

**FISCAL YEAR 2000 REPORT**  
**TO THE CONGRESS**

**U.S. GOVERNMENT**

**DEBT COLLECTION ACTIVITIES**

**OF**

**FEDERAL AGENCIES**



**Department of the Treasury**  
**AUGUST 2001**

**FISCAL YEAR 2000 REPORT TO THE CONGRESS  
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## EXECUTIVE SUMMARY

In Fiscal Year (FY) 2000, Federal government debt collection programs continued to evidence steady progress. The Federal government collected \$99.4 billion on all its non-tax receivables, of which \$22.5 billion was collected on its delinquent non-tax receivables. Collections by the Department of the Treasury (Treasury) of delinquent non-tax debts for FY 2000 totaled \$2.63 billion.

*Delinquent Debt Portfolio.* At the end of FY 2000, Federal agencies reported \$282 billion in outstanding non-tax receivables, as compared to \$270.6 billion reported at the end of FY 1999, and \$273.8 billion reported at the end of FY 1998. Delinquent non-tax receivables were \$58.0 billion at the end of FY 2000, as compared to \$53.3 billion at the end of FY 1999, and \$60 billion at the end of FY 1998.

*Key Accomplishments of Selected Federal Agencies.* The Department of Justice (DOJ), the Department of Health and Human Services (HHS), the Department of Housing and Urban Development (HUD) and the Small Business Administration (SBA) contributed significantly to the debt collection accomplishments in 2000. DOJ collected more than \$3 billion through financial litigation, the largest amount DOJ ever collected in one year. HHS administers the national child support enforcement system that collected \$18 billion in delinquent child support obligations in FY 2000. HUD and SBA completed loan asset sales of performing and nonperforming loans, collecting \$467 million and \$530 million in proceeds, respectively.

*Referrals to Treasury.* Treasury's Financial Management Service (FMS) and creditor agencies have worked to increase delinquent non-tax debt referrals to Treasury. The value of non-tax debts in the Treasury Offset Program (TOP) debtor database as of September 30, 2000, totaled \$79.6 billion (\$26.84 billion in Federal non-tax debt and \$52.73 billion child support), which is \$9.2 billion more than at the end of FY 1999. Cross-servicing referrals increased \$1.6 billion in FY 2000, with cumulative referrals exceeding \$5 billion as of November 2000. As of September 30, 2000, Federal agencies had referred 86 percent of their eligible delinquent non-tax debts to TOP, and 71 percent of their eligible delinquent non-tax debts to Treasury for cross-servicing.

*Treasury Offset Program.* As a result in part of the successful merger of the Tax Refund Offset Program into TOP in January 1999, TOP collections substantially increased in 1999 and maintained that level in 2000. For FY 2000, tax refund collections totaled \$2.58 billion, maintaining a high level similar to that established in FY 1999 (\$2.60 billion). By comparison tax refund offset collections in FY 1998 totaled \$2.03 billion. Collections of delinquent child support obligations through TOP increased \$47 million in FY 2000 to a total of \$1.39 billion.

In FY 2000, two new debt collection programs were incorporated into TOP. The State Income Tax Debt offset began in January 2000, and Continuous Tax Levy began in July 2000. Collections under State Income Tax Debt offset were \$23.1 million through September 30, 2000, and collections under Continuous Tax Levy totaled \$98,300 through September 30, 2000. Primarily as a result of the incorporation of Continuous Tax Levy, the value of debts in TOP's delinquent debtor database increased to \$134.6 billion by the end of FY 2000, from \$70.4 billion at the end of 1999.

*Cross-Servicing and Private Collection Agency (PCA) Collections.* As of September 30, 2000, PCAs under the Department of Education's (Education) debt collection contract were servicing \$9.1 billion in delinquent student loans. In FY 2000, the PCAs collected \$322 million of Education's defaulted student loan debts. This is a 35 percent increase over FY 1999 collections. PCAs also consolidated \$346 million in student loan debts.

In FY 2000, FMS and the PCAs under contract with FMS collected \$41.1 million, which represents more than half of the \$74.9 million in cross-servicing collections since the inception of the program in 1997. FMS and the PCAs also had \$29.6 million in active repayment agreements at the end of FY 2000.

*Revision of Debt Collection Policy Documents.* In addition to improved collections, major government-wide debt collection policy documents were revised. DOJ and Treasury jointly promulgated a final rule revising the Federal Claims Collection Standards (FCCS) and the Office of Management and Budget (OMB) issued a revision of OMB Circular No. A-129, "Policies for Federal Programs and Non-Tax Receivables."

*Future Plans.* In FY 2001, HUD and SBA will continue to sell loans under their asset sales programs. Education plans to select PCAs for its new contract from the General Services Administration procurement schedule, and begin using data obtained from HHS' National Directory of New Hires to increase collections and better manage its debt portfolio.

FMS and Federal agencies will work to sustain the momentum that has been achieved in the last several years. FMS will expand its use of IRS continuous tax levy and state income tax debt offset to increase its collections under these components of TOP. FMS will also continue to add payment streams, such as Federal benefit payments and Federal salary payments, into the TOP process. In addition, FMS will be implementing administrative wage garnishment government-wide, developing a new PCA contract to take effect after the current contract expires on September 30, 2001, and developing an effective and efficient method for Federal agencies to bar delinquent debtors from receiving Federal loans and loan guaranties/insurance.

## BACKGROUND

The Debt Collection Improvement Act of 1996 (DCIA) directs the Secretary of the Treasury (Secretary) to report to Congress annually on the management of debt collection activities by the head of each Federal agency. The report is also to include the information that the agency heads provide to the Secretary on the status of loans and accounts receivable that each manage. See 31 U.S.C. § 3719.

Federal agencies are responsible for managing their own receivables activities and must develop and implement a comprehensive receivables management plan. The plan is to include a strategy for collecting delinquent debt, specifically adapted to each agency's type(s) of debt. Agencies, in accordance with the FCCS (31 CFR § 900-904) and OMB Circular No. A-129, are responsible for: implementing debt collection tools and techniques that are appropriate for the type and size of each agency's debts; maintaining receivables reporting systems and account tracking systems; and developing and implementing the capability to track and monitor key indicators of economic and portfolio performance.

Under the DCIA, Congress gave significant responsibility to Treasury to maximize the collection of non-tax delinquent debt owed to the Federal government. The DCIA specifically mandates that Federal agencies, with certain exemptions, transfer non-tax debt more than 180 days delinquent to Treasury for collection. To collect these debts, Treasury applies a variety of debt collection tools, including offset of Federal payments (including tax refunds), and cross-servicing.

