

**FEDERAL  
DEBT COLLECTION  
CENTER  
DESIGNATION**

**Policy, Procedures, and Standards**

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**Department of the Treasury  
Financial Management Service  
Debt Management Services**

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# FEDERAL DEBT COLLECTION CENTER DESIGNATION Policy, Procedures, and Standards

Department of the Treasury  
Financial Management Service  
Debt Management Services

## **I - Purposes**

*1. Replace and supersede previously issued designation standards.* The Financial Management Service (FMS), U.S. Department of the Treasury (Treasury), is issuing these policies, procedures, and standards for designation of debt collection centers (hereinafter referred to as “these Standards”) to replace and supersede the Federal Debt Collection Center Designation: Policies, Procedures, and Standards issued in October 1999 (hereinafter referred to as the “Oct. 1999 Standards”). Specifically, paragraph IX of these Standards revises paragraph VIII.2. of the Oct. 1999 Standards with respect to who may request a renewal of a debt collection center designation and where such renewal requests should be directed. And, paragraphs VI through VIII of the Oct. 1999 Standards have been reorganized as paragraphs VI through IX of these Standards to clarify the requirements for requesting and granting initial designations, as compared with requesting and granting a renewal of a designation. In all other respects, these Standards are substantially the same as the Oct. 1999 Standards, except for minor editorial revisions.

*2. Establish standards for duties, responsibilities and operations.* These Standards outline the duties and responsibilities of debt collection centers designated by the Secretary of the Treasury (Secretary), and provide standards for the operation of such debt collection centers.

## **II - Effect of these Standards as to Designations Previously Made**

*1. Denials, designations and renewals.* Any decisions to deny debt center designations under the Oct. 1999 Standards shall remain in effect. Any designations or renewals of designations of debt collection centers made under the Oct. 1999 Standards shall be effective for the timeframe indicated in the designation or renewal.

*2. Responsibilities and operational requirements.* The responsibilities and operational requirements of debt collection centers contained in these Standards are unchanged from the Oct. 1999 Standards, and shall be applicable to any debt collection center designated after October 1999. Any reviews of designated debt collection centers shall be based on these Standards.

### **III - Background**

*1. Debt Collection Improvement Act of 1996.* The Debt Collection Improvement Act of 1996 (DCIA), Pub. L. 104-134, authorizes the Secretary to designate, and withdraw such designation of debt collection centers operated by other Federal agencies (see 31 U.S.C. 3711(g)(3)). The DCIA states that, at the discretion of the Secretary, referral of nontax debt may be made to agencies operating debt collection centers for servicing, collection, compromise, or suspension or termination of collection action.

Under the DCIA, debts more than 180 days delinquent which have been referred to a Treasury-designated debt collection center are specifically exempt from the DCIA requirement to transfer such debts to Treasury, for a period of time determined by the Secretary.

The DCIA enunciates the following general purposes, which are applicable to debt collection center designation standards:

- To maximize collections of delinquent debts owed to the Government by ensuring quick action to enforce recovery of debts and the use of all appropriate tools;
- To minimize the cost of collection by consolidating related functions and activities and utilizing interagency teams;
- To reduce losses arising from debt management activities by requiring proper screening of potential borrowers, aggressive monitoring of all accounts, and sharing of information within and among Federal agencies; and
- To rely on the experience and expertise of private sector professionals to provide debt collection services to Federal agencies.

*2. Treasury regulations regarding transfer of debt.* FMS-issued regulations concerning transfer of debts to Treasury for collection define “debt collection center” as a Federal agency or a unit or subagency within a Federal agency that has been designated by the Secretary to collect debt owed to the United States. See 31 C.F.R. 285.12(a). The Secretary is authorized to establish standards for the designation of debt collection centers pursuant to 31 U.S.C. § 3711(g)(10). The rule also provides for exemptions of classes of debts from mandatory transfer to Treasury for cross-servicing.

