,201
Interior	25,000	-31,223
Labor	45,000	-18,024
NASA	125,000	141,480
SBA	100,000	133,850
State	20,000	10,607
Transportation	5,000	37,708
IRS (note a)	230,000	-1,153,425
VA	<u>150,000</u>	<u>425,872</u>
 Total	 <u>\$1,540,000</u>	 <u>\$1,983,375</u>

a/IRS' target is for increasing collections of delinquent tax debts, whereas other agencies' targets correspond to all current debts.

As shown above, 10 of the 16 agencies exceeded their targets. The IRS had the greatest shortfall; it missed its target by over \$1.1 billion. Therefore, for nontax debt, the remaining 15 agencies surpassed their cumulative target by about \$3.1 billion.

The collection results at the six agencies we reviewed-- Agriculture, Education, HHS, HUD, SBA, and VA--are discussed individually on the following pages. Results are based on data compiled by OMB as of March 18, 1983, and our discussions with agency and OMB officials. However, as discussed on pages 8 and 9, historically, agencies have not had timely, reliable information on their receivables. Although, we saw efforts to improve the accuracy of the data during fiscal 1982, there remain questions as to the accuracy of Schedule 9 reporting. Agencies pointed to long term accounting system improvements as the key to more accurate data. Nevertheless, Schedule 9 data during fiscal 1982 served its purpose of providing an overall picture of agencies' collection results.

Agriculture

Agriculture's collection rate increased in fiscal 1982 by \$747 million--almost triple the department's target of \$250 million. This occurred despite a virtual moratorium on collections in one of the Department's four largest programs: its farmer loan program, which is funded by the Agriculture Credit Insurance Fund. The success of this Department in meeting its target, in spite of the fact that its clientele are beset by serious economic problems, can be explained by two factors.

First, the Agriculture target was set low, compared to the Department's potential for collection. Taken as a percentage of total debt, the average collection target for the other five agencies we reviewed was nine times higher than Agriculture's. In a relative sense, therefore, much less was expected of Agriculture than of other agencies; and this was borne out by the collections in its various programs. For example, the Crop Insurance Corporation collected \$123 million toward a target of zero because no increased collections were anticipated for this program. The Rural Electrification Administration, with a \$600,000 target, accounted for almost \$410 million--or over half of Agriculture's collection increase--because an unexpectedly large number of loans came due in fiscal 1982.

Secondly, Agriculture's Credit Insurance Fund experienced a 54-percent rise in current receivables during fiscal 1982, increasing from about \$5 billion in fiscal 1981 to \$7.7 billion in 1982. (See app. III.) Except for unpaid taxes owed to IRS, this was by far the largest single jump in current debt among all Federal agencies. It almost equals the total increase experienced by all other programs. However, even though the fund's current debt rose by \$2.7 billion, its collections rose by only \$500 million, or 11 percent. We believe this reflects Agriculture's policy of deferring collections from farmers unable to pay.

Shown below are Agriculture's calculated collection increases compared to its targets for the Department and eight of its major programs.

Programs	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
----- (thousands) -----			
Credit Insurance	\$100,000	\$220,753	\$120,753
Housing Insurance	100,000	-36,148	(136,148)
Development Insurance	46,600	57,031	10,431
Rural Electrification Administration	600	409,559	408,959
Crop Insurance Corporation	-	123,356	123,356
Food Stamps	2,800	-5,740	(8,540)
Forest Service	-	-27,283	(27,283)
Rural Electrification- Telecommunication Bank	-	5,612	5,612
Total	<u>\$250,000</u>	<u>\$747,140</u>	<u>\$497,140</u>

Education

Because of rising receivables and declining collections during fiscal 1982, Education's calculated collection increase was \$-41 million, or \$266 million short of its \$225 million target. Of Education's 11 programs that collect debt, only 2 were given significant targets--the Guaranteed Student Loan and the Direct Student Loan-Nonassigned programs. The first missed its \$100 million target by \$153 million and the second contributed only \$6 million toward its \$120 million target.

As discussed in chapter 2, Education officials attribute the disappointing collection performance to large reductions in the agency's internal collection staff and increases in delinquent debt. In addition, collection contractors hired to replace Education personnel claim that their efforts are hampered by their inability to threaten debtors with legal suits. Education proposed a regulatory change that would allow the contractors to bring suit against debtors on behalf of the Government, but Justice determined that this would violate current law.

Shown below are Education's targets compared to calculated collection increases for the Department and 11 of its programs.

<u>Programs</u>	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
	----- (thousands) -----		
College Housing Guaranteed	\$ 3,150	\$ 2,045	\$ (1,105)
Student Loan Facilities	100,350 675	-52,900 921	(153,250) 246
Direct Student Loan - Nonassigned	120,825	6,273	(114,552)
Direct Student Loan - Assigned	-	-396	(396)
Direct Student Loan - Title 207	-	171	171
Education Assistance - Title 305	-	39	39
Advances/IVB/422	-	185	185
Basic Education	-	129	129
Law Enforcement Education Program	-	1,818	1,818
Cuban Student Loan	-	707	707
Total	\$225,000	\$-41,008	\$(266,008)

a/Because of large differences between Education's Nov. 30, 1982, data and revised data the agency subsequently submitted to OMB, this table is based on data compiled by OMB as of Mar. 18, 1983. Other agencies' data changed very little after original submission.

Health and Human Services

HHS surpassed its \$155 million target by \$58 million, increasing its calculated collections by almost \$213 million. HHS's Public Health Service accounted for much of this increase, since it far surpassed its \$9 million target with \$75 million in increased collections.

Social Security, on the other hand, fell \$13 million short of its \$135 million target. For two reasons, however, this is not an accurate picture of Social Security's fiscal 1982 performance.

First, using OMB's methodology, States' contributions to Social Security trust funds are treated as collections even though Social Security debt collection practices have no effect on the level of these contributions. In our view, because they dilute the effect of collecting Federal debt, State payments should not be considered when setting collection targets or when calculating performance against a target. To illustrate: applying OMB's formula, but considering only fiscal 1982 collections under Social Security's control, results in a collection increase of \$348 million--almost triple what OMB calculated when State payments were included.

Secondly, Social Security's success could be further measured in terms of reducing debt delinquency. The agency reduced delinquency by 21 percent and increased nondelinquent receivables by 57 percent, thereby setting up a potentially better collection year in fiscal 1983. (See p. 45 in app. IV.)

Shown below are HHS's targets compared to calculated collection increases for five of its major programs.

<u>Programs</u>	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
----- (thousands) -----			
Social Security	\$135,000	\$121,740	\$(13,260)
Public Health	9,400	75,000	65,600
Health Care	10,000	14,773	4,773
Human Development Office of the Secretary	300	3,741	3,441
	<u>300</u>	<u>-2,380</u>	<u>(2,680)</u>
Total	<u>\$155,000</u>	<u>\$212,874</u>	<u>\$57,874</u>

Housing and Urban Development

HUD exceeded its fiscal 1982 collection target of \$75 million by \$417 million. As discussed in chapter 2, about \$225 million in additional collections resulted because HUD's Federal Housing Administration began collecting mortgage insurance premiums monthly instead of annually, thereby speeding up the receipt of funds.

Also, two programs--Elderly Housing and New Communities--that together had targets of less than \$5 million, reported collection increases of over \$100 million. According to HUD officials, this occurred in part because some elderly housing projects were completed and sold ahead of schedule.

Shown below are HUD's targets compared to calculated collection increases for seven of its major programs.

<u>Programs</u>	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
		----- (thousands) -----	
Federal Housing	\$65,900	\$414,774	\$348,874
Elderly Housing	4,400	80,225	75,825
Rehabilitation Loan	4,700	7,151	2,451
Low Rent Housing	-	-2,129	(2,129)
Liquidating Fund	-	2,065	2,065
Community Planning Fund	-	-30,729	(30,729)
New Communities	-	20,843	20,843
Total	<u>\$75,000</u>	<u>\$492,200</u>	<u>\$417,200</u>

Small Business Administration

SBA surpassed its overall \$100 million target by almost \$34 million, despite seeming to place little emphasis on improving its debt collection ability. This success is solely attributed to the agency hiring 275 temporary employees at a cost of \$6 million to collect its disaster loans. The Disaster Loan program exceeded its target by 300 percent, collecting \$197 million against a \$65 million target set by OMB.

No temporary help was provided to SBA's Business Loan program and collections declined from fiscal 1981 to 1982, falling \$98 million short of its business loan collection target. An OMB official attributed this poor performance to the weak national economy and the absence at SBA of an aggressive collection program.

Shown below are SBA's targets compared to calculated collection increases for its two major loan programs.

<u>Programs</u>	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
----- (thousands) -----			
Business Loan	\$ 35,000	\$-63,282	\$ (98,282)
Disaster Loan	<u>65,000</u>	<u>197,132</u>	<u>132,132</u>
Total	<u>\$100,000</u>	<u>\$133,850</u>	<u>\$ 33,850</u>

Veterans Administration

The VA easily surpassed its \$150 million target as its calculated collection increase was over \$425 million. Its collections came from unexpected sources, however. For example, the two VA programs with the highest targets--Readjustment Benefits and Compensation Benefits--fell short of their combined target by \$141 million. The Loan Guaranty program, on the other hand, surpassed its \$20 million target by almost \$406 million, and thus was almost entirely responsible for most of the VA's overall success.

The Loan Guaranty program was able to increase its collections by such a large amount through selling loans from its portfolio to private institutions. However, for two reasons treating these sales as collections is a questionable practice. First, to the extent the loans were guaranteed (not all were), VA still retains a contingent liability and will have to take them back if borrowers default. Secondly, using these sales in measuring VA's collection performance gives the impression that VA's debt collection program as a whole is successful. This is misleading because, without the loan sales, VA's other programs did poorly against the target.

<u>Programs</u>	<u>Targets</u>	<u>Calculated collection increase</u>	<u>Over (Under)</u>
----- (thousands) -----			
Loan Guaranty	\$ 20,000	\$425,955	\$405,955
Direct Loan	2,000	1,222	(778)
Education Loan	10	950	940
Readjustment Benefits	87,500	-13,101	(100,601)
Compensation Benefits	33,990	-6,181	(40,171)
National Life Insurance	<u>6,500</u>	<u>17,026</u>	<u>10,526</u>
Total	<u>\$150,000</u>	<u>\$425,871</u>	<u>\$275,871</u>

Fiscal 1982 was the first year in which OMB increased the collection targets for Federal agencies. OMB has developed new targets for fiscal 1983 and, because of the experience gained during 1982, believes these should better reflect agencies' abilities to increase collections.

Appendixes III through VIII provide more detail about the debt collection activities of the six agencies discussed above.

CHAPTER 4
NEW TOOLS AND CONTINUED EMPHASIS MEAN
GOOD COLLECTION POTENTIAL
IN FISCAL 1983-1985

Enactment of the Debt Collection Act of 1982, coupled with the increased emphasis on debt collection goals, indicates that Federal agencies' collection performance should continue to improve. The extent of this improvement depends on several factors:

- Federal agencies' effectiveness in implementing the Debt Collection Act of 1982.
- Continued emphasis by OMB and Federal agencies.
- The state of the national economy.

IMPLEMENTATION OF THE DEBT COLLECTION ACT
OF 1982

For fiscal 1983, OMB has asked the 16 Federal agencies it monitored during fiscal 1982, as well as 4 additional agencies, to plan specific steps for implementing the Debt Collection Act of 1982. These include using credit bureaus and private collection agencies to enhance agencies' collection efforts. Several administrative tasks still remain, however, before full implementation of the act is possible.

Updated plans to include steps
for implementing new act

OMB Bulletin 83-11, dated March 1, 1983, requires agencies to update their existing debt collection plans. As discussed in chapter 2, these were originally developed for use in fiscal 1982 under Bulletin 81-17. The updated plans are to be submitted to OMB by April 11, 1983, and are to include milestones and target dates for implementing the Debt Collection Act of 1982. Agencies are specifically instructed to

- refer information on delinquent debts to consumer reporting agencies;
- require applicants under "included Federal loan programs"¹ to furnish their taxpayer identification number on loan applications;
- withhold money payable to individuals to recover delinquent debts owed;

¹These programs were discussed in the Federal Register, Dec. 27, 1982.