Offset is a program whereby Federal payments are reduced or "offset" to satisfy a person's overdue Federal debt. A payee's name and taxpayer identification number are matched against a Treasury database of delinquent debtors for automatic offset of funds. Offset funds are then used to satisfy payment of the delinquent debt to the extent allowed by law. For FY 2000, payment types subject to offset include Office of Personnel Management (OPM) retirement payments, IRS tax refunds, vendor payments, and some Federal salary payments.

Cross-servicing is a program which applies a variety of collection tools once agencies refer their debts to Treasury. Collection tools include Treasury demand letters, telephone calls to debtors; and referral of debts to TOP, credit bureaus, one or more of eleven PCAs on Treasury's contract, and DOJ for litigation.

## ACCOMPLISHMENTS

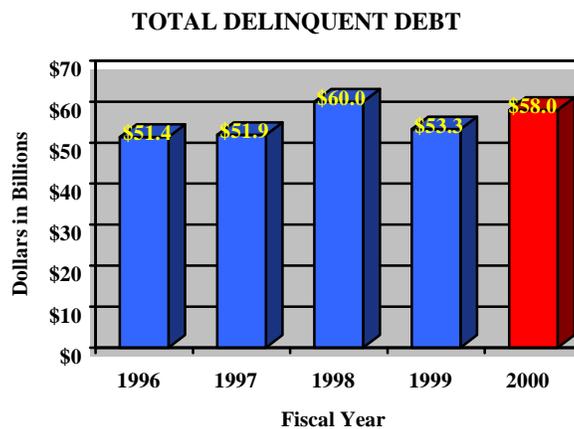
The Federal government collected \$99.4 billion in FY 2000 on all its non-tax receivables, of which \$22.5 billion was collected on its delinquent non-tax receivables. Federal agencies effectively used a variety of debt collection tools to collect delinquent debts such as offset and cross-servicing (referrals to Treasury), litigation (referrals to DOJ), PCAs and asset sales. Federal agencies have increased management attention to debt collection strategies, and are working together effectively to achieve results. Key accomplishments are listed below.

- DOJ collected over \$3 billion in cash recoveries on delinquent debts owed to Federal agencies through its financial litigation program. This is the largest amount DOJ ever collected in one year, and represents the sixth consecutive year DOJ collected more than \$1 billion.
- Education was designated a debt collection center by Treasury to continue servicing its own student loan debts, and Education relies heavily on PCAs to conduct its debt collection activities. As of September 30, 2000, Education's PCAs were servicing \$9.1 billion in delinquent student loans. From October 1, 1999, through September 30, 2000, the PCAs collected \$322 million of Education's defaulted student loan debts and consolidated \$346 million.
- Education converted the Office of Student Financial Assistance into the Government's first-ever Federal performance-based organization. An objective of the conversion is to improve the management of all student aid programs. As PCA collections have continued to favorably increase, PCA costs have declined. The average commission cost as a percentage of collections has fallen in the last three years from 23.3 percent in FY 1997 to 18.1 percent in FY 2000.
- In FY 2000, HUD's Federal Housing Administration (FHA) and SBA completed loan asset sales of performing and nonperforming loans totaling more than \$1 billion. FHA is taking action to sell HUD's entire inventory of single family and multifamily mortgage notes held by the Secretary of HUD, and in FY 2000 auctioned off single-family mortgage notes which generated gross proceeds in excess of \$467 million. SBA has an asset sales team in place to sell its current portfolio of direct loans and defaulted guaranteed loans. In FY 2000, SBA completed one loan portfolio sale with proceeds totaling \$530 million. These sales are significant events in completing the transition from emphasizing loan servicing to lender oversight at SBA.
- HHS' Child Support Enforcement Program supports children by assisting states in locating parents, establishing paternity, and enforcing child support orders. FY 2000 child support collections were \$18 billion, an increase of 16 percent over FY 1999.

- Total collections by FMS on delinquent debts were \$2.63 billion in FY 2000. The \$2.63 billion is the same as the amount collected in 1999 and more than \$640 million above total collections in FY 1998. Using 1998 as a baseline year, in the past two years, FMS has collected a total of \$1.3 billion over the baseline.
- Total tax refund offset collections for FY 2000 were \$2.58 billion. Collections in FY 2000 maintained a high level similar to that achieved in FY 1999 (\$2.60 billion). By comparison, total tax refund offset collections in FY 1998 were \$2.03 billion.
- In FY 2000, \$1.39 billion in delinquent child support obligations were collected through the offset of federal payments, which exceeds collections during FY 1999 by \$47 million. Treasury plays a significant role in assisting HHS with the collection of delinquent child support obligations owed to, or being enforced by, states and territories. Delinquent child support obligations are required to be matched against tax refund payments and, at the State's option, against vendor and OPM retirement payments.
- In FY 2000, FMS incorporated two new debt collection programs into TOP. The State Income Tax Debt offset program was launched in January 2000, and Continuous Tax Levy began in July 2000. Collections under State Income Tax Debt offset were \$23.1 million through September 30, 2000, and collections under Continuous Tax Levy totaled \$98,300 through September 30, 2000.
- Agencies have made substantial progress in complying with the provisions of the DCIA mandating the referral of debts to Treasury. At the end of FY 2000, Federal agencies' referrals of delinquent debts to Treasury reached 86 percent of eligible debt for offset (as compared to 78 percent in 1999) and 71 percent of eligible debt for cross-servicing (as compared to 43 percent in 1999).
- The value of debts in the TOP debtor database as of September 30, 2000, is \$134.6 billion. The database consists of \$26.84 billion in Federal non-tax debt, \$52.73 billion in child support obligations, \$54.69 billion in Federal tax debt (added since July 2000), and \$393 million in state tax debt. This is almost double the \$70.4 billion as of September 30, 1999, and more than double the \$58.1 billion as of September 30, 1998.

## GOVERNMENT DEBT PORTFOLIO, COLLECTIONS AND WRITE-OFFS

Federal agencies reported \$270.6 billion in outstanding non-tax receivables at the end of FY 1999, and \$282 billion in outstanding non-tax receivables at the end of FY 2000<sup>1</sup>. Delinquent non-tax receivables were \$53.3 billion at the end of FY 1999, and \$58.0 billion at the end of FY 2000. Of the \$53.3 billion in non-tax delinquent debts reported at the end of FY 1999, more than \$42 billion was distributed among 7 agencies: Education, Federal Communications Commission (FCC), the United States Department of Agriculture (USDA), HHS, the Export-Import Bank, HUD, and the Department of Energy. At the end of FY 2000, the above 7 agencies accounted for more than \$46.5 billion in delinquent debts reported. Debts more than 180 days delinquent declined slightly from \$38.5 billion at the end of FY 1999, to \$38.1 billion at the end of FY 2000.



