

RED TO BLACK: IMPROVING COLLECTION OF DELINQUENT DEBT OWED TO THE GOVERNMENT

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

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RED TO BLACK: IMPROVING COLLECTION OF DELINQUENT DEBT OWED TO THE GOVERN- MENT

FRIDAY, MARCH 11, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:24 a.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Amash, Gosar, Guinta, Towns, and Norton.

Staff present: Ali Ahmad, deputy press secretary; Drew Colliatie, staff assistant; Linda Good, chief clerk; Beverly Britton Fraser, minority counsel; Kevin Corbin, minority staff assistant; and Carla Hultberg, minority chief clerk.

Mr. PLATTS. This hearing of the Subcommittee on Government Organization, Efficiency and Financial Management will come to order.

First, I want to apologize to my colleagues, our witness, and others for the delay in starting. We typically have about an hour and 40, hour and 45 minute commute; today it was about 2 hours 40, 2 hours 45 minutes. Thankfully, I hope all the individuals who were in the accidents that I passed are safe and glad I was not in them, but apologize for keeping you waiting. But we are glad to be here today for this important oversight hearing.

I want to thank our witness for being here today to discuss efforts to collect delinquent debt owed to the Federal Government. While this is certainly a financial management issue, it also is an accountability issue. Part of accountability is making sure that people fulfill their obligations, whether those obligations are to pay a fine, a penalty, or to repay a Federal loan or to pay child support. Each and every day the people at Treasury's Debt Management Service do all they can to demand accountability, while being sensitive to the rights and circumstances of debtors.

This hearing coincides with the release of the Fiscal Year 2010 Annual Debt Report, which provides a detailed look at Treasury's activities. We look forward to discussing that report, as well as some of the proposals in the President's budget.

We are honored here today to have Mr. David Lebryk with us. Commissioner Lebryk is Commissioner of the U.S. Department of

the Treasury's Financial Management Service. As Commissioner, he provides leadership, policy direction, and guidance for financial management programs, including payments, collections, debt collection, and governmentwide accounting and financing reporting.

Commissioner Lebryk, I appreciate your submitting your written testimony here today and I have had the chance to review that, as well as the report. I also appreciate your reference to our joint predecessor for former Chairman Towns and myself in referencing Chairman Horn. It was quite an honor to serve with him when I first came to Congress in 2000, and he was a great leader of this subcommittee, as well as on a number of efforts, as you reference in your statement. As the author of the Debt Collection Improvement Act, Chairman Horn certainly worked tirelessly on this issue that we are going to talk about here today, and certainly honored to follow in his footsteps and continuing his efforts in partnering with three of my colleagues.

Also want to thank you for your service in general. As one who believes in the ideals of public service, appreciate what you give back to our country and our fellow citizens. The ranking member and I look forward to working with you, along with our subcommittee colleagues, and being partners in this important effort of achieving accountability for the American people.

I now recognize the ranking member, Mr. Towns from New York, for the purpose of an opening statement.

[The prepared statement of Hon. Todd Russell Platts follows:]

SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL
MANAGEMENT



OPENING STATEMENT OF TODD RUSSELL PLATTS (R-PA-19)

CHAIRMAN

March 10, 2011

Thank you for being here today to discuss efforts to collect delinquent debt owed to the federal government. While this is certainly a financial management issue, it is also an accountability issue. Part of accountability is making sure that people fulfill their obligations—whether those obligations are to pay a fine or penalty, repay a federal loan or to pay child support. Each and every day, the people of Treasury’s Debt Management Services do all they can to demand accountability while being sensitive to the rights and circumstances of debtors.

This hearing coincides with the release of the FY2010 Annual Debt Report, which provides a detailed look at Treasury’s activities. We look forward to discussing that report as well as some of the proposals in the President’s budget.

We are honored to have Mr. David Lebryk here with us today. Mr. Lebryk is the Commissioner of the U.S. Department of the Treasury’s Financial Management Service (FMS) on June 26, 2009. As Commissioner, he provides leadership, policy direction and guidance for financial management programs, including payments, collections, debt collection, and government-wide accounting and financial reporting.

Mr. Lebryk, I appreciate you submitting your written testimony in advance, and I was glad to see you mention one of my predecessors, the late Steve Horn, who was the one who helped to create your program and led it through its beginning years along with my colleague Carolyn Maloney. As the author of the Debt Collection Improvement Act, Chairman Horn worked tirelessly on its oversight and implementation, and that is a tradition I would like to honor.

I also want to thank you for your service, and I want to make a point of thanking your people for the work they do every day to promote accountability. The Ranking Member and I want to work together to make sure you have the tools you need to do your jobs.

Mr. TOWNS. Thank you very much, Mr. Chairman, and thank you for arranging this hearing.

As this Congress continues to debate the Nation's budget, we are looking to identify sensible cost-cutting measures and ways to increase revenue to the Federal Government. This hearing considers the collection of debt owed to the Government, which is an important revenue stream in these tough economic times. I thank the chairman for holding this hearing.

Collection of Federal Government and State debt is an essential way to help fund Government operations, maintain key programs, and help reduce the Federal deficit. It is also an extremely effective method of collecting delinquent child support obligations to help meet the needs of the children who depend on that support.

In the years since this subcommittee began examining debt collection, there has been great improvement. The Treasury Department has taken the tools that the Congress provided in the Debt Collection Improvement Act of 1996 and has expanded its reach to increase the volume of delinquent debt the Government recoups. From 1996 to the end of fiscal year 2010, Financial Management Service has collected more than \$49.7 billion for Federal and State agencies. This is a commendable result compared to the collection level before 1996.

Treasury continues to improve its offset and cross-servicing programs. FMS has ramped up its efforts in collecting delinquent tax and non-tax debt owed by Federal employees. The doctors and hospitals who receive Medicare payments and Federal contractors are working on identifying other payments that the Government can target for collection. There is more than \$625 billion in outstanding debt to the Government. We are actively collecting \$422 billion of that balance. In fiscal year 2010, we actually recovered \$5.3 billion.

It is clear, Mr. Chairman, that there is much more work that needs to be done, and I am looking forward to the testimony today of our witness and, as a result of this, I hope we can continue to move forward as we have done over the last few years. I thank very much, Mr. Chairman. I yield back the balance of my time. I am anxious and eager to hear from our witness.

Mr. PLATTS. Thank you, Mr. Towns.

We will now proceed to Commissioner Lebryk. Commissioner, as the practice and rule of the House, we swear in every witness, so if I could ask you to stand and raise your right hand.

[Witness sworn.]

Mr. PLATTS. The clerk will note that the witness answered in the affirmative.

We would like you to proceed. We have 7 minutes on the clock, but if you need a little more, as the only witness, we are certainly glad to give you some additional time.

STATEMENT OF DAVID LEBRYK, COMMISSIONER OF FINANCIAL MANAGEMENT SERVICE, U.S. DEPARTMENT OF TREASURY

Mr. LEBRYK. I will try to stay within that timeframe.

Thank you, Chairman Platts, Ranking Member Towns, and distinguished members of the subcommittee, thank you for the opportunity to testify before you today on something which we take very

seriously, and that is the collection of delinquent debt owed to the Federal Government. I ask that my entire statement be read into the record.

Mr. PLATTS. Without objection.

Mr. LEBRYK. Thank you.

Chairman, Congressman Horn was a tremendous champion of the Debt Collection Improvement Act in 1996, so I want to spend a moment and pay our respects to him for the efforts that he did. We had a lot of spirited conversations with Chairman Horn during those early years and we all shared a very common objective, and that was to make sure we were doing the best interest of the American taxpayer. He was quite a champion of this act and the work that we are doing at FMS, and we are very much appreciative of that.

This marks the 15th anniversary of the Debt Collection Improvement Act and a lot has been accomplished in that time. I want to thank you again for holding this hearing to demonstrate Congress's interest in the Federal Government's activities. I also want to commend the leadership of you, Chairman Platts and Mr. Towns, for your interest in our operations. We look forward to that continued partnership and working together to improve the things that we do.

We are proud of the role that we play in providing this essential service to the Federal Government and to the citizens that we serve. We take that responsibility quite seriously and we place a great deal of importance on demonstrating value to the American public in carrying out our responsibilities.

FMS collects delinquent debt on behalf of Federal and State agencies in accordance with the Debt Collection Improvement Act and other applicable laws. We embrace the goals of the DCIA to maximize collections, while minimizing the cost to the Government in that effort. We carry out the statutory responsibilities effectively and efficiently, with seriousness of purpose. Collecting debt is part of our core mission. I think we are one of the few Government agencies that has, if maybe the only agency that has debt collection as part of its core mission.

We are constantly looking for ways to improve our efforts and the centralization of collection of debt owed to the Federal Government, and I will go into a little bit later some of those efforts that we have ongoing right now to do even better than what we have been doing in the past.

