Office of Inspector General

Audit Report

Non-Tax Delinquent Debt

U.S. Department of Transportation

Report Number: FE-1999-096
Date Issued: May 5, 1999

U.S.Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Memorandum

Subject: INFORMATION: Report on Non-Tax Delinquent Debt, DOT FE-1999-096

Date: May 5, 1999

From: John L. Meche
Deputy Assistant Inspector General for Financial, Economic, and Information Technology

Reply To Attn Of: Meche:x61496

To: Assistant Secretary for Budget and Programs

This report presents the results of our review of the Department of Transportation (DOT) Non-Tax Delinquent Debt. Non-tax delinquent debt is defined as any debt or claim that is due the Federal Government, except for taxes under the Internal Revenue Code. This review was conducted as part of a governmentwide project by the President's Council on Integrity and Efficiency, with the U.S. Department of Treasury Office of Inspector General as the lead agency.

As of September 30, 1997, the U.S. Treasury (Treasury) reported total delinquent debt over 180 days of $44 billion for the 24 Chief Financial Officer agencies of the Federal Government. Our objectives were to determine whether DOT accurately reported its non-tax delinquent debt of $148 million as of September 30, 1997, and to evaluate DOT's management of debt activities.

RESULTS-IN-BRIEF

DOT accurately reported its non-tax delinquent debt of $148 million for Fiscal Year (FY) 1997. We reviewed 24 DOT debt case files totaling $18.2 million, accounts receivable aging reports, and other reports to ensure the debt was valid and accurately reported. The Debt Collection Improvement Act of 1996 (Act) requires all delinquent debt over 180 days to be referred to the Treasury for collection, except for exempt debt. About 50 percent of the $148 million debt was exempt from referral to Treasury because the debt was in bankruptcy, the debtor had an active payment plan agreement with DOT, or the debt had been referred to the Department of Justice (DOJ) for litigation.

We also found adequate debt management practices were in place to ensure uncollectible debt was kept to a minimum. All debt case files we reviewed included demand letters to the debtor, correspondence with the debtor or debtor's attorneys, and documentation related to payment plan agreements.

BACKGROUND

The Act enhanced the government's debt collection authority and assigned overall implementation responsibility to the Treasury. Treasury placed the authority in its Financial Management Service, which established the Debt Management Services to develop and manage the debt recovery process. The Act specifically mandates any non-tax debt or claim that has been delinquent over 180 days shall be turned over to the Treasury for appropriate action to collect or terminate collection actions. For accounting and reporting purposes, the debt transferred to Treasury remains on the books and records of the agency. Debt is exempt from transfer to Treasury, if it is (1) in bankruptcy, litigation, or foreclosure, (2) at a private collection contractor, (3) of a foreign government, or (4) has been referred to DOJ. Debt includes loans made or guaranteed by the government, or fines and penalties assessed by an agency.

Title 4, Code of Federal Regulations, Chapter II, Section 102, "Standards for the Administrative Collection of Claims," establishes agency standards for the administrative collection of claims. These standards emphasize aggressive collection actions to include the issuing of three progressively strong demand letters. The letters should include the basis for indebtedness, rights of debtor, standards for assessment of interest, penalties and costs, and payment due date. The demand letters also should include the agencies' willingness to consider repayment alternatives, its policies on reporting debtors to the credit bureau, the use of collection services, intent to litigate, and debtors' rights to waiver.

SCOPE AND METHODOLOGY

The DOT delinquent debt of $148 million reported at September 30, 1997, was comprised of U.S. Coast Guard (Coast Guard) of $89.8 million; Maritime Administration (MARAD) of $34.3 million; Federal Aviation Administration (FAA) of $12.6 million; Federal Highway Administration (FHWA) of $5.5 million; and the remaining Operating Administrations of $5.8 million.

We selected for review the Coast Guard National Pollution Fund Center of $53.8 million; MARAD of $34.3 million; FAA Headquarters of $4.5 million; and FHWA of $5.5 million, totaling $98.1 million.

From the $98.1 million, we randomly selected and reviewed 24 debt case files totaling $18.2 million to determine whether DOT was properly documenting, classifying, and reporting debt. We also reviewed the debt case files to determine whether DOT was using collection procedures such as demand letters, negotiated payment agreements, and debt sales, and whether the debt was eligible for referral to Treasury. We interviewed DOT representatives and reviewed accounts receivable reports to determine the debt status, and whether the debt was properly classified.

We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We performed our work between November 1998 and January 1999 at the Coast Guard National Pollution Fund Center in Ballston, Virginia, and at MARAD, FAA, and FHWA Headquarters in Washington, D.C.

ANALYSES AND RESULTS

DOT accurately classified and reported its debt. We found: (1) at least 50 percent of DOT's debt is exempt from referral to Treasury; (2) DOT is making valid referrals to Treasury; and (3) DOT has debt management procedures in place to keep uncollectible debt to a minimum.

Reporting of Debt

For the 24 debt case files totaling $18.2 million, we traced the delinquent debt reported on accounts receivable reports to the debt case files to verify age and amount of the debt. For the 24 cases, we found the amount reported as debt was valid and represented collectible debts. The delinquent debt reported on accounts receivable reports totaled $148 million as of September 30, 1997. Since we did not identify any deficiencies with the 24 case files, we concluded the delinquent debt of $148 million was accurately reported.

Exemptions

Based on our review of debt cases and accounts receivable reports, we found about $75 million of the $98 million of debt was exempt from referral to Treasury. This exempt amount is at least 50 percent of the reported debt of $148 million. These debts were exempt from referral to Treasury because they had been referred to DOJ, the debtor was bankrupt, or there was a payment plan agreement with the debtor. About $67 million of the $75 million was debt referred to DOJ for litigation.

Referrals to Treasury

In compliance with the Act, DOT is referring debt to Treasury. We found all debts reviewed, which were delinquent over 180 days and eligible for referral, were transferred to Treasury. Included in referrals were debts that were less than 180 days old. According to Treasury's Debt Management Services' records for FYs 1997 and 1998, DOT had referred $22.8 million of debt to Treasury. We found DOT had reviewed its debt, especially the older debt, and properly certified to Treasury the validity and collectibility of the debt. DOT has continued this review process of referring debt in FY 1999.

Debt Management

DOT had debt management procedures in effect. The 24 debt case files we reviewed all contained at least three strong demand letters which included the appropriate requirements for demand letters. Also included in some debt case files were other letters corresponding with the debtor and/or debtor's attorney, letters relating to payment plan agreements, and notes recording telephone conversations between the DOT representatives and the debtor. Twenty-two of the debt case files reviewed contained three demand letters that were mailed to the debtors in 30-day intervals from the date the debt became delinquent. Two debt cases were not as timely, but these were older debts and have since been referred to Treasury. Of the debt cases reviewed, DOT's collection efforts resulted in active payment plan agreements with three debtors. Two of the payment plan agreements are still active and one has been paid in full. The age of the debts averaged about 2 years old.

ACTION REQUIRED

This report contains no recommendation, and no action is required.

This report will be provided to the Treasury OIG to be incorporated into its Federal Governmentwide report. We appreciate the courtesies and cooperation of DOT representatives. If you have questions, please call me or Ronald Brown at (202) 366-1496.

-#-