The major change in the non-tax delinquent debt portfolio in FY 2000 was the increase of Education's delinquent debt portfolio by \$3.4 billion. This increase of delinquent debts was due to an increase of Education's outstanding receivables to \$70 billion at the end of FY 2000, as compared to \$57.3 billion at the end of FY 1999. Education's ratio of delinquencies to receivables remained fairly constant from FY 1999 to FY 2000. At the end of FY 2000 that ratio was 26.66 percent, as compared to 26.75 percent at the end of FY 1999.

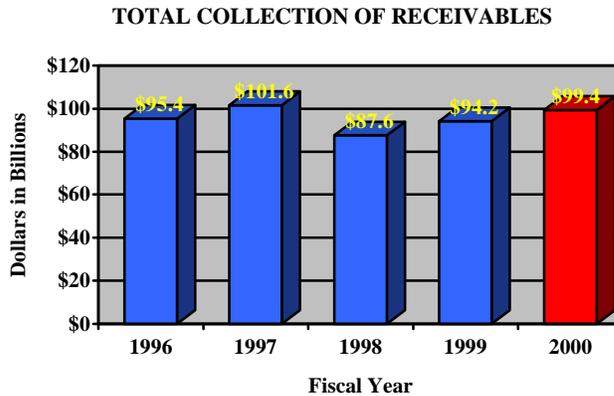
Factors that caused changes in the non-tax delinquent portfolio in FY 1999 include:

- a reclassification by Education of \$17 billion in delinquent student loan debts which have no statute of limitations as "currently not collectible" (CNC);

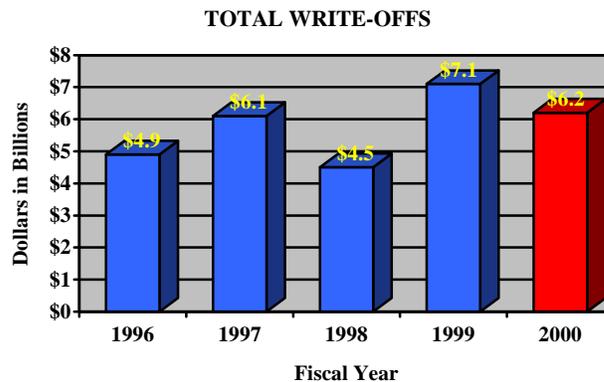
<sup>1</sup> *Treasury's Report on Receivables Due from the Public (TROR)* data in this report covers FY 1999 and FY 2000. Changes in the reporting process for the fourth quarter of FY 2000 has accelerated the availability of information from the TROR resulting in two years of data being available for this report.

- a \$6 billion increase in FCC total delinquencies, due to the reinstatement of defaulted loans for block sales of airwave licenses; and
- the write-off of \$2.9 billion by HHS of delinquent accounts receivable balances at Medicare contractors because (1) receivables were aged and overstated, and collectibility was extremely unlikely, and (2) receivables balances could not be verified with documentation, or the debtor organization no longer exists.

Total collections showed steady increases in FY 1999 and FY 2000. In FY 1999, total collections increased \$6.6 billion to \$94.2 billion, and in FY 2000, total collections increased \$5.2 billion to \$99.4 billion. Collections by Education increased by \$3.6 billion in FY 1999 over FY 1998. In FY 2000, HUD reported a \$2.1 billion increase in collections from FY 1999, and HHS reported an increase in collections of \$1 billion.



Total write-offs in FY 1999 increased by \$2.6 billion from 1998. The increase in FY 1999 can be attributed to HHS’ total write-offs of \$3 billion in FY 1999, \$2.9 billion more than in 1998. In FY 2000 total write-offs decreased by \$0.9 billion from FY 1999.



Detailed data for 12 specific agencies can be found on the *Federal Receivables and Delinquent Debt* tables for FYs 1999 and 2000 in the Appendix II.

Agencies charge interest, penalties, and administrative costs on receivables in accordance with applicable loan documents and statutory requirements. See 31 U.S.C. 3717. Of the \$282 billion in receivables at the end of FY 2000, \$9.2 billion represents unpaid interest, penalties, and administrative costs.

#### Delinquent Debt Analysis for Referring Debts for Offset and Cross-servicing.

Each year FMS conducts an analysis of the information reported in Treasury's Report on Receivables Due from the Public to determine the dollar amount of delinquent debts eligible for referral to Treasury for offset and cross-servicing. FMS uses the prior fiscal year end information to determine referral eligibility for the upcoming fiscal year. In conducting the analyses for FY 2000 and FY 2001, delinquent debts reported as currently not collectible (CNC) were added to debts reported as more than 180 days but less than 10 years delinquent to determine the starting amount for calculating the amounts eligible for referral. Certain debts are not eligible for referral to Treasury for either offset or cross-servicing because of various exemptions permitted under the DCIA or otherwise required by law. The analysis below indicates that the amount determined to be eligible for referral to Treasury for offset was \$31.3 billion for both FY 2000 and FY 2001. For referral for cross-servicing, eligible amounts were determined to be \$6.4 billion for FY 2000, and \$6.9 billion for FY 2001.

<b>Table I: Summary Analysis of Delinquent Debt of the Federal Government</b>		
	<b>As of Sep 30, 1999</b>	<b>As of Sep 30, 2000</b>
	<b>Delinquent Debt (\$ in billions)</b>	<b>Delinquent Debt (\$ in billions)</b>
<b>Total CNC and Debt Over 180 Days Delinquent</b>	<b>\$59.2</b>	<b>\$61.8</b>
<b>Debt Excluded from Offset</b>		
In Bankruptcy	(\$9.9)	(\$9.5)
Foreign/Sovereign Debt	(\$7.4)	(\$6.8)
In Forbearance or In Appeals	(\$2.6)	(\$2.2)
In Foreclosure	(\$1.6)	(\$1.1)
At DOJ (Not Legally Enforceable)	(\$4.0)	(\$3.7)
Other	(\$2.5)	(\$7.2)
Subtotal	(\$28.0)	(\$30.5)
<b>Eligible to Refer to Offset by Agency</b>	<b>\$31.3*</b>	<b>\$31.3</b>
<b>Debt Excluded from Cross-Servicing</b>		
Cross-Servicing Exemptions	(\$24.3)	(\$20.1)
Eligible for Internal Offset	(\$0.5)	(\$0.6)
Other	(\$0.1)	(\$3.7)
Subtotal	(\$24.9)	(\$24.4)
<b>Eligible to Refer to Treasury for Cross-Servicing</b>	<b>\$6.4*</b>	<b>\$6.9</b>

\*Numbers do not add because of rounding.

## AGENCY DEBT REFERRALS

In order to improve the overall management of the government's delinquent debt portfolio and encourage Federal agencies to refer their delinquent debts to Treasury, FMS continues to work with creditor agencies to help them analyze their debts and better manage their delinquent debt portfolios. FMS provides assistance to agencies to identify and resolve any barriers to referral of eligible debts to Treasury; establish agency referral schedules; develop a compliance plan and tracking mechanism; and assess the value and collectibility of delinquent non-tax debt.