- screen applications under "included Federal loan programs" against IRS files of delinquent taxpayers;
- disclose addresses obtained from IRS to private debt collection contractors;
- assess interest, penalties, and administrative costs on delinquent debts; and
- use private contractors to service and collect Government debts.

While these steps will certainly increase debt collection, they will be implemented at different rates and with varying effects in each agency. VA has already started using some of the new debt collection tools, while, because of the nature of their debtors, other agencies will not find the tools as readily useful. For example, collecting debt at FmHA depends more on a debtor's ability to pay than on FmHA's ability to find the debtor. Ability to pay, in turn, often depends on circumstances beyond the debtor's control. During 1982, farmers and small businessmen found that high interest rates made loan repayment a severe economic hardship. This, combined with low farm product prices and high costs of production, drove many debtors close to foreclosure. Until the national economy improves, even the tools in the new act may not help some agencies reduce their delinquent debt because their debtors simply do not have the means to pay.

Several tasks remain before the new act can increase collections

The first step in implementing the Debt Collection Act of 1982 has already been completed: OMB has directed the agencies to develop their plans. However, before the new act can be effectively implemented, a series of routine yet important tasks must be carried out.

- OMB's responsibility is to assist agencies in implementing the new law by providing background, advice, and coordination. It must also review Schedule 9 and Circular A-11 (see page 30) to determine if they meet the new law's needs.
- The GAO and Justice Department are responsible for revising the Federal Claims Collection Standards to reflect the new law's provisions.
- The agencies themselves must (1) revise their loan application forms and establish new regulations and procedures for taking advantage of tools granted in the new law, (2) review and revise payroll and accounting systems to implement salary offset provisions, (3) develop the ability to accrue interest, and (4) revise their followup letters.

Since these tasks will all take time to accomplish, fiscal 1983 will be well along before the new law and the debt collection tools it provides begin to have an effect on actual collection practices.

Because the Congress is concerned with protecting the debtor's rights, the act imposes certain administrative requirements on agencies. Section 5 of the act, which allows offsetting a Federal employee's pay to collect a debt owed the Government, details several rights due the individual which the Government must observe: the right to inspect and copy Government records, and the right to a hearing conducted by an administrative law judge prior to the offset. The employee also must be given advance notice of the offset action. According to a Justice Department official, these procedures could result in agencies not taking steps to collect overdue debts that fall below a certain dollar threshold. Until agencies begin to implement Section 5, it is not possible to tell what that threshold will be or how often debtors will exercise their rights.

OMB SEEKS AGENCY MANAGEMENT COMMITMENT
BY REQUIRING IMPROVEMENTS, SETTING NEW TARGETS,
AND BUDGETING FOR DEBT COLLECTION

The importance of Federal agency top management support of the administration's debt collection initiative cannot be overstated. In the six agencies we reviewed, management emphasis was a key ingredient in each agency's success or failure to improve its collections program. At HUD, for example, we were repeatedly told by staff as well as policymakers that if HUD's appointed officials had not backed the debt collection initiative it would have achieved little success. On the other hand, as discussed previously, OMB attributed SBA's disappointing Business Loan collection rate to the fact that top management was not a strong proponent of the initiative. During fiscal 1983, therefore, OMB is (1) requiring that each agency take specific steps to improve its debt collection system, (2) setting new debt collection targets against which to measure agencies' performance, and (3) requiring that agencies use the budget process to plan ahead for debt collection.

Debt collection improvement steps required

Recognizing the important role agency management attitude plays in debt collection, OMB has acted to ensure that Federal managers place high priority in the near term on improving their debt collection systems. In addition to the steps listed earlier for implementing the Debt Collection Act, OMB's new debt collection bulletin requires that each executive branch agency

--routinely monitor the status of outstanding receivables, delinquencies, defaults, collections, and writeoffs;

- automate debt portfolios to produce timely invoices, bills, followup letters, and complete and systematic status reports;
- assess the costs, risks, and benefits of extending credit and selling agency debt portfolios; and
- apply uniform standards for suspending or terminating collection action, deferring or rescheduling payment, referring debts to the Department of Justice for litigation, and compromising or writing off debts.

The effect of these requirements is to supplement the progress made in fiscal 1982 and extend it into fiscal 1983 and beyond. Moreover, OMB requires that the above activities be included in agencies' updated debt collection plans.

New targets set

Continuing the process it began in fiscal 1982, OMB has set new targets for increasing Federal agency debt collection in 13 agencies. The targets cover fiscal 1983 to 1988. According to OMB officials, the targets were based on agencies' success in meeting the fiscal 1982 targets, the level of delinquent debt owed an agency, and other factors related to an agency's ability to recover debt in the next few years.

	Targets		
	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985-88</u>
	----- (millions) -----		
Agriculture	\$ 250	\$ 140	\$ 140
Commerce	25	61	61
Defense	85	100	100
Education	225	225	225
Energy	63	57	57
HHS	80	200	200
HUD	125	150	150
Labor	20	10	10
Transportation	17	9	9
AID	35	39	39
SBA	120	175	175
VA	150	77	77
IRS (note a)	<u>1660</u>	<u>2040</u>	<u>2315</u>
Total	<u>\$2855</u>	<u>\$3323</u>	<u>\$3558</u>

a/Amounts indicate increased collections of delinquent tax debt.

As in fiscal 1982, OMB will measure agency performance against the above targets using the formula mentioned in chapter 3 and discussed more fully in appendix X. To do this, OMB will continue during fiscal 1983 to monitor agency receivables, collections, and other data. Agencies will continue to submit the data quarterly on Schedule 9, enabling the comparison of agency performance in corresponding quarters of fiscal 1982 and 1983. As discussed further on page 31, Treasury will take the lead in analyzing receivables information reported on Schedule 9 beginning in fiscal 1983.

OMB Circular A-11 requires
front-end budget consideration
of debt collection

On July 8, 1982, OMB reissued Circular A-11, "Preparation and Submission of Budget Estimates." The circular illustrates and describes two new reports--Report on Status of Debt Collection (Exhibit 51A) and Report on Agency Debt Collection Level of Effort (Exhibit 51B)--that OMB now requires when agencies submit their budget proposals for review. The purpose of the reports is to provide OMB with information about agencies' plans for debt collection during the next and future fiscal years. The reports will be submitted before agencies develop final budgets. They will show the change during the past fiscal year in uncollected amounts due the Government as well as accomplishments with respect to the debt collection targets assigned by OMB. This should assist budget planning by giving more visibility to debt collection practices and reporting across the Government.

OMB CREATES NEW FRAMEWORK FOR MANAGING
CREDIT IN THE GOVERNMENT

OMB has decentralized the development and management of Federal credit policy. While OMB retains policy formulation, oversight, and coordination, the detailed development, implementation, and evaluation of credit policy have been assigned to specific agencies. Involving various agencies in identifying crosscutting management problems and designing solutions is part of OMB's "Reform 88" package for bringing under control by 1988 some of the Government's most compelling and longstanding problems.

One of these problems identified under Reform 88 is credit management, which covers all facets of the credit approval and debt collection process. As shown below, OMB has divided the area into five projects, each assigned to one or more lead agencies:

1. Credit standards, write-off policy, and risk analysis. The Treasury has been given the lead for the project which includes the development of uniform standards for extending credit and writing off bad debts, as well as innovative risk analysis and credit scoring procedures.

2. Credit approval. The lead responsibility for this project has been split. VA will handle individual loans and Commerce will handle business loans. Together the two agencies are to develop systems and procedures for
 - applying credit standards to credit decisionmaking,
 - ensuring that credit managers have access to accurate and reliable information on credit applicants, and
 - preventing overpayments.
3. Account Management. The lead responsibility is again split, with the lead given to Agriculture for in-house account management and to HUD for contracting out. The objective of this project is to develop automated systems and procedures for
 - billing,
 - handling remittances,
 - aging accounts,
 - managing escrow, and
 - management reporting.
4. Collections. Education has the lead for individual debts, SBA for corporate debts, and Treasury for automated systems. This project is concerned with
 - automating collection systems,
 - contracting for collection, litigation, and liquidation, and
 - referring cases to credit bureaus.
5. Portfolio Sales. The lead agency for this project is Commerce. The objective is to develop standards and procedures for selling selected assets of loan portfolios.

Lead agency responsibilities for these new efforts include designing a pilot project, developing a work plan with milestones and target dates, and reporting project status to OMB. Pilot projects are to be approved by OMB and ready for implementation by December 31, 1983. The current debt collection project will remain in OMB, but the responsibility for tracking receivables information reported on Schedule 9, data collection, and analysis will be shifted to the Treasury Department.

Strengthening debt collection, both Government-wide and at specific agencies, has long been one of GAO's primary concerns. While we see that progress is now being made in collecting debts, much more must be done in the near future. As discussed in this report, many agency debt collection improvements are long term in nature, such as developing improved accounting systems. We believe that OMB's continued oversight to ensure that debt collection receives sustained, high priority attention is imperative. The framework and momentum are in place, and continuing the current emphasis is important. Several of our current studies are either focusing on or indirectly related to debt collection. As the results of this work become available, we will share them with the House Budget Committee and other appropriate congressional offices.

JAMES R. JONES, OKLA.
CHAIRMAN

JOE WRIGHT, TEX.
DAVID R. GIBBY, WIS.
PAUL SIMON, ILL.
NORMAN Y. MINETA, CALIF.
JIM MATTOX, TEX.
STEPHEN J. SOLARZ, N.Y.
THOMAS E. WIRTH, COLO.
LEON E. PANETTA, CALIF.
RICHARD A. GEPHARDT, MD.
BILL NELSON, FLA.
LES ASPIN, WIS.
W. G. (BILL) WEPNER, N.C.
THOMAS J. DOWNNEY, N.Y.
ADAM BIDLAMIN, JR., IND.
BRIAN J. DONNELLY, MASS.
PHIL GRAMM, TEX.
MIKE LOWRY, WASH.

MACE BRIDGE,
EXECUTIVE DIRECTOR
225-7200

NINETY-SEVENTH CONGRESS

U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, D.C. 20515

BILBERT L. LATTA, OHIO
RALPH REGULA, OHIO
BUD SHUSTER, PA.
BILL FRENDEL, MISS.
JACK KEMP, N.Y.
JAMES O. MARTIN, N.C.
PAUL TIBBLE, VA.
BO BETHUNE, ARK.
LYNN MARTIN, ILL.
ALBERT LEE SMITH, JR., ALA.
EUGENE JOHNSON, N.C.
BOBBY FIEDLER, CALIF.

JOHN J. O'MAUGHNESSY,
MINORITY STAFF DIRECTOR

February 24, 1982

Honorable Charles A. Bowsher
Comptroller General of the
United States
Washington, D.C. 20548

Dear Mr. Bowsher:

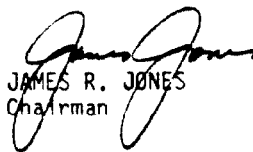
In our continuing evaluation of the administration's efforts to achieve savings through management efficiencies, the Budget Committee requests that GAO provide us with a comprehensive evaluation and analysis of the administration's efforts in this area in the last year with particular emphasis on their capability to monitor, collect information, and calculate savings achieved. As part of this effort please provide an analysis of how the agencies have responded to the OMB directive last April requiring progress reports by September 30.

In addition, in this year's budget, the administration has projected a savings of \$20.3 billion through management initiatives. The Budget Committee requests that the GAO provide us a detailed analysis of the feasibility of those proposals as well as a breakdown of administrative vs. congressional actions required to achieve these savings.

As Chairman of the House Budget Committee, I wish to express my appreciation for the work that the GAO has already provided us.

With best wishes,

Sincerely,


JAMES R. JONES
Chairman

GAO Note: After receiving this request letter, we met with the House Budget Committee staff several times regarding a more specific description of the committee's concerns. We agreed that rather than focus broadly on the entire \$20.3 billion of management initiatives, we would concentrate on an area in which prior audit work had been done and where a potential for analysis exists. We agreed with the committee to review the administration's debt collection initiative and to provide our report in time for the committee to use it during spring 1983 deliberations over the House budget resolution.