The DCIA requires agencies to refer most of their debts to FMS with 180 days of delinquency. We encourage agencies to refer debts to us sooner. We have two major mechanisms with which we collect the debt. One is something called the Treasury Offset Program, which is effectively a means of matching Federal payments against delinquent debt files. So it is a highly automated, highly efficient process; the premise being that we shouldn't be making payments to someone who owes debt to the Federal Government. The attempt is to intercept those payments before they are actually made and, as I mentioned, that is a highly efficient mechanism.

The second mechanism that we use is called cross-servicing, and that is more actively working the debt. We do things like write letters to debtors; we refer debts to private collection agencies; we

refer debts to the Department of Justice for litigation; we use administrative wage garnishment to attach the wages of working debtors; and we report debts to credit bureaus.

While we strive to collect the maximum number of dollars possible, we are also aware of the needs of the debtors to be treated fairly. We are mindful that not every debtor is financially able to repay their debts, and debtors are provided the appropriate due process rights allowed to repay debts over time. We take great care to protect the privacy rights of individuals and have robust measures in place to guard the security and sensitivity of financial and private data.

Also part of our very core mission in our values within our organization is that we treat debtors as we like to be treated ourselves, and that is something that permeates all of our workers and the process of their efforts. We recognize that we have to be serious and tough at times, but we also realize we need to treat people respectfully and as we would like to be treated ourselves.

Since 1996, FMS has collected more than \$47.9 billion on behalf of the Federal and State agencies. We have collected \$5.4 billion in delinquent debt in 2010, including \$2.1 billion of delinquent child support. In fact, that child support is something that, while we are quite pleased to help the Federal agencies and the U.S. Government, it does give us some sense of strong purpose of what we do is important and adds value to the American families and children.

We are also on track this year to increase our collections over last year. At this point, we are approximately 8 percent ahead of where we were last year at this time with respect to our collections. We expect to continue growth in the coming years and we have a 7-point strategy plan in order to increase those collections, which I would like to get into a little bit later, and we expect a strong period of sustained growth. We also have a couple legislative proposals in place which, in totality, will bring an additional \$5 billion in collections to the Federal Government over the course of the next 10 years.

One key area of delinquent debt I know oftentimes of interest is Federal debt owed by Federal employees. Since the passage of the Debt Collection Improvement Act, FMS has collected \$340 million from Federal employees, including \$277 million in delinquent tax debt. In 2010, FMS collected \$85 million from delinquent Federal employees, an increase of 6½ percent from 2009.

The second area which has received a fair amount of attention recently is Medicare payments. FMS intercepts Medicare payments to doctors, hospitals, and other providers who owe delinquent tax and non-tax debts. Since 2008, FMS has collected \$136 million from payments to Medicare providers who owe delinquent debts, including \$107 million in tax debts.

A third area that we have been increasing our efforts is debts owed to States. We have the ability to help States who I think are very much in need right now of revenues, so we use the Treasury Offset Program as a way to collect funds on behalf of States. Most recently, Kentucky just joined the program, and in the first week of the program they collected close to \$2 million. In the first month they collected \$4.7 million through the State reciprocal program.

We also, most recently, based on legislation passed by Congress, are working to collect State unemployment compensation debts where there has either been overpayments or fraud in the unemployment program. New York was one of the first programs to sign on to the program recently, and in the first 2 days of the program collected \$2.8 million. Wisconsin, the second State to sign on, collected \$640,000 in its first day. So we see a lot of opportunity to help States and assist States in fulfilling and getting repayment for either overpayments or fraud in various programs that are out there.

I mentioned the seven-point strategy that we have at FMS to increase collections over the course of the coming years. Those strategies I think include increasing our call center capability. Last year we handled 4.3 million calls from debtors trying to resolve debts. We are implementing state-of-the-art collection tools, we are increasing the effectiveness and efficiency of our debt collection processes, and we are also reaching out and establishing an agency council with which we can work with our sister agencies to improve and look at best practices and sharing of more information to improve governmentwide collections.

With that, I see I have just hit exactly 7 minutes, so I will end where I started, to once again thank you for allowing me to testify in front of you. I want to emphasize again that we are very proud of the role that we play in providing essential services to the people and to the Federal Government, and we place great importance on demonstrating value to the American people and fulfilling these responsibilities, and we very much look forward to working with this committee to fulfill those responsibilities. Thank you.

[The prepared statement of Mr. Lebryk follows:]

**U.S. Department of the Treasury
Financial Management Service**

**Testimony of Commissioner David A. Lebryk
before the House Oversight and Government Reform Subcommittee on
Government Organization, Efficiency and Financial Management**

March 11, 2011

Red to Black: Improving Collection of Delinquent Debt Owed to the Government

Chairman Platts, Ranking Member Towns and distinguished members of the Subcommittee, thank you for providing me with the opportunity to testify before you today regarding the implementation of the Debt Collection Improvement Act of 1996 (DCIA) and other Federal debt collection laws. I am pleased to have this opportunity to report on the success of the Department of the Treasury, Financial Management Service's (FMS) debt collection program, our recent accomplishments, and ongoing plans to increase the collection of delinquent debt owed to Federal and State agencies.

Before I continue with my testimony, I would like to express my great sadness at the news regarding the recent death of former Representative Steve Horn. Mr. Horn, along with Representative Carolyn Maloney, was instrumental in initiating and drafting the DCIA and guiding its passage into law. After its enactment, he served as a partner to Treasury in our efforts to provide essential services and good government to the American people. We owe a great deal to him for the success of our debt collection program.

Next month marks the 15th anniversary of Congress's enactment of the DCIA, which fundamentally changed the way the Federal Government collects its delinquent debts. The idea – a new one in 1996 – is that by centralizing the Government's administrative debt collection functions at the Treasury Department, Federal agencies could maximize collections while minimizing the costs of managing duplicative debt collection programs.

At FMS, we embrace the goals laid out in the DCIA. Since 1996, through the end of Fiscal Year (FY) 2010, we have collected more than \$47.9 billion of delinquent debt on behalf of Federal and State agencies. Of that amount, \$23 billion represents collection of past due child support obligations. We collected our debts in a highly efficient manner, collecting \$52.42 for every one dollar we spent on debt collection activities in FY 2010.

Over the last 15 years, FMS and Federal Program Agencies have built a strong foundation for maximizing the collection of debts through FMS's Treasury Offset Program (TOP) and the inter-agency debt collection program, known as "Cross-Servicing." For the next few years, FMS will focus on expanding and building upon that successful foundation. By the end of calendar year 2011, FMS will have in place a robust, expanded infrastructure, which will allow us to collect more debt and have the flexibility needed to implement new initiatives. In 2012, we expect to begin a period of sustained growth, ultimately reaching our 2015 goal of significantly increasing collections.

FMS is proud of our role in providing essential services to the Federal Government and the citizens it serves. Our collection of delinquent debt helps fund government operations, maintain key programs and reduce the Federal deficit. We are also proud of the work we do in collecting delinquent child support. Nearly half of what we collect is for overdue child support, which is repaid to the States or provided to meet the needs of America's families and children. At the same time, we realize that more can be done to increase all of our collections. As our debt collection program continues to grow, we are constantly seeking to improve our operations by incorporating new ideas and technologies to increase collections in a cost-effective manner.

Before I go further, I want to emphasize that while we strive to collect the maximum amount of dollars possible, we are well aware of the need for debtors to be treated fairly. We ensure that debtors are provided with due process, including proper notices and dispute opportunities, as well as the chance to repay debts over time. For debts unlikely to be collected due to bankruptcy, death, financial hardship, or other reasons, FMS works with agencies to reflect the true value of debts owed on the books and records of the United States, by writing off those debts. It is also important to note that we take great care to protect the privacy rights of individuals and guard the security of the sensitive and confidential data with which we are entrusted.

Collections and Growth

FMS collects delinquent debts through two major programs, pursuant to the DCIA and other governing laws. The first program, the Treasury Offset Program, or "TOP," compares the names and taxpayer identifying numbers (TINs) of debtors to the names and TINs of Federal payment recipients. If there is a match, the Federal payment is reduced or intercepted to satisfy the overdue debt. The simple premise of TOP is that we should not be paying money to those who have failed to meet their obligations to the United States without first applying that money to the delinquent obligation. Through TOP, FMS intercepts Federal tax refunds, benefit, vendor, salary, retirement, and other payments to collect delinquent Federal tax and non-tax debts, as well as certain debts owed to states, including child support obligations.

Under our second program, known as "Cross-Servicing," Federal agencies refer delinquent, non-tax debts to FMS for collection services. FMS takes a number of actions to collect referred debts. We contact debtors by letter and phone; negotiate repayment agreements; refer debts to TOP for offset, private collection agencies (PCAs) for additional collection action, and the Department of Justice for litigation; issue administrative wage garnishment orders to attach the wages of working debtors; and, report debts to credit bureaus.