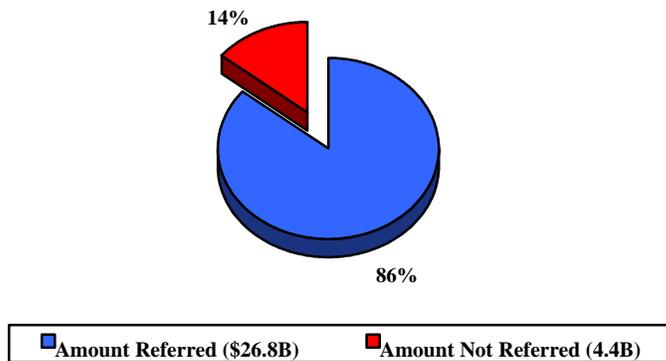
As part of this effort, in FY 1999, FMS significantly revised Treasury's Report on Receivables Due from the Public (TROR), a document that includes quarterly receivables reports from Federal agencies. The TROR is used to manage the Federal receivables portfolio, and is the basis for much of the information and statistics included in this report. FMS made TROR revisions not only to satisfy the requirements of the DCIA, but also to provide a more accurate report of the government's debt portfolio. The revised TROR was implemented in April of 1999, with an Internet-based application that provides on-line access to data for internal and external stakeholders.

To increase understanding of the TROR reporting process and to further improve receivables reporting for FY 2001, FMS conducted an educational program for Federal agencies in the latter part of FY 2000. FMS revised its workbook for TROR reporting, and conducted government-wide training in the TROR and numerous agency specific seminars. In addition, FMS made minor adjustments to the TROR to clarify the reporting process. These efforts should result in more accurate and timely reporting on agency receivables beginning FY 2001.

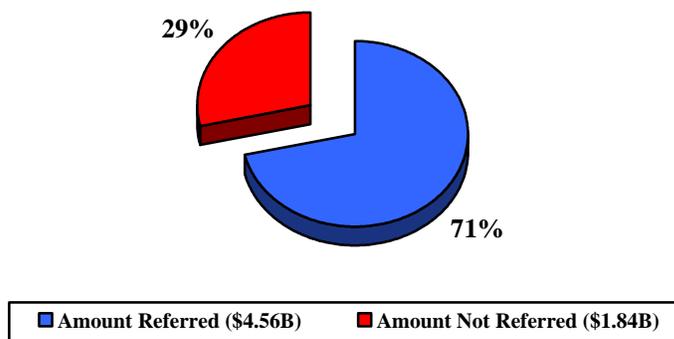
**Offset and Cross-Servicing Referrals**

In FY 2000, Federal agencies continued to improve on referring debts for offset and cross-servicing. As of September 30, 1999, the referral rate for offset was 78 percent of eligible debts, and the referral rate for cross-servicing was 43 percent of eligible debts. As of September 30, 2000, \$26.8 billion, or 86 percent, of the amount of debts eligible for referral for offset has been referred, leaving a balance of \$4.4 billion. Of the \$6.4 billion eligible for referral for cross-servicing for FY 2000, \$4.56 billion, or 71 percent, has been referred, leaving a balance of \$1.84 billion.

**Debts Eligible for Referral to TOP  
for FY 2000**



**Debts Eligible for Referral to Cross-Servicing for FY 2000**



**Increase Agency Debt Referral to Treasury**

At the March 18, 1999 Federal Credit Policy Working Group meeting, it was agreed that agencies should establish target dates and amounts for referral of debts more than 180 days delinquent. The FY 2000 goals for referral of debts by major debt collection agencies are provided in Table II and were included in OMB's and the Chief Financial Officer (CFO) Council's Federal Financial Management Report. Treasury has also received referral schedules from all remaining CFO agencies.

<b>Table II: Debt Referral Goals for 2000</b>		
<b>Agency</b>	<b>Treasury Offset Percent of Eligible Debt to be Referred in 2000</b>	<b>Cross-Servicing Percent of Eligible Debt to be Referred in 2000</b>
<b>USDA</b>	<b>90%</b>	<b>80%</b>
<b>Education</b>	<b>100%*</b>	<b>100%</b>
<b>HHS</b>	<b>50%</b>	<b>57%</b>
<b>HUD</b>	<b>90%</b>	<b>85%</b>
<b>SBA</b>	<b>100%</b>	<b>100%</b>
<b>VA</b>	<b>90%</b>	<b>90%</b>

\*Education revised its TOP referral goal to 65% subsequent to the preparation of Table II.

As of September 30, 2000, USDA, HUD, SBA and the Department of Veterans Affairs (VA) achieved their respective referral goals for TOP. Education referred 79 percent of its eligible delinquent debts for offset, and met a revised goal of 65 percent. While HHS missed its goal as of the end of FY 2000, it referred \$535 million debts to TOP during the first quarter of FY 2001. This subsequent referral by HHS would have been sufficient to meet HHS' FY 2000 goal had those debts been submitted in the previous quarter.

As of September 30, 2000, Education, HUD, SBA and HHS had met their respective referral goals for cross-servicing. USDA had referred 32 percent of its "eligible debt." USDA's "eligible debt" for FY 2000 included Food Stamp overpayments, which subsequently were determined to be exempt from cross-servicing. Treasury and VA agreed to an incremental referral of 30,000 delinquent debts so that Treasury and the PCAs could properly service the debts. Accordingly, while VA had referred only 6 percent of its eligible debt as of September 30, 2000, VA had referred the equivalent of 36 percent of its FY 2000 eligible debt by the end of January 2001.