GAO REPORTS CONCERNING DEBT COLLECTION

FGMSD-78-61 October 20, 1978	The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public
FGMSD-79-14 March 14, 1979	Department of Housing and Urban Development: Action Being Taken to Correct Weaknesses in the Rehabilitation Loan Program
FGMSD-79-24 April 13, 1979	Geological Survey: Improvements in the Survey's Financial Management System Needed for Adequate Identification of All Oil and Gas Royalties Due
FGMSD-79-41 August 16, 1979	Department of Housing and Urban Development: Additional Changes Needed in Servicing and Accounting Activities to Reduce the Delinquency Rate and to Promptly Collect Funds From Mortgages Due the Government
FGMSD-78-59 February 23, 1979	The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices
FGMSD-79-19 March 9, 1979	Delinquent Debts Can Be Collected If the Government Kept Federal Tax Refunds As Offsets
HRD-79-21 January 16, 1979	Social Security Administration: SSA needs to Improve its Overpayment Collection Process to Collect the Maximum Possible Amount of Supplemental Security Income Overpayments from Recipients
HRD-79-31 January 17, 1979	Social Security Administration: SSA Needs to Improve Its Recovery of Overpayments Made to Retirement, Survivors, and Disability Insurance Beneficiaries
FGMSD-80-27 March 19, 1980	Department of Housing and Urban Development: Efforts to Improve Its Accounting System for Mortgage Insurance Premiums
FGMSD-80-43 May 16, 1980	The Department of Housing and Urban Development: HUD Should Make Immediate Changes in Accounting for Secretary-Held Multifamily Mortgages

<p>FGMSD-80-46 June 4, 1980</p>	<p>Department of Education - Law Enforcement Assistance Administration: Improved Controls to Increase Collections, to Restore Accounting System Integrity, and to Guard Against Future Problems Needed</p>
<p>CD-80-1 January 15, 1980</p>	<p>Unresolved Issues Impede Federal Debt Collection Efforts--A Status Report</p>
<p>FGMSD-80-68 July 17, 1980</p>	<p>Oregon's Offset Program for Collecting Delinquent Debts Has Been Highly Effective</p>
<p>CED-81-3 December 8, 1980</p>	<p>Small Business Administration: Most Borrowers of Economic Opportunity Loans Have Not Succeeded in Business</p>
<p>FGMSD-80-37 March 4, 1980</p>	<p>Department of Housing and Urban Development: Delays in Implementing HUD's Accounting System for its Mortgage Insurance Program</p>
<p>FGMSD-80-6 December 28, 1979</p>	<p>Department of Health and Human Services: HEW Must Improve Control Over Billions in Cash Advances</p>
<p>HRD-80-77 June 10, 1980</p>	<p>Department of Health and Human Services: States Should Intensify Efforts to Promptly Identify and Recover Medicaid Overpayments and Return the Federal Share</p>
<p>CED-80-67 February 19, 1980</p>	<p>Farmers Home Administration's ADP Development Project--Current Status and Unresolved Problems</p>
<p>HRD-81-37 December 31, 1980</p>	<p>Department of Health and Human Services: Implementing GAO's Recommendations on the Social Security Administration's Programs</p>
<p>HRD-81-5 February 13, 1981</p>	<p>Veterans Administration: Aggressive Action Needed to Strengthen Debt Collection</p>
<p>PAD-81-69 March 30, 1981</p>	<p>Improved Administrative Practices Can Result in Further Budget Reductions</p>
<p>GGD-81-31 April 3, 1981</p>	<p>Improved Collections Can Reduce Federal and District Government Food Stamp Program Costs</p>

CED-81-144 August 31, 1981	Limited-Resource Farmer Loans: More Can Be Done to Achieve Program Goals and Reduce Costs
AFMD-81-106 September 17, 1981	Weaknesses in Internal Financial and Accounting Controls at DOE Accounting Stations
HRD-81-124 September 30, 1981	Stronger Actions Needed to Recover \$730 million in Defaulted National Di- rect Student Loans
AFMD-82-6 October 29, 1981	Oil and Gas Royalty Collections--Long- standing Problems Costing Millions
AFMD-82-14 December 7, 1981	Defaulted Title I Home Improvement Loans--Highly Vulnerable to Fraud, Waste, and Abuse
AFMD-82-22 December 10, 1981	Internal Controls at Department of Transportation's Federal Highway Ad- ministration
HRD-82-19 December 10, 1981	Solving Social Security Computer Prob- lems: Comprehensive Action Plan and Better Management Needed
AFMD-82-32 January 22, 1982	Federal Agencies Negligent in Collect- ing Debts Arising from Audits
AFMD-82-55 April 27, 1982	Oil and Gas Royalty Accounting--Im- provements Have Been Initiated but Con- tinued Emphasis is Needed to Ensure Success
AFMD-82-52 July 8, 1982	Adverse Opinion on the Financial State- ments of the Student Loan Insurance Fund for FY 1980
AFMD-82-18 August 18, 1982	Problems Continue in Accounting for and Servicing HUD-Held Multifamily Mort- gages
AFMD-83-7 December 1, 1982	Actions Underway to Reduce Delinquen- cies in the Health Professions and Nursing Student Loan Programs
RCED-83-40 February 4, 1983	Need For Greater Efforts to Recover Costs of Food Stamps Obtained Through Efforts or Fraud

IMPROVING DEBT COLLECTION AT
THE FARMERS HOME ADMINISTRATION

Since 1979, when priority was first assigned to debt collection, FmHA has been working to reduce the amount of delinquent debts and the number of delinquent borrowers, and to improve loan-making. It has taken a series of actions including top management emphasizing debt collection, developing a debt collection plan with specific tasks, embarking on a long term accounting systems improvement project, and working toward targets for increasing collections and reducing the number of delinquent debtors.

While these actions have given FmHA more potential to collect overdue debt, they have resulted in only small increases in collections. National economic problems, high costs of production, and low farm product prices have reduced farmers' ability to repay loans and caused FmHA to be less aggressive in collecting delinquent debts. However, even if the economy improves, FmHA still needs to adequately staff its county offices. It also needs to effectively implement the Debt Collection Act of 1982 for it to have the best prospects of reducing delinquencies and increasing its ability to both collect and deter delinquent debts.

BACKGROUND

At the beginning of fiscal 1982, FmHA programs accounted for about one-third of the debts owed the Federal Government by U.S. citizens and organizations--some \$55.7 billion--and its farmer programs, in particular, held 11 percent of the total nationwide farm debt. In rural areas, FmHA is the lender of last resort. How FmHA manages and collects this debt has a significant effect on the results of administration efforts to reduce the national debt and the Federal budget deficit.

Under authority of the Consolidated Farm and Rural Development Act, the Farmers Home Administration makes loans and grants in four basic types of programs: farmer, rural housing, community, and business and industry. Of these, the farmer and housing program loans each currently has a 28 percent delinquency rate. FmHA insures or guarantees the farmer loans through the Agricultural Credit Insurance Fund. Loans are made by this revolving fund from its borrower receipts, Treasury borrowings, or from the sale of certificates of beneficial ownership. The loans are then held in a pool as security for the certificates, most of which are sold to the Federal Financing Bank.

FmHA's farmer programs have been growing over recent years. FmHA held 7.3 percent of the total outstanding farm debt on January 1, 1979; 9.9 percent on January 1, 1980; and 12.2 percent on January 1, 1982. However, the amount of this debt that is delinquent has also been growing, and at a faster rate than the programs themselves. While farmer program total receivables grew by

5 percent in fiscal 1982, delinquent debt grew by 71 percent. Changes in receivables, delinquencies, and collections in farmer programs are shown below.

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
	------(millions)-----			
Total receivables	\$25,623	\$26,900	\$1,278	5
Current receivables	4,969	7,659	2,691	54
Not delinquent	3,372	4,928	1,555	46
Delinquent	1,596	2,732	1,135	71
Long term receivables	20,654	19,241	-1,413	-7
Collections	4,354	4,833	478	11

LONGSTANDING PROBLEMS HAVE LED TO
MANY ACTIONS WITH MIXED RESULTS

Responding to several recent assessments, FmHA has acted over the last 2 years to improve debt collection in its loan programs. The structure and environment within the agency for collecting debts has improved. Despite higher potential to reduce delinquencies, however, the amount of overdue debts is still growing at an alarming rate. This is primarily due to FmHA's policy, in conformance with Public Law 95-334, the Emergency Agricultural Act of 1978, to mitigate the harsh economic conditions facing farmers by deferring loan payments and avoiding foreclosures, except in cases where no hope for repayment exists.

Three independent studies--one by Agriculture, another by us, and a third by the Agriculture Inspector General--during the past 4 years have identified many shortcomings in FmHA's debt collection ability. The studies recommended that the agency strengthen its loan supervision and servicing, make more effective use of available personnel resources, and improve its accounting and management information systems.

FmHA's efforts to respond to these recommendations, as well as to guidance from OMB, have met with mixed results. While there have been improvements, much remains to be done. FmHA's overall goals of reducing both the number of delinquent borrowers and the total amount delinquent have not been fully achieved, primarily because of high farm costs, low commodity prices, and FmHA's policy to foreclose only under the worst conditions. However, other qualitative changes have occurred in the agency's policy and operations and, once farm economics improve, these changes should enable FmHA to collect its debt more effectively.

FmHA actions to improve
debt collection

FmHA has taken three basic actions to improve debt collection. First, the FmHA Administrator has begun revising the deeply ingrained county office practice of placing more emphasis on making loans than on supervising them. In an administrative notice to all field offices, the Administrator provided guidelines spelling out a policy that places the highest priority on loan supervision. To enforce this policy, FmHA farm program assessment teams conducted reviews in nine states from July to October 1982. The review teams focused on State and county office adherence to agency instructions regarding

- delinquent and problem loans;
- "graduating" a borrower from FmHA to a commercial lending organization;
- loan servicing and supervision; and
- operational reviews.

Results of these reviews were not available at the time of our review but, according to FmHA officials, State directors will be contacted regarding the review team's findings. These teams plan to continue reviewing loan programs during fiscal 1983.

A second action taken by FmHA was in response to OMB Bulletin 81-17 requirements that a debt collection improvement plan be developed. FmHA's plan, which is part of the Agriculture plan, addresses most of the issues and debt collection problems raised during the past several years. Some of the plan's results to date include

- tightening the emergency loan program by changing the qualifying criteria, thus restricting participation in the program and potentially reducing program outlays in fiscal 1982-86 by \$14.8 billion;
- developing draft regulations to change the definition of a family type farm, which will make it more difficult for farmers to qualify for loans under this criteria, thus shrinking the program unless demand among farmers for FmHA credit grows;
- exploring with IRS officials how to use the IRS locator service, thus enabling FmHA to use the best address available to the Government in locating delinquent debtors;
- issuing in August 1982 a request for proposal for servicing loans in Puerto Rico on a pilot basis with contractors expected to begin work after appropriation authority is received from the Congress; and

--completing a study of FmHA reamortization practices. The study's recommendations included (1) giving greater emphasis to establishing farm loan terms according to the borrower's repayment ability rather than applying the maximum terms allowed in the regulations, (2) holding State level training sessions emphasizing the costs and benefits of reamortization and rescheduling to both the Government and the borrowers, and (3) improving certain reports describing the number of loan changes requested and approved in each State.

In response to longstanding problems with FmHA's accounting and management information systems, the agency's third action was initiated in November 1981 when the agency began a major update of its automated accounting system. Some phases of the new system are to be completed in 1983 and 1984, with full implementation targeted for March 1986 as shown below:

Systems Development Plan Overview

<u>Phases</u>	<u>From</u>	<u>Through</u>	<u>Months' duration</u>
Phase I - Systems Planning	11/81	10/83	24
Phase II - ADP Design	4/83	11/84	20
Phase III - Systems Development, Testing, and Documentation	11/84	9/85	11
Phase IV - Installation	9/85	3/86	7
Total project	11/81	3/86	53

According to the Acting Director of FmHA's Accounting System Design and Development Division, all tasks of Phase I, Systems Planning, are on schedule. Moreover, if properly designed and implemented, projected benefits of the new system include

- fixing data responsibility as close to its source as practical;
- controlling data accuracy at the time information enters the system;
- recording and transferring data to and from the local field offices promptly and consistently;
- improving productivity by automating manual procedures and eliminating multiple data entries;
- improving service by providing field offices with access to detailed borrower histories;

- implementing GAO requirements for accounting systems internal controls;
- allowing administrative control and monitoring to be done from FmHA headquarters; and
- providing accurate and consistent information for reporting, decisionmaking, and managing cash which will lead to improved Schedule 9 reporting.

