

**Statement of Larry J. Lanzillotta**  
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**Before the Senate Committee on Governmental Affairs**  
**Permanent Subcommittee on Investigations**  
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Mr. Chairman and members of the Committee, I am pleased to be here to discuss the Department of Defense (DoD) program for offsetting payments to commercial entities that have either tax or non-tax debts owed to the federal government.

Even though the collection of federal debts is not a primary mission of the Department of Defense, it is an important and inherent management responsibility. It is part of our DoD leadership's resolve to exercise strong stewardship of the taxpayer dollars appropriated to us. We want to thank this committee and the General Accounting Office (GAO) for focusing on how we can improve this component of our stewardship. The Department of Defense agrees with the four GAO report recommendations and is taking action to address the report's findings.

### **Status of DoD Levy Program**

Since 1991 DoD has been partnering with the IRS to levy, i.e. offset commercial payments to collect federal debts through a manual process involving what we call paper levies. In July 2000, the IRS, in conjunction with the Financial Management Service (FMS), started the Federal Payment Levy Program (FPLP). This program provides for the collection of federal debts through continuous levy on commercial payments. In 2001, DoD began working with the FMS to participate in the program.

In October 2002, DoD began providing its database on pending commercial payments to FMS for matching against the Treasury Offset Program (TOP) database, which includes both federal tax debt and non-tax debt. In December 2002, we began taking offsets.

The Department currently provides a commercial payments database only for its largest commercial pay system, the Mechanization of Contract Administration Services (MOCAS) system, and does this once a week. (The Department of Defense uses the term "commercial pay systems" to encompass both contractor pay systems and vendor pay systems.)

As of January 31, 2004, DoD had collected about \$2.1 million through offsets. This \$2.1 million collection is far below what should be achievable. Increasing this performance requires changes not only within the Department but also changes in partnership with other agencies -- to include possible legislative changes.

The primary challenge is to better identify, through automation, those DoD contractors whose payments should be offset because of their federal debts. When DoD receives notification that a contractor is indebted to the U.S. government and its payments are subject to levy, we have little trouble executing the prescribed offset.

### **Short-Term DoD Actions and Changes**

DoD is advancing several actions and changes to improve its federal levy performance.

Procedures. We are refining our procedures for federal levies to ensure they are as streamlined and efficient as possible.

Central point of contact. We have clarified with the IRS and Treasury that the Department's central point of contact for executing levies is the Defense Finance and Accounting Service (DFAS) – specifically its Contract Payment Center in Columbus, Ohio. This will enable a single office to handle levies for all DoD commercial pay systems.

More frequent TOP checks. Instead of once a week, the Department will twice weekly provide its database to FMS and evaluate whether an even greater frequency has merit.

Resources. Consistent with the GAO's recommendation, the Department will continue to devote sufficient resources to implement all aspects of its formal plan to improve its levy performance.

### **Long-Term Changes and Issues**

The Department is pursuing several long-term changes, some involving other agencies.

Further automation. We are expanding our DoD automated levy process beyond MOCAS to the rest of the Department's commercial pay systems. We have an additional 19 commercial pay systems that could be matched to the TOP database using the new automated system. We are currently working with the Treasury to include these systems in the continuous offset program. This expanded automation should be completed by March, 2005. This action meets the GAO recommendation that DoD develop a formal plan for providing payment information to the TOP for all its commercial pay systems.

This full automation is the Department's main focus for improving its levy performance. When our input is automated, DoD has very few problems offsetting payments for matched vendors once we receive an automated file from Treasury. However, the total dollars offset is only about one percent of the debts we receive from IRS. We recognize the automated process needs improvement.

With manual procedures, we seldom are successful because by the time we become informed of a match for a pending payment, we have had to disburse the payment. Still, we are considering possible interim procedures to use until full automation is completed.

TINs and contractor names. The Department of Defense relies on information in Central Contractor Registration (CCR) for the commercial payments database provided to the FMS for matching with its TOP database. This information comes from contractors themselves. If either the name or the Taxpayer Identification Number (TIN) provided by the contractor differs from the name or TIN listed on the debt record, the TOP database will not identify that contractor for an offset or levy. We believe that inaccuracies in the CCR cause the TOP system to fail to identify many contractors with federal debts.

We are working with the IRS and FMS on how best to validate or correct the TIN and name of the commercial entities in the CCR. The goal is to eliminate CCR inaccuracy as an obstacle to better levy collections.

Legal limitations. In seeking to achieve more levies, the Department of Defense must stay within the framework and limitations of federal law. For example, certain tax-related information cannot be released, even between federal agencies, except in strict compliance with federal law. Federal officials can be subject to prosecution and civil liabilities for unauthorized disclosure of protected information.

Legislative/legal changes. The Department looks forward to working with the IRS, FMS, and others in considering what legislative or legal changes might help us achieve more levies.

## **Closing**

In closing, I assure you that the Department of Defense will support the continuous federal levy program. We have a good partnership with the IRS and FMS, and I am sure that that will produce substantial results.

I also want to assure this committee that the Department of Defense is continuing its broader challenge of transforming all its business and financial processes. We have made a strong start in our historic overhaul of DoD management processes and the information systems that support them. Once fully implemented several years from now, our Business Management Modernization Program will consolidate and integrate our management and information systems. It will enable the maximum permissible exchange of information that is key to ensuring all our business management responsibilities.

Thank you for this opportunity to explain how the Department of Defense is working to sustain sound management and strong stewardship of its public resources.