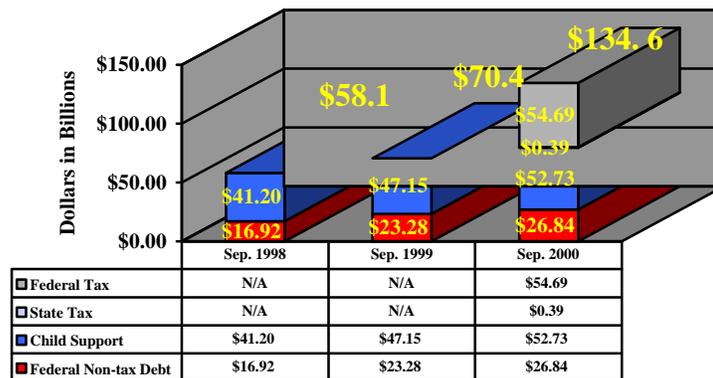
**TREASURY OFFSET PROGRAM**

**The TOP Delinquent Debtor Database**

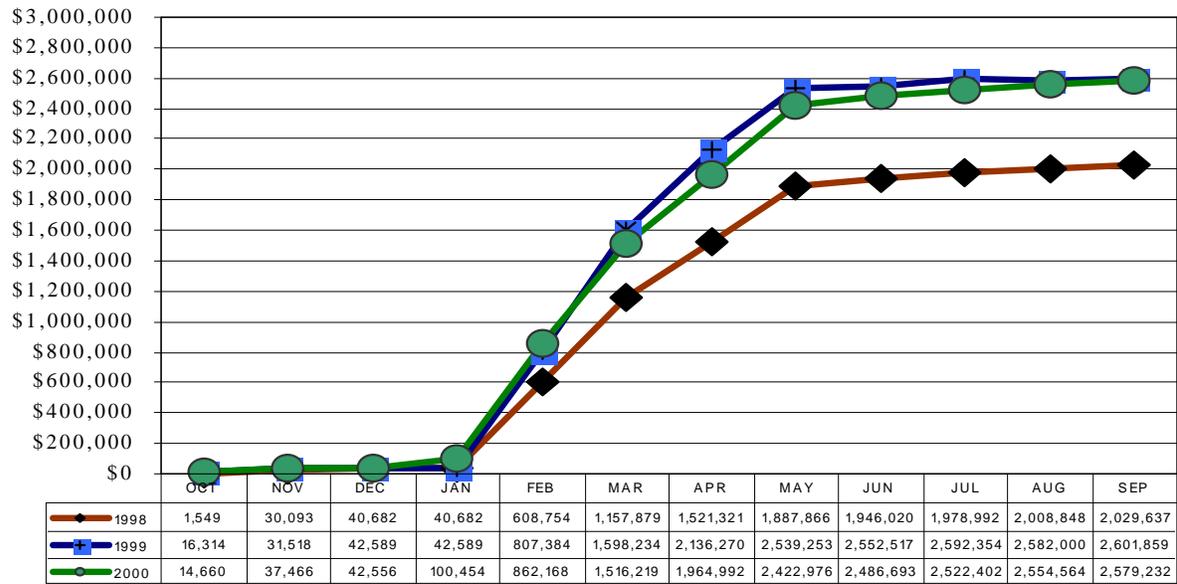
Debts referred to TOP for collection are maintained in the TOP delinquent debtor database. The value of debts in FMS' TOP delinquent debtor database has increased from \$70.4 billion as of September 30, 1999, to more than \$134.6 billion as of September 30, 2000. This dramatic increase is due to:

- Efforts by federal program agencies, states and HHS' Office of Child Support Enforcement (OCSE), and FMS to refer more non-tax debts and delinquent child support obligations to TOP. As a result of these efforts, the amount of non-tax debts contained in FMS' delinquent debtor database increased from \$23.3 billion as of September 30, 1999, to \$26.8 billion as of September 30, 2000, and the amount of child support obligations referred increased from \$47.2 billion as of September 30, 1999, to \$52.7 billion as of September 30, 2000.
- In January 2000, FMS began collecting state income tax debts by offsetting Federal income tax refunds, as mandated by the 1998 Internal Revenue Service Restructuring and Reform Act. As of September 30, 2000, 7 states were participating in the program, contributing \$393 million in delinquent debts to the database and bringing the total debts referred to FMS for tax refund offset to \$80 billion.
- In July 2000, FMS initiated Continuous Tax Levy, a program whereby delinquent Federal income tax debts are collected by levying non-tax payments, as authorized by the 1997 Taxpayer Relief Act. As of September 30, 2000, the delinquent debtor database included \$54.7 billion in Federal income tax debts. The Internal Revenue Service maintains control over which Federal tax debts can be collected through the levy process. These debts are referred to FMS for matching with Federal payments. Once a match is completed, IRS provides certain notices to the debtors. When the notification process is complete, IRS activates the debts for actual levy. Most debts referred to FMS for Continuous Tax Levy have not been activated for levy.

**DEBT REFERRALS TO THE TREASURY OFFSET PROGRAM**



TAX REFUND OFFSETS BY FISCAL YEAR



CUMULATIVE OFFSETS IN THOUSANDS OF DOLLARS

Tax refund offset has three components: Federal non-tax debts, child support obligations and state income tax debts (as of January 2000). Total tax refund offset collections for FY 2000 were \$2.58 billion. Collections in FY 2000 maintained a high level similar to that achieved in FY 1999 (\$2.60 billion). By comparison, total tax refund offset collections in FY 1998 were \$2.03 billion.

FMS attributes the dramatic increase in tax refund offset collections in the last two Fiscal Years to a number of factors, including: 1) system enhancements FMS made that allow offset matching on both social security numbers on joint tax returns; 2) an increase in debt referrals for tax refund offset to \$80 billion in 2000 from \$58.1 billion in FY 1998; 3) system flexibility that allows creditor agencies to add and update debt records on a continuous basis; and 4) an increase in the average amount and number of tax refund payments due in part to new tax credits such as amendments to the earned income tax credit.

**Federal Non-Tax Debt Collections**

As of January 1999, delinquent Federal non-tax debts are being collected through offset of tax refunds and other Federal payments under the merged TOP. In FY 2000, Federal non-tax debt collections through offset of tax refunds totaled \$1.18 billion, slightly less than the \$1.26 billion collected in FY 1999, but substantially more than the \$864 million collected in FY 1998.

Federal non-tax payment offset collections for FY 2000 were \$17.3 million, an increase of \$11.4 million from FY 1999 collections of \$5.9 million. For FY 2000, the payment types that are part of administrative offset are OPM retirement, vendor, and some Federal salary payments. Total collections through offset of non-tax payments since TOP began are \$27.5 million. As of September 30, 2000, agencies have referred \$26.8 billion to TOP, representing an increase of \$3.55 billion over the previous year.

### **Child Support Collections**

States are required to participate in Treasury's Federal tax refund offset program in order to receive Federal funding under Title IV-D of the Social Security Act. In FY 2000, child support collections from tax refund offsets totaled \$1.39 billion, an increase of more than \$45 million over FY 1999. As of September 30, 2000, all of the states, two territories and the District of Columbia have referred \$52.76 billion to TOP for offset of tax refund payments.

Executive Order 13019 directs Treasury to assist the states in collecting delinquent child support debts through offset on non-tax payments as authorized by the DCIA. Committed to improving the collection of delinquent child support obligations, Treasury participates in an interagency task force on child support collection with officials from OCSE, HHS and DOJ. State referrals for collection through offset of non-tax payments is strictly voluntary. The challenge in the year 2001, is to increase the number of states that fully participate in offset of non-tax payments.