We caution, however, that our experience with automated data processing systems development in Government is that it is not always as successful as planned. In particular, we concluded in February, 1980, in our report to the Chairman, House Committee on Appropriations,¹ that FmHA's Unified Management Information System would not be effective as designed. We pointed to the need for improved planning, direction, development, and control over the system. In fiscal 1982, after years of work, system development was stopped. Therefore, we suggest continued scrutiny by FmHA and Agriculture top management to assure real progress toward the desired goal.

Several problems remain unsolved

While the results of FmHA's actions show that the agency's debt collection ability is improving, several important problems in the farmer program still remain to be solved. Among these, according to FmHA debt management status reports and farmer program officials, is the inadequate evaluation of farmer loan requests, a resulting lack of proper financial analysis and projections, inadequately trained field personnel, and no structured financial analysis method. To improve financial analysis, FmHA developed a production and financial management analysis handbook for its field staff. However, farmer program officials say this handbook is still undergoing review and unavailable to the field staff and, therefore, so are the needed financial tools in FmHA's field offices.

Another obstacle to improved debt collection, not overcome by any of FmHA's current actions, is inadequate field office staffing. In 1981, we reviewed the technical and supervisory assistance provided to limited resource borrowers. In that report we recommended that FmHA make more effective use of personnel resources available from other Department of Agriculture agencies. We suggested this could be achieved through working agreements, referral systems, and joint farm planning.² In an official FmHA response

¹"Farmers Home Administration's ADP Development Project--Current Status and Unresolved Problems" (CED-80-67).

²"Limited-Resource Farmer Loans: More Can Be Done to Achieve Program Goals and Reduce Costs" (CED-81-144, Aug. 31, 1981).

to this recommendation, officials said that for it to be successful, the Secretary of Agriculture would have to emphasize its need. During fiscal 1982 that emphasis was still needed, because field staffing was inadequate, according to FmHA officials. In fact, according to the FmHA Administrator, if this problem is not corrected, FmHA will be unable to reverse the rising delinquency trend of recent years. However, FmHA officials did say that staff authorizations have improved in recent months, although they are still not fully adequate.

DESPITE FISCAL 1982 PLANS AND ACTIONS,
DELINQUENT DEBT INCREASED

To measure quantitatively the effect that FmHA's debt collection improvement actions have had on actual collections and to provide the agency with incentives, OMB and FmHA each established targets and goals. OMB's target of \$250 million was given to Agriculture for increasing its fiscal 1982 collection rate over the previous fiscal year's rate. Similarly, FmHA established goals in each State for reducing the number of delinquent borrowers by 10 to 20 percent.

The results of this goal setting were mixed. FmHA's farmer programs were assigned \$100 million of the \$250 million collection target set for Agriculture in fiscal 1982. According to OMB's yearend report on agencies' contributions to targets, the farmer programs collected about \$221 million toward their targets. While this is 120 percent above the target, it represents only a 3-percent increase in FmHA's collection rate against current receivables and less than a 1-percent collection rate increase against total FmHA receivables from fiscal 1981 to 1982. To make any real progress toward improving debt collection, larger increases will be necessary.

FmHA did not meet its internally set goal of reducing the number of delinquent borrowers. As of January 1982, the number of delinquent borrowers had increased by 30 percent nationwide, since the previous January.

FmHA officials attribute increases in delinquent debts and the agency's marginal ability to further increase its collections to the deteriorating financial condition of U.S. farmers. They point to the fact that net farm income fell about 20 percent and production costs rose about 20 percent since 1979. Further, according to an American Bankers Association survey of agricultural banks, farmers' problems are primarily due to low farm product prices, high interest rates, and high operating costs. The survey also reported that most banks were seeing some deterioration in farmers' net worth. In fact, 27 percent of the banks reported the deterioration to be substantial. They attributed this to decreases in farmers' total asset value and increases in total indebtedness.

PROSPECTS FOR DEBT COLLECTION
IN FISCAL 1983 AND BEYOND

FmHA's prospects for successful debt collection depend on several factors, some predictable and known today, some subject to future managerial decisions, and some unknown and beyond prediction. Unfortunately, the factor least subject to accurate prediction--economic condition in the farm sector--is the most critical to FmHA's collection activities. The factors we believe will contribute most to the agency's future collection efforts are

- better economic conditions in the farm sector,
- continuing improvements in FmHA's debt collection ability,
- improvements to FmHA's debt collection process that can be made by virtue of the Debt Collection Act of 1982, and
- adequate field resources with which to properly supervise and service farm loans.

As in fiscal 1982, OMB has assigned collection targets to agencies with high receivables. All of Agriculture's \$250 million fiscal 1983 target has been assigned to FmHA, with farmer programs responsible for \$160 million, a 60-percent increase over fiscal 1982, and rural housing responsible for \$90 million, a 10-percent decrease.

IMPROVING DEBT COLLECTION AT THE
SOCIAL SECURITY ADMINISTRATION

Debt collection at SSA was marked by recognition of problems, detailed plans to solve them, and a significant increase in collecting debts arising from overpayments of benefits. SSA made progress in fiscal 1982 toward implementing many past recommendations, and reports a more than 50-percent increase in collections from fiscal 1981 to 1982.

However, more work needs to be done, especially in improving SSA's data accuracy. An internal SSA study showed that hundreds of thousands of SSA's accounts receivable are probably not as collectible as once thought. This kind of data accuracy problem affects the reliability of the agency's collection estimates for future years and solving it will become an important task in fiscal 1983. SSA recognizes this and has begun working to improve both data accuracy and management information.

Although SSA reported large increases in fiscal 1982 collections, it did not meet its OMB collection increase target. OMB's formula is based on total SSA collections, two thirds of which are not addressed by the agency's debt collection plan because they are payments by States into SSA-administered programs. Therefore, until OMB and SSA negotiate a more appropriate target or adjust the formula for measuring SSA collection increases, the agency may not meet OMB expectations and, to that extent, OMB's estimates for debt collection will be inaccurate.

BACKGROUND

Under authority of the Social Security Act, SSA administers many programs that assist and supplement the incomes of many elderly, disabled, and retired individuals and their survivors. The act also authorizes several State-administered assistance programs. The three largest federally administered programs are:

- Retirement and Survivors Insurance which provides income to retired workers, their dependents, and survivors.
- Supplemental Security Income which assists needy people who are aged, blind, or disabled.
- Disability Insurance Program which prevents the erosion of retirement benefits of wage earners who become disabled and are prevented from continuing payments to their social security account.

SSA accumulates debts because it routinely overpays benefits to program participants. These involuntary accounts receivable are created, for the most part, when payment recipients do not notify SSA of a change in their benefit status. SSA records show that overpayments in the first 6 months of fiscal 1982 averaged 0.6 percent of program costs, but ranged as high as 4.8 percent of Supplemental Security Income program costs.

The following summarizes SSA's receivables, delinquencies, and collections based on Schedule 9 data submitted by the agency. Collections increased by almost \$312 million or 12.8 percent during fiscal 1982, while delinquencies fell by \$204 million, a drop of over 21 percent.

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
	----- (millions) -----			
Total receivables	\$2,227	\$2,321	\$ 94	4.2
Current receivables	1,744	1,983	239	13.7
Not delinquent	786	1,230	444	56.5
Delinquent	958	753	-204	-21.3
Long term receivables	483	337	-145	-30.1
Collections	2,444	2,756	312	12.8

ANALYSIS OF PRIOR RECOMMENDATIONS LEADS TO EXTENSIVE PLAN FOR IMPROVED COLLECTION, BUT MANY TASKS STILL INCOMPLETE

Based on an internal review of recommendations for improving debt collection, and in response to OMB Bulletin 81-17, SSA developed a detailed debt collection improvement plan. The plan contains five distinct tasks for improving SSA's debt collection. While progress toward completing these tasks was made during fiscal 1982, much remains to be done.

Recommendations from prior studies form basis for SSA's action plan

In March 1981, SSA reviewed all recommendations made by both internal and external groups since about 1977 regarding SSA debt management. Recommendations were taken from 23 reports, including 15 GAO reports issued between 1977 and 1980. Because SSA was concentrating on collecting and accounting for debts, it focused on recommendations that would contribute to improvements in these areas.

Shortly thereafter, in April 1981, OMB issued its Bulletin 81-17 requiring agencies to develop formal debt collection plans. SSA's study of relevant recommendations provided the groundwork on which to base a plan for improving debt collection. Although the SSA debt collection plan does not hold specific program managers accountable, it is among the best we reviewed in terms of task detail, specificity of what was needed in order to accomplish a desired objective, and conformance to the OMB-suggested format.

SSA plan composed of five tasks supported with many ongoing and planned actions

SSA's debt collection plan contains five broad tasks, each supported by specific actions and milestones. They are discussed below along with what we consider some of the more significant completed and planned actions to date.

1. Clarify and concentrate debt management responsibilities. During 1981, debt management responsibilities were set in place throughout SSA and studies were initiated to determine the best use of SSA employees in debt collection. One goal was to enhance employee awareness of debt collection. This was accomplished through training seminars and placing debt management specialists in 40 SSA field offices. In early 1982, monetary collection goals were sent to all field offices and processing centers.

2. Improve and standardize debt management policies, procedures, and practices. SSA's operating philosophy has been changed, or is in the process of changing, through revisions to instructions, notices, and regulations, so that it now emphasizes more rapid debt resolution. For example, SSA operating instructions were rewritten, reviewed, and reissued in January 1982. According to SSA, the most significant change to agency policy was to allow the agency to begin requesting 100 percent repayment of benefit overpayments. An alternative procedure, carried out on a voluntary basis, is to withhold future benefits from one program until all overpayments to the recipient from another program have been recovered. Future benefit withholding is mandatory when recovering benefit overpayments from the same program.

In addition, a legislative proposal for making adjustments in benefits across programs to recover overpayments has been developed and is being pursued at the department level. On the other hand, the SSA proposal for developing a regulation covering interest charges on delinquent receivables has been shelved because SSA is not included under the Debt Collection Act of 1982.

3. Improve ADP support for debt management functions. According to SSA, this is an important task because, without effective automation, collection opportunities are missed. Moreover, the lack of an efficient and effective debt management system at SSA has resulted in a loss of accountability and lower recovery of Government funds.

To improve the automated accounting system support, SSA is attempting to design and implement a new accounts receivable system which will automate its billing and followup. Although design studies have been completed, a candidate system tested in one SSA regional office did not meet the agency's needs. Nevertheless, implementation of a new national system in each of SSA's federally administered programs is now targeted for 1986. We were told that

the new system, if properly planned and effectively implemented,¹ should allow

- improved tracking of, reporting on, and control of accounts receivable;
- improved billing and followup actions; and
- automated management information reporting and Schedule 9 reporting to Treasury and OMB.

Until the new system is complete, SSA plans to make do with an interim capability. The temporary arrangement falls far short of SSA's requirements, but we were told that in the near term it will allow automated billing and followup on delinquent debts and provide some communication between SSA's processing centers and the agency's primary benefit program offices.

4. Establish improved money management incentives and processes. One of SSA's most effective means of uncovering overpayments is to use computer matches to compare beneficiaries' estimated earnings reports to actual earnings reported by employers. These comparisons, called "enforcement runs," were done for earnings reported in 1978, 1979, and 1980. SSA expects the runs to uncover more than \$200 million in debts during fiscal 1982. A run for 1981 earnings is planned for fiscal 1983. Also completed during 1982 was the establishment of several in-house collection units which will use direct telephone contact, persistent mailing, and personal visits with debtors to encourage repayments.