## IV - Standards for Initial Designation

*1. General rules.* Designations of debt collection centers may be made by the Secretary when the Secretary determines such designation will improve the Federal Government's debt collection operations. An agency's initial debt collection center designation shall be for a fixed time period, usually one to three years, as determined by the Secretary. Debt collection centers will be designated for the purpose of collecting debt of other agencies, as well as the debt collection center's own debt. Agencies that wish to collect their own debt only may apply for an exemption of a class or classes of debts from the requirement of mandatory transfer of debts to Treasury under FMS's "STANDARDS AND PROCEDURES FOR EXEMPTION OF CLASSES OF DEBTS FROM THE REQUIREMENT OF TRANSFER TO TREASURY UNDER THE DEBT COLLECTION IMPROVEMENT ACT OF 1996."

*2. Specific standards and measures.* When analyzing an agency's request for designation as a debt collection center, the Secretary will consider the following specific performance standards and measures:

Standard #1: Agency has an effective debt collection strategy and successfully collects current and delinquent debt.

Measure: Written debt collection strategy detailing the collection process, including timeframes for use of debt collection tools. Strategy includes use of all appropriate debt collection tools (including, where applicable, letters, phone calls, credit bureau reporting, private collection agencies, litigation, offset, administrative wage garnishment, asset sales and 1099-C reporting) authorized under the Debt Collection Act of 1982 (as amended) and the DCIA, and details specific action to be taken on debt over 180 days delinquent. In addition, the agency must be referring debts to the Treasury Offset Program (TOP) where appropriate or required by law. Agency historical data should support and confirm the use of all appropriate debt collection tools (see Part IX, Paragraph 2, Third bullet).

Measure: Annual collection rates (dollar amount collected as compared to dollar amount of debt, and number of collections as compared to number of debts) on all agency debts, including delinquent debts covering the last five years. This data should be broken out to detail collection rates for current debts, debts less than 180 days delinquent, and debts 180 days or more delinquent. The data covering the last five years should indicate an increase or consistency/stability in collection rates, and should compare favorably with Government data available to Treasury through the Report on Receivables and Debt Collection Activities.

An agency may provide information on direct costs related to collections if such information is available to the agency and supports the conclusion

that the agency successfully collects current and delinquent debts.

Measure: Agency accurately and timely reports data for, and is able to certify as to the accuracy of the data reported on, the Treasury Report on Receivables and Debt Collection Activities, or maintains reports on, and can certify to the accuracy of, similar data where the agency is not required to report such data to Treasury. Agency is able to age debts, know where a specified debt is in the collection process, and determine collections on delinquent debt versus non-delinquent debt.

Standard #2: The agency demonstrates the ability to collect debts of others in accordance with the appropriate debt collection authorities and using appropriate debt collection tools.

Measure: Agency is equipped with the appropriate systems, guidelines and debt collection strategies to use all authorized debt collection tools, and keep accurate records on the debts (including the accrual of interest, penalties and administrative costs).

Measure: Agency can provide automated processes to accept debt referrals from referring agencies, and provide referring agencies with updated data on referred accounts, such as collections (including principal, interest and costs collected), account balances, and specific debt collection tools utilized, sufficient for the referring agencies to maintain internal debt records. Agency can provide accurate data to referring agencies sufficient to allow the referring agency to accurately complete the Treasury Report on Receivables and Debt Collection Activities. Such data should include information such as total debts, collections, reschedulings, interest and late charges, total delinquencies, delinquent debt by age, collection by debt tools, write offs and 1099-C reporting.

Measure: Agency can track, and report to FMS on an annual basis, by portfolio, age of debt referred, dollar and number of referrals, and collections on referred debts.

## **V – Debt Collection Center Operations and Responsibilities**

*1. Referral of debts from client agencies.* After consultation with FMS, debt collection centers may solicit client agencies to refer debts. FMS may require the debt collection center to obtain the consent of FMS before any referrals take place. If required to request consent from FMS, the debt collection center should submit an agreement between the debt collection center and the client agency, subject to FMS's consent, identifying the type, projected volume and amount of debts to be referred; the specific services to be provided by the debt collection center; the fees to be charged for services rendered; and the responsibilities concerning reporting data for the Treasury Report on Receivables and Debt Collection Activities.

*2. Collection of debt and use of debt collection tools.* Debt collection centers shall use all appropriate debt collection tools, consistent with the debt collection strategy submitted by the agency with its application for designation (and/or request for renewal) and any agreement(s) with the client agency(ies) approved by FMS. Debt collection centers will notify FMS of any substantial change in their debt collection processes prior to initiating such processes.