As of September 30, 2000, 42 entities (states, territories, and possessions) referred debts totaling \$19.8 billion for offset of non-tax payments, an increase of 12 entities from the previous year. Child support collections for FY 2000 totaled \$1.7 million, a 70 percent increase over FY 1999 collections. Child support collections through offset of non-tax payments have totaled \$3.4 million since the program's inception in May 1997. Treasury is working with states that are not participating in non-tax payment offsets, which collectively account for \$13.5 billion in child support debt, to encourage them to take advantage of this collection tool.

### **State Tax Debt and Tax Levy Collections**

Collections of state income tax debt by offsetting Federal tax refunds began in January 2000, and totaled \$23.1 million through September 30, 2000. Collections under Continuous Tax Levy by levying OPM retirement payments and Federal vendor payments began in July 2000, and totaled \$98,300 through September 30, 2000.

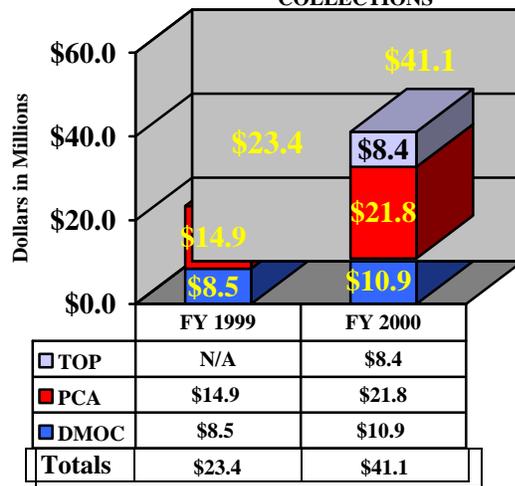
**CROSS-SERVICING**

**The Cross-Servicing Program**

Cross-servicing is the process whereby agencies refer Federal non-tax debts more than 180 days delinquent to FMS for collection. Debts more than 180 days delinquent are referred to FMS' Debt Management Operations Center (DMOC) for cross-servicing. Within five days of receiving the debt, the DMOC sends an initial demand letter on Treasury letterhead. If the debtor does not respond, 20 days after the initial demand letter is sent the debt is referred to TOP. The DMOC works the debt for 30 days. If the debtor fails to respond to DMOC efforts, the debt is then referred to one of the 11 PCAs.

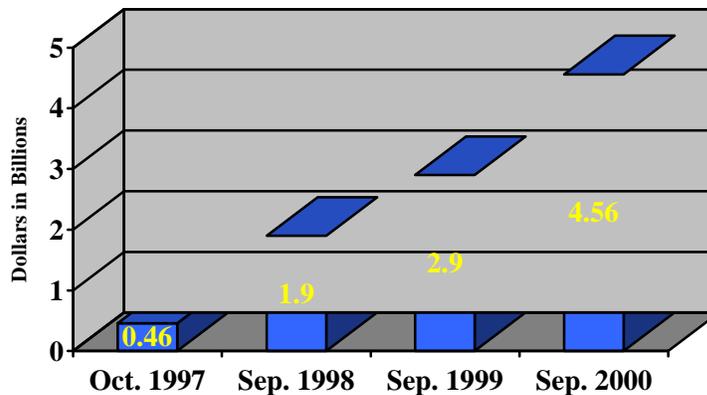
Since the 1997 establishment of the PCA contractual arrangement, FMS and the PCAs have brought in \$74.9 million in collections. In FY 2000, FMS and its 11 PCAs collected a total of \$41.1 million, an increase of \$17.7 million over FY 1999 collections. DMOC cross-servicing collections for FY 2000 totaled \$10.9 million. DMOC cumulative collections through September 30, 2000, are \$29.5 million.

**CROSS SERVICING & PRIVATE COLLECTION AGENCY (PCA) COLLECTIONS**



Referrals to FMS through September 30, 2000, totaled over \$4.56 billion, an increase of more than \$1.6 billion from September 30, 1999.

**CROSS-SERVICING REFERRALS**



**Private Collection Agencies**

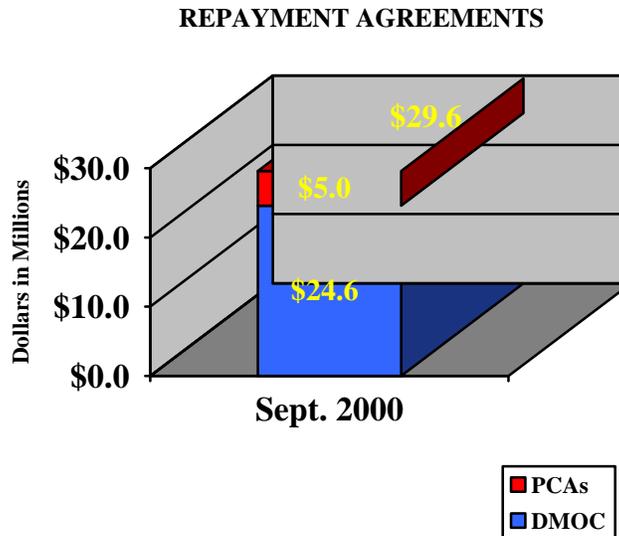
PCAs use a variety of tools in collecting debt that has been referred to them. PCAs have the ability to locate delinquent debtors and utilize collection strategies tailored to agency-specific requirements. To ensure that an appropriate balance is maintained between the vigorous pursuit of collections and the fair and equitable treatment of debtors, FMS monitors each PCA. In addition, FMS conducts on-site reviews to ensure PCA compliance with all applicable State and Federal laws, physical and personnel security guidelines, directives pertaining to resolution of complaints and collection strategies, and system requirements. The Treasury PCA contract has been in place for almost two years and there have been no substantiated debtor complaints and collections have been steadily increasing.

Treasury designated Education a debt collection center to continue to service its own student loan debt because it successfully uses all appropriate debt collection tools in accordance with government-wide regulations. Education relies heavily on PCAs to conduct its debt collection activities. As of September 30, 2000, Education’s PCAs were servicing \$9.1 billion in delinquent student loans. From October 1, 1999, through September 30, 2000, the PCAs collected \$322 million of Education’s defaulted student loan debts and consolidated \$346 million. PCA total recoveries in FY 2000 represent a 35 percent increase over FY 1999 collections.

**PCA Collections at FMS**

PCAs collected \$21.8 million of the \$41.1 million collected in FY 2000, and DMOC collected \$19.3 million. In February 2000, PCA collections exceeded \$2 million in one month for the first time. Collections for each of the months March, June, and August 2000 also exceeded \$2 million.

PCAs also establish repayment agreements. PCAs active repayment agreements totaled \$5 million at the end of FY 2000; when combined with the efforts of the DMOC, this brings total active repayment agreements to \$29.6 million. In addition, PCAs administratively resolved (determined a debtor was bankrupt, disabled or deceased) \$25.8 million in debts in FY 2000, nearly double the \$13.1 million administratively resolved in FY1999.