5. Establish improved capabilities for debt management analysis and control. SSA has in the past lacked reliable information about the volume, value, and status of its receivables. This has prevented SSA from establishing accountability for collections, allowances for uncollectible debts, and policies and procedures to deal with the causes of benefit overpayments. During fiscal 1982, SSA developed a methodology for determining the collectibility of overdue debts and distributing the delinquent accounts to appropriate program offices for collection. A work plan for implementing this methodology was completed in May 1982. In the same month, the most collectible portion of SSA's overdue accounts was identified and distributed to SSA's service centers nationwide for collection. To obtain more data on how to best collect the remaining backlogged delinquent debt, analysis will be done by a contractor, with the contract award to be made during fiscal 1983.

¹As we have reported in the past, SSA has had problems with its computer systems. See "Solving Social Security Computer Problems: Comprehensive Corrective Action Plan and Better Management Needed" (HRD-82-19, Dec. 10, 1981).

DATA ACCURACY PROBLEMS HAMPER
SUCCESS OF PLANNED IMPROVEMENTS

In March 1982, SSA completed a review of its accounts receivable whereby it analyzed in detail a sample and projected the results to its accounts receivable as a whole. The review showed that there was a large difference between what SSA had been reporting as its collectible delinquent debt and what should be reported based on projections from the sample.

For instance, as of December 31, 1981, SSA reported 977,000 delinquent accounts receivable as being cost effective to collect. However, analysis of the sample showed that in only about 420,000 cases were the delinquent debts collectible. SSA analysts found that 335,000 accounts were attributable to deceased debtors with no liable survivors on SSA's rolls; these should be deleted from the collectible totals. Furthermore, another 175,000 delinquent accounts were so small, under \$50, that, according to SSA criteria, collecting them would not be cost effective. SSA analysts concluded that unless the accuracy of SSA's delinquency data was improved, unnecessary work, multiple client contacts, and lost collection opportunities would result.

The data accuracy problem had been previously noted by the HHS Inspector General. In a March 1981 review of SSA's debt record system, the Inspector General found that information subsystems which record program overpayments were not producing accurate data. The Inspector General noted specific systems problems but said the amounts of over or understatement could not be determined without extensive audit effort.

ALTHOUGH NOT MEETING THE OMB TARGET,
FISCAL 1982 COLLECTIONS INCREASED

Prior to SSA's fiscal 1982 debt collection effort, the HHS Inspector General surveyed SSA's debt management activities. The Inspector General reported that efforts were underway to implement an effective collection system and that the outlook was positive. Indeed, as shown earlier, SSA fulfilled the Inspector General's optimism by increasing total collections \$311 million, or 13 percent, over fiscal 1981.

The portion of this increase that was due to more aggressive collection activity, as measured by OMB's formula, was not enough, however, to meet the targeted increase set by OMB. SSA's target was \$135 million and its "calculated collection increase" was \$121.7 million. (See ch. 3, p. 22.) In our view, however, this is not a true picture of SSA's collection experience in fiscal 1982 because most of its total collections are not affected by its policies to more aggressively collect benefit overpayments. About two thirds of SSA's collections are payments by States into SSA's trust funds--payments which the agency's debt collection initiatives would never affect. If the State payments are deleted from SSA's total collections and this adjusted amount is used to measure SSA's performance, a larger calculated collection increase results.

Moreover, this larger increase seems to better reflect the results of SSA's fiscal 1982 collection program. According to SSA, the agency increased its fiscal 1981 benefit overpayment collections of \$635.4 million to \$971.4 million in fiscal 1982--a 52-percent increase.

PROSPECTS FOR FISCAL 1983 DEBT COLLECTION

In its fiscal 1983 budget estimate justification, SSA presents a detailed discussion supporting plans to increase collections by \$520.3 million in fiscal 1983 over what would have been collected in that year without a more aggressive program. The agency stated that more aggressive actions, tighter policies and procedures, earnings enforcement runs, and offsets of overpayments from retroactive benefits will account for most of this collection increase. However, at least three factors seem to be working against the accuracy of this estimate.

First, at the time this estimate was made, SSA's analysis of accounts receivable had not been done. Therefore, budget estimates of future collections were based on what are now known to be inaccurate levels of collectible debts. Only after SSA has effectively improved automated data processing support for debt management functions (task 3 of its debt collection plan) will accurate forecasts of future collections be possible.

Second, SSA attributed a large portion of the estimated increased collections in fiscal 1983 to "aggressive actions to reduce the existing backlog of delinquent debt in federally-administered benefit programs." Included in these actions are (1) using private collection agencies, (2) reporting debt information to private sector credit bureaus, and (3) using credit bureau locator services. These collection tools are authorized under the Debt Collection Act of 1982 (Public Law 97-365). However, SSA is not included under the provisions of this act and, according to the Deputy Director of SSA's Debt Collection Project, the agency will discontinue these types of actions. SSA estimated that \$20 million of fiscal 1983 collections would be lost because the agency is prohibited from using these debt collection tools which are used widely in the private sector and are now available to other Federal agencies.

Finally, according to the Deputy Director of SSA's Debt Collection Project, some fiscal 1982 collections were achieved by "topping off" the accounts receivable, that is, collecting the most collectible accounts first. To the extent this occurred, future collections will be more difficult.

Even though the accuracy of SSA's estimates is questionable, the agency's overall debt collection prospects look promising. Because in fiscal 1982 the agency reduced its delinquent debt by 21 percent and increased its current debt by 56 percent, it is in a good position to repeat its fiscal 1982 performance in fiscal 1983.

IMPROVING DEBT COLLECTION ATTHE VETERANS ADMINISTRATION

During fiscal 1982, the Veterans Administration acted to strengthen debt collection and reduce outstanding delinquent debts. The agency began changing its collection procedures, litigative capacity, and automated data processing systems. These and other VA actions contributed modestly to increased debt collection in fiscal 1982. The major portion of VA's fiscal 1982 collection increase came from the agency's sales from its loan portfolio. Much of VA's debt collection improvement efforts will not be realized until fiscal 1983, when several of VA's planned improvement efforts will be implemented. VA's debt management could be further improved if it began using private collection agencies to recover hard-to-collect debts and became better at preventing or minimizing educational benefit overpayments, loan defaults, and services to ineligible recipients.

BACKGROUND

VA administers a variety of benefit programs which assist veterans and their dependents and survivors. VA's accounts receivable result because the agency

- serves ineligible recipients;
- routinely overpays program participants, and
- experiences loan defaults.

Benefit overpayments are generally caused by recipients failing to notify VA of changes in their status, VA's late processing of status change notices, and VA's paying for unapproved courses.

On October 17, 1980, Public Law 96-466 was enacted. Three of its provisions enable VA to

- charge interest on delinquent debts and recover administrative cost of collection from debtors,
- use its own attorneys to litigate certain debt cases, and
- report delinquent debts to credit reporting agencies.

Because of this law's new debt collection tools and more aggressive action at VA, the structure of VA's debt changed considerably during fiscal 1982. VA increased its current receivables almost \$490 million, over 50 percent; however, its delinquent debt also increased by almost \$430 million or 53 percent. In addition, VA's collections increased by \$547 million or 57 percent, as shown in the following table.

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
------(millions)-----				
Total receivables	\$4,099	\$4,041	\$ -58	-1.4
Current receivables	962	1,452	489	50.9
Not delinquent	153	213	60	39.2
Delinquent	809	1,239	430	53.1
Long term receivables	3,137	2,598	-547	-17.4
Collections	960	1,507	547	57.0

While large changes occurred in VA's current receivables and collections during fiscal 1982, most of these changes were caused by the activity in a single VA program--the Loan Guaranty Program. As shown in the next table, this program accounted for 97 percent of VA's collection increase, 94 percent of VA's delinquent debt increase, and more than half of the change in the remainder of the agency's receivables. (See page 24 for a further discussion of activity in the Loan Guaranty Program.)

	<u>Fiscal year</u>		<u>Difference</u>	<u>Loan Guaranty Program change as a percent of total VA change</u>
	<u>1981</u>	<u>1982</u>		
------(millions)-----				
Total receivables	\$1,625	\$1,594	\$ -31	53
Current receivables	111	488	377	77
Not delinquent	69	48	-28	48
Delinquent	42	448	405	94
Long term receivables	1,514	1,106	-407	74
Collections	440	973	533	97

VA ACTS TO SOLVE PROBLEMS
AND IMPROVE DEBT COLLECTION

In response to OMB Bulletin 81-17 and to implement specific requirements of Public Law 96-466, VA developed a plan for improving its debt collection activities. Before the details of this plan were final, however, an internal VA study identified the following problems as needing intensive action during fiscal 1982:

- Unresponsive debt organization.
- Fragmented accounting for receivables.

- Ineffective methods of identifying and recovering overpayments.
- Lack of program and audit oversight.
- Need to charge interest and administrative costs on delinquent education and compensation benefits accounts.

As a management tool, VA's debt collection plan could be improved. For example, it does not delegate debt management and collection responsibilities to specific employees or establish measurable collection goals. Also, as discussed in a January 1983 VA Inspector General report on VA's debt collection program, the plan does not explore new methods for collecting and reducing debts. The inspector general report stated that overpayment reduction measures at VA have not been effectively implemented or given the priority needed to reduce accounts receivable balances. It also said VA is not pursuing a total collection effort and based this conclusion on VA's not having tested the use of private collection agencies.

Nevertheless, the plan proposes several significant tasks to strengthen debt collection. Among those tasks that were completed or toward which progress was made during fiscal 1982 are:

- Enlarging the VA General Counsel staff by 120 positions to accommodate increased litigative responsibilities gained under Public Law 96-466.
- Working with school officials to reduce educational benefits overpayments by (1) making more regular and systematic visits to schools to spot check records and (2) making schools liable for overpayments as an incentive to schools reporting changes in veteran's educational status.
- Using the computer to match files which, as of January 1982, resulted in (1) identifying 66,000 Federal employees with \$37 million of delinquent debts, \$20 million of which was recovered during fiscal 1982 and (2) collecting over \$12 million in education benefits overpayments from persons with VA guaranteed home loans.
- Reactivating over 700,000 terminated accounts for collection.

Among the plan's proposed tasks that did not realize significant progress during fiscal 1982 but which have been initiated in fiscal 1983 are

- Centralizing debt collection information by transferring regional office accounts receivable to the centralized accounts receivable system in St. Paul, Minnesota;

--Changing the ADP system to allow VA to capture and account for interest and administrative costs incurred on delinquent debts and to account for previously terminated accounts; and

--Expanding the ADP system to establish links between VA's centralized debt accounting system and the private consumer reporting agencies.

Because many important parts of VA's debt collection plan were not completed during fiscal 1982, we could not determine the full effect of VA's proposed actions on its ultimate ability to recover debts. When fully implemented, however, the planned actions should improve VA's debt collection ability.

VA's ACCOMPLISHMENT OF FISCAL 1982
DEBT COLLECTION GOALS IS QUESTIONABLE

Although VA surpassed its overall OMB-assigned debt collection target for fiscal 1982 by \$275.9 million, we question whether this can be attributed to the effectiveness of VA's collection actions or rather to other actions VA took regarding its loan portfolio.

VA's overall target of \$150 million was divided among six VA programs (see p. , ch. 3). The Readjustment Benefits and the Compensation Benefits Programs--the two programs with the largest subtargets--fell short of their goals for increased collections. VA's Loan Guaranty Program, on the other hand, exceeded its target by over \$400 million, but not by collecting more debts. Instead, the Loan Guaranty Program achieved its success by selling \$373 million of its loan portfolio to private institutions. OMB encourages these sales because they remove debt from the Government books and help VA fund its loan guaranty revolving fund. However, treating these sales as collections of debts distorts VA's true debt collection ability and makes meaningless VA's overall performance against a target which did not take loan guaranty sales into account. Further, if someone defaults on a guaranteed loan while it is being serviced by a private institution, VA retains the liability and must take the loan back.