*3. Referral of debts to FMS for the TOP and private collection agencies.* Where appropriate or required by law, debt collection centers shall refer debts to FMS for TOP (which includes offsets of tax refunds and other Federal payments), and refer debts to private collection contractors under the contract established by FMS. Debt collection centers shall follow all FMS standards and procedures in making such referrals, and shall assure that all data submitted to FMS and private collection contractors is accurate.

*4. Referral of debts to the Department of Justice.* Where appropriate, a debt collection center shall refer debts to the Department of Justice, consistent with any agreement(s) with client agency(ies), for litigation, compromise approval, and approval of termination of collection activity. In making such referrals, the debt collection center shall follow the Federal Claims Collection Standards and any separate standards and procedures established by the Department of Justice for such referrals.

*5. Charging fees.* Debt collection centers are authorized to charge fees to client agencies to cover the cost of debt collection services provided. For specific information regarding fees, debt collection centers should refer to the appropriate sections of the DCIA (codified at 31 U.S.C. §§ 3711(g)(6), (7) & (8)), and the rules concerning the transfer of debts to Treasury for collection, specifically subparagraph 31 CFR 285.12(j).

*6. Reporting on debts, portfolios and collection activities to client agencies and FMS.* Debt collection centers shall accurately and completely report on debt portfolios to client agencies so the client agencies can accurately and completely report to Treasury on the Treasury Report on Receivables and Debt Collection Activities. If so agreed between any client agency and the debt collection center (with the consent of FMS), the debt collection center may report directly to Treasury on the Treasury Report on Receivables and Debt Collection Activities for the client

agency.

For the purpose of monitoring debt collection center activities (see paragraph VI. below), debt collection centers shall provide to FMS annual reports which shall include all the information and data required for the Treasury Report on Receivables and Debt Collection Activities. Such reports shall be completed for each portfolio of debt the center collects (which includes its own agency portfolio(s) as well as portfolios from client agencies).

## **VI - Reviews of Debt Collection Centers**

FMS may conduct formal annual reviews of each designated debt collection center. Annual reviews shall be based on the annual reports submitted by the designated debt collection centers, and any additional information FMS determines is necessary for FMS to adequately review the debt collection center's operations. In determining the additional information which is necessary, FMS will give due consideration to the data routinely collected by, or available to, the debt collection center. If, during the conduct of an annual review, FMS determines additional information or an on-site review is necessary, the debt collection center will provide such additional information upon request, or facilitate the on-site review.

If it is determined by FMS that an adverse trend (that is, increasing delinquencies, increasing collection costs, failure to accurately and completely provide all required reporting, etc.) is occurring, FMS officials shall meet with officials from the debt collection center to establish a mutually agreeable plan to reverse the adverse trend. If a mutually agreeable plan cannot be established, or the plan established does not successfully reverse the adverse trend, FMS may recommend to the Secretary that the debt collection center designation be withdrawn (see paragraph VIII. below).

## **VII – Renewals of Designations of Debt Collection Centers**

A renewal of an agency's debt collection center designation shall be for a fixed time period, usually one to three years, as determined by the Secretary. A debt collection center may request renewal of its designation within six months prior to the expiration date of the designation (initial or previous renewal). In determining whether to grant a renewal of a debt collection center designation, the Secretary may consider the debt collection center's:

- contribution to the improvement of the Federal Government's debt collection operations;
- continued improvement in collection of its own delinquent debts;
- continued ability to use all appropriate debt collection tools, appropriately report to FMS and client agencies, track debts and accept debts from client agencies; and



- compliance with the regulations concerning debt collection centers, and these debt center standards.

### **VIII - Withdrawal of Designation by the Secretary of the Treasury**

*1. At the agency's request.* An agency may request in writing that the Secretary withdraw the debt collection center designation at any time. The withdrawal request shall include a specific date for termination of the designation, and an exit strategy to assure that collections and collection action on any debts which have been referred to the center shall not be interrupted. In response to an agency's request, the Secretary will routinely withdraw such designations unless the Secretary determines that the exit strategy and/or specific date for termination would substantially interfere with collection and/or collection action on the debts referred, in which case FMS and the agency shall negotiate a mutually agreeable exit strategy and termination date.