## ASSET SALES OF NON-TAX DEBT OWED TO THE UNITED STATES

The DCIA authorized agencies to sell any non-tax debts owed to the United States that are more than 90 days delinquent, subject to the Federal Credit Reform Act of 1990. OMB Circular No. A-129 requires agencies to sell any non-tax debts that are delinquent for more than one year for which collection action has been terminated if the Secretary determines that the sale is in the best interest of the United States. Agencies are: required to use competitive procedures to sell the debts; authorized to pay contractor fees for assistance in conducting the sale out of sale proceeds; required to sell the debts for cash or a combination of cash and profit participation if such an arrangement is more advantageous to the government; and required to make the sales without recourse.

In addition to the DCIA authorization to sell delinquent non-tax debts and the requirement to sell delinquent non-tax debts contained in OMB Circular No. A-129, two Federal agencies, SBA and HUD, have established loan asset sales programs to sell performing and nonperforming loans.

SBA has created an ongoing asset sales program with a core group of agency employees assisted by private sector contractors. The private sector contractors include a long-term financial advisor, a transaction specialist and a due diligence contractor for each sale, along with legal services support. To date, SBA has sold over \$1.5 billion in performing and nonperforming loans in two sales with total proceeds totaling \$725 million, with each sale recovering more than the estimated value of holding the loans to maturity. SBA's sale in 2000 returned \$530 million to the Treasury and recovered \$225 million more than the estimated \$305 million value of holding the loans. Over the next several years SBA intends to sell the bulk of its direct loans and defaulted guaranteed loans through this asset sales program.

HUD's Federal Housing Administration (FHA) is taking action to sell HUD's entire inventory of single family and multifamily mortgage notes held by the Secretary of HUD in a series of sales. In FY 2000, FHA auctioned single-family housing loans with an unpaid principal balance totaling \$480 million that generated gross proceeds in excess of \$467 million, or 97 percent of the unpaid principal balance.

## CHILD SUPPORT ENFORCEMENT PROGRAM COLLECTIONS

The Child Support Enforcement Program was established in 1975 under Title IV-D of the Social Security Act. Each state runs a child support program, either in the human services department, department of revenue, or district attorney's office, often with the help of prosecuting attorneys, other law enforcement agencies, and officials of family or domestic relations courts. At the federal level, HHS provides technical assistance and funding to states, operates the Federal Parent Locator Service, which uses computer matching to locate non-custodial parents in order to establish and enforce child support orders, and provides grants to states for access and visitation services. The program provides four major services: locating non-custodial parents, establishing paternity, establishing child support obligations, and enforcing child support orders.

Provisions in the 1996 bipartisan welfare reform legislation strengthened and improved state child support collection activities by establishing a national new hire and wage reporting system, streamlining paternity establishment, creating uniform interstate child support forms, computerizing statewide collections, and authorizing tough new penalties for non-payment, such as driver's license revocation. Following these reforms, national child support collections have increased 50 percent, from \$12 billion in FY 1996 to a record \$18 billion in FY 2000.

## PUBLICATION OF GOVERNMENT-WIDE DEBT COLLECTION REGULATIONS AND POLICIES

*Federal Claims Collection Standards.* The FCCS provide government-wide debt collection procedures and policies for Federal agencies. A final rule revising the then existing FCCS was published in the Federal Register on November 22, 2000, in Volume 65, Page 70389. The revised FCCS, which were promulgated jointly by the DOJ and Treasury, reflect the legislative changes to Federal debt collection procedures enacted under the DCIA. Additionally, the revised FCCS provide Federal agencies with greater latitude to adopt agency-specific regulations that can be tailored to the legal and policy requirements applicable to the various types of Federal debts. This enables agencies to maximize the effectiveness of Federal debt collection procedures.

*OMB Circular No. A-129.* OMB completed its revision of OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," and published it in the Federal Register on November 29, 2000, in Volume 65, Page 71211. The revision changed the write-off policy by generally requiring agencies to write-off delinquent debts older than two years, and either classifying debts as "currently not collectible" (CNC) or closing the debts out. Additionally, the Circular's policies covering delinquent debt were revised to reflect the provisions of the DCIA and the FCCS final rule.

*TIN Policy Directive.* The DCIA requires Federal agencies to collect Taxpayer Identifying Numbers (TINs) from persons doing business with the Federal government and to include TINs on all Federal payment vouchers. The collection of delinquent debts through offset and continuous tax levy requires the placement of TINs on payment vouchers. On November 9, 2000, FMS issued a policy directive regarding agency placement of TINs on payment vouchers submitted to Treasury for disbursement. The policy directive was issued after consideration of reports which agencies submitted to FMS documenting their compliance with the DCIA TIN requirements and identifying barriers to providing TINs. The TIN Policy Directive states that payment certifying officials must include a valid TIN on all payment vouchers certified to Treasury for disbursement, except in specific limited circumstances. The TIN Policy Directive is available on the FMS web site at <http://fims.treas.govtinpolicy/policy.html>.

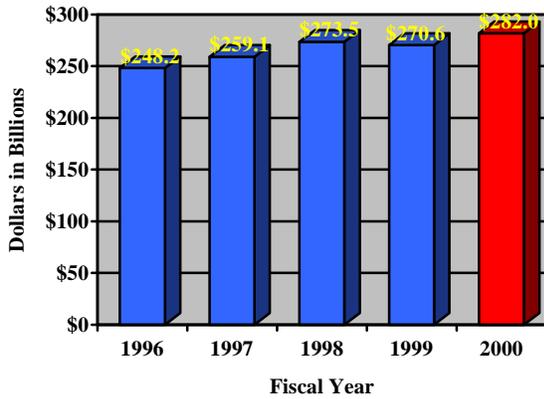
### **FUTURE INITIATIVES**

In FY 2001, HUD and SBA will continue to sell loans under their asset sales programs. Education plans to select PCAs for its new contract from the General Services Administration procurement schedule, and begin using data obtained from HHS' National Directory of New Hires to increase collections and better manage its debt portfolio.

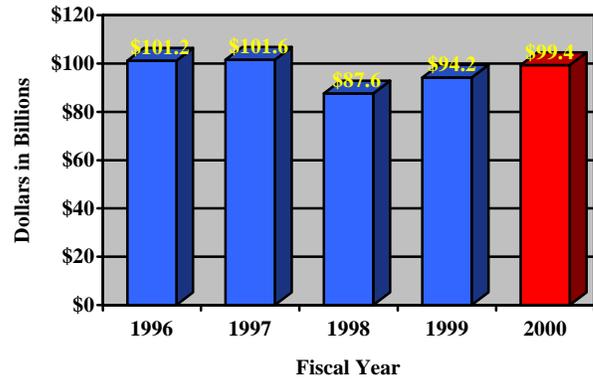
FMS and Federal agencies will work to sustain the momentum that has been achieved in the last several years. The use of IRS continuous tax levy and state income tax debt offset will be expanded to increase its collections under these components of TOP. FMS will continue to add payment streams, such as Federal benefit payments and Federal salary payments, into the TOP process. In addition, FMS will be implementing administrative wage garnishment government-wide, developing a new PCA contract to take effect after the current contract expires on September 30, 2001, and developing an effective and efficient method for Federal agencies to bar delinquent debtors from receiving Federal loans and loan guaranties/insurance.