PROSPECTS IN DEBT COLLECTION
FOR FISCAL 1983 AND BEYOND

VA's collection goals from OMB for fiscal 1983 and 1984-88 are \$150 million and \$77 million annually, respectively. VA's prospects for meeting its fiscal 1983 goal are reasonable due to

--the enactment of the Debt Collection Act of 1982--which will allow VA to offset debts against Federal employees' salaries,

--expected collections from the more than 700,000 terminated accounts that were recently reactivated,

--expected collections from litigation pursuits of VA's district counsels, and

--projected sales of \$1.28 billion in loans to private institutions in fiscal 1983 which OMB will count as collections.

In the audit of VA's debt collection program, the VA Inspector General concluded that the agency had made substantial improvement in its debt collection efforts. Nevertheless, because the Inspector General found that benefit overpayments were rising faster than collections in fiscal 1982, the audit report recommended that VA establish a more aggressive program for reducing overpayments. The report also recommended that the practicality of using private collection agencies be determined. If VA responds positively to the audit recommendations, this would enhance the agency's prospects for improving debt collection.

IMPROVING DEBT COLLECTION AT

THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Department of Housing and Urban Development's debt collection efforts have been hampered for years by serious loan servicing and accounting problems. While these problems, identified in several of our prior reports, are far from being completely solved, HUD has taken several actions to resolve them and improve its debt collection program. Actions include developing a debt collection plan, using contract collection agencies, and improving the accuracy of accounts receivable information (Schedule 9 data).

As a result of these and other actions, HUD met its \$75 million target (see p. 23) for fiscal 1982 and, according to OMB, exceeded the target by approximately \$417 million. About \$225 million of this additional amount was due to a September 1982 collection of single family mortgage insurance premiums held in escrow accounts by the mortgagees to the Government. Although this collection event will not occur again, future collections are likely to match or exceed the fiscal 1983, 1984, and 1985 targets if certain anticipated improvements are realized and if HUD's emphasis on improved debt collection continues.

BACKGROUND: HUD-HELD MULTIFAMILY MORTGAGES

Under the multifamily mortgage program, authorized by the National Housing Act of 1934, as amended, HUD insures mortgages made by private lenders to finance the construction or rehabilitation of multifamily rental housing. When the borrowers fail to make their loan payments, the lending institutions can send the insured mortgages to HUD for payment of 99 percent of the unpaid principal plus other allowable costs. After paying the insurance claims, HUD can either initiate foreclosure on the defaulted mortgages or negotiate new payment plans, called workout arrangements, to bring the mortgages current. These workout arrangements generally allow the project owners to make a reduced payment for a limited period while working out long term solutions to bring the mortgage current.

We focused our review on HUD-held multifamily mortgages which, as of September 30, 1982, accounted for about 40 percent (\$3.9 billion) of HUD's total receivables (\$9.8 billion) and over 70 percent (\$1.1 billion) of the agency's total delinquencies (\$1.4 billion).

As of September 30, 1982, HUD reported an inventory of 1,944 multifamily mortgages. Over 65 percent, or 1,289, of these mortgages were overdue for more than 90 days; HUD considers these mortgages seriously delinquent. Including accrued interest, these 1,289

delinquencies totaled about \$918 million. The following table presents the change in receivables, delinquencies, and collections from fiscal 1981 to fiscal 1982 for HUD-held multifamily mortgages:

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
	----- (millions) -----			
Total receivables	\$4,132	\$3,940	\$-192	- 4.6
Current receivables	1,106	1,120	14	1.3
Not delinquent	84	64	- 20	-23.7
Delinquent	1,022	1,056	34	3.3
Long term receivables	3,026	2,820	-206	- 6.8
Collections	227	274	47	20.7

ACTIONS TAKEN TO IMPROVE DEBT COLLECTION
AND RESOLVE LONGSTANDING PROBLEMS

HUD's debt collection and program officials have been involved in the agency's effort to improve debt collection. As a result, actions have been taken to resolve longstanding problems associated with preventing and controlling default of multifamily mortgages. Steps have also been taken to improve the accuracy of HUD's financial reports, especially Schedule 9, and to improve collections on HUD-held multifamily mortgages. Most of the actions taken are contained in the fiscal 1982 plan. These actions, along with management's emphasis on improved debt collection, have contributed not only to improved program operations but also to increased collections. HUD was able to exceed its \$75 million target, set by OMB, by about \$417 million. As shown in the above table, collections on HUD-held multifamily mortgages increased by about 21 percent from fiscal 1981 to fiscal 1982.

HUD's debt collection plan results
in improved servicing and monitoring

Fulfilling the requirements of OMB Bulletin 81-17, HUD's plan addresses longstanding issues and problems. A HUD official responsible for debt collection believes the plan, which represents a 3-year program, will result in fundamental improvement of HUD's programs. At the time of our review, HUD had implemented about 60 percent of the plan's key tasks.

The following actions have been taken as a result of the plan for the multifamily program:

- Training was developed for loan servicers on how to review annual financial statements to assure that project funds are not being diverted for unauthorized purposes.

- On a pilot basis in one region, contractors were used for complete loan servicing and accounting of HUD-held mortgages.
- Toughened policies on workout arrangements and mortgage modifications were issued with a goal of maintaining 90 percent of HUD-held mortgages under an approved collection plan. During fiscal 1982, HUD fell somewhat short of its goal, maintaining only 82 percent under an approved plan.
- A debt monitoring system was established which emphasized (1) placing mortgages under an approved plan, (2) preventing default of mortgages under the plan, and (3) carrying out foreclosures. A new billing and collection system became operational.

These actions represent HUD's efforts to prevent new delinquencies as well as collect on old ones.

Accounting system improvements result
in increased accuracy of accounts
receivable information

Our prior reports¹ have noted that HUD's debt collection efforts are hampered by an accounting system which does not provide sufficient and timely information. To address this longstanding problem and to respond to Treasury's requirement for the Schedule 9 financial report, HUD has made several accounting system improvements during fiscal 1982. HUD officials believe that the accuracy of the Schedule 9 report has greatly improved and that the information on delinquencies is generally accurate. They cite the following accounting system improvements.

- Written instructions on Schedule 9 preparation have been provided to program officials to insure consistency in reporting.
- Schedule 9 information for each program is now cleared through appropriate program officials, providing cross-checks on data accuracy.
- Total receivables in the major programs have been verified.
- For one region, multifamily mortgage note records maintained at headquarters have been checked against corresponding

¹"HUD Should Make Immediate Changes in Accounting for Secretary-Held Multifamily Mortgages" (FGMSD-80-43, May 16, 1980) and "Problems Continue in Accounting for and Servicing HUD-Held Multifamily Mortgages" (GAO/AFMD 82-18, Aug. 18, 1982).

--regional records to reconcile differences and establish an accurate record of each account. HUD plans to complete this for all regions by April 1983.

HUD officials believe that the accuracy of Schedule 9 will be further increased as the agency is able to rely more and more on data supplied by the contractors servicing both the single family and multifamily mortgage programs. HUD plans to issue a nationwide contract for debt servicing of HUD-held multifamily mortgages during fiscal 1983. (As of March 1983, final negotiations concerning this contract were in process.) These contractors, according to HUD officials, would provide a more accurate, timely record of accounts because they are supported by up-to-date computerized systems. In this regard, HUD has long maintained that its antiquated accounting systems hinder its ability to accurately report the status of accounts receivable. HUD officials hope to completely automate the preparation of Schedule 9 during fiscal 1984.

PROGRESS TOWARD TARGET:
HUD EXCEEDS \$75 MILLION GOAL

Due to the actions taken to improve debt collection and unusual collection events in several programs, HUD exceeded its \$75 million target by about \$417 million. Approximately \$225 million of this amount over target can be attributed to a September 1982 collection of single family mortgage insurance premiums. This September collection represented the last group of single family premiums to be collected on a yearly versus monthly basis.

During fiscal 1982, loan servicers were required to remit single family insurance premiums to HUD on a monthly basis as collected from the mortgagee rather than holding these collections in escrow accounts for annual payment. This requirement was implemented pursuant to the instructions included in section 530 of the National Housing Act, as amended. Beginning in fiscal 1983, HUD will collect all such premiums monthly and will not again experience this one-time effect on the agency's ability to meet its target.

Collections from HUD's Elderly Housing Program also contributed to the excess over target. The target set for this program (\$4.4 million) was exceeded by about \$76 million due to an increase in the number of projects for which construction was completed and payment begun on the permanent loan. Once sold, the loans on these projects are transferred from HUD to the private sector; for this program, HUD provides financing in the construction phase only.

PROSPECTS FOR DEBT COLLECTION IN
FISCAL 1983 AND BEYOND

HUD's collection goals for fiscal 1983, 1984, and 1985 have been set at \$125, \$150, and \$150 million, respectively. Our review indicates that the agency's prospects for meeting these targets are good if HUD continues to improve its debt collection activities and its accounting systems, and if HUD's nationwide use of contractors

to service the multifamily mortgage program is implemented as planned and is successful. Also affecting HUD's prospects will be its ability to effectively implement the Debt Collection Act of 1982.

HUD has already taken steps to issue a revised debt collection plan for fiscal 1983, which HUD officials believe reflects the commitment of the agency's top management to the debt collection initiative. HUD has also begun addressing the issues surrounding effective implementation of the Debt Collection Act. We believe that if management emphasis and OMB monitoring remain as effective in fiscal 1983 as they were in fiscal 1982, HUD will be able to pursue its revised plan and take other actions as needed. However, much remains to be done and the effort must be sustained. In view of HUD's historic accounting system problems, some of which are related to antiquated systems, the likelihood for carrying out some of these anticipated improvements is unknown. HUD will be assisted in fiscal 1983 by its Office of Inspector General which is conducting an audit of HUD's debt collection program and of Schedule 9 accuracy.

IMPROVING DEBT COLLECTION ATTHE DEPARTMENT OF EDUCATION

The Department of Education's top level officials have supported a number of actions to improve debt collection. Among these actions are (1) the development of a debt collection plan, (2) certain accounting and information system improvements related to more accurate reporting of collections, and (3) contracts with private sector collectors to augment Education's internal collection staff.

Nevertheless, the agency fell \$266 million short of the \$225 million target set by OMB. This means that, according to OMB's formula, Education's fiscal 1982 collection rate was \$41 million less than its fiscal 1981 rate. Education officials say these disappointing results were caused by increases in delinquent debts and reductions in the agency's collection staff.

BACKGROUND

We focused our review on one of the agency's larger programs holding significant debts--the National Direct Student Loan Program, authorized by part D, title IV of the Higher Education Act of 1965, as amended (20 U.S.C. 1087 (aa-ii)). As of September 30, 1982, the NDSL program accounted for about 50 percent (\$4.5 billion) of Education's total receivables (\$9.1 billion) and about 62 percent (\$1.5 billion) of the its total delinquencies (\$2.5 billion). This program provides Federal funds to institutions of higher education to make long term, low interest loans to qualified students who need assistance in financing their educations. Schools are responsible for making loans and collecting repayments either themselves or through an agent. Collections of principal and interest are to be deposited in a school's revolving fund to be reused by other students.

In an effort to collect defaulted loans, Education established procedures in March 1978, to implement section 463(a)(4) of Public Law 92-318 (20 U.S.C. 1087(cc)) dated June 23, 1972, which permits schools to submit loans in default for 2 or more years to Education for collection. Schools must demonstrate that they have attempted to collect the defaulted loans before assigning them to Education. As of September 30, 1982, Education was responsible for \$294.6 million in assigned NDSLs, all of which had been defaulted on before being assigned to Education for collection. NDSLs still held by participating schools (nonassigned) amounted to \$4.2 billion, with about \$1.2 billion of this amount delinquent.

Since the end of fiscal 1981, the amount of delinquent NDSLs assigned to Education for collection has increased by almost 80 percent. The following table presents fiscal 1981 and 1982 receivables, delinquencies, and collections for both the NDSL assigned and nonassigned accounts.