*2. As a result of the Secretary's determination.* The Secretary may determine, based on information and data submitted by the debt collection center for review or any other appropriate data, that it is in the Government's best interests to withdraw the debt collection center designation. If such determination is made, the Secretary will notify the head of the agency of his/her decision in writing. The notification will indicate the effective date of the withdrawal of such designation, which normally will be 60 days from the date of the written notification (unless the Secretary determines that the 60 day withdrawal date would not be in the Government's best interest).

*3. Duty to transfer referred accounts.* Upon withdrawal of the designation for any reason, the previously-designated debt collection center shall transfer the accounts referred (including all relevant data concerning such accounts) to another debt collection center, or the originating agency, as directed by Treasury in consultation with the originating agency. The previously-designated debt collection center will take timely and good faith action to assure that the financial interests of the Government are not jeopardized.

### **IX - Requests for Initial Designation and Renewal of Designation**

*1. Informal discussions.* If an agency believes a debt collection center designation or renewal of a designation may be warranted, agency officials should contact FMS, Debt Management Services (DMS), to discuss informally the need for such a designation or renewal and other options which may be available to meet the agency's concerns. The contact point at DMS for these informal discussions is:

Director, Agency Liaison Division  
Debt Management Services  
Financial Management Service  
401 14th Street, SW

Washington, DC 20227  
Telephone: (202) 874-6660

2. *Request for initial designation.* If, after informal discussions with DMS, an agency determines that a formal request for debt collection center designation is appropriate, the request for an initial debt collection center designation must be made, in writing, by the head of the agency or, if appropriately delegated, by the Chief Financial Officer, to:

Secretary of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220.

A copy of the request should also be sent to:

Assistant Commissioner of Debt Management Services  
Financial Management Service  
401 14th St., SW, Room 446  
Washington, DC, 20227.

An agency's application for designation as a debt collection center will be evaluated in the context of the performance standards and measures listed in paragraph IV.2, above. To assist in the evaluation process, the request must include the information necessary to identify how the agency meets the specific standards and measures described in paragraph IV.2. of these Standards, including:

- A narrative statement (1) identifying what debts or programs the agency wishes to service and the specific benefit(s) which would result from a debt collection center designation; (2) detailing the agency's debt collection operations, including facilities, debt portfolio, and number and types of employees; (3) explaining the agency's use of all appropriate debt collection tools, including the agency's referral of debts to TOP; and (4) detailing the agency's abilities to appropriately report debt to Treasury (including certification of data for the Treasury Report on Receivables and Debt Collection Activities) as well as agencies referring debt, and to appropriately track debt.
- Detailed flowcharts of the agency's debt collection processes and organizational structure (if available).
- Historical data on debt portfolios, collections and collection costs concerning the agency's debts and delinquent debts. This historical data should be sufficient to determine appropriate use of all debt collection tools, and to develop the collection and cost rates, previously described in paragraph IV.2, Standard #1, above. Historical data on use of debt collection

tools should include, but not be limited to, information such as referrals to private collection agencies (dollars and numbers of debts), referrals to Justice for litigation (dollars and numbers of debts) and collections by administrative wage garnishment (dollars and numbers of debts).

3. *Request for renewal of designation.* If, after informal discussions with DMS, an agency determines that a formal request for a renewal of a debt collection center designation is appropriate, the request for a renewal must be made, in writing, by the head of the agency or, if appropriately delegated, by the Chief Financial Officer or other senior agency official of an equivalent level, to:

Fiscal Assistant Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220.

A copy of the request should also be sent to:

Assistant Commissioner of Debt Management Services  
Financial Management Service  
401 14th St., SW, Room 446  
Washington, DC, 20227.

Requests for renewal shall be in the same form as the initial request for designation (see paragraph IX.2., above) and shall also include the information necessary to identify how the agency qualifies for renewal based on the considerations described in paragraph VII, above.

4. *The Secretary's response.* In responding to any request for debt collection center designation or renewal of designation, the Secretary, or his delegatee, may take any action which he/she determines to be in the best interests of the Government. Such action may include granting the designation in whole or in part, denying or limiting the designation in whole or in part, or taking alternative actions, as appropriate. Requests will be reviewed and evaluated against these Standards as soon as possible, normally within 120 days of complete submission of information by the agency, and the agency will be notified of the Secretary's decision.