**APPENDIX I: REPORT ON RECEIVABLES DUE FROM THE PUBLIC: KEY INDICATORS OF RECEIVABLES AND COLLECTIONS**

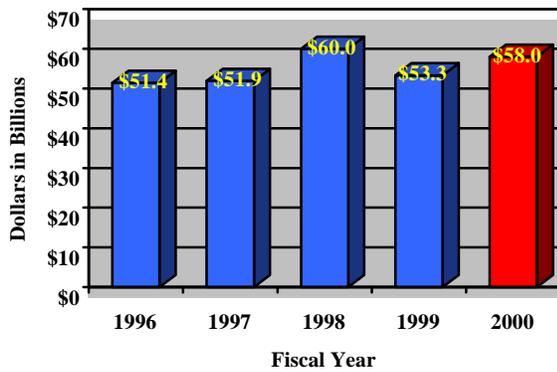
**TOTAL RECEIVABLES**



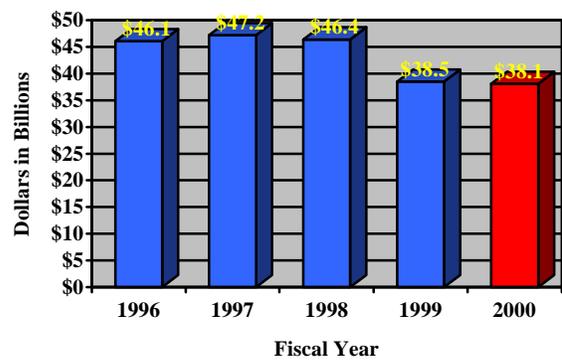
**TOTAL COLLECTION OF RECEIVABLES**



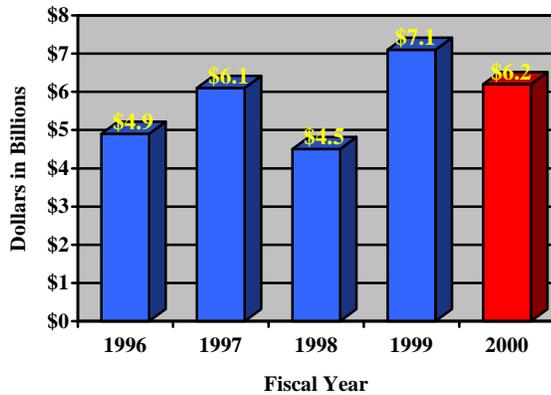
**TOTAL DELINQUENT DEBT**



**TOTAL DELINQUENT DEBT OVER 180 DAYS**



**TOTAL WRITE-OFFS**



**APPENDIX II: FEDERAL RECEIVABLES AND DELINQUENT DEBT**

The tables below present the ending balances, collections, write-offs, delinquencies, and delinquencies greater than 180 days for the credit agencies with the highest ending balances at the end of FYs 1999 and 2000. The tables group all other agencies into a single category. Total receivables owed to the Federal government at the end of FY 2000 were \$282 billion, and were \$271 billion at the end of FY 1999. At the end of FYs 1999 and 2000, more than 91 percent of the receivables belonged to the 12 agencies listed in the tables below. The balance is owed to the remaining 52 agencies (grouped into the “all other” category). Total collections increased to \$99.4 billion in FY 2000, as compared to \$94.2 billion in FY 1999, and \$87.6 billion in FY 1998.

<b>Federal Receivables and Delinquent Debt</b> as of September 30, 1999 (Dollars in Millions)					
<b>Agency</b>	<b>Ending Balance</b>	<b>Collections</b>	<b>Write-offs</b>	<b>Delinquencies</b>	<b>Delinquencies &gt; 180</b>
USDA	\$103,384	\$18,971	\$486	\$6,415	\$5,876
Education	\$57,258	\$7,045	\$696	\$15,317	\$5,389
HUD	\$13,818	\$5,193	\$170	\$2,364	\$2,121
EXIM	\$12,183	\$1,507	\$16	\$2,757	\$2,652
AID	\$11,303	\$1,079	\$1	\$744	\$687
HHS	\$9,769	\$14,270	\$2,995	\$4,763	\$3,193
SBA	\$8,675	\$2,023	\$646	\$1,748	\$1,347
FCC	\$9,072	\$412	\$28	\$8,273	\$8,031
Energy	\$6,756	\$4,144	\$106	\$2,363	\$2,315
SSA	\$6,500	\$2,246	\$808	\$880	\$400
Interior	\$4,779	\$1,096	\$12	\$524	\$468
VA	\$3,297	\$2,180	\$618	\$1,116	\$958
All Other	\$23,756	\$34,083	\$468	\$6,044	\$5078
Gov't Total	\$270,550	\$94,249	\$7,050	\$53,308	\$38,515

<b>Federal Receivables and Delinquent Debt</b> as of September 30, 2000 (Dollars in Millions)						
Agency	Ending Balance	Collections	Write-offs	Delinquencies	Delinquencies > 180 <sup>1</sup>	Currently Not Collectible
USDA	\$104,759	\$19,561	\$2,402	\$6,251	\$5,778	\$115
Education	\$69,958	\$7,285	\$542	\$18,674	\$5,592	\$15,090
HUD	\$12,902	\$7,252	\$346	\$1,285	\$1,123	\$23
EXIM	\$11,838	\$2,110	\$61	\$4,330	\$2,104	\$0
AID	\$10,315	\$994	\$10	\$537	\$465	\$0
HHS	\$10,217	\$15,288	\$670	\$6,121	\$4,852	\$2,562
FCC	\$8,564	\$526	\$0	\$7,707	\$7,289	\$0
SBA	\$7,813	\$2,631	\$424	\$1,763	\$1,522	\$941
SSA	\$7,304	\$2,485	\$851	\$1,105	\$535	\$6,527
Energy	\$6,714	\$4,184	\$83	\$2,218	\$2182	\$0
Interior	\$4,340	\$977	\$42	\$378	\$342	\$17
VA	\$3,836	\$2,705	\$242	\$1,433	\$1,040	\$0
All Other	\$23,483	\$33,394	\$514	\$6224	\$5,307	\$57
Gov't Total	\$282,043	\$99,392	\$6,187	\$58,026	\$38,131	\$25,332

<sup>1</sup> Does not include delinquencies reported as Currently Not Collectible.