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
------(millions)-----				
<u>Assigned loans</u>				
Total receivables	\$164	\$295	\$131	80
Current receivables	118	295	176	149
Not delinquent	68	0	- 68	-100
Delinquent	51	295	244	481
Long term receivables	45	0	- 45	-100
Collections	7	11	5	74
<u>Nonassigned loans</u>				
Total receivables	4,004	4,238	234	6
Current receivables	1,636	2,423	787	48
Not delinquent	271	1,182	911	336
Delinquent	1,365	1,242	-123	-9
Long term receivables	2,368	1,814	-553	-23
Collections	366	396	30	8

ACTIONS DIRECTED TO LONGSTANDING PROBLEMS
AND IMPROVED DEBT COLLECTION ACTIVITIES

For several years Education has been faced with high default rates and serious accounting and reporting problems. Our prior reports¹ have noted that Education's information systems could not adequately control and account for program activities and that the agency could do a better job of overseeing schools which participate in the program. Education has made some improvements in these areas. Among the actions it has taken or has underway are

- developing a debt collection plan covering the majority of actions needed to resolve longstanding debt collection problems,
- working toward developing reliable accounts receivable information and improved control and reporting of financial transactions, and

¹"Stronger Actions Needed to Recover \$730 Million in Defaulted National Direct Student Loans" (HRD-81-124, Sept. 30, 1981) and "The Guaranteed Student Loan Information System Needs a Thorough Redesign to Account for the Expenditure of Billions" (HRD-81-139, Sept. 24, 1981).

--augmenting Education's collection staff with private sector collectors.

Education's plan results in key tasks implemented

Responding to OMB Bulletin 81-17, Education has developed a plan addressing its debt collection problems. The plan presents tasks, includes completion dates, and assigns responsibility for task implementation. The Education official responsible for debt collection verified that almost half of the plan's 64 key tasks had been completed.

During fiscal 1982, Education established computerized capability to better administer the NDSL assigned portfolio. The agency also improved oversight of schools administering NDSLs by providing instructions and new forms on which to submit defaults and by providing the schools more precise instructions for entering defaults into Education's automated data processing system. In addition to these actions, Education transferred collection responsibilities for the major portion of the NDSL assigned portfolio to private collection agencies.

Education also issued new regulations which provide an incentive to institutions collecting delinquent loans. Under these regulations for the NDSL program, schools with default rates in excess of 25 percent will not be eligible to receive new NDSL funds. Schools with default rates between 10 and 25 percent will have their new loan funds reduced in proportion to their default rates.

In fiscal 1982, Education also identified Federally employed defaulters through a computer match of approximately 900,000 default records against about 10 million Federal employee records. This match identified about 47,000 Federal employees who had defaulted on Education loans. After going through several procedural steps to notify these employees and their employers, Education expects to begin offsetting wages. The Debt Collection Act of 1982 provides that Federal agencies at the request of Education can offset the wages of Federal employees responsible for these loans. According to an Education official, the provision to offset will not be implemented until late in fiscal 1983.

Accounting and reporting problems remain unresolved

In fiscal 1982, Education was not able to solve its accounting and information systems problems so that a reliable financial report (Schedule 9) on debt collection activities could be submitted to Treasury and OMB. The accuracy of Education's Schedule 9 data is highly questionable. One Education official estimated a 25 percent error rate in reported collections, and OMB debt collection officials expressed concern over the poor quality of Education's data. To establish reliable accounts receivable information,

Education has converted old computer records on receivables, originated in the former Office of Education, to a new format suitable for Education's present accounting system. The agency is also in the process of reconciling computerized records to manual records to resolve discrepancies and ensure that account records are accurate.

Some improvements are anticipated during fiscal 1983 which should also contribute to a more accurate Schedule 9. These include

- completely automating Schedule 9 data,
- assigning one staff member exclusively to prepare the Schedule 9 report, and
- establishing an audit trail allowing Schedule 9 data to be tracked completely through the system.

One problem which will be alleviated but not completely resolved in fiscal 1983 is reconciling the receivables information entered into the NDSL system. The large number of lenders (schools) complicates NDSL recordkeeping, making it difficult for Education to assure the accuracy of school-originated data.

Despite the above efforts, many of Education's accounting and reporting problems will remain unresolved. With this in mind, Education officials believe a long term effort to install an information system capable of handling all of the Department's loan programs will result in improved reporting and control. Education has assessed the information needs of each program and is presently evaluating various alternative systems. While Education expects the system to be installed during the 1986-87 academic year, we caution that Education has a history of unsuccessful attempts to develop and operate an automated information system for the Guaranteed Student Loan Program. An Education Inspector General review of Schedule 9 accuracy (underway) should provide more information in this area and assist Education's management in effectively developing a new automated system.

Contract collectors barely met expectations

Faced with staffing reductions, Education turned to the private sector for collection of defaulted student loans even though the cost effectiveness of using these contract collection agencies had not been fully determined. Our prior report "Stronger Actions Needed to Recover \$730 Million in Defaulted National Direct Student Loans" recognized that Education's decision to use private collection agencies was consistent with present statutory and regulatory provisions and that a detailed cost assessment was impractical at

that time. These circumstances, however, prompted us to recommend that Education monitor the performance of its contractors to ensure cost effectiveness.

Education is presently involved in this monitoring effort, and the performance of the collection contractors has barely met Education's expectation. By the end of fiscal 1982, the private collection agencies hired to work NDSL and Guaranteed Student Loan accounts had converted 32,694 of a total 401,000 accounts into repayment status. Over a 3-year period, the agency expects the contractors to collect 10 cents on the dollar of all debts they are given to collect. In fiscal 1982, they collected about one-third of that goal.

OMB claims that contractor performance will be hampered by current regulations because contractors cannot directly bring suit against debtors. Instead, contractors are forced to refer accounts to Justice for litigation. Contractors contend that this inability to bring suit greatly hinders their collection efforts because they are deprived of one of the most important tools available to private collection agencies. Education recognized that this inability to bring suit certainly hinders contractors' efforts and was therefore working with OMB and Justice to gain litigation authority for the private collection agencies. However, Justice determined that the proposal would be illegal in several ways and, according to OMB, Education is now proposing a legislative change to accomplish the same goal.

DESPITE ACTIONS TAKEN,
EDUCATION FALLS SHORT OF TARGET

Although acting to improve its debt collection program, Education's fiscal 1982 collection results are far from successful: The agency's fiscal 1982 collections are about \$6 million less than they were in fiscal 1981 and Education fell far short of its OMB target.

During fiscal 1982--a year of increased emphasis on debt collection throughout Government--Education's collection declined by 1 percent to \$653 million from \$659 million in fiscal 1981. Of the six agencies we reviewed, this was the only instance of declining total collections. At the same time, Education's total receivables grew by over 5 percent. When these data were factored into OMB's formula for measuring agency collection performance, the results were disappointing. (See ch. 3.) Because of the relative drop in collections from fiscal 1981 to 1982, OMB calculated that Education missed its \$225 million collection target by \$266 million. Education officials explained the shortfall by pointing to the reduction of 700 in-house collector positions during the fiscal 1982. Although private sector contract collectors are supposed to fill this void, Education officials said that the contractors will need more time to reach maximum productivity. Officials also explained that, because delinquent debts grew during fiscal 1982 (see p. 61.), they were not shocked that collections were lower than estimates.

FORECAST FOR FISCAL 1983 AND BEYOND

OMB has set Education's fiscal 1983, 1984, and 1985 targets at \$225 million for each of the three years. Although Education says it has improved its debt collection activities, the forecast for meeting these OMB targets is uncertain largely because of Education's performance during fiscal 1982. The agency plans to rely more and more on private collection agencies and to cut back on its own in-house staff. Whether the collection agencies can fulfill Education's expectations and make up for Education's staff losses remains to be seen.

Also uncertain is Education's ability to improve the accuracy of Schedule 9. An audit of Schedule 9 accuracy currently underway by Education's Inspector General should assist Education in identifying its data accuracy problems.

On a more positive note, Education will be well served by the Debt Collection Act. As mentioned in chapter 4, full implementation of the act's provision allowing the offset of a Federal employee's salary to satisfy general debts owed to the Federal Government will increase collections by fiscal 1984, if not 1983. Another provision requiring individuals who apply for Federal loans or assistance to furnish their social security numbers will affect the NDSL program in about 3 years. Implementing this provision will make NDSL defaulters easier to find.

IMPROVING DEBT COLLECTION AT
THE SMALL BUSINESS ADMINISTRATION

The Small Business Administration has taken several actions to improve its debt collection program. They include increasing training, enhancing automated systems for debt monitoring, and hiring temporary employees to collect on disaster loans. However, we have some concern about whether SBA's actions during fiscal 1982 will significantly improve debt collection in the long term. OMB did not consider SBA's debt collection plan to be a useful document and questioned SBA's commitment to the debt collection initiative.

Although SBA exceeded its \$100 million target by about \$34 million, collections on business loan programs fell far short of its \$35 million target. SBA met its overall \$100 million target because the collection rate on disaster loans exceeded this program's \$65 million target by about \$132 million. This increase in collections was due to the use of temporary employees--in effect a one-time collection event which is not likely to be duplicated in fiscal 1983.

BACKGROUND

We focused our review on the agency's business loan programs which, as of September 30, 1982, accounted for a about 37 percent (\$3.6 billion) of SBA's total receivables (\$9.9 billion) and about 70 percent (\$1.6 billion) of the agency's total delinquencies (\$2.3 billion). SBA administers a number of programs which provide guaranteed and direct loans to small businesses. Following are the major business loan programs administered by SBA:

- 7(a) Loan Program - under section 7(a) of the Small Business Act, as amended (15 U.S.C. 636(a)), SBA guarantees and makes direct loans to small businesses. This is SBA's largest business loan program.
- 502 Local Development Company Program - under section 502 of the Small Business Investment Act of 1958, as amended, SBA makes capital available to small businesses through loans to local development companies which provide loans to small businesses.
- 301(d) Investment Company Program - under section 301(d) of the Small Business Investment Act of 1958, as amended (15 U.S.C. 661), SBA regulates and, in part, finances privately owned and operated investment companies which provide equity capital, long term loans, and management assistance to small businesses that are at least 50 percent owned and managed by socially or economically disadvantaged business people.

The following table presents the changes in receivables, delinquencies, and collections from fiscal 1981 to fiscal 1982 for SBA's business loan programs.

	<u>Fiscal year</u>		<u>Difference</u>	
	<u>1981</u>	<u>1982</u>	<u>Amount</u>	<u>Percent</u>
	----- (millions) -----			
Total receivables	\$3,136	\$3,636	\$ 500	16
Current receivables	1,520	2,180	660	43
Not delinquent	317	583	266	84
Delinquent	1,203	1,597	394	33
Non current receivables	1,616	1,456	-160	- 10
Collections	369	361	- 8	-2.2

ACTIONS TAKEN DO NOT
SIGNIFICANTLY IMPROVE SBA's
DEBT COLLECTION PROGRAM

Although SBA officials cite several actions taken to improve debt collection, the long term value of some of these actions is questionable. Although SBA developed a debt collection plan for fiscal 1982, this plan did not meet OMB's requirements and cannot be clearly linked to significant improvements. OMB is still working with SBA to develop a revised debt collection plan for fiscal 1983 and to increase SBA's commitment to the debt collection initiative. Other actions taken by SBA such as improving training and enhancing automated systems, appear to be only superficial improvements which have not significantly increased SBA's ability to collect or monitor its debt.

SBA's plan is given qualified approval by OMB

SBA's fiscal 1982 debt collection plan does not meet OMB's Bulletin No. 81-17 requirements for an adequate debt collection plan. Compared with other agencies' plans, SBA's plan did not clearly address the specific problems or issues confronting the agency's debt collection efforts and generally did not set out specific tasks or deadlines for the few issues the plan did address. During fiscal 1982, OMB's Debt Collection Project staff met with SBA officials to develop a revised plan which would list specific tasks and timetables for accomplishing these tasks. However, SBA resisted much of OMB's guidance, despite the fact that a June 1982 report of SBA's Inspector General's Advisory Council on Debt Collection (1) concluded that debt collection at SBA is the most neglected area of agency planning and execution and (2) identified over 25 debt collection problems.

