

**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 15<sup>th</sup> 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.

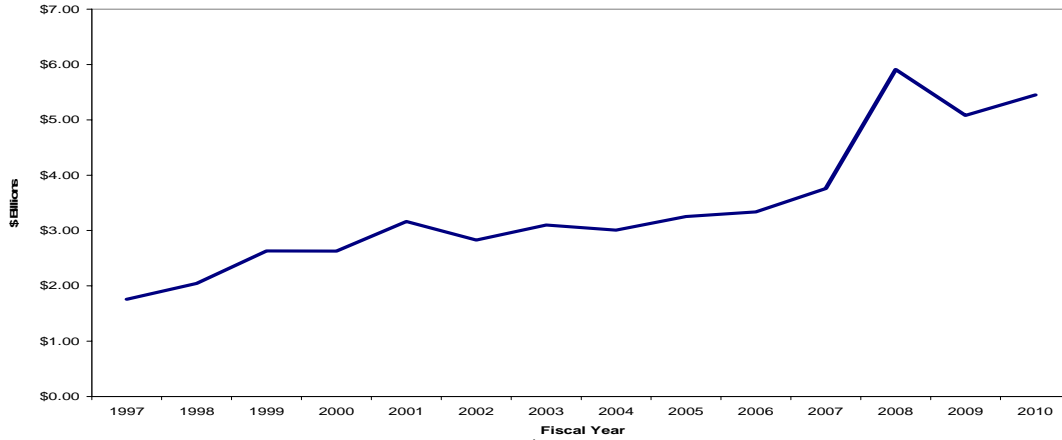


# FMS Delinquent Debt Collections Since 1997

FY97: \$1.8 billion

FY10: \$5.4+ billion

Total DMS Collections



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