The DCIA requires agencies to refer most of their debts to FMS's TOP and Cross Servicing programs within 180 days of delinquency. However, FMS encourages Federal agencies to refer debts soon after they become delinquent.

Through TOP and Cross-Servicing, FMS collected \$5.45 billion of delinquent debt in FY 2010, a 7.3% increase over FY 2009, and a 67% increase over FY 2005.

In FY 2010, FMS collected:

- \$2.3 billion of delinquent Federal non-tax debt owed to Federal agencies;
- \$618 million of delinquent Federal tax debt owed to the Internal Revenue Service;
- \$2.1 billion of delinquent child support owed to states and custodial parents; and
- \$435 million of other types of delinquent debts owed to states.

We are on track to increase our collections in FY 2011. Through January 31, 2011, collections are 7.84% higher than for the same period in FY 2010. We expect continued growth in collecting delinquent debt as we improve upon and expand our already successful program.

It is important to note that we cannot be successful without the full support of the Federal Program Agencies that participate in our programs. Agencies are required to establish debts, provide due process to debtors, track and report on their debt portfolios, and refer valid and legally enforceable debts to FMS for collection. We look forward to continue working with our partner agencies, the Office of Management and Budget (OMB), and this subcommittee to explore ways to effectively and efficiently expand our programs to increase our collections.

Recent Accomplishments

FMS continually looks for ways to improve and expand its debt collection operations and increase operational efficiencies. I'd like to take this opportunity to briefly review some of our recent accomplishments in improving our debt collection operations in several key areas.

Federal employees: Under our standards of ethical conduct, Federal employees are required to pay their just financial obligations, especially those such as Federal, State, and local taxes that are imposed by law. Since the inception of our program, FMS has collected nearly \$340 million from Federal employees by intercepting Federal salary payments. Of this amount, \$277 million was for unpaid taxes. In FY 2010, FMS collected \$85.4 million from delinquent employees, an increase of 6.49% from FY 2009. We continue to look for ways to expand the use of the Federal salary offset program by the few Federal Program Agencies not participating and to assist them in removing hurdles to participation.

Medicare providers: For those who provide medical services to Medicare beneficiaries, FMS levies and offsets eligible Medicare payments to doctors, hospitals, and other providers who owe delinquent tax and non-tax debts. FMS, in coordination with the Department of Health and Human Services, Centers for Medicare and Medicaid Services, has collected \$130.6 million from Medicare providers since 2008, \$106.8 million of which was to pay overdue tax debts. In FY 2010, FMS collected \$64.7 million in delinquent non-tax and Federal tax debt from payments made to Medicare providers.

Federal contractors: Federal contracting officers are required to check the General Services Administration Central Contractor Registry (CCR) to determine whether a contractor owes a delinquent debt. When the Government contracts for goods or services and pays with a credit card, those payments are made to the card-issuing bank and cannot legally be intercepted for delinquent debts owed by the contractor. In November 2009, FMS and GSA implemented a process to ensure that contractors who owe delinquent debts to the United States are not paid with a credit card. Instead, those contractors must be paid through a mechanism that can be offset or levied to collect the contractor's debts.

Delinquent Federal taxes: Within TOP, the Federal Payment Levy Program (FPLP) requires FMS to collect tax debts from payments made to payees who owe delinquent taxes. Since inception of the FPLP in 2000, Treasury has collected \$2.6 billion and, in FY 2010, we collected \$618.3 million. FMS and IRS work closely to continuously improve the administration of the tax levy program, resulting in increased collections of delinquent Federal taxes.

Administrative Wage Garnishment: The DCIA authorizes Federal agencies to garnish up to 15% of a debtor's wages without obtaining a court order, a process known as "Administrative Wage Garnishment," or AWG. FMS uses this essential collection mechanism in its Cross-Servicing program to attach the pay of individuals who owe delinquent, non-tax debts to participating Federal agencies. As of February 2011, FMS is authorized to use this remedy for 25 Federal agencies that have issued the required regulations and met other pre-requisites. AWG collections continue to increase, with a 111% increase in AWG collections in FY 2010 over FY 2009. FMS continues to work with non-participating agencies to encourage participation in the program.

Collecting debts owed to States: Under TOP, FMS collects various types of delinquent debts on behalf of State agencies, including child support and State income tax obligations. We also encourage States to participate in TOP's State Reciprocal Program (SRP), whereby States offset State payments to collect non-tax debts owed to the United States and submit their debts to FMS for offset against Federal payments. In January 2011, the State of Kentucky joined Maryland, New Jersey, and New York in this program. In its first month in the SRP program, the State of Kentucky received \$4.7 million from the offset of payments to Federal contractors. We estimate that the State of Pennsylvania, which may soon consider State legislation to authorize its participation in the program, could potentially receive more than \$26 million during its first year. Several other States are in the process of drafting the required legislation to participate in the SRP.

Recent Federal legislation authorizes FMS to offset Federal tax refund payments to collect State unemployment compensation debts arising from an individual's failure to report earnings or an employer's failure to pay contributions to the fund. The new law makes these debts eligible for collection by offset regardless of where the debtor currently resides or how long the debt has been outstanding. Prior to this legislation, only debts arising out of fraud were eligible for tax refund offset.

FMS, in collaboration with the Department of Labor, is working with State governments to increase their participation in TOP for the collection of unemployment compensation debts. Our first adopters -- New York and Wisconsin -- have experienced the great promise of the program. In its first two days of participation, New York received collections of \$2.8 million. In one day, the State of Wisconsin received \$640,000.

At a time when States are looking to increase revenues, Treasury can deliver long overdue funds by helping to collect money owed to the States. Thus, we would encourage them to join us in this program.

FY 2012 and Beyond: Building on a Strong Foundation

FMS is employing a multi-faceted strategy to increase collections in FY 2012 and beyond. We are seeking legislative changes and implementing initiatives contained in the President's FY 2012 Budget, making operational and process improvements, and increasing collaboration with our Federal and State partners.

President's FY 2012 Budget

The President's FY 2012 Budget contains legislative proposals and highlights administrative reforms that are expected to increase collection of delinquent debts by more than \$5 billion over 10 years.

Legislative proposals: Through the Federal Payment Levy Program in TOP, IRS is authorized to levy up to 15% of many payments to a Federal contractor or Medicare provider to recover delinquent tax debt. The 2012 Budget includes a legislative proposal to increase the levy percentage to 100% for all Federal contractors and Medicare providers. This change will allow taxpayers to be repaid in full before payments are made to those Government contractors and Medicare providers with past-due tax debt. We expect these changes to increase collections by \$719 million over 10 years from contractors and \$748 million from Medicare providers over the same time period.

The 2012 Budget also includes a legislative proposal that would allow States to use TOP to collect delinquent State income tax debts from individuals who do not reside in their State. Currently, Treasury may offset tax refunds for delinquent State income taxes only if the delinquent taxpayer resides in the State collecting the tax. We project this change will increase collections by \$1.2 billion over 10 years.

Management Reforms: As noted in the 2012 Budget, in addition to the proposed legislative changes, FMS will work with other Federal agencies to review and implement a number of management and administrative reforms that will increase collection of delinquent debt by an estimated \$2.9 billion dollars over 10 years.

Improve Offset Match Process: In TOP, we will be making changes to our systems and procedures to improve the accuracy of the process by which we match the name and TIN information on outgoing payments with the name and TIN information associated with debts in our database. This will ensure that a debtor name change by marriage, for example, would not result in a "no match" in our offset process.

Improve management of the debt portfolio. FMS is implementing additional operational efficiencies, technologies and strategies to improve the management of the debt portfolio, which will increase our collection of delinquent debt. These initiatives, which are scheduled to be completed by December 31, 2011, will provide the infrastructure to support future initiatives.

- **Work larger more collectible debts longer:** In our Cross-Servicing program, we will be improving our collection methods to better identify the collectible debts, work with agencies to improve the documentation associated with debts, and actively pursue the more collectible debts in-house for 60-120 days longer than we do now before referring them to a private collection agency, particularly larger debts that are relatively new.
- **Increasing call center and collection capacity:** We are improving and enhancing our inbound customer service and outbound collection capabilities. In FY 2010, our TOP Call Center toll-free number received 4,345,310 calls, 88,948 more calls than FY 2009. Partly in response to this higher call volume, we will repurpose our Austin Financial Center into a Debt Collection Center to increase our debt collection capacity. FMS is also reinforcing and expanding its phone architecture to meet the increasing need to accept and make telephone calls related to our increased delinquent debt portfolio.
- **Implementing state-of-the-art debt collection tools:** By using state-of-the-art collection tools, we can more strategically allocate our resources to focus on debts with higher collectability potential. In addition, by enhancing our skip tracing capabilities, we will be able to more quickly and more often locate and contact debtors who may not have kept the Federal government up-to-date on their whereabouts.
- **Increasing the effectiveness and efficiency of collection processes:** FMS continues to make operational improvements necessary to service collectible debts for longer periods at Treasury before referral to a private collection agency. We are also working with creditor agencies to increase the quality and availability of debt documentation used to support our collection efforts. FMS uses business process mapping and rigorous analysis to continuously improve the quality and delivery of our services. We are making system and process improvements to ensure that we do not miss an opportunity to intercept a payment because of inaccurate or incomplete information associated with a payment or a debt.
- **Increasing collaboration with our partners:** FMS recognizes that our work is heavily intertwined with our partner agencies. We rely on agencies to comply with the DCIA by referring delinquent debt to us on a timely and reliable basis. The agencies depend on us to share information, requirements, and strategies, and to understand their challenges. We are committed to being proactive in our efforts to maintain strong ties with creditor agencies and developing strong relationships. To this end, we are revitalizing our agency liaison efforts to increase outreach to Federal agencies and states and to implement new relationship management tools and debt management services. As part of this

effort, in 2010, the FMS Deputy Commissioner and I met with the Chief Financial Officers (CFOs) of many of the key CFO agencies regarding our modernization initiatives, including our debt collection initiatives. In addition, in December 2010, we convened a new inter-agency council, known as the "Agency Advisory Council," to help us recognize and account for agency needs as we implement our initiatives.

We are involving our Federal agency partners in the early stages of our deliberations on future improvements. We are developing a systematic process to assess agency compliance with DCIA requirements and address compliance issues. We are working to provide targeted consultative and training services to assist agencies in resolving any barriers. We also are providing agencies Administrative Wage Garnishment hearing services for cases in which debtors appeal garnishment orders.

FMS is reaching out to States to increase participation in the State Reciprocal Program (SRP). FMS is marketing the SRP through conference calls, Webinars, and meetings with the States. FMS has presented information about the SRP at the annual Federation of Tax Administrators' conferences in 2010 and 2011 and will be presenting at the National Association of State Auditors, Comptrollers and Treasurers Conference this month.

Expand Administrative Wage Garnishment. Finally, we are working with Federal agencies to expand the use of Administrative Wage Garnishment (AWG). We promote AWG to agencies through meetings, conference calls, training sessions and conferences, and on a pilot basis, we are conducting hearings to help reduce the workload of participating agencies.

Conclusion

Since the implementation of the DCIA 15 years ago, FMS and our agency partners have made great strides in increasing collections of delinquent debt. However, we know there is much more we can do. Increasing the collections of delinquent debt remains a high priority for Treasury. Agencies also have responsibilities in the collection of debts owed to the government, but we recognize the competing priorities many of our agency partners face. Our experience over the past 15 years has shown that centralized debt collection efforts, led by Treasury, can provide the U.S. Government with a highly efficient and effective means for the collection of delinquent debts.

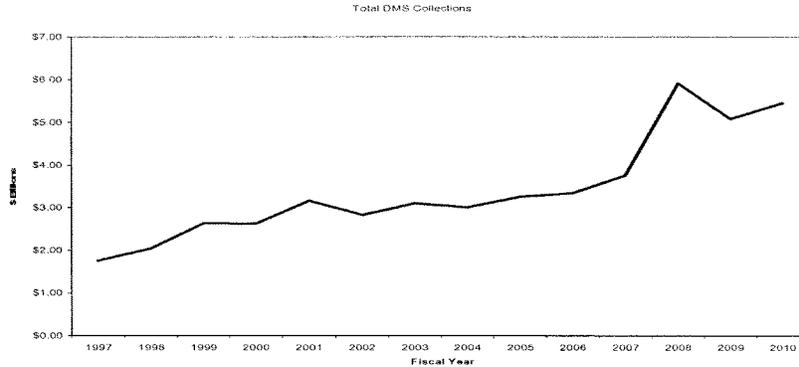
At FMS, we are committed to increasing collections in as cost-effective a manner as possible, and making sure that all debtors are treated fairly. We know that providing efficient and effective centralized debt collection services is a necessity. We are ready to meet the Federal Government's need for a solid debt collection program by implementing programs and strategies to help us collaboratively achieve our goal. We appreciate your support and look forward to working with this Subcommittee, as well as both Houses of Congress, to support our mutual goal of increasing the collection of delinquent debt owed to Federal and State governments.

Thank you for the opportunity to testify. I'd be happy to answer any questions you might have at this time.

FMS Delinquent Debt Collections Since 1997

FY97: \$1.8 billion

FY10: \$5.4+ billion



- Total collections since 1997: \$47.9 billion
- Approximately 48% of the \$47.9 billion represents delinquent child support

Mr. PLATTS. Thank you, Commissioner. Appreciate your testimony, as well as, again, your written information you provided. I will start with a couple questions myself.

In fact, rather than starting myself, because of being the one that was last in the room, I am going to go to my ranking member first, and then to my colleagues, who have been very patient, and I am going to go last, actually. So, Mr. Towns, if you are ready, I will yield to you for purpose of questions.

Mr. TOWNS. Thank you very much, Mr. Chairman, but you don't have to punish yourself for being last.

Why is it that the Government, after 2 years, delinquent debt, you stopped pursuing it? In the private sector, it is seven or nine. I think it is 7 years. So why would they be able to pursue it much longer than the Government?

Mr. LEBRYK. Well, in many cases the Government, for example, on student loan debt, it does not ever get extinguished, so the capability exists for the Federal Government to continue to pursue that debt really through the life of a debtor and, as a result, we often talk about if we are not able to collect that debt during the working years, as one reaches Social Security, we have the ability to offset Social Security payments up to a certain level to continue to collect on those debts. So those debts stay on the books for a long time.

There are some debts that are actually—and there is maybe some distinction here. The Federal Government will write a debt off, and that is really an accounting entity; it basically, in accounting purposes, you are required as an entity to say what is the fair value of an asset or a liability on your books. It doesn't mean that we stop collecting the debt. OK?

So there is a distinction there which is you can write something off and show on your books that it has a value of, let's say, 10 cents on the dollar. On the other hand, we, as the Federal Government, will continue to collect on that debt and hopefully collect 100 cents on the dollar, unless it has been written off entirely as not collectible.

So a fairly small percentage of the number. So if you look at the numbers, I think it is roughly \$25 billion has been written off, but only about \$4½ billion has been considered not collectible and truly extinguished as no longer being pursued for debt collection purposes; and that is usually something that someone has been in bankruptcy and the entity no longer exists and therefore is not being collected against.

Mr. TOWNS. Thank you very much. I understand that direct and guaranteed loans account for most of the delinquency: Education Department, the SBA and the USDA. These loans are no doubt necessary because they are often made in private sector where credit is unavailable to maybe inadequate. And the Federal objective needs to be achieved, I understand that, for example, some education loans, small business loans, and support for farmers. But what I don't understand, and maybe you can explain to me, is the type of debt that is owed to Social Security Administration and the Department of Defense. I don't understand why we have loans there.

Mr. LEBRYK. The Social Security debt is really about overpayments, it is about improper payments and overpayment. So what

ends up happening is Social Security will work those improper payments up to a point. When they no longer have a sense that they can collect it up to that point, they will refer it to us and it becomes a delinquent debt. So there are situations where, particularly in the SSI program, which is income-based, there are situations where someone will have some income which will push them out of eligibility but still, nevertheless, the payment has been made. Do SSA will go back and try to retrieve that overpayment and, if they can't, then it ends up in the delinquent debt portfolio.

Mr. TOWNS. What about the Department of Defense?

Mr. LEBRYK. I am less familiar with the delinquencies that are in DOD. Conjecture here. I wonder whether they are contract debts. I am just not sure. Perhaps they could be overpayments in some of the medical programs too. But I can look into that more fully for you.

Mr. TOWNS. Will you do that and get back to us on it?

Mr. LEBRYK. Because I could understand the others, but those two. And now that you explained the Social Security one.

Are there a lot of overpayment situations?

Mr. LEBRYK. I think every day 3,000 people pass away, and as a result of that Social Security has to have systems which look at if you have been making a payment to someone for years on end, they are required to get that information and to stop those you are required to report that information immediately. Sometimes that doesn't happen. And there are various data bases which they try to call to see whether they have actually captured that payment that shouldn't be made, but it is not a perfect process. Also in the case of SSI, where the rules can sometimes be confusing about eligibility and non-eligibility, you can have situations where there are the overpayments.

Mr. TOWNS. Who is sort of responsible for notifying Social Security that the person has expired? What is the process?

Mr. LEBRYK. It is the family that is required to report it immediately to Social Security.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns.

Mr. Guinta.

Mr. GUINTA. Thank you, Mr. Chairman, very much.

And thank you, Commissioner Lebryk, for being here. I have a few specific areas of concern. First of all, could you just let me know what area for FMS provides the most challenge, the greatest challenge in terms of debt collection? Is there any one area that is more difficult than another?

Mr. LEBRYK. The Debt Collection Improvement Act has been enormously successful in getting agencies to participate. In the early years and some of the hearings we had with Chairman Horn at that time was really getting tough on the agencies because they weren't referring debts to us. I think that process has really, we have had a success there in terms of agencies now referring debts to us, for the most part, at the 180 days. We also, in some of the early years, had challenges getting all the payment streams in. So DOD makes payments and the Postal Service makes payments, and we had challenges making sure those payment streams were being offset. That process now I think is working very, very well.

I wouldn't necessarily point in any one particular area except to say that I think that we are not as sophisticated in the Government as we should be with respect to how we are looking at delinquent debt. The private sector is much further along than we are right now in looking at how you work debts in the portfolio.

So when I mentioned the seven strategies earlier about where FMS thinks that we need to go, we need to do a better job of analyzing the debts and which debts are more collectible, which is debt scoring; a better job of making sure, when we have partial information, that we have the capability of cleaning that information up in an automated fashion. I think that there are other practices that the agencies could be doing which we need to be working with them on the pre-180 day about how do you interact with a debtor.

Mr. GUINTA. Right now you don't see until 180 days. What would be the agency process for the mechanism at 60 or 90 days?

Mr. LEBRYK. They would have their own internal processes. To answer your first question, I think that there is a lot of opportunity for agencies to be more scientific and disciplined in what they are doing pre-180, and part of it what I would say, this gets to, I think, the value of the DCIA and centralization, is we think about this everyday. That is our job. We think about debt collection practices and how you are going to manage your debt portfolio.

I don't necessarily think that it is probably as widespread across Government that is their core mission. So I think that there is a lot of opportunity to do a better on that, and that pre-180, for obvious purposes, the sooner you try to collect the debt, the better chances you have of collecting it.

Mr. GUINTA. And then when you write off, does it vary when you are going to write that debt off based on your assessment of the likelihood of collection, or is it just at a date certain you are essentially writing it off?

Mr. LEBRYK. OMB encourages agencies to write off debts at 2 years. As I mentioned, though, there is a distinction there, which is writing off is different than stopping collection activity.

Mr. GUINTA. Right.

Mr. LEBRYK. So, really, those that are really being written in sort of what our sense of the word written off means is a fairly small percentage, and that is usually in the case of either bankruptcy or the entity doesn't exist anymore and you can't really go after anything anymore.

Mr. GUINTA. But that is happening roughly at the 2-year mark for that uncollectible written off debt?

Mr. LEBRYK. I don't know this for certain, but my guess is if you really went back and looked, it is probably happening further out than 2 years, that agencies are continuing to hold these things for a long period of time and really doing everything that they can, and really probably in a much longer period of time are actually making that assessment, unless they know for a fact that the entity no longer exists or the person doesn't exist.

Mr. GUINTA. Do you have data on a 1-year, 2-year, 3-year, 4-year debt and the ratios at which you are collecting and the costs it is for us and for the agency for that collection at those different periods?

Mr. LEBRYK. One of the seven strategies is for us to have better analytical capability in looking at the debts, and we have some rough information about that, but not information that gives me a lot of confidence that I can say that this is the percentage that we are doing at 180 to 360. I think we need to do more work in that area, and that is one of the areas that we are applying more resources within FMS to really help agencies understand that better.

Mr. GUINTA. I think it would be fair to say that if we could improve the collection rate anywhere between the 60 to 360, we would probably have a greater percentage of debt collected and you would have, obviously, a lower write-off.

Mr. LEBRYK. Correct.

Mr. GUINTA. Obviously, you are spending the best or you are maximizing our resources at the earlier period. So anything that can be done to improve that and allow agencies, whether it is educating agencies or whether it is an oversight issue for us, please feel free to convey that so we can give you the tools that you need to improve in those particular areas.

Mr. LEBRYK. Thank you.

Mr. GUINTA. Thank you.

Mr. LEBRYK. We have looked at private sector experience in this area on consumer debt, which is a little bit different than some of the debt that we have, and your assessment is absolutely right that when you are working at debt in that 60, 90 to 180 day period, you have a much higher chance of collectibility than when you are working at debt in the 2-year or the 3-year timeframe. That is something that we have been talking to the agencies about, is whether it is instances where they should be referring to us sooner for that reason.

Mr. GUINTA. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Guinta.

Dr. Gosar.

Mr. GOSAR. Yes, thank you.

I kind of want to go back to what you said to my colleague, Mr. Guinta. The cross-servicing program is used by agencies required to report that delinquent debt to the Treasury for recovery efforts. In fiscal year 2010, Treasury was able to recover roughly about \$123 million out of \$107 billion. Can you tell me why that is so low? I mean, we are talking about a penny on the dollar.

Mr. LEBRYK. I mentioned the two programs that we have. One is the offset, the automated offset. So that full amount that you referenced, 107, is actually being hit against offset, the payment streams, and that is where you are getting a high bulk of that \$5.4 billion that we collected.

For a variety of reasons, we don't use cross-servicing on the full amount, and part of that is there are a number of exemptions that apply that don't allow us to do cross-servicing on all the debts that are referred to us, and that is the active working of those debts. So there are a variety of exemptions that include bankruptcy, forbearance, debt in litigation. There is also an important category where that number of 104 is. There are approximately \$36 billion of it which is being cross-serviced at Education and HHS.

So while the number I am going to tell you is that we are only working at cross-servicing on that portfolio around \$14 billion, it

has gone up a little bit in the last couple of months, now closer to 16, education is working \$36 billion of that through their cross-servicing mechanism that they have on student debt portfolio. They collected, last year, close to \$600 million on that portfolio, so there is another number that is there.

The second thing which I would say is that we only report what we captured in cash. One of the things on our cross-servicing program is administrative wage garnishment. So when you look at administrative wage garnishment and repayment agreements, there is roughly another \$500 million that we have in the pipeline that we are getting bits at a time, whether they be payments that are being done on a monthly basis, along the way from a debtor. So there is some excess there.

And the final reason is the nature of Federal debt is not great debt, and we are oftentimes the last resort of people getting loans that they can't get someplace else. So the collectibility on that portfolio is much lower than it would be if you had a better quality of debt, for example, consumer debt in many ways has a higher collectibility than much of the debt that we have given the nature of our debtors.

Mr. GOSAR. Isn't there a way that we can report that, then? I mean, it seems to me like you want to itemize this. If I am looking at delinquencies, I want to look at, if I have a payment plan, shouldn't I have a number that I am looking at that are end payment in lieu that are up to standard? That gives me another parameter, because if I have payments coming in lieu of, then I don't have to spend as much time into that area; it is just a maintenance type issue.

Mr. LEBRYK. Yes.

Mr. GOSAR. Then I can concentrate my efforts more into the other areas of the problem. And it seems to me like the advantage would be to share all this information start to finish, not at 180 days. Am I right?

Mr. LEBRYK. Sharing the information with respect to?

Mr. GOSAR. All debt.

Mr. LEBRYK. Interagency should be this will real time watching this. It is no different than the private sector is looking at this categorically across a business.

Mr. GOSAR. Yes.

Mr. LEBRYK. Was it coming from this area, this area, this area, and we can concentrate it. Many hands make light work.

Mr. GOSAR. Yes.

Mr. LEBRYK. And that is one of the reasons why, when we go through our seven strategies in terms of analytical tools, this is some area which I think there is a lot of work that can be done within the Federal Government that we are pursuing, and that is looking at that portfolio and saying which debt has a greater likelihood of collectibility than another debt.

Also, I think a very important set of tools that we have in place right now, or we are putting in place right now is we have something called partial matches. If a debt comes in that says John Q. Public that lives on Main Street and the payment file says John S. Public on Main Street, we kick that debt out because we are not 100 percent sure it is the same person.

We now have more automated tools in which we can say John Q. and John S. living at this same address are probably the same person. So we should be doing that offset rather than what we are doing right now is returning that debt to the agency and saying you need to clean it up.

So the centralized value of that is that we FMS can be doing a better job of that in the front end. Last year there were close to 150,000 partial matches. We are estimating that if we were able to clean those partial matches up, that we would have \$100 to \$200 million more in collections simply by doing that.

So this is my point about us being smarter and more analytic and using more modern tools to do the things about segmenting that portfolio and working it in a more disciplined way.

Mr. GOSAR. One more question. I am looking at your chart in regards to delinquent collections, particularly of the \$47.9 billion. You are collecting 48 percent of that as delinquent child support. How much of that has actually been in dialog with law enforcement, support with law enforcement? Because I know in Arizona it is huge, and that is where we are getting a lot of delinquent child support being picked up.

Mr. LEBRYK. Yes. We do the child support program on behalf of the States. So the child support obligations that we are collecting for are State obligations. So with respect to when the State or the locality is working with local law enforcement, it would be done at that level rather than at the Federal level.

Mr. GOSAR. OK. One last question. Do you prioritize each of these debts? You know, in the private sector we look at low-hanging fruit and what is the hardest to get. Do you prioritize? And which one do you find easiest; which do you find the worst?

Mr. LEBRYK. The answer right now, we treat all debts equally, which is not the right answer. What we really need to be doing right now is looking at that portfolio more systematically and strategically and saying what is the low hanging fruit.

Mr. GOSAR. Can we have a proposal to you as to how we prioritize that? I would love to see that.

Mr. LEBRYK. It is, and it comes down to the tools that we are putting in place right now, and one of the tools is actually looking at the portfolio and doing debt scoring and saying, OK, based on these characteristics, you have a much greater likelihood of collecting this kind of debt than you would another kind of debt, and your efforts would be more useful spent here than it would be like we are doing right now, which is everything is the same. So we chase a lot of dead ends right now.

Mr. GOSAR. And when you are doing that, can we also see the percentage what our costs are? As a consumer and advocating for the consumer, we would like to see what the costs are to recover.

Mr. LEBRYK. Yes.

Mr. GOSAR. Because sometimes you are spending a lot more than you are actually getting in return, and we have to be more fiscally responsible.

Thank you.

Mr. LEBRYK. The one thing I would say on that last point is we are very proud of this statistic, which is for every dollar that we spend on debt collection, we return \$53 in collections. That is the

efficiency element that we are very proud of, which is a pretty good return.

Mr. GOSAR. But you can get better, right?

Mr. LEBRYK. We can get better, and that is exactly what I was going to, we can do better than that.

Mr. PLATTS. Thank you, Dr. Gosar. You earned the extra time by your patience and my late arrival.

I will yield to myself now.

Commissioner, again, appreciate your work and your staff and the serious approach that you are taking. I guess an initial question I have is when you look at your numbers and you shared in your testimony where you jumped 7.3 percent from 2009 and 67 percent over the years back to 2005, if you had to point to most significant change or actions that resulted in that 67 percent jump, what would you reference?

Mr. LEBRYK. Everyone is playing together now, in a way that they were not playing before.

Mr. PLATTS. Meaning departments and agencies? Internally within your department or across the spectrum of the Federal Government?

Mr. LEBRYK. I think maybe it is everyone is hitting stride now. I would just say that we now are getting the payment streams in that should be in; we are getting the debt referrals that we should be getting in. I think that plays a significant role. I also think that the amount of delinquent debt has grown too, so there is an element there of there is more volume to go against.

But I also think it really speaks to this is why I think we are really at a stage to go to another level now. I think that we have a very strong infrastructure in place to do what we need to do, and now we need to be smarter than what we are doing.

Mr. PLATTS. And that goes to Dr. Gosar going from \$52 to \$60, \$70. Sky is the limit, right?

We appreciate that you reference a number of specific legislative proposals, both pretty straight forward, both on the 100 percent collection, you know, on basically vendor payments, Federal contractors, Medicare providers, and then also to assist with State collection being able to collect even if the person is now residing outside the State they owe.

I guess the first question on those proposals is those aren't new. I know they were in the 2011 budget proposal as well. And I know our committee staff started working with your office on legislative efforts along the route of these proposals. What would you say would be the biggest opposition to those proposals, and what have you heard, if anything, for those who don't support either of those?

Mr. LEBRYK. The legislative process is never easy, and one of the things that we have learned over the years is that we have frequently submitted legislative proposals in multiple years, and they ultimately get done, but they tend to get done over time. So I really would be surprised if there would be a lot of opposition to either of those two, except from those who are delinquent on their Medicare or contractor obligations, because they do make a lot of sense.

Mr. PLATTS. And I agree and, again, we look forward to working with you and your office on trying to speed up that legislative process a little bit. In the 2011 budget proposal, there were some addi-

tional legislative proposals, and I don't believe they were accomplished yet, at least not all. Do you want to highlight any of those additional proposals that we should have on our radar in addition to the ones specifically in the 2012 proposal?

Mr. LEBRYK. One of the things is dealing with incentives. I think, for the most part right now, when a debt is delinquent and we collect on it, the fee that is attached to that, whether it be from the private collection agency or the fee that we charge, is added on to the debt. There is an negative incentive for Medicare debt in which that fee is not legally eligible to be taken added on to the debt and, therefore, it either has to be absorbed by the trust fund or by the appropriated moneys from the agency. That is a real negative incentive for referring debts, and I think that—

Mr. PLATTS. For Medicare referring it to you because of this.

Mr. LEBRYK. Yes. The cost to Medicare, since they can't recoup it. That is right.

Mr. PLATTS. OK.

Mr. LEBRYK. That would be one. I think, other than that, we have made some progress on some of those other ones. I think some of the other ones have actually moved through several committees and we are hoping that they will come to conclusion in this session.

Mr. PLATTS. On the fee that is, what type of fee amount, roughly? Is it a percentage of the debt?

Mr. LEBRYK. There are two fees that potentially could be attached to that. One would be our offset fee, which is roughly \$17 per offset. The other fee is if we refer it to a private collection agency, the fee is usually around 28 percent or so on that.

Mr. PLATTS. That is what is being paid to once you get to a PCA?

Mr. LEBRYK. Exactly.

Mr. PLATTS. OK.

Mr. LEBRYK. And on most other debts, we add that on to the debt. So if there is a \$100 debt, it becomes \$128 debt and the debtor is the one bearing the responsibility. On Medicare debts presently that is not the case.

Mr. PLATTS. OK. One more question here, then we will go to another round for Members, if they would like. On administrative wage garnishment, in your testimony you talk about the 25 agencies that are participating now and you continue to work with non-participating agencies to encourage. I guess my question is why isn't everyone participating? Why aren't they taking advantage of this opportunity to collect what is owed their agency, the American people?

Mr. LEBRYK. This is one of those areas where, as we have gotten more mature in the Debt Collection Improvement Act, it is clear that there are barriers for the agencies to do their work. Administrative wage garnishment has a—there is a sense, right or wrong, that you need to go to a court in order to get that garnishment. One of the things the DCIA did was say that the Federal Government can do an administrative wage garnishment without a court.

Now, you have to allow a hearing if someone wants to appeal the amount owed or whether their ability to pay. That has turned out to be a barrier to the agencies. It is not part of their core mission. You know, they are not going to want to set up hearings like that

and they are uncomfortable with the administrative wage garnishment process.

Mr. PLATTS. And that hearing process is individual to every agency?

Mr. LEBRYK. Yes, it is. It is. So one of the things we are looking at FMS is whether we should be providing that as a centralized service to remove that barrier to use of administrative wage garnishment.

I think Chairman Horn was looking at that the record said, from his perspective, any debtor who had an income stream should be subject to some sort of agreement before they are made a payment by the Federal Government when he was talking about the administrative wage garnishment provision, and I think there is a lot of validity to that, that we should be doing more as the Federal Government.

The other thing what has happened right now is that we have left administrative wage garnishment with each agency, so they have to put a regulation in place in order to do the program, which we have given them a model language and we provide it to them and it is something that is fairly easy for them to do but, nevertheless, it is a hurdle.

So I think that our ability to provide more of a centralized service is something which is an area that is worth exploring more fully.

Mr. PLATTS. And I would encourage that because it would make sense, because it is going to vary by some agencies like Department of Ed having a lot of debt that may relate to student loans. But another smaller department or agency having small amount of debt or not that often, perhaps, to have their own administrative hearing process versus a centralized. I think that is something where Treasury could play an important role and that we get everybody participating.

Mr. LEBRYK. And there is a second piece on that we have found in our own dealings, is that if a file doesn't have good information in it, it is hard for the agency to track that information down. So if you are looking for a good phone number, you are looking for a good address, and one of the areas where we think we can provide a more centralized service is providing that service to agencies, saying if you are looking for a debtor, you can run it through our process so that you can find that person, get a phone number, get the information that you need in order to move forward more efficiently.

Mr. PLATTS. Yes. And having just sat through the hearing with GAO on the duplicative programs that the Federal Government has from last week in the full committee, I think it is a good example. Whenever we can eliminate administrative overhead by eliminating duplication, we want to, and these are areas that I think would be very helpful.

Mr. Towns, do you have other questions?

Mr. TOWNS. Yes, I do, Mr. Chairman.

Just thinking in terms of the Social Security overpayment, I guess the first thing, would you need additional legislation to support above and beyond what you have already proposed? And the

reason I ask that question, why couldn't we ask the undertaker to give the Social Security number when a person expires?

Mr. LEBRYK. Social Security does maintain a death data base or a post-death data base.

Mr. TOWNS. How does that work?

Mr. LEBRYK. I am not familiar. I do know that they looked at the exact proposal that you are referencing, and that is, should the funeral homes be required to submit the data to a data base, and they did a pilot a couple years ago in which they actually paid the funeral homes for the information, every time they submitted the information.

I think what they found at that point was that they didn't have the money to continue with that and that if in fact it was required, you could have a more, getting to your point, you could have a much better data base, a more perfect data base, which would go a long way toward avoiding those payments to someone who shouldn't be getting it. So I think it is an area that deserves further attention.

Mr. TOWNS. Yes, because I think just leaving it to the family to report, I am not sure that is going to work to be able to cut down on the overpayments.

Mr. LEBRYK. And to clarify one other point, the financial institutions also report back into the system as well when someone has been deceased. So if they are aware of the information from a bank, it will come back in as well.

Mr. TOWNS. Oh, OK. The other thing is you mentioned state-of-the-art tools. What do you mean by state-of-the-art tools?

Mr. LEBRYK. The private sector has done a lot more with segmentation of the portfolio, different mechanisms and tools that are more effective than others of how you actually reach certain debtors. But also more, I think, to the point is that business intelligence tools and looking at data bases and mining those data bases for certain characteristics is an area that the private sector is doing a lot more of than what we are doing in the Federal Government, and it is an area which I think has a lot of opportunity for us to be doing better.

So it is really looking at these data bases and looking at lots of different data and saying there are certain debtors here with certain characteristics that would lead us to believe that we have more collectibility on one kind of debt or another. It is also those automated tools I mentioned to you before about when a debt comes in and the information may not be perfect, can you, in a highly automated way, clean that data up more effectively about addresses and phone numbers and those kinds of things within the file; and the private sector is much more advanced.

I would also say that with respect to our working in the cross-servicing side, that we should be more systematic in scripts that we are using so that when a collector is working a list of debts, that they are given the information in automated fashion so when the automated phone call is made or the automated outreach is made, that they have, based on that debt, they have scripts that they are using to be more efficient on how they are collecting the debts; they are not spending 10 minutes on a debt, that the better

way would be to spend 1 minute on that debt if they are more concise and disciplined in that approach.

So those are the kinds of things that we are looking at in terms of our call centers and our opportunity to collect debt in those state-of-the-art tools.

Mr. TOWNS. Do you need additional legislative support above and beyond what has been proposed? Do you need additional?

Mr. LEBRYK. For the moment I would say no. I do think, however, that as we pass the 15th anniversary of the Debt Collection Improvement Act, that there are opportunities for us to discuss whether there is more that can be done more generally. So we don't have anything more than what we have in the 2012 budget, but we are always looking at the 2013 budget and we are looking beyond about other ways that we might be able to have other pieces of legislation that would help us, and we are happy to work with the committee on that.

Mr. TOWNS. Thank you very much.

On that note, I yield back, Mr. Chairman.

Mr. PLATTS. Ms. Norton, did you have any questions for the witness?

Ms. NORTON. Not at the moment.

Mr. PLATTS. OK, thank you.

I have a long list, so I will yield back to myself.

On the reciprocal arrangements with States, and you referenced Kentucky being the newest one and how quickly they reaped the benefits of participating, I wanted to make sure I understood the process. States beyond the four that are currently signed up, are we still collecting debts for any that are not signed up to help us collect Federal debt?

Mr. LEBRYK. Our terminology gets complicated, but we are actually collecting State income tax debt for a lot of States, more than those four. So we do have, on the State income tax side, there is work that is being done for when a Federal income tax payment is made, that it can be offset and given back to a State.

The state reciprocal program gets a little bit more narrow and allows—I am sorry, it broadens the types of payments that we can offset, so we include vendor payments at that point so that the State can participate that way. And, vice versa, we actually collect debts from the States, we collect them from the States when they are making payments. So it is reciprocal, we both get benefits from the arrangement.

Mr. PLATTS. Once they are participating in that program.

Mr. LEBRYK. Yes, they are.

Mr. PLATTS. Currently, though, there are States that were collecting State tax, income tax owed and sending it back. I will use Pennsylvania, my home State. But Pennsylvania is not collecting Federal income tax owed to us from any payments they are making.

Mr. LEBRYK. Right now I think that we did do a test run with Pennsylvania and found that if they were participating in the State reciprocal program using vendor payments, I think that they could collect an additional \$29 million to \$30 million a year based on that program. I do believe, and my staff can correct me if I am wrong, though, that we are actually offset on tax information with the

State of Pennsylvania right now, and I don't know what that number is in terms of what has been sent back.

Mr. PLATTS. But I guess what I am focused on is if we are helping States out, whether they are in the reciprocal program or not, with their State income tax, it sounds like we are still helping them collect State income tax, even if they are not helping us collect Federal income tax.

Mr. LEBRYK. I believe that is correct. They can correct me if I have that wrong.

Mr. PLATTS. They are shaking their heads yes, that I have it right.

Mr. LEBRYK. Good, OK.

Mr. PLATTS. I think IRS does that, correct.

Mr. LEBRYK. I would say on the State reciprocal last year, I think of the two States that were participating at that time, I think that we sent \$16 million in their direction and they sent \$12 million in our direction.

Mr. PLATTS. I think getting all the States participating would be great. And if they don't want to, then they need to understand I guess what I am getting after is we are not going to keep helping to collect State debt if they are not going to help collect Federal debt.

Mr. LEBRYK. Right.

Mr. PLATTS. So they have an incentive to be part of the program.

Mr. LEBRYK. Yes.

Mr. PLATTS. And I don't know within the Department if you have that authority to send that message or that is something we need to look at legislatively and saying that you can go to the State saying as of a year from now we are not going to be able to help you unless you help us, something maybe we want to look at.

On certain types of debt that are exempt from participating top or the cross-servicing, I notice one of them is debts owned by foreign sovereigns. Can you expand on that? What type of debt would be owed us by a foreign sovereign and what type of payment would we be making that we couldn't then attach even though they owe us money?

Mr. LEBRYK. I will have to get back to you on that one, I don't know the rates or the debts that are in there.

Mr. PLATTS. OK. Our focus is about Americans that owe a debt, and we are trying to collect it. Well, if there are foreign entities that owe America a debt, they shouldn't be getting a payment from us for something else, in my opinion. So if we could look into that a little deeper, that would be great.

Mr. LEBRYK. OK.

Mr. PLATTS. Let me catch up on my notes here. When I get the testimony ahead of time, it gives me less time to review and make notes. On the issue of debts that are not going to be written off, how do you go about—and it was kind of addressed a little bit earlier, but—in determining—I mean, obviously some, death, you know, the person is deceased, the debt is not going to be collected. But in other ones where you reference financial hardship or other reasons, how do you assess that to say, hey, no, we are going to give up, as Mr. Towns referenced, 2 years versus, hey, we are going to keep it and 4 years from now, hey, that person who was having

a hardship might be in the money now and, hey, we still want them to pay what they owe.

Mr. LEBRYK. We rely heavily on the program agency to make that determination, in large measure because they are more familiar with the program characteristics, as well as the debt is actually on the agency's books, so they are the ones who are ultimately responsible for the debt.

Mr. PLATTS. OK.

Mr. LEBRYK. So we have not spent a lot, we don't really get behind what those decisions are other than that we know that they are usually based on bankruptcy or the entity no longer existing.

Mr. PLATTS. Give me 1 second here. On the report that was submitted about your debt collection efforts, in there it references in the executive summary that you, in essence, are reporting what the head of each Federal agency provides you to then compile, in essence, and then forward to Congress. Are there agencies that are not complying and not providing their debt collection effort information to you?

Mr. LEBRYK. The good news is we feel pretty good that we are getting most of the debts that are referred to us. I think it is hard for us to say that we are getting 100 percent, because every now and then we learn about some part of a program that is not being referred to us.

Our agency council that we are establishing, that is one of the areas where we want to make sure that we are working with agencies more closely to make sure we understand that they really are referring all the debts that they should be referring to us. But, as I said, it is really one of the great success stories of DCIA is that in the early years it was very difficult to get the referrals to us for a variety of reasons, whether the debts were in the format, whether they were documented the right way, whether we had the automated systems in which to transfer information. And we really made a lot of progress in that area.

I wish I could say with complete confidence that we are getting 100 percent. I know we are doing pretty well; we are up in the high 90's. I can say that with some degree of confidence. But whether we are getting every single one, I think there is some more work that we can do on that.

Mr. PLATTS. I will wrap up, and then, Ms. Norton, I will yield in just one moment.

As you are working with departments and agencies, if they are reticent, for whatever reason, to cooperate and participate in either being more proactive on the wage garnishment or just in providing the information in a timely manner to you to pursue, this subcommittee certainly stands ready to bring some added leverage to your efforts. I know you are, as a department, kind of a peer department agency to many of these entities, but sometimes just the fact that the subcommittee is interested in looking at a certain agency that they are not fully going after debt as they should be, we are glad to do that, and again in a partnership way. We just want to make sure we are all on the same page.

I am maybe not the only, but one of few that paid my last student loan to the Federal Government as a Member of Congress. It took 11 years, but my wife and I didn't miss those payments be-

cause it was our debt and we were glad to fulfill it. It allowed us to advance ourselves, so we expect others to fill their obligations as well.

With that, I will yield to the gentlelady from the District of Columbia, Ms. Norton.

Ms. NORTON. Well, Mr. Chairman, you weren't glad to fulfill it, but you knew that it was your duty to fulfill it.

Mr. PLATTS. Actually, I was glad to fulfill it so I could get it off the books and start putting that money toward my kids' education in the years to come.

Mr. TOWNS. He knew we were going to have a hearing. [Laughter.]

Ms. NORTON. I have a question about doctors and Medicare. There had been a doctor who was delinquent—and I need to know what delinquent means—in Federal tax obligations could have 15 percent of the payments withheld, and now there is a proposal in the 2012 budget for 100 percent.

Now, at first blush, that seems par for the course; you know, they are doctors, they ought to be able to pay their taxes. On the other hand, there is huge concern in the Congress about the rapid attrition of physicians even willing to see Medicare patients. So I am obliged to ask you what your view is of this 100 percent that would include Medicare, apparently all contractors.

And, again, on the face of it the fairness of it is clear, but what do you think that would do for doctors who, in fact, are seeing Medicare patients, getting, they will tell you, a few cents on the dollar, getting very little of what they believe they are entitled to, and they will only point to what in fact they can get if they jettison Medicare and take only people who are willing to come without Medicare, so much so that some elderly are willing, in order to keep their physicians when they jettison Medicare, to pay for the entire amount themselves. So there will be many elderly who could not.

First of all, what does delinquent mean? Do you think the 2012 budget legislative proposal is in effect now? Because it is a legislative proposal; I don't know if it is in the appropriation or what. The word delinquent is not clear to me. Would you explain, one, how this would operate? I am particularly interested in Medicare doctors. I understand why they would be folded in with other contractors, but I would like to know what delinquency would in fact result in this 100 percent and what effect you think it would have on Medicare providers willing to continue to provide Medicare to the elderly.

Mr. LEBRYK. Thank you. We are very supportive of the proposal; it would yield close to \$750 million over the 10 year period, which is a sizable amount. With respect to the underlying program issues, as we—

Ms. NORTON. Why was it at 15 percent? That didn't work? Did the 15 percent, which does seem to be a fairly low amount, why was the number increased from 15 percent to 100 percent?

Mr. LEBRYK. I suspect it has to do with the \$750 million over 10 years.

Ms. NORTON. Somebody wanted the money.

Mr. LEBRYK. Which is the ability to collect the money sooner.

Ms. NORTON. It was coming in too slowly. OK.

Mr. LEBRYK. Yes. With respect to delinquency, agencies and debtors have due process rights, so to the extent that a Medicare provider has a delinquency, they would be notified and have the ability to either have a hearing or some sort of discussion about whether that is the appropriate amount which they are being charged. They also have, in most cases, the ability to say whether there is financial hardship, whether they have the ability to repay and whether there are other repayment agreements that they can get into to satisfy that delinquency.

Ms. NORTON. So even with this 100 percent, do you believe a physician could in fact work out something with the IRS the way the average citizen does to pay a certain percentage, or would he nevertheless, because he is "delinquent," have to abide by the 100 percent?

Mr. LEBRYK. At FMS, for example, when these debts are referred to us, we do oftentimes have compromise authority in which we work with the agencies to say, you know, is there a better way to collect this debt? Is there a more reasonable way to have either repayment agreements or some sort of mechanism to make sure that we have better collectibility. And the process has to be working with the debtor to do that.

With respect to the impact on the program, one of the things which we don't have a lot of expertise in, because there are so many programs out there, is the underlying purpose of a program and the underwriting standards that are given. So why a payment is made, under what circumstances is not something that we at FMS or Treasury would have a very good feel for. I think—

Ms. NORTON. Would a delinquent, let's say, physician be one who had ignored the opportunity after a hearing to work out something for himself and finally gets on this list. The only way he can get the money is to get on this list to get 100 percent from you?

Mr. LEBRYK. Yes. And so when the debt is referred to us at 180 days, we will do a variety of things. We will then do a process of our own in terms of contacting the debtor and making sure that they know that they are either going to—

Ms. NORTON. So he gets another chance.

Mr. LEBRYK. He gets another chance on it, yes. And then we would be working with the agency to say, you know, is this the right thing to be doing in this particular circumstance?

Ms. NORTON. Can I take it, since this is in fact the law now, is that the fact?

Mr. LEBRYK. The 15 percent is the law right now.

Ms. NORTON. No, no, the 100 percent, when does that become effective?

Mr. LEBRYK. If the legislation passes.

Ms. NORTON. So this is not yet law?

Mr. LEBRYK. It is proposed legislation.

Ms. NORTON. But you all strongly support it.

Mr. LEBRYK. Yes, we do.

Ms. NORTON. The administration strongly supports it.

Mr. LEBRYK. Yes.

Ms. NORTON. Have there been hearings?

Mr. LEBRYK. I don't believe there has been.

Ms. NORTON. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Ms. Norton.

The effort in helping to move this legislation is something that we are very involved with and want to help make happen, and I think—and I apologize I didn't hear all of the answer because of a conversation here, but when we talk about Medicare providers, the type of debt that we are talking about—you may have referenced this and I apologize—is the story where you have a doctor who got student loans, paid their way through school with the help of the American taxpayers, is out making a good or whatever income, but is not paying back those loans.

Once that is discovered, Medicare can say you are getting paid by the taxpayers; we are going to take some of that to pay off that debt you owe. That would be an example of a delinquent debt that a doctor has. It is not related to their medical provision of services, it is related to the education they got.

Mr. LEBRYK. Correct. Or whether it be tax debt, in the case of delinquent tax debt. Correct.

Mr. PLATTS. OK.

Mr. LEBRYK. Yes.

Mr. PLATTS. Mr. Towns, did you have anything else?

Mr. TOWNS. Just a quick question.

Mr. PLATTS. Yes.

Mr. TOWNS. We want to be helpful, I want you to know that, in every way, but I didn't feel comfortable with your answer in reference to if a person moves from one State to another, in terms of the collection process. I didn't feel comfortable with your answer. Help me.

Mr. LEBRYK. OK. Well, right now what happens is we don't have the ability that if you incur a debt in one State and then you move to another State, because of certain restrictions, we no longer can actually pursue that debt, or the State can no longer pursue that debt against someone who has moved from, let's say, Pennsylvania to New York. And so the provision that we are asking for is that you can in fact continue to pursue that person if they move to another jurisdiction.

Mr. TOWNS. The last part of that is, you know, in some instances people might not have the resources to pay at a given point, but then at a later date they come in to a lot of money or something. How do you deal with that?

Mr. LEBRYK. That is one of the reasons why very few debts are extinguished in our process and why they stay in the data base for a long period of time and will continue to be worked for a long period of time. We do actually, with respect to debtors who are under financial hardship, we do try to work out repayment agreements. We do try to make sure that we put terms in there.

As I mentioned under cross-servicing, close to \$500 million of repayment agreements are in there, administrative wage garnishment orders are in there to allow us to collect that debt over a period of time. An administrative wage garnishment is at 15 percent, so you are not garnishing someone's entire wages; you are garnishing a percentage that allows us to collect small pieces of that debt until it is satisfied.

Mr. PLATTS. Thank you. We are going to keep the record open for 7 days, and I know two specific issues, one with the Defense debt that Mr. Towns referenced and then my inquiry on the foreign sovereigns and what type of debt we would be talking there versus payments that we are making to these foreign sovereigns; and if there is any other materials that you think would be relevant.

I will conclude with one, again, appreciation for your patients and my colleagues' patience with my late arrival, and especially our interest and willingness to partner with you and your agency in really improving the process to make sure that what is owed the American people is paid and that we make sure you have the tools to be able to do that.

Mr. LEBRYK. Thank you for your leadership and thank you for allowing us to testify today.

Mr. PLATTS. Thanks for being here.

The record will be open for 7 days and this hearing stands adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