According to an OMB Debt Collection Project analyst, this Advisory Council report was summarily dismissed by the SBA official responsible for plan development. The Inspector General officials we spoke to expressed concern that this debt collection official had not presented their office with his reason for disagreeing with the report. OMB, meanwhile, concluded that the Advisory Council's findings were valid and should be addressed by SBA in a revised debt collection plan. An OMB official explained that SBA's response is that improving debt collection just takes time and cannot be done as fast as OMB wants.

OMB officials said they will require that SBA's revised debt collection plan for fiscal 1983 include the following:

- Discernible work elements for each problem area identified.
- A specific timetable with a 30- to 45-day time frame for program reporting.
- An assignment of responsibility to each SBA organizational unit involved in the plan's implementation.

OMB also plans to create a working group composed of representatives from the SBA organizational units with plan responsibilities, Inspector General's office, and OMB (Budget Examiner and Debt Collection staffs) to meet periodically to review SBA's debt collection program.

Actions taken cannot be clearly
linked to significant improvement

Unlike the other agencies we reviewed, SBA did not do much to improve its debt collection program during fiscal 1982. Although SBA's plan generally addressed the need for training and for enhanced automated systems, none of the actions taken during the year focused on the key problems in these areas. Officials in SBA's Office of the Inspector General expressed concern about the general versus specific nature of training at SBA, saying that collectors in the field were being told to work "harder and smarter" but were not being given procedural guidance. According to the Advisory Council's report, SBA has always relied on package courses, put on by outside contractors, which usually deal with intangibles such as general motivation or management techniques, and not with the technical aspects of the job.

The SBA official responsible for overseeing the design of the training seminars held as a result of the plan acknowledged that specific skills training was needed to improve collection techniques, but that this kind of training was not presented in the seminar. This official stated that these seminars focused instead on "general exposure and discussion," citing as a reason the "variety of subject areas presented."

One recommendation to come out of these seminars was that a training plan on liquidation topics be developed. As a result, in May 1982, SBA did make available a 16-hour training course for all collectors. According to the training manual, this course serves as an incentive to the supervisor to schedule and maintain training programs regularly.

SBA's plan also called for increasing the use of automated systems already in place to enhance debt collection and debt monitoring. According to an SBA official, the result of the effort will be a new collection system which will free loan officers from many clerical duties by providing accurate and timely computerized information on receivables. The original completion date for this effort was September 30, 1982; as of December 1982, this task had not been completed. An OMB official commented that some of SBA's enhancements to its automated systems--particularly those which are pilot efforts--never seem to get off paper. This official said OMB is not clear on what improvements have really been made and indicated that specific tasks and timetables are needed at SBA.

NEW INITIATIVE: BANKS TO SERVICE
BUSINESS LOANS ON PILOT BASIS

SBA has acted to improve the servicing of business loans. An initiative, which began in February 1983, allows a few banks in the New York area, on a pilot basis to service business loans. SBA defines servicing assistance as recognizing that a problem or potential problem exists, identifying the problem's cause, and determining the appropriate solution. The loan servicing function begins at the time of initial disbursement. Servicing personnel are expected to become familiar with loans by reviewing documents on file and visiting borrowers. The cost effectiveness of this pilot effort, which has been strongly encouraged by OMB, will be assessed quarterly. While the banks are handling all servicing, collecting, and debt monitoring, liquidation is retained by SBA. In connection with this initiative, a new standard operating procedure on servicing of business loans was issued in January 1983.

A GAO study, currently underway, however, raises questions about this initiative and stresses the need for a monitoring system to help insure quality performance by participating banks. Because this study is still ongoing, we cannot comment on the initiative's potential advantages.

DISASTER LOAN COLLECTIONS EXCEED TARGET
WHILE BUSINESS LOAN COLLECTIONS FALL SHORT

For fiscal 1982, SBA's agency wide target of \$100 million was divided between its disaster and business loan programs at \$65 million and \$35 million, respectively. While SBA collected about \$132 million above its \$65 million disaster loan target, collections on business loans fell short of the \$35 million target by approximately \$98 million, as discussed in chapter 3. The agencywide

result was that SBA exceeded its \$100 million target by about \$34 million. SBA's success in collecting on disaster loans can primarily be attributed to using approximately 275 temporaries at a cost of about \$6 million.

FORECAST FOR FISCAL 1983 AND BEYOND

SBA's ability to meet its fiscal 1983, 1984, and 1985 targets, set at \$120, \$175, and \$175 million, respectively, will depend on future economic conditions, continued monitoring by OMB, agency commitment (including Inspector General oversight) and the success of SBA's pilot program of allowing banks to service business loans. Officials in SBA's Office of the Comptroller said that the agency may not be able to match its fiscal 1982 efforts if the economy does not improve. According to these officials, SBA expects banks to return \$200 to \$300 million worth of guaranteed loans to SBA in fiscal 1983. These loans could significantly reduce SBA's prospects for meeting its fiscal 1983 target.

While we are encouraged by OMB's plans to continue monitoring agencies' debt collection efforts and to work with SBA to develop a revised debt collection plan, our review indicates that SBA's management commitment to and emphasis on improved debt collection, if strengthened, would greatly improve the agency's prospects for meeting future targets. OMB and SBA's Inspector General officials expressed concern that SBA's debt collection program did not represent a coordinated effort to improve collection procedures and during fiscal 1983 did not receive the top management emphasis needed to significantly improve operations. In 1983, a new Deputy Administrator--the agency's designated debt collection official--took office and began to familiarize himself with SBA's debt collection problems. SBA officials said that the new Deputy Administrator appeared to be highly committed to the debt collection initiative, which we believe will be a key ingredient in the success of SBA's future debt collection efforts.

SBA's Inspector General officials have no fiscal 1983 plans to review the quality and accuracy of SBA's Schedule 9 data; nor do they plan in fiscal 1983 to conduct any audits of SBA's debt collection activities. These officials expressed concern, however, that the effect of the debt collection initiative at SBA had been to increase the number of loans written off; that is, SBA was writing off loans that should be serviced instead. Given this concern and the other problems mentioned in this report and verified by OMB, an audit by SBA's Inspector General of the agency's debt collection activities could serve to (1) improve SBA's ability to meet future targets and (2) verify the accuracy of SBA's Schedule 9.

CHANGES IN 16 AGENCIES' TOTAL RECEIVABLES,
COLLECTIONS, AND DELINQUENT RECEIVABLES FROM
FISCAL 1981 to 1982

The following three tables show changes from fiscal 1981 to 1982 in the total receivables, collections, and delinquent debt of the 16 agencies monitored by OMB's Debt Collection Project. This data was provided by OMB. It is derived from information submitted by individual agencies on Schedule 9, Treasury Standard Form 220. While we have not verified the accuracy of this financial data, we believe it is the best data available to agency officials at this time.

Changes In 16 Agencies' Receivables

<u>Agency</u>	<u>Fiscal year</u>		<u>Increase (Decrease)</u>
	<u>1981</u>	<u>1982</u>	
	------(millions)-----		
Agriculture	\$81,937.3	\$91,065.6	\$9,128.3
AID	18,009.3	18,566.2	556.9
Commerce	1,026.3	1,071.6	45.3
Defense	1,153.1	1,143.7	(9.4)
Education	8,616.1	9,083.0	466.9
Energy	518.9	272.1	(246.8)
HHS	3,185.0	3,339.3	154.3
HUD	9,251.5	9,771.5	520.0
Interior	1,867.4	1,983.7	116.3
Labor	291.4	405.9	114.5
NASA	183.3	2.4	(180.9)
SBA	9,748.4	9,884.3	135.9
State	73.1	51.5	(21.6)
Transportation	1,118.9	1,173.6	54.7
IRS (note a)	20,492.0	27,310.7	6,818.7
VA	4,099.0	4,041.3	(57.7)
Total	<u>\$162,571.0</u>	<u>\$179,166.4</u>	<u>\$17,595.4</u>

a/Represents delinquent receivables while amounts for other agencies represent total receivables.

Changes In 16 Agencies' Collections

<u>Agency</u>	<u>Fiscal year</u>		<u>Increase (Decrease)</u>
	<u>1981</u>	<u>1982</u>	
----- (millions) -----			
Agriculture	\$ 9,739.6	\$11,088.4	\$1,348.8
AID	755.8	808.0	52.2
Commerce	108.7	151.6	42.9
Defense	5,283.4	7,556.9	2,273.5
Education	659.4	653.4	(6.0)
Energy	1,970.8	2,763.4	792.6
HHS	2,521.2	2,961.3	440.1
HUD	1,684.4	2,244.9	560.5
Interior	294.3	232.3	(62.0)
Labor	186.2	181.6	(4.6)
NASA	105.0	223.9	118.9
SBA	1,041.5	1,217.3	175.8
State	53.9	37.6	(16.3)
Transportation	154.7	223.4	68.7
IRS	12,265.9	14,525.1	2,259.2
VA	959.7	1,506.9	547.2
Total	<u>\$37,784.5</u>	<u>\$46,376.0</u>	<u>\$8,591.5</u>

Changes In Delinquent ReceivablesOwed To 16 Agencies

	<u>Fiscal year</u>		<u>Increase (Decrease)</u>
	<u>1981</u>	<u>1982</u>	
----- (millions) -----			
Agriculture	\$ 2,002.4	\$ 3,248.9	\$1,246.5
AID	63.8	113.1	49.3
Commerce	251.9	299.7	47.8
Defense	141.7	236.9	95.2
Education	2,087.3	2,488.2	400.9
Energy	51.7	13.6	(38.1)
HHS	1,047.2	815.4	(231.8)
HUD	1,357.4	1,423.7	66.3
Interior	70.9	118.7	47.8
Labor	97.9	338.2	240.3
NASA	0.4	0.4	-
SBA	1,581.7	2,259.2	677.5
State	11.5	9.2	(2.3)
Transportation	144.1	150.8	6.7
IRS	17,773.6	24,697.1	6,923.5
VA	809.3	1,238.8	429.5
Total	<u>\$27,492.8</u>	<u>\$37,451.9</u>	<u>\$9,959.1</u>

OMB'S FORMULA FOR CALCULATING FEDERAL
AGENCY COLLECTION INCREASES DUE TO
STRENGTHENED DEBT COLLECTION PROGRAMS

During fiscal 1982, OMB assigned 16 agencies targets for increasing their fiscal 1982 debt collection over fiscal 1981 levels. To achieve the targets, agencies had to not only increase their absolute collection levels, but they also had to increase the rate at which they collected their outstanding debt.

To distinguish between when an agency was merely collecting more debt than during the prior year, which it could do if its loan program expanded providing more receivables to collect, and when it was collecting debt faster than the prior year, OMB used the following formula:

$$T = \left[\begin{array}{cc} C & C \\ 82 & 81 \\ \hline R & R \\ 82 & 81 \end{array} \right] \times R_{82}$$

In this formula,

T = the increase in fiscal 1982 collections over those in fiscal 1981 that are due to improved collection practices;

C = actual collections for a specified fiscal year; and

R = beginning receivables plus new receivables for a specified fiscal year. R is larger than an agency's total receivables for a year because the total is determined by subtracting from R an agency's collection and writeoffs for the year.

Both C and R are readily available from agencies' Schedule 9 submissions. Using the Social Security Administration's receivables and collections data (in thousands of dollars), T can be calculated as follows:

$$T = \begin{array}{cc} \boxed{\begin{array}{cc} C & C \\ 82 & 81 \\ \hline R & R \\ 82 & 81 \end{array}} \times R & 82 \end{array}$$

$$T = \boxed{\frac{2,755,561}{5,172,354} - \frac{2,445,760}{4,799,109}} \times 5,172,354$$

$$T = (0.5327479 - 0.5092111) (5,172,354)$$

SSA

$$T = (0.0235368) (5,172,354)$$

SSA

$$T = 121,740.66 \text{ (See p. 22, ch. 3.)}$$

SSA

These calculations show that, although SSA increased its collection rate in fiscal 1982 from about 51 percent to 53 percent, thereby giving the agency a "calculated" increase of almost \$122 million, this was not enough to meet its \$135 million target. The large difference between the actual collection increase of almost \$312 million and the calculated collection increase of \$122 million is also evident.

